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BY WEB POSTING

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To: All Licensed Electricity Distributors

Re: Incentive Rate-Setting: 2015 Benchmarking Update for Determination of 2016 Stretch Factor Rankings

Every year the Ontario Energy Board (OEB) benchmarks the cost performance of the 71 electricity distributors. Each distributor is assigned into one of five groups or cohorts with the best cost performers in Cohort I and the lowest into Cohort V. These rankings are used to assign the so-called stretch factors that can reduce the rates for those distributors whose rates are to be adjusted using the Incentive Rate Mechanism (expected to be more than 40 this year). The best performers (Cohort I) get no downward rate adjustment. The lower ranked Cohorts get a downward rate adjustment ranging from 0.15% (Cohort II) to 0.60% (Cohort V). The stretch factors therefore promote, recognize and reward distributors for cost efficiency improvements, which in turn lead to lower distribution costs and rates.

The OEB commissioned Pacific Economics Group Research (PEG) to perform the benchmarking analysis according to an OEB-approved methodology. The most recent update – based on 2015 data – has just been received and is posted at the OEB website.

The overall results are encouraging. The annual improvement in cost performance is the largest measured in the five years that these assessments have been performed. The three year average also showed its greatest improvement yet (1.09%), thanks, in part, to the overall cost performance improvement in 2015.

Equally encouraging are the resulting changes in rankings. Of the ten distributors whose ranking has changed, seven distributors have moved to a lower stretch factor ranking based on improved cost performance, and only three distributors that have moved to a higher stretch factor ranking.

Electricity Distributor	2015 Stretch Factor Ranking	2016 Stretch Factor Ranking
Atikokan Hydro	Cohort 4 (0.45)	Cohort 3 (0.30)
Collus PowerStream	Cohort 3 (0.30)	Cohort 2 (0.15)
Cooperative Hydro Embrun	Cohort 2 (0.15)	Cohort 1 (0.00)
Greater Sudbury Hydro	Cohort 4 (0.45)	Cohort 3 (0.30)
Hearst Power Distribution	Cohort 1 (0.00)	Cohort 2 (0.15)
Hydro Ottawa	Cohort 3 (0.30)	Cohort 4 (0.45)
Milton Hydro Distribution	Cohort 2 (0.15)	Cohort 3 (0.30)
Oakville Hydro Electricity Distribution	Cohort 4 (0.45)	Cohort 3 (0.30)
Tillsonburg Hydro	Cohort 4 (0.45)	Cohort 3 (0.30)
Woodstock Hydro Services	Cohort 5 (0.60)	Cohort 4 (0.45)

The overall trend is indicative of improved cost performance. The OEB will continue to monitor to determine whether these improvements are sustained.

Any general inquiries regarding the above matter should be directed to OEB's Industry Relations at 416-440-7604 or by e-mail at IndustryRelations@ontarioenergyboard.ca. The OEB's toll free number is 1-888- 632-6273.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary