



P.O. Box 20, 950 River Road West, Wasaga Beach, Ontario L9Z 1A2
Tel: (705) 429-2517 Fax: (705) 429-2590 E-mail: hydro@wasagadist.ca

January 02, 2020

Kirsten Walli, Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
P.O. Box 2319
Toronto, ON
M4P 1E4

Re: 2021 Cost of Service Deferral Request

Dear Ms. Walli:

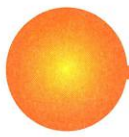
On November 13, 2019, the Ontario Energy Board (“OEB”), issued a letter identifying those electricity distributors that are scheduled to file a Cost of Service Application for 2021 rates. Wasaga Distribution Inc.’s (WDI’s) rates were last set on a Cost of Service basis for rate effective May 01, 2016 (EB-2015-0107). WDI is currently included on the OEB’s 2021 rebasing list for rates effective May 01, 2021.

In its letter, the OEB advised that any distributor that had been included on the 2021 rebasing list but wishes to defer rebasing beyond the 2021 rate year must advise the OEB by January 31, 2020.

WDI hereby requests approval to defer its Cost of Service Rate Application by one year to have rates effective May 01, 2022. WDI will apply for 2021 rates using the 4th Generation IRM process and is not anticipating any mechanistic adjustments such as an Incremental Capital Module, Z-factor or new deferral account request beyond the requirement for disposing of Group I Accounts if the threshold test is met.

Past Financial Results

On Financial Results, WDI notes that since its 2016 Cost of Service, the utility’s Return on Equity (“ROE”) has been extremely stable. The table below shows a summary of the utility historical financial performance including its ROE from 2016 to 2018.



**Wasaga Distribution Financial Results
(from Published OEB Yearbook)**

	2016	2017	2018
Distribution Revenue	3,948,115	4,114,120	4,298,856
Other Revenue (Loss)	520,968	-	600,165
OM&A Expenses	3,744,802	3,860,463	3,980,465
PILs/Income Taxes	188,214	202,146	243,284
Utility Net Income	536,066	563,670	675,271
Achieved ROE	8.43%	8.88%	9.38%
Deemed ROE	9.19%	9.19%	9.19%

As shown in the table above, WDI's ROE has been within the 300-basis points threshold for the last three years.

WDI's Scorecard Performance Results

With respect to WDI's scorecard, WDI's scorecard performance for the past three years (2016 to 2018) has met all performance standards. WDI stated in its 2018 MD&A that "it will continue its efforts to improve overall scorecard performance results ... performance improvement is expected as a result of continued investment in our infrastructure."

WDI Performance Scorecard

	OEB Minimum Standard	2016	2017	2018
Residential Customers Connected	90.00%	100%	100%	100%
Appointments Met	90.00%	100%	100%	100%
Telephone Accessibility	65.00%	100%	99.99%	99.99%
Efficiency Assessment (PEG Report)		1	1	1
Total Cost per Customer		\$420	\$425	\$435
Total Cost per Km of Line		19,855	20,770	21,430
Gross Capital Additions		1,473,675	17,376,291	1,422,849
SAIDI (Loss of Supply Adj)		1.11	0.45	0.78
SAIFI (Loss of Supply Adj)		1.35	0.46	0.62

WDI Actual, Projected and Budgeted ROE

		2017	2018	2019	2020
RETURN ON EQUITY		ACTUAL	ACTUAL	FORECAST	BUDGET
Net Income	A	567,414	657,450	506,506	523,740
Non-Regulated Income Adjustment		1,387	(50,595)	8,501	5,588
Deferred income taxes		59,141	57,128	53,000	53,000
Adjustment to deemed interest expense		(121,810)	(113,966)	(130,407)	(139,401)
Regulated Net Income	B	506,131	550,017	437,600	442,926
Rate Base					
Cost of Power		15,177,499	14,602,670	14,934,347	14,706,952
Operating Expenses		3,152,138	3,240,053	3,468,977	3,407,339
Total	C	18,329,637	17,842,723	18,403,324	18,114,291
Working Capital Allowance %	D	9.72%	9.72%	9.72%	9.72%
Total Working Capital Allowance	E=C*D	1,781,641	1,734,313	1,788,803	1,760,709
Fixed Assets					
Opening Balance	F	12,133,521	12,450,345	12,978,876	13,682,544
Closing Balance	G	12,450,345	12,978,876	13,682,544	15,812,268
Average	H=(F+G)/2	12,291,933	12,714,611	13,330,710	14,747,406
Total Rate Base	I=E+H	14,073,574	14,448,923	15,119,513	16,508,115
Regulated Deemed Equity (40%)	J=I*40%	5,629,429	5,779,569	6,047,805	6,603,246
Regulated Deemed Debt (60%)	K=I*60%	8,444,144	8,669,354	9,071,708	9,904,869
Regulated Return on Equity	L=B/J	8.99%	9.52%	7.24%	6.71%

As can be noted by the table above, WDI's projected ROE for 2019 is 7.24% and the 2020 budgeted ROE is 6.71%. Although WDI's ROE is declining, it is still within the +/- 300 basis points deadband.

In 2020, WDI is addressing some key areas that will have a short-term impact on the ROE. These key areas are developing a Strategic Plan and Succession Planning. These one time costs were presented to the Board of Directors of WDI; they understood the short-term negative impact to our ROE and approved these costs.

At the Audit & Finance Committee meeting and then at the full Board meeting in December, the WDI Board approved the budget for 2020. The WDI Board also approved the recommendation by the Audit & Finance Committee to make the request to the OEB for a Cost of Service Application deferral for one year.



WASAGA
DISTRIBUTION INC.

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WDI feels that its' consistent revenue, OM&A spending and strong performance standards are good indicators to defer the filing.

Respectfully submitted,

Keith McAllister, P.Eng.
CEO
Wasaga Distribution Inc.

Joanne Tackaberry, CPA, CGA
Director of Finance
Wasaga Distribution Inc.