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BY WEB POSTING

REVISED

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To: All Licensed Electricity Distributors

Re: Incentive Rate-Setting: 2016 Benchmarking Update for Determination of 2017 Stretch Factor Rankings - Board File No.: EB-2010-0379

Annually, the Ontario Energy Board (OEB) benchmarks the total cost performance of the 68 electricity distributors. The rankings from the benchmarking are used to assign stretch factors that can reduce the rates for those distributors whose rates will be adjusted using the Incentive Rate Mechanism (IRM) (expected to be about 50) in the 2018 rate setting process. The stretch factor assignments are based on the results of a benchmarking study designed to measure individual distributors' cost efficiency.

Each distributor is assigned to one of five groups, or cohorts, with the best cost performers in Cohort I and the poorest cost performers in Cohort V. The distributors in Cohort I get no downward rate adjustment. The distributors in the lower cohorts get a downward rate adjustment ranging from 0.15% in Cohort II to 0.60% in Cohort V. The stretch factors incent distributors, and as such, 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 2016 data has been received and is posted on the OEB website.

The OEB notes the following regarding the overall industry's cost performance:

- The trend of the overall results is encouraging. The average level of cost performance in 2016 (2.82% lower than forecast cost) is the best in the four years that these assessments have been updated. The previous two years have shown similar but slightly lower levels of performance improvements (i.e., lower than forecast cost of 2.57% in 2015 and 2.53% in 2014).

- The resulting changes in rankings are stable. Of the six distributors whose rankings have changed from 2016 to 2017, three have moved to a lower stretch factor ranking based on improved cost performance while the other three have moved to a higher stretch factor ranking.
- The overall trend is indicative of improved cost performance. The average performance level from 2014-2016 is over 100 basis points better than that calculated for the same distributors from 2010-2012. The improvement was achieved despite various amalgamations that involved five distributors with poor performance on average. The OEB will continue to monitor to determine whether these improvements are sustained.

The table below shows the six distributors whose 2017 cohort and stretch factor assignments have changed, and the single distributor being assigned a stretch factor for the first time. The amounts shown in brackets represent the downward percentage adjustment to reduce the rates during the 2018 IRM rate setting process. Four distributors, Brant County, Cambridge and North Dumfries, Haldimand County and Woodstock, have been removed due to amalgamations that occurred in 2016. The stretch factor assignments of all other distributors remain the same.

| Company Name | 2016 Stretch factor ranking | 2017 Stretch factor ranking |
|--|------------------------------------|------------------------------------|
| Burlington Hydro Inc. | Cohort 3 (0.30) | Cohort 2 (0.15) |
| Enersource Hydro Mississauga Inc. | Cohort 2 (0.15) | Cohort 3 (0.30) |
| Greater Sudbury Hydro Inc. | Cohort 3 (0.30) | Cohort 4 (0.45) |
| Hydro 2000 Inc. | Cohort 3 (0.30) | Cohort 2 (0.15) |
| Hydro One Networks Inc. | Cohort 5 (0.60) | Cohort 4 (0.45) |
| Waterloo North Hydro Inc. | Cohort 3 (0.30) | Cohort 4 (0.45) |
| Energy+ Inc. | Not Applicable | Cohort 3 (0.30) |

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

Yours truly,

Kirsten Walli,
Board Secretary