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January 4, 2018

BY RESS & COURIER

Ms. Kirsten Walli, Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 26th Floor, P.O. Box 2319  
TORONTO, ON M4P 1E4

**Re: Festival Hydro Inc. – ED-2002-0513  
2020 Cost of Service (“COS”) Application Deferral Request**

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Dear Ms. Walli,

Festival’s last COS application (EB-2014-0073) was filed for rates effective January 1, 2015, however the Decision and Order and Final rate order were not received until May 28, 2015 and June 4, 2015 respectively and as such the Decision and Order indicated:

*“Festival confirmed its request for a rate year alignment to January 1 in its draft rate order. Festival noted that although the effective date of the Decision and Order for 2015 rates is May 1, 2015, it is Festival’s understanding that its rate year is now aligned with the fiscal year and that its next IRM application will be filed for rates effective January 1, 2016.*

*The interveners concurred with Festival’s understanding. OEB staff noted that while the settlement agreement did not explicitly address this issue it was not identified as an unsettled issue.*

***OEB Findings***

*The OEB approves Festival’s request to align its rate year to January 1.”*

Festival is next scheduled to rebase for rates effective January 1, 2020.

Festival is requesting to defer the setting of its rates on a COS basis until January 1, 2021 and continue on the Price Cap IR stream for rates effective January 1, 2020. This request is based on several financial and non-financial factors as documented below.

### **Corporate Governance**

Festival follows corporate governance best practices. Festival's Board of Directors is skills based with a range of experience including utility management, utility regulation, corporate governance, and human resources. Of Festival's 8-member Board, 5 members are independent. The Board consists of several committees including Finance & Audit, Human Resources, and Risk.

We note that our Board of Directors is comprised of 3 members of council for the City of Stratford. Municipal elections are currently scheduled for October 22, 2018 and it may be there are changes to the composition of the Board of Directors as a result of such election. A deferral would permit additional time for any new board members to be better informed of the application.

### **Scorecard Results**

Since the last rebasing, Festival has had consistently strong scorecard results. The table below includes the deemed ROE since Festival's last rebasing compared to the actual ROE.

Note that the 2015 reported achieved ROE over earnings was explained in the RRR filing 2.1.5.6 for that year indicating that it was the result of the regulated disposition of the ICM variance account #1508 for the transformer station as part of the 2015 COS application as well as the approval by the OEB of an additional ICM rate rider for the 7-month period ending December 31, 2015. The ROE in 2015 without these regulated adjustments would've been within the 300 basis points of Festival's deemed ROE.

	<b>Deemed ROE</b>	<b>Achieved ROE</b>
<b>2012</b>	9.85%	9.75%
<b>2013</b>	9.85%	10.5%
<b>2014</b>	9.85%	8.18%
<b>2015</b>	9.3%	14.24%
<b>2016</b>	9.3%	7.37%

The reliability stats included in Festival’s scorecard are within the regulated thresholds and are included in the table below for reference. Festival’s SAIDI and SAIFI stats are well below the provincial averages (our customers experience on average fewer hours of interrupted power and fewer occurrences where power is interrupted).

	<b>SAIDI</b>	<b>SAIFI</b>
<b>2012</b>	1.04	1.42
<b>2013</b>	1.34	1.73
<b>2014</b>	0.65	1.05
<b>2015</b>	1.02	1.21
<b>2016</b>	1.32	0.93

Festival has achieved a category 4 efficiency assessment via the PEG benchmarking analysis. As explained in the last rebasing application, Festival’s previous investment in capital infrastructure has been the main driver of this efficiency ranking. Prior to the PEG report, Festival achieved the higher efficiency ratings as the previous rating was based on OM&A costs only, which have historically been maintained reasonably by Festival. In fact, the 2016 utility yearbook recently released shows that Festival continues to maintain lower OM&A costs per customer in comparison to many other utilities (Festival would be in the second quartile when comparing OM&A cost per customer as per the 2016 yearbook).

In Festival’s 2015 COS application, Festival indicated that based on budgets and projections, the total cost performance results under PEG were expected to decrease each year, gradually moving Festival to an improved category ranking. The PEG statistics for Festival are included in the table below and show how Festival is achieving this reduction as planned:

	<b>Cost Performance Results</b>
<b>2013</b>	19.6%
<b>2014</b>	16.6%
<b>2015</b>	14.0%
<b>2016</b>	13.4%

Festival would note that other than a singular customer issue, see below, that has arisen the customer growth is steady at approximately 1%, in-line with the previous forecast provided in EB-2014-0073 as are capital and OM&A spending.

### **Significant New Customer**

While growth has been consistent, there is a singular significant issue that has arisen. Early in 2018 Festival expects to connect a new large customer to Festival’s distribution system. As such, Festival will be servicing a customer who is participating in a pilot project with the IESO under a three year contract. This customer is forecasted to provide significant distribution revenues to Festival during the 3 year contract term.

Festival is uncertain at this time if the contract will be renewed with the IESO for 2021 and for what term, or if it will be cancelled after the initial term. If required to file for rates effective January 1, 2020, Festival would need to begin preparation of its evidence in spring 2018. Further, the future of the customer's contract with the IESO would not likely be clear and given the very recent connection Festival will have a very limited amount of operational experience with this customer. However, if the deferral is granted, Festival would begin preparing a January 1, 2021 filing early in 2019, at which point we expect to have additional information about any potential renewal or cancellation of the contract this customer holds with the IESO and the operational impact on Festival's distribution system.

The uncertainty regarding this customer after 2020 is a significant factor in Festival's decision to request a deferral of the COS filing until 2021.

### **Existing Rates**

Festival's existing rates, if increased by the Price Cap IR formula for 2020, are sufficient to maintain the safe, reliable and high-quality service our customers expect. Festival feels that incurring the expense required to file a COS application would not be prudent given all of the elements highlighted above, as well as Festival's ability to maintain service with a Price Cap increase in 2020.

Due to the reasons noted above, Festival requests a deferral of its next scheduled COS to January 1, 2021.

Should the board have any questions regarding this request, please contact me at the number noted below or by email at [kmccann@festivalhydro.com](mailto:kmccann@festivalhydro.com).

Yours truly,

**Festival Hydro Inc.**

ORIGINAL SIGNED BY K. McCann

K. McCann, CPA, CA

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