



BY WEB POSTING

July 18, 2023

To: All Licensed Electricity Distributors

Re: Incentive Rate Setting: 2022 Benchmarking Update for Determination of 2023 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 electricity distributors are used to assign stretch factors. The stretch factor forms part of the annual Incentive Rate Mechanism (IRM) process and is used to determine whether a distributor's rates will be adjusted. This benchmarking update using 2022 data determines the 2023 stretch factor assignments for distributors which are to be used in the 2024 rate-setting process. The stretch factor assignments are based on updated results of [the productivity and benchmarking research in support of incentive rate setting](#).

Incentive rate setting rewards distributors based on their total cost performance; i.e., the better the cost performance, the better the reward. Based on ranking, each distributor is assigned to one of five cohorts, with the best cost performers in Cohort I and the lower cost performers in Cohort V. The distributors in Cohort I as the best performers are rewarded with no rate reduction adjustment. The distributors in the lower cohorts receive reduction adjustments ranging from 0.15% in Cohort II to 0.60% in Cohort V. The stretch factors are designed to 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 to perform the benchmarking analysis according to an OEB-approved methodology. The most recent update based on 2022 data 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 distributors have shown consistent cost performance improvement. The average level of cost performance in 2022 for the current year's distributors was 14.2% lower than forecast cost and builds upon the cost performance improvement in previous years (i.e., costs were lower than forecast by 13.8% in 2021, 11.6% in 2020 and 7.8% in 2019).

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- Of the eight distributors whose rankings have changed from 2020 to 2021, all have moved to an improved cohort ranking based on improved cost performance.
- The overall trend indicates improved cost performance on average. The OEB will continue to monitor trends to determine whether these improvements are sustained.

The table below shows the eight distributors whose 2024 stretch factor assignments have changed from the previous year's update. All eight distributors have improved their ranking by one cohort and the amounts shown in brackets under 2022 stretch factor ranking column represent the percentage reduction to the rates during the 2024 IRM rate-setting process. The stretch factor assignments of all other distributors remain unchanged from the 2022 stretch factor ranking.

Company Name	2021 Stretch factor ranking	2022 Stretch factor ranking
Centre Wellington Hydro Ltd.	Cohort III (0.30)	Cohort II (0.15)
Chapleau Public Utilities Corporation	Cohort IV (0.45)	Cohort III (0.30)
Essex Powerlines Corporation	Cohort II (0.15)	Cohort I (0.00)
Fort Frances Power Corporation	Cohort III (0.30)	Cohort II (0.15)
Kingston Hydro Corporation	Cohort III (0.30)	Cohort II (0.15)
Milton Hydro Distribution Inc.	Cohort II (0.15)	Cohort I (0.00)
Ottawa River Power Corporation	Cohort II (0.15)	Cohort I (0.00)
Tillsonburg Hydro Inc.	Cohort III (0.30)	Cohort II (0.15)

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

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Registrar