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For immediate release

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OEB Issues Board Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors

Toronto – Today the Ontario Energy Board (the Board) issued the *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* (the Report). The Report sets out the Board's policy approach to 3rd Generation Incentive Regulation (3rd Generation IR) and includes guidelines for distributors to use in preparing electricity rate applications.

Incentive regulation sets rates using a measure of inflation and an efficiency target for the distributors. This mechanism promotes efficiency both within the distribution sector and through the regulatory process.

The Report builds incrementally on an earlier incentive regulation plan and is more specifically grounded in empirical analysis and accounts for differences in distributor operations.

In the Report, along with other matters, the Board determined:

- It will retain a comprehensive price cap adjustment mechanism for electricity distributors,
- The plan term will be fixed at three years following the rebasing year,
- It will use the Canada Gross Domestic Product Implicit Price Index for final domestic demand as the inflation factor,
- Productivity offsets for individual distributors will consist of an empirically derived industry productivity trend (productivity factor) and stretch factor,
- All distributors will be subject to the same productivity factor that will be set at the start of the plan and will remain fixed throughout the term of the plan,
- All distributors will be assigned to one of three groups with stretch factors based on their efficiency as determined through comparative cost analysis,
- There will be an incremental capital module in 3rd Generation IR to address concerns over the treatment of incremental capital investment needs that may arise during the IR term.

The Board's report provides a framework for electricity distributors when they apply for rate changes under the 3rd Generation IR and has no immediate rate impact.

The Ontario Energy Board regulates the province's electricity and natural gas sectors in the public interest. It envisions a viable and efficient energy sector with informed

consumers served by responsive regulatory processes that are effective, fair and transparent.

For more information on the Board, please visit our web site at www.oeb.gov.on.ca or contact the Consumer Relations Centre at 416-314-2455 or toll-free at 1-877-632-2727.

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