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**Commission de l'énergie
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BY E-MAIL

October 16, 2015

Rene Beaulne
Hydro 2000 Inc.
440 rue St-Philippe St.
Alfred ON K0B 1A0

Dear Mr. Beaulne:

**Re: Hydro 2000 Inc.
2014 Return on Equity Performance
EB-2015-0076**

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 2000 Inc.'s regulatory ROE measured 31.78% in 2014 – 2,266 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 \$3.69 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 2000 Inc. in 2014, it is appropriate that the OEB consider whether an amendment to Hydro 2000 Inc. 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 2000 Inc. is scheduled to file a cost of service application in 2017, and in the meantime may apply on October 19, 2015 for an annual adjustment to its rates as part of its Price Cap Incentive rate-setting plan. Hydro 2000 Inc. is reminded that a distributor filing an incentive rate-setting application may choose to file only for the transition to fixed rates for the residential class and for disposition of Group 1 deferral and variance account balances in accordance with OEB policies, without applying for adjustments to its base rates. Should Hydro 2000 Inc.'s application include a request for the inflationary base rate adjustment for 2016, the OEB will assess the appropriateness of granting Hydro 2000 Inc.'s request for an incremental adjustments 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 2000 Inc.'s next rebasing application. These evaluations will form part of the application process in the current proceeding, and include the opportunity for Hydro 2000 Inc. to present its position and bring forward relevant information to the OEB.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

Appendix A

2014 Return on Equity Sector Review

Hydro 2000 Inc.

ROE Performance Summary

EB-2015-0076

October 16, 2015

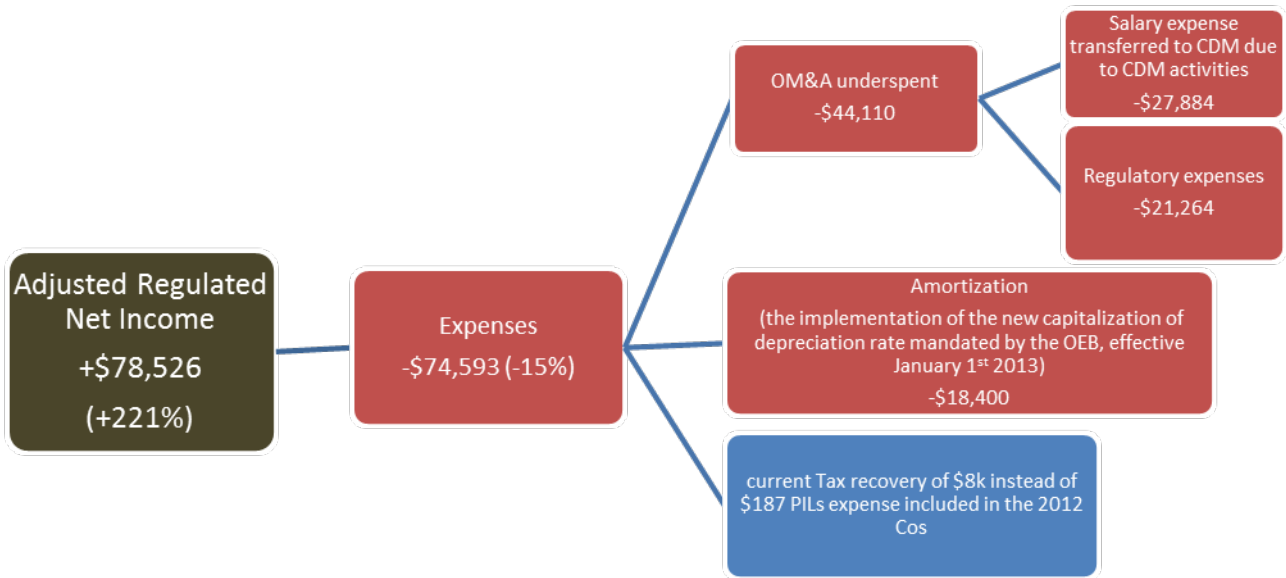
2014 ROE Over-Earner: [Hydro 2000 Inc. \(Hydro 2000\)](#)

Hydro 2000 is scheduled to file an IRM application for 2016 rates.

2014 ROE performance – 31.78% (1,966 basis points over the Deadband)

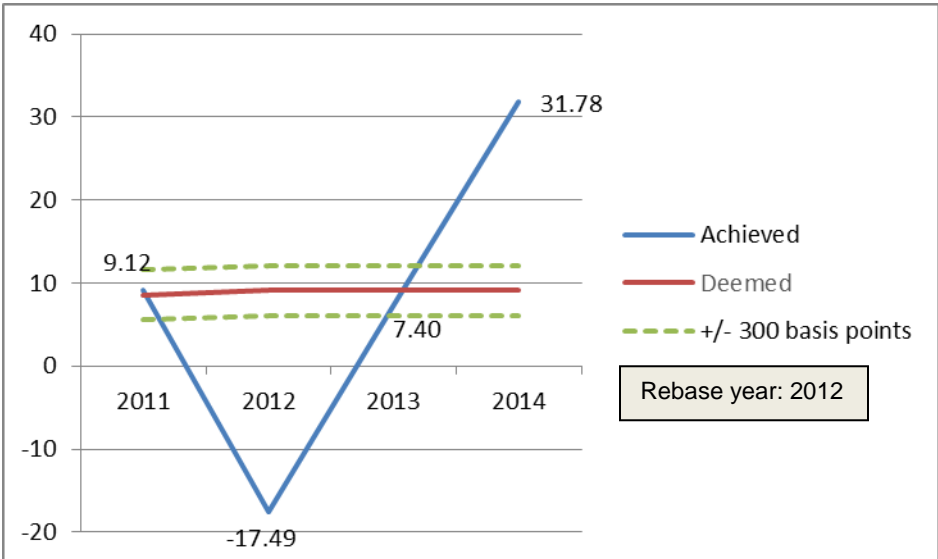
Components of the ROE calculation	Deemed 2012 CoS	Achieved 2014	Variance	Variance %
ROE \$ approved in CoS / Adjusted Regulatory Net Income	\$35,512	\$114,038	\$78,526	221%
Regulated Deemed Equity	\$389,380	\$358,811	(\$30,569)	(8%)
ROE	9.12%	31.78%	22.66%	

Main Drivers for Over-Earning in 2014



In addition, the rate base approved in the 2012 CoS Decision and Order has decreased by 8% as at 2014 year end, resulting in a corresponding decrease in the “Regulated Deemed Equity” for 2014 ROE calculation. Hydro 2000 explained that the decrease was mainly due to the delay of capital projects approved in the 2012 CoS Decision and Order.

Historical ROE performance (2011 to 2014) - One Year Over-Earner



Based on the OEB Audit staff’s review, it appears that the main cause for the swing of the under-earning in 2012 to over-earning in 2014 for Hydro 2000 was the amortization expense: The approved amortization expense in 2012 CoS Decision and Order was \$76k. However, 2012 actual amortization expense was \$160k, 2013 actual amortization expense was \$62k and 2014 actual amortization expense was \$58k. In addition, the OM&A underspent in 2014 appears not existed in 2013.