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Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2701
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Espanola Regional Hydro Distribution Corporation
Board File No. EB-2015-0068**

On November 1, 2016, Borden Ladner Gervais LLP (“**BLG**”) was retained to advise and assist Espanola Regional Hydro Distribution Corporation (“**Espanola Hydro**”) with preparing their application for rates effective May 1, 2016.

We have reviewed the materials relevant to this matter, including the Ontario Energy Board’s (the “**OEB’s**”) order declaring Espanola Hydro’s current Tariff of Rates and Charges interim as of February 1, 2016 (the “**Interim Rate Order**”) and the letter dated January 29, 2015 identifying Espanola Hydro as one of the distributors scheduled to apply to have their rates rebased for 2016.

Espanola Hydro has undertaken considerable efforts, with limited resources, to prepare a comprehensive cost of service rate application for 2016. Despite these efforts, the application remains a work in progress. Based on our review, it would still take considerable time, effort and financial resources for Espanola Hydro to finalize and submit a complete cost of service rebasing application for the 2016 rate year.

We are concerned that a full cost of service rebasing application for 2016 rates may not be the most efficient use of resources to best serve the ratepayers of Espanola Hydro. While BLG is happy to assist clients with an extensive rebasing application process, in this instance we are concerned that it may not be in the public interest.

1. Espanola Hydro is requesting to defer its rate application beyond the 2016 rate year

For this reason, BLG is writing to request that Espanola Hydro be permitted to defer its rate application beyond the 2016 rate year.

This approach is consistent with Section 2.0.5 of the OEB’s Chapter 2 Filing Requirements for Electricity Distribution Rate Applications (2016 Edition for 2017 Rate Applications). While we acknowledge these requirements apply to 2017 rate applications, our request is consistent with the OEB’s stated policy that:

“Late applications filed after the commencement of the rate year for which the application is intended to set rates should be converted to the following rate year.”

When considering a deferral request, the OEB typically considers a distributor’s performance on various scorecard metrics.¹ Espanola Hydro’s service quality, customer satisfaction, safety and system reliability performance all met or exceeded targets for 2014 and 2015, Espanola Hydro continues to be ranked in group 2 in the OEB’s efficiency assessment, and Espanola Hydro’s debt to equity ratio continues to trend closer to the OEB’s deemed debt-to-equity ratio of 1.50.

In the Interim Rate Order, the OEB expressed concern over Espanola Hydro’s profitability performance as against the OEB’s deemed return on equity. We have two comments in this regard.

2. Past profitability performance is largely explained by various rate riders all of which are due to expire on or before April 30, 2016

On November 1, 2012, the OEB issued its rate order in EB-2011-0319 approving a Tariff of Rates and Charges that included an extended four year recovery period effective May 1, 2012 for rate riders related to Lost Revenue Adjustment Mechanism, Deferral and Variance Accounts, Smart Meters and Stranded Meters (the “**2012 Rate Order**”).

These rate riders largely relate to costs that were incurred in prior years, but create revenue over the years the rate riders are effective. These include rate riders for recovery of residual historical smart meter costs (expiring April 30, 2016), recovery for stranded meter assets (expiring April 30, 2016), disposition of deferral/variance accounts (expiring April 30, 2016) and recovery for LRAM (expiring April 30, 2016).

These rate riders have had a material impact on Espanola Hydro’s ROE performance between 2013 - 2015. For example, in 2015 alone Espanola Hydro earned \$87,119.68 in incremental revenue from these rate riders. If the OEB were to normalize Espanola Hydro’s ROE calculation for 2015 by removing this \$87,119.68 in rate rider revenue, the 2015 ROE would drop from the reported 15.91% to 11.42%. An ROE of 11.42% falls within the 300 basis point dead band of 9.12%.

3. Profitability performance for 2016 is expected to fall to 7.53%

Each of the relevant rate riders described in the 2012 Rate Order expire on or before April 30, 2016. Consequently, the profitability performance of Espanola Hydro is expected to decline further in 2016.

Specifically, based on the best information available (preliminary unaudited financials current to October 31, 2016), Espanola Hydro is forecasting its ROE performance for 2016 of approximately 7.53%. That is a forecasted performance that is 166 basis points less than the 9.19% that is permitted by the Board for rates effective January 1, 2016.

¹ Espanola Hydro’s 2015 scorecard results are available online at: <http://www.ontarioenergyboard.ca/documents/scorecard/2015/Scorecard%20-%20Espanola%20Regional%20Hydro%20Distribution%20Corporation.pdf>

If the OEB grants the requested deferral, Espanola Hydro hereby undertakes to file with the OEB information on its final and actual 2016 ROE performance promptly after compiling the relevant information.

4. Espanola Hydro is willing to waive its right to seek any adjustment to its current rates for 2016

If the OEB grants the requested deferral for the 2016 rate year, Espanola Hydro is willing to waive its right to seek any adjustments to its current Tariff of Rates and Charges for 2016 using the Annual IR adjustment mechanism. Espanola Hydro is willing to forego any incremental revenue for 2016 – effectively putting their money where their mouth is. This would create an additional incentive on Espanola Hydro to increase productivity performance in 2016 beyond what would otherwise be required using the Annual IR mechanism.

5. Espanola Hydro requests that the OEB declare its interim rates final for 2016

The Interim Rate Order is clear that the OEB’s determination of interim rates was made without prejudice to the OEB’s subsequent decision on any future rate application. The OEB expressly noted that its Interim Rate Order should not be construed as predictive, in any way whatsoever, of the OEB’s final determination of the effective date for rates arising from a future application.

Espanola Hydro requests that the OEB declare its interim rates final for 2016. Having revenue certainty is very important for a utility trying to manage its costs and expenses over the 2016 year (particularly seeing as it is already nearing the end of November).

However, it might be that the OEB wishes to wait until final 2016 ROE results are known. If this is the case, Espanola Hydro respectfully requests that the OEB declare its interim rates final for 2016 promptly after Espanola Hydro files its final ROE performance data for 2016 (on the assumption that such actual ROE performance falls within 300 basis points of the OEB’s deemed ROE for 2016).

6. Espanola Hydro is willing to file its five (5) year distribution system plan

As part of its efforts to prepare a rebasing application, Espanola Hydro is nearly done its five (5) year distribution system plan consistent with the OEB’s Chapter 5 filing requirements (the “DSP”). If the OEB wishes to undertake a more fulsome review of Espanola Hydro’s distribution system planning process, please advise us. If requested by the OEB, Espanola Hydro would be willing to finalize and file its DSP with the OEB. Espanola Hydro would aim to complete this process, with support from BLG and third party engineering consultants, prior to the end of 2016.

7. Conclusion

We recognize that this deferral request is arising under exceptional circumstances falling outside

of the ordinary course. We wish to make ourselves available to compile additional information should the OEB require it to consider and assess this request.

Yours very truly,

BORDEN LADNER GERVAIS LLP

Per:

Original signed by John A.D. Vellone

John A.D. Vellone