



Ontario
Energy
Board | Commission
de l'énergie
de l'Ontario

BY EMAIL & WEB POSTING

August 15, 2019

To: All Licensed Electricity Distributors

Re: Incentive Rate Setting: 2018 Benchmarking Update for Determination of 2019 Stretch Factor Rankings - Board File No.: EB-2010-0379

Annually, the Ontario Energy Board (OEB) benchmarks the total cost performance of the 63 electricity distributors. The rankings from the benchmarking are used to assign stretch factors that can reduce the distribution rates for those distributors whose rates will be adjusted using the Incentive Rate Mechanism (IRM) (expected to be 50) in the 2020 rate setting process. The stretch factor assignments are based on the results of a benchmarking study designed to measure individual distributors' cost efficiency.

The incentive rate setting rewards distributors commensurate with their total cost performance. 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 incentivize 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 2018 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 2018 for the 63 distributors (5.8% lower than forecast cost) builds upon cost performance improvement in previous years. Previous years have shown lower levels of performance improvements for these distributors (i.e., lower than forecast cost of 4.4% in 2017, 3.0% in 2016 and 2.6% in 2015).

- Of the five distributors whose rankings have changed from 2018 to 2019, all five have moved to a lower stretch factor ranking based on improved cost performance.
- The overall trend is indicative of improved cost performance on average. The OEB will continue to monitor to determine whether these improvements are sustained.

The table below shows the five distributors whose 2019 cohort and stretch factor assignments have changed. The amounts shown in brackets represent the downward percentage adjustment to reduce the rates during the 2020 IRM rate setting process. Two distributors (St. Thomas Energy and Midland Power) have been removed from the benchmarking due to amalgamations and acquisitions that occurred in 2018. The stretch factor assignments of all other distributors remain the same as assigned in the previous year (i.e., 2018 stretch factor ranking).

| Company Name | 2018 Stretch factor ranking | 2019 Stretch factor ranking |
|--|------------------------------------|------------------------------------|
| Energy+ Inc. | Cohort 3 (0.30) | Cohort 2 (0.15) |
| Kenora Hydro Electric Corporation Ltd. | Cohort 3 (0.30) | Cohort 2 (0.15) |
| Milton Hydro Distribution Inc. | Cohort 3 (0.30) | Cohort 2 (0.15) |
| Ottawa River Power Corporation | Cohort 3 (0.30) | Cohort 2 (0.15) |
| Peterborough Distribution Incorporated | Cohort 4 (0.45) | 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,

Original Signed By

Kirsten Walli
Board Secretary