FFPC
FORT FRANCES POWER CORPORATION

January 30, 2020

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

RE: Fort Frances Power Corporation
Request to Defer 2021 Scheduled Rate Rebasing to 2023

Please accept this letter as an official deferral request application filed with the Ontario Energy Board (the "OEB" or the "Board") by Fort Frances Power Corporation (FFPC) in order to defer its 2021 scheduled rate rebasing to 2023. This two-year deferral request application is being made in response to the Board's November 13th, 2019 letter that sets out the list of electricity distributors scheduled to apply for rebasing for 2021 rates.

As per the considerations outline in the Board's November 13th, 2019 letter, this deferral request is not reliant upon the availability of incremental funding for rates beyond the mechanistic adjustments within incentive rate-setting applications under the Price Cap IR method. As such, FFPC does not intend to file any requests for an Incremental Capital Module, Z-factor or new deferral account over the requested deferral period.

Based on preliminary financial results, FFPC's 2019 pro forma Regulated Return-On-Equity (ROE) projection is -2.59%, which is 2.59% below the utility's target ROE of 0%. The utility anticipates not exceeding the +/- 300 basis points dead band threshold over the requested deferral period. It is worth noting that the +/- 300 points dead band corresponds to an approximate net annual retained earnings range between $0 to $300,000. This means that net annual positive retained earnings below approximately $150,000 result in negative Regulated ROE calculation results. FFPC's 2019 preliminary unaudited capital expenditures are $413,037,

slightly higher than its average annual reinvestment target of $402,929 as established in FFPC's 2014 – 2018 Board approved Distribution System Plan (DSP).

FFPC's business and operating model is unique in that the utility operates as a not-for-profit Corporation, with no debt, under the principle of "Power at Cost", for the benefit of its customers. As a not-for-profit Corporation the utility does not pay shareholder dividends and has elected a Regulatory ROE of 0%. FFPC's intentions are to continue to defer its rate rebasing as long as the utility's customers are well served, operational performance is stable, and the corporation's financial viability is maintained, while ensuring that the deferral does not negatively impact customers or operational effectiveness.

FFPC has conducted a comprehensive assessment of its key operational, financial and regulatory business aspects, a summary of which has been included as Appendix A. Appendix A includes information on the state of FFPC's Governance, Customer Class Trends, Financial Performance, Operational Effectiveness and Customer Engagement.

In the fall of 2018, following an extensive customer and stakeholder engagement campaign, FFPC developed a new Strategic Plan for the 2019 – 2023 planning horizon. Opportunities for the utility to realize operating efficiency improvements, cost reductions, the achievement of regulatory and customer service excellence were identified. The utility intends to focus its resources on continuing with the implementation of its strategic plan over the requested deferral period.

Customer growth across the utility's service territory for Residential, General Service < 50 kW, and General Service > 50 kW customer classes has been very flat for the last 6 years (2014 - 2019). There have not been any material changes to the number of customers in each customer class or to the corresponding electricity consumption by class. The distribution revenues obtained from these customer classes have remained stable and steady since FFPC's last rebasing in 2014. There have not been any material changes to FFPC's revenue and cost structures. FFPC expects that the utility's customer growth, distribution revenues, and cost structure will remain relatively unchanged (flat) over the next two years.

FFPC continues to exhibit solid performance in the Performance Outcomes of Customer Focus and Operational Effectiveness categories of its scorecard. The 2018 scorecard illustrates that the utility has met or exceeded all performance targets and continues to operate well. Appendix B illustrates the utility's continued strong performance.

Preliminary 2019 reliability performance metrics indicate that the utility achieved a SAIDI index of 0.19, and a SAIFI index of 0.79 which are well below reported industry averages. The utility is also hopeful on achieving its 12 Year Lost Time Accident Free milestone in May of 2020.

In summary, FFPC believes that deferring its rate rebasing is in the best interest of its customers, the utility, and the Board. FFPC respectfully requests to defer its 2021 scheduled rate rebasing for a period of two-years to 2023.

FFPC notes that the 2019 data contained in the application is still preliminary and unaudited. FFPC will notify the Board immediately, if the utility's year-end audit process results in any material changes to the preliminary 2019 data included in Appendix A.

If the Board approves FFPC's request to defer its scheduled 2021 rate rebasing to 2023, FFPC plans to file incentive rate-setting mechanism (IRM) rate applications for the 2021 and 2022 rate

years, and to conduct a similar assessment of whether rebasing rates is prudent for the 2023 rate year.

