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**Commission de l'énergie
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BY E-MAIL

October 16, 2015

Mr. Michel Poulin
Hydro Hawkesbury Inc.
850 Tupper St.
Hawkesbury ON K9A 3S7

Dear Mr. Poulin:

**Re: Hydro Hawkesbury Inc.
2014 Return on Equity Performance
OEB File Number EB-2015-0077**

On September 30, 2015, the Ontario Energy Board publicly released scorecard results for all of Ontario's electricity distributors. These scorecards measure how well Ontario's electricity distributors are performing each year, and are designed to encourage electricity distributors to operate effectively, continually seek ways to improve productivity and focus on improvements that their customers value.

The scorecard includes a measure of each utility's regulatory return on equity (ROE). In the course of a sector-wide review of all distributors' ROE performance conducted in the summer of 2015, OEB Audit and Performance Assessment staff concluded that Hydro Hawkesbury Inc.'s regulatory ROE measured 12.48% in 2014 – 312 basis points above the target ROE that was the basis upon which its rates were established. A summary of staff's assessment is attached. Staff also estimated that this level of overearnings represents a cost to residential customers of roughly \$0.30 per month.

Under OEB policy, a regulatory review may be triggered if a distributor's earnings are outside of a dead band of +/- 300 basis points from the OEB-approved return on equity. Any such review will be prospective, and could result in modifications, termination or the continuation of the respective Price Cap IR or Annual IR Index plan for that distributor.

Given the level of returns earned by Hydro Hawkesbury Inc. in 2014, it is appropriate that the OEB consider whether an amendment to Hydro Hawkesbury Inc.'s rate plan is

warranted, in order to ensure that customers pay distribution rates that better reflect the value of the service provided to them.

Hydro Hawkesbury Inc. applied on August 14, 2015 for an annual adjustment to its rates as part of its Price Cap Incentive rate-setting plan. The OEB will assess the appropriateness of granting Hydro Hawkesbury Inc.'s request for an incremental adjustment to its base rates for the 2016 rate year given the earnings performance measured in 2014. It may also consider whether its 2016 rates should be set on an interim basis, so that earnings for 2016 can be considered in Hydro Hawkesbury Inc.'s next rebasing application. These evaluations will form part of the application process in the current proceeding, and include the opportunity for Hydro Hawkesbury Inc. to present its position and bring forward relevant information to the OEB.

The OEB also notes that Hydro Hawkesbury Inc. is scheduled to file a cost of service application in 2018 and expects that it will adhere to this schedule.

Yours truly,

Original Signed By

Kirsten Walli
Board Secretary

Appendix A

2014 Return on Equity Sector Review

Hydro Hawkesbury Inc.

ROE Performance summary

EB-2015-0077

October 16, 2015

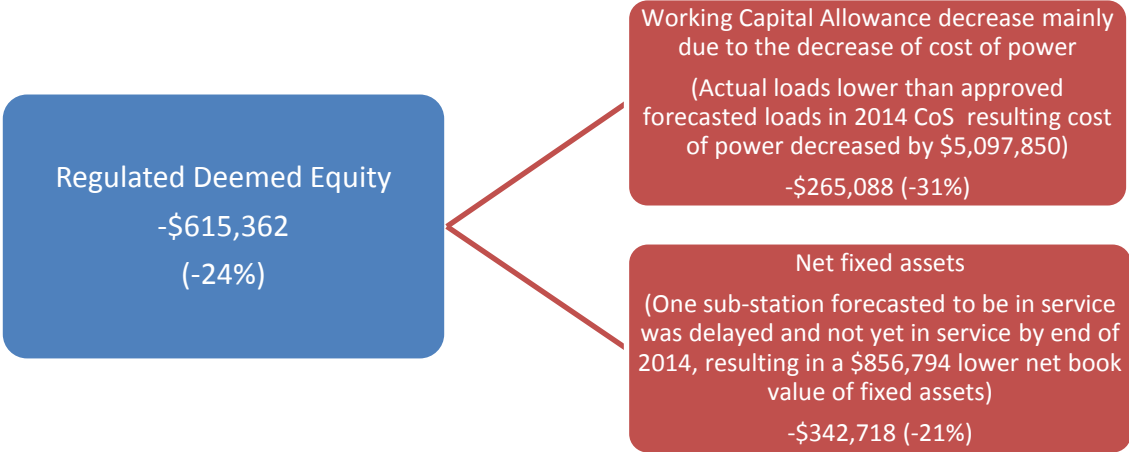
2014 ROE Over-Earner: [Hydro Hawkesbury Inc. \(Hydro Hawkesbury\)](#)

Hydro Hawkesbury is scheduled to file an IRM application for 2016 rates.

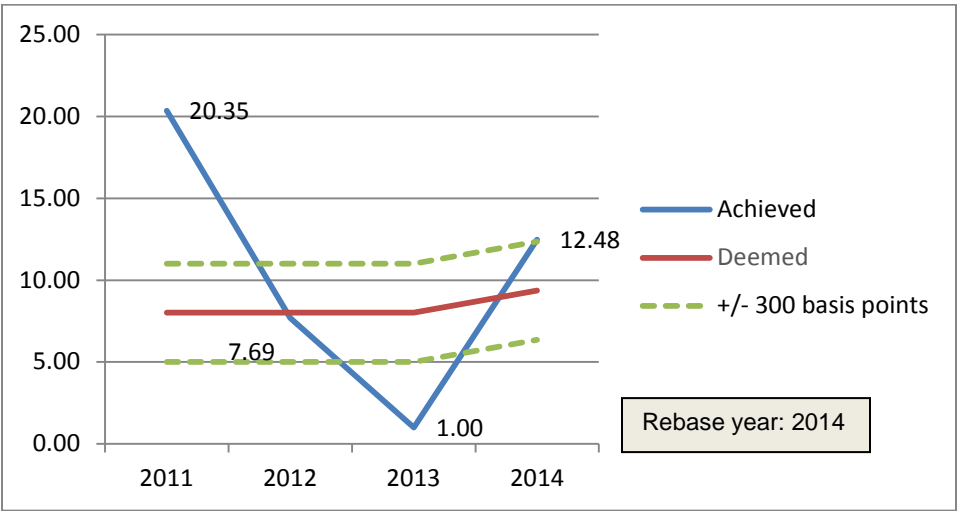
2014 ROE performance – 12.48% (12 basis points over the Deadband)

Components of the ROE calculation	Deemed 2014 CoS	Achieved 2014	Variance	Variance %
ROE \$/ Adjusted Regulated Net Income	\$239,099	\$241,949	\$2,851	1%
Regulated Deemed Equity	\$2,554,480	\$1,939,357	(\$615,124)	(24%)
ROE	9.36%	12.48%	3.12%	

Main Drivers for Over-Earning in 2014



Historical ROE performance (2011 to 2014)



Note:

- Hydro Hawkesbury expenses the DVAs in the actual tax filings, which is not consistent with the treatment of the DVAs in the PILs embedded in the rates. The distributor confirmed that the impact of the inconsistent treatment of the DVAs on 2014 ROE would be 4.15%, i.e. without the inconsistent treatment of DVAs in tax filing, the 2014 ROE would be increased by 4.15%. The impact of the tax was confirmed by Hydro Hawkesbury’s external auditor.