



BY EMAIL AND WEB POSTING

July 18, 2022

To: All Licensed Electricity Distributors

Re: Incentive Rate Setting: 2021 Benchmarking Update for Determination of 2022 Stretch Factor Rankings - Board File No.: EB-2010-0379

Each year, the Ontario Energy Board (OEB) benchmarks electricity distributors' total cost performance. The rankings from the benchmarking results for the current year's 57 electricity distributors are used to assign stretch factors that can reduce the rates for those distributors whose rates will be adjusted using the annual Incentive Rate Mechanism (IRM) in the 2023 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 as the best performers get rewarded with no rate reduction adjustment. The distributors in the lower cohorts get rate reduction adjustments ranging from 0.15% in Cohort II to 0.60% in Cohort V. The stretch factors incent distributors to perform better, 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 2021 data has been received and is posted on the Performance Assessment page of the OEB's website.

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

- The electricity distributor sector has shown consistent cost performance improvement. The average level of cost performance in 2021 for the 57 distributors was 13.2% lower than forecast cost and this builds upon the cost performance improvement in previous years (i.e., costs were lower than forecast cost by 10.8% in 2020, 7.2% in 2019 and 5.7% in 2018).

- Of the 6 distributors whose rankings have changed from 2020 to 2021, all six 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 six distributors whose 2022 stretch factor assignments have changed from the previous year's update. The amounts shown in brackets represent the downward percentage adjustment to reduce the rates during the 2023 IRM rate setting process. The stretch factor assignments of all other distributors remain the same as assigned in the previous year's update results (i.e., 2021 stretch factor ranking).

Company Name	2021 Stretch factor ranking	2022 Stretch factor ranking
Entegrus Powerlines Inc.	Cohort II (0.15)	Cohort I (0.00)
ENWIN Utilities Ltd.	Cohort III (0.30)	Cohort II (0.15)
Lakefront Utilities Inc.	Cohort II (0.15)	Cohort I (0.00)
Niagara-on-the-Lake Hydro Inc.	Cohort III (0.30)	Cohort II (0.15)
Orangeville Hydro Limited	Cohort II (0.15)	Cohort I (0.00)
Sioux Lookout Hydro Inc.	Cohort II (0.15)	Cohort I (0.00)

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,

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Registrar