Respectfully submitted:

FORT FRANCES POWER CORPORATION

Joerg Ruppenstein
President & CEO

Appendix A

Governance, Customer Class Trends, Financial Performance, Operational Effectiveness and Customer Engagement Assessment

Governance:

After the OEB released its report on corporate governance guidance for all Ontario rate-regulated utilities in February 9, 2017, FFPC undertook a number of initiatives to adopt the Board's recommendations on good utility corporate governance to further strengthen the utility's governance. FFPC formally adopted the OEB's recommendations in the areas of Director Independence, Director Skills, Board Committee Structures and Functions, as well as Supporting Documentation and Practices.

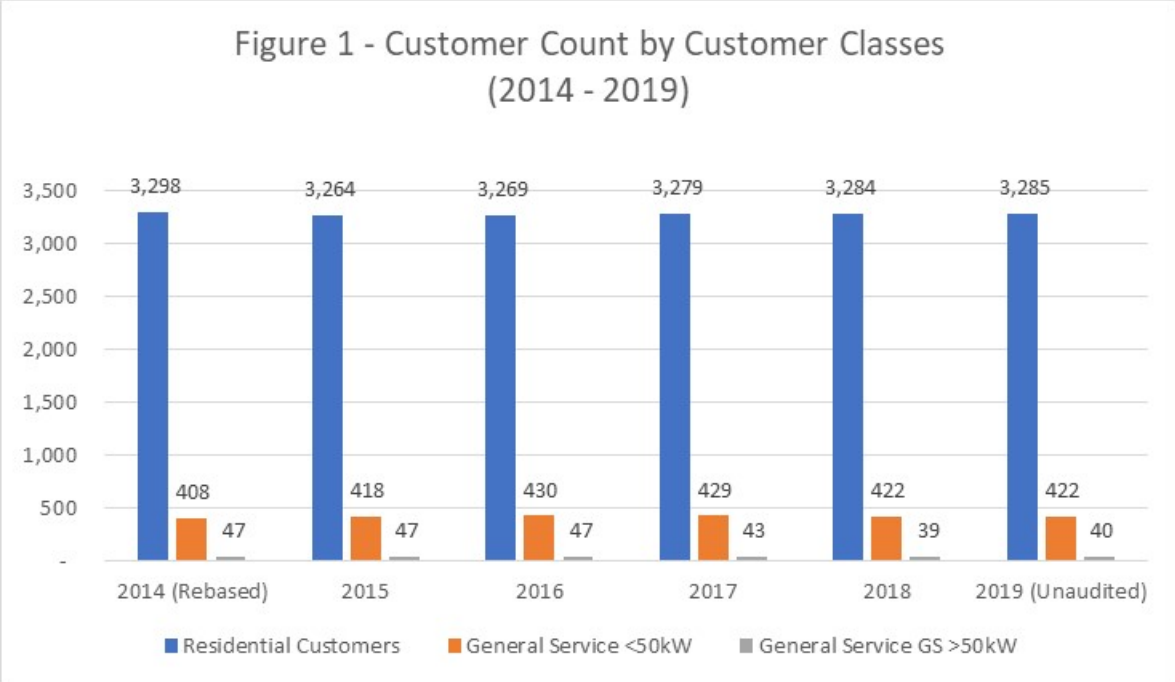
Examples of specific practices adopted include:

- Director Independence: FFPC adopted a seven (7) member board which is structured to operate with two seats being reserved for non-independent directors and five (5) seats being reserved for independent directors, exceeding the recommendation that the majority of directors are independent of the shareholder and any affiliate. This structure also exceeds the recommended minimum board size of five (5) directors.
- Director Skills: A matrix approach has been developed and implemented to evaluate director skills and to assist with recruiting directors such that the board as a whole possesses the complete skills necessary to execute its governance function and discharge its responsibilities effectively.
- Board Committee Structures and Functions: Corporate Governance, Audit & Human Resources, Quality & Service Delivery, and Special Projects committees have been assembled to assist with achieving appropriate oversight of key business functions.
- Supporting Documentation and Practices: A formal Code of Conduct Policy has been developed and implemented.
- Continued Education: Formal Director training was provided in the areas of Corporate Governance, Strategic Planning and Regulatory Competency.

FFPC plans to continue its work on refining its corporate governance in 2020 and beyond to further incorporate the Board's recommended best practices.

Customer Class Trends:

Figure 1 below provides a history of FFPC's number of customers by customer class for Residential, General Service < 50 kW, and General Service > 50 kW customer classes. As Figure 1 illustrates, customer growth in FFPC's service territory has been quite flat and there have not been material changes to customer counts since rebasing in 2014. FFPC does not foresee material changes to its customer count or classes over the requested deferral period, given the state of the local economy in the Town of Fort Frances.



