



May 22, 2015

BY RESS/EMAIL/COURIER

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

Dear Ms. Walli,

**RE: Whitby Hydro Electric Corporation
2016 Cost of Service Rate Application (EB- 2015-0113)**

In a letter dated April 20th, 2015, Whitby Hydro Electric Corporation ("Whitby Hydro") advised the Board that it would be delayed in filing its 2016 Cost of Service rate application. At this time, Whitby Hydro is requesting to defer rebasing for a 1 year period at which time it will re-assess the status of key indicators, growth and investments needs in its service territory. The deferral is based on the following items of consideration:

- While Whitby Hydro experienced a number of years of significant customer growth (2000-2008) and investment, these levels have stabilized since 2009 and only very modest levels of growth have occurred over the past 6 years. This trend is expected to continue for 2015 and 2016.
- Additional effort and time is required to properly develop and refine its Distribution System Plan ("DSP") and to completely address the RRFE requirements outlined in the filing requirements. A one year deferral will also allow for improved planning and cost information related to a new distribution station scheduled for completion after 2016 to be incorporated. It is anticipated that this may assist in aligning these costs for inclusion in a future Cost of Service rate application as part of the test year rate base or through the Advanced Capital Module. If possible, it is Whitby Hydro's desire to minimize the likelihood requiring an Incremental Capital Module ("ICM") during an IRM year.
- Recently finalized 2014 year-end financials as well as annual OEB Reporting requirements ("RRR"), have provided sufficient assurance that Whitby Hydro will continue to be able to:
 - Manage resources and financial needs within the current revenue envelope under the 4th Generation Price Cap Adjustment Mechanism ("IRM")
 - Monitor and ensure its comparable ROE is within the 300 basis point threshold from its approved rate of return.
 - Continue to maintain a strong distribution system to provide good reliability for its customers.

For the purpose of assessing whether actual ROE is within the 300 basis point threshold of approved ROE for rates, it is important to ensure that figures are appropriately aligned on a

basis consistent with the framework used for regulatory rate-making purposes.

Whitby Hydro understands that the Board reviews return on equity (“ROE”) when determining the appropriateness of a deferral request. Whitby Hydro provides the following information regarding ROE.

| Regulated Rate of Return on Deemed Equity | | |
|---|----------|----------|
| | 2013 | 2014 |
| Actual - per RRR 2.1.5.6 | 14.54% | 13.89% |
| Adjusted for taxes | 11.77% | 11.17% |
| Approved - 2011 Cost of Service | 9.66% | 9.66% |
| Actual Taxes paid | \$93K | \$163K |
| Taxes in Rates | \$1,090K | \$1,026K |

The adjustment to taxes resulting from differences between the collection and payment of costs and dispositions associated with deferral accounts are not reflected in the determination of PILs for rate setting purposes. However, these adjustments do impact the payment of actual taxes which contributes to the difference between actual taxes paid compared to taxes in rates. In 2011, when the last cost based rates were approved, the level of taxes in the revenue requirement that supports the rates was \$1.19 million. The ROE in the same revenue requirement was set at 9.66%. As shown above, the 2014 actual taxes are \$163k which includes the tax adjustments for the difference between collection and payment of costs and dispositions associated with deferral accounts. It is the actual taxes paid that impact the calculation of actual ROE per RRR 2.1.5.6. Since the difference between PILs assumed in rates and the amount actually paid is a reduction of over \$800k the actual ROE is 14.54% in 2013 and 13.90% in 2014. However, if the adjustment associated with deferral accounts was not included (i.e. the same basis as assumed in approved rates), the ROE would be 11.77% in 2013 and 11.17% in 2014. In other words, the actual ROE results are impacted by timing differences between the collection and payment of costs and dispositions associated with deferral accounts - items which are outside of the rate-making construct.

Reliability measurements have been included below as additional support of Whitby Hydro’s system performance and service to customers since the last rebasing. Whitby Hydro notes that 2013 reliability was impacted by the major ice storm in December 2013. In 2014, there were two major events that accounted for more than 50% of total customer interruptions and outage hours. While Whitby Hydro follows a strict schedule for maintenance of assets, a catastrophic substation switchgear failure occurred in May and there was also a major lightning storm on August 1st. Without these major events, both the 2013 and 2014 SAIDI and SAIFI levels would be below those reported for 2012.

| Reliability - excluding Loss of Supply | | | | | |
|--|------|------|------|------|----------|
| | 2011 | 2012 | 2013 | 2014 | Average* |
| SAIDI | 1.43 | 0.96 | 4.95 | 1.89 | 2.31 |
| SAIFI | 1.73 | 1.29 | 2.80 | 2.32 | 2.04 |

* Average since rebasing in 2011

Whitby Hydro is also cognizant of the need to address the balance which is currently accumulating in Account 1576 – CGAAP Account Changes. The balance at the end of December 31, 2014 is a credit of approximately \$2M and this amount will continue to grow each year until rebasing occurs. In order to address this balance in a timely fashion to benefit customers, Whitby Hydro would like to propose an approach (interim disposition or credit adder) which would credit customer bills effective January 1, 2016. If the Board permits the requested deferral, Whitby Hydro will provide a proposal to address Account 1576.

Please feel free to contact me if you have any questions.

Regards,

Original signed by

Susan Reffle
Vice-President

cc: Ms. Birgit Armstrong (E-mail)