Financial Performance:

ROE Analysis

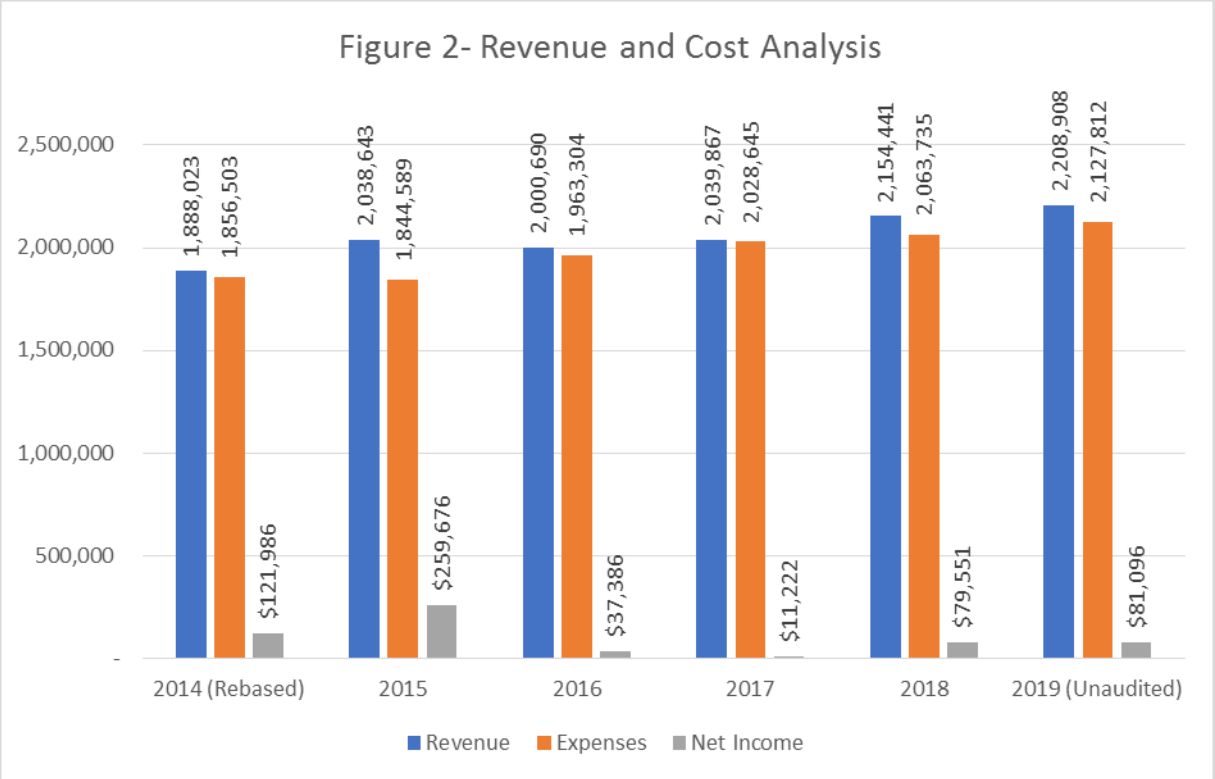
FFPC continues to operate within the +/- 300 basis point dead band and projects to be within the dead band for the 2019 calendar year and beyond. The chart below illustrates the utility's performance since its last Cost-of-Service (COS) rate rebasing conducted in 2014 (EB-2013-0130). As the table below illustrates, FFPC's ROE performance for 2014 - 2019 has been stable and within the +/- 300 basis point dead band.

	2014	2015	2016	2017	2018	2019 (Unaudited)
Deemed ROE	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Achieved ROE	0.05%	1.88%	-2.52%	-2.42%	-1.78%	-2.59%
Annual Net Income Prior to ROE Calculation (Deemed Debt)	$121,986	$259,676	$37,386	$11,222	$79,551	$81,096

Note: FFPC does not have any long term or short term debt, and therefore the ROE deemed debt calculation impacts achieved ROE. In other words, positive net income below approximately $150,000 results in a negative ROE..

Revenue and Cost Analysis

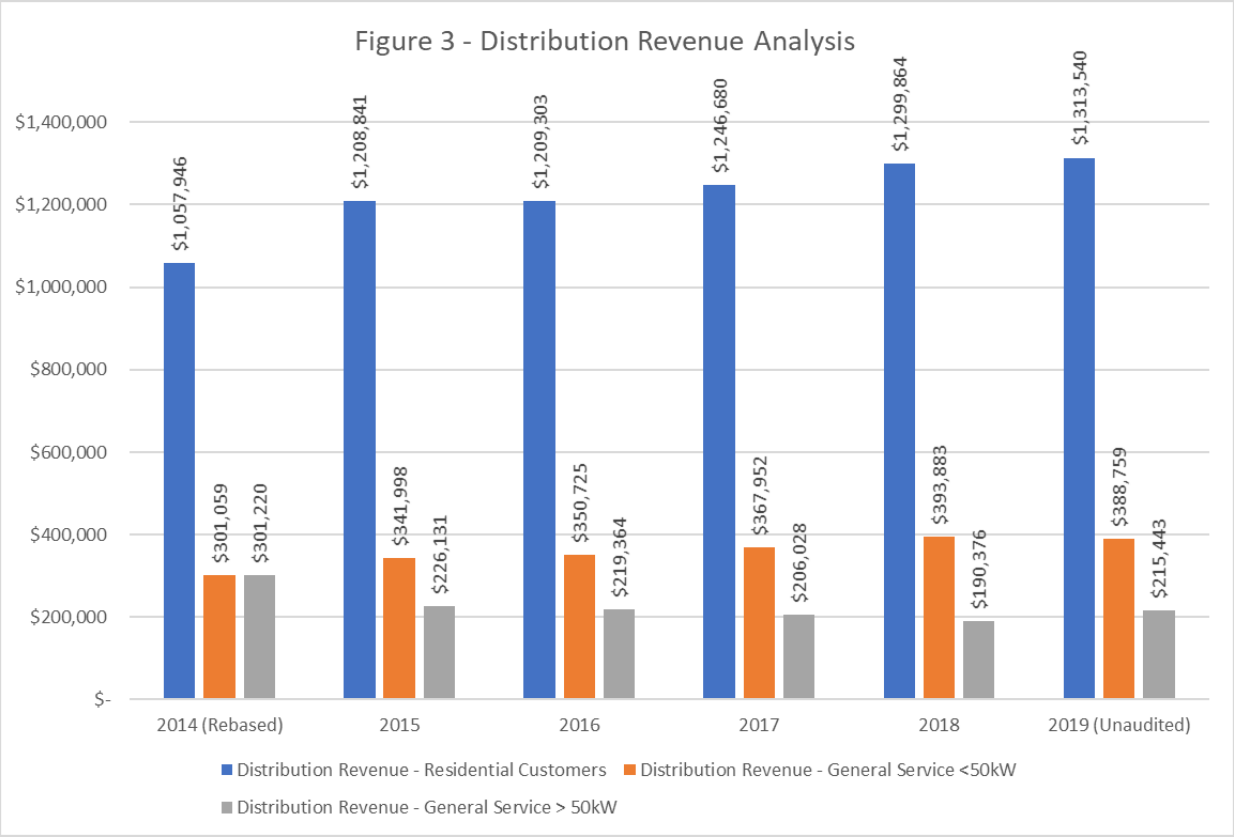
Figure 2 below illustrates FFPC's total revenue (distribution and other revenues), expenses, and net income since rebasing in 2014.



As Figure 2 illustrates, FFPC's revenues and costs have been stable and steady since rebasing in 2014. The utility continues to find innovative ways to reduce its operating costs, as further discussed under "Operational Effectiveness". FFPC foresees the revenues collected and the costs incurred by the utility to serve its customers remaining stable (flat) over the requested deferral period.

Distribution Revenue Analysis

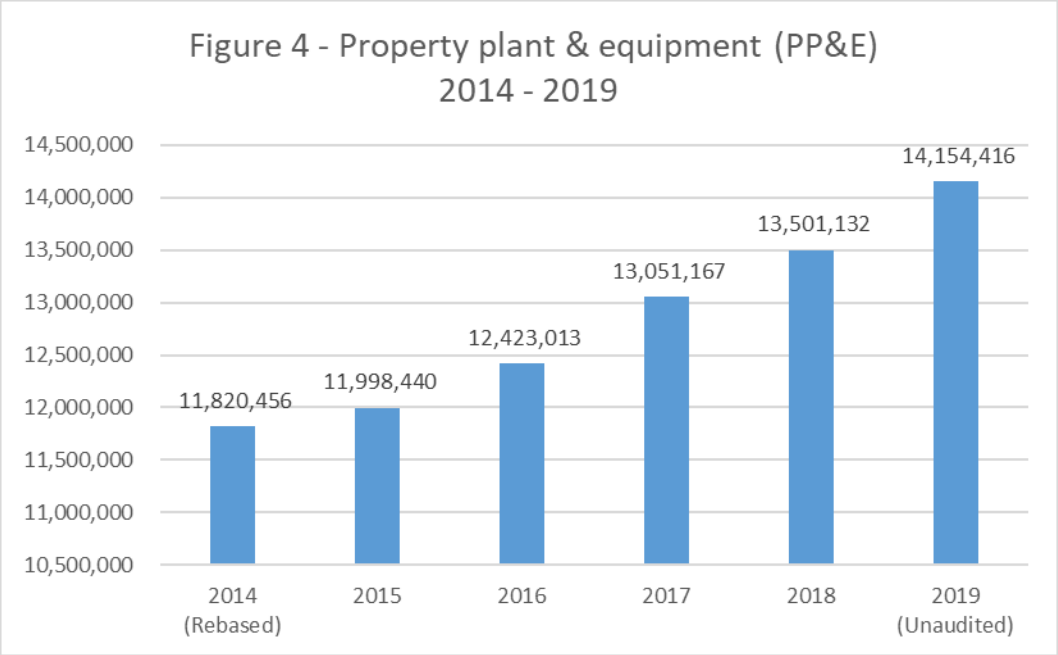
Figure 3 below illustrates FFPC's distribution revenue breakdowns for Residential, General Service < 50 kW, and General Service > 50 kW customer classes. As the figure shows, distribution revenues collected after the utility's last rebasing in 2014 have been stable and steady. There have not been any material changes in numbers of customers or to the electricity consumption across the various customer classes. FFPC does not foresee the distribution revenues collected from its customer classes to change materially over the requested deferral period.



Operational Effectiveness:

FFPC is a firm believer in continuous improvement and in integrating innovation and technology into its business model to unlock operational efficiencies. Over the next few years the utility intends to focus its resources on several strategic projects including Cyber Security Preparedness, Optimizing Insourced/Outsourced Services, and expanding the functionality of its Software Solutions to automate manual paper based processes.

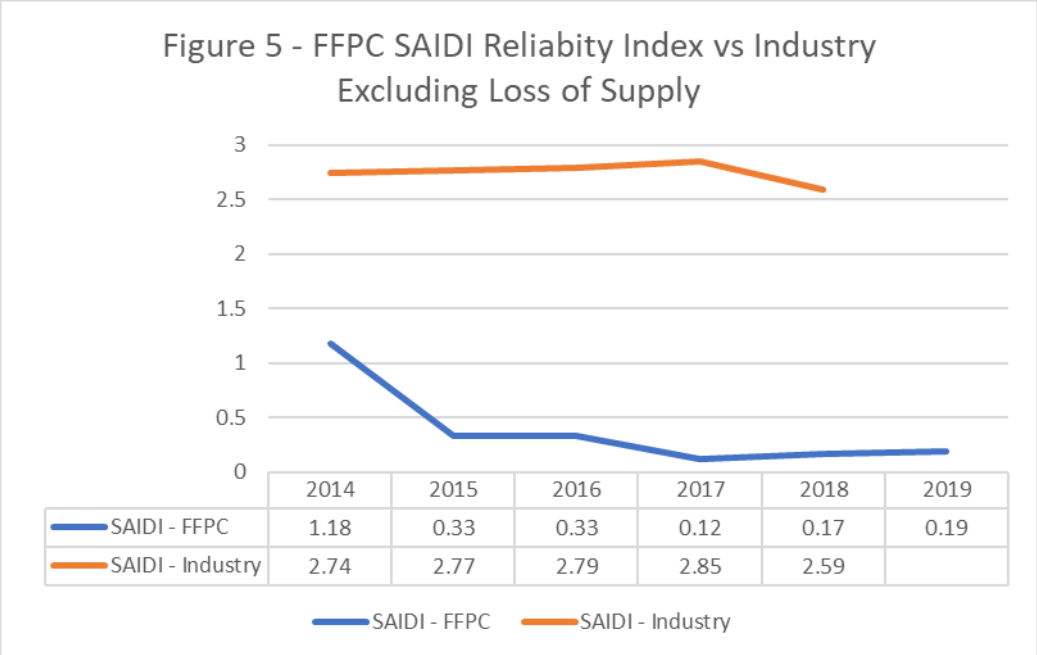
The trend of FFPC's annual property, plant, and equipment (PPE) value since rebasing in 2014 has been increasing steadily, which indicates that the utility has been investing steadily in its distribution infrastructure. Figure 4 below illustrates the rising annual value of FFPC's PPE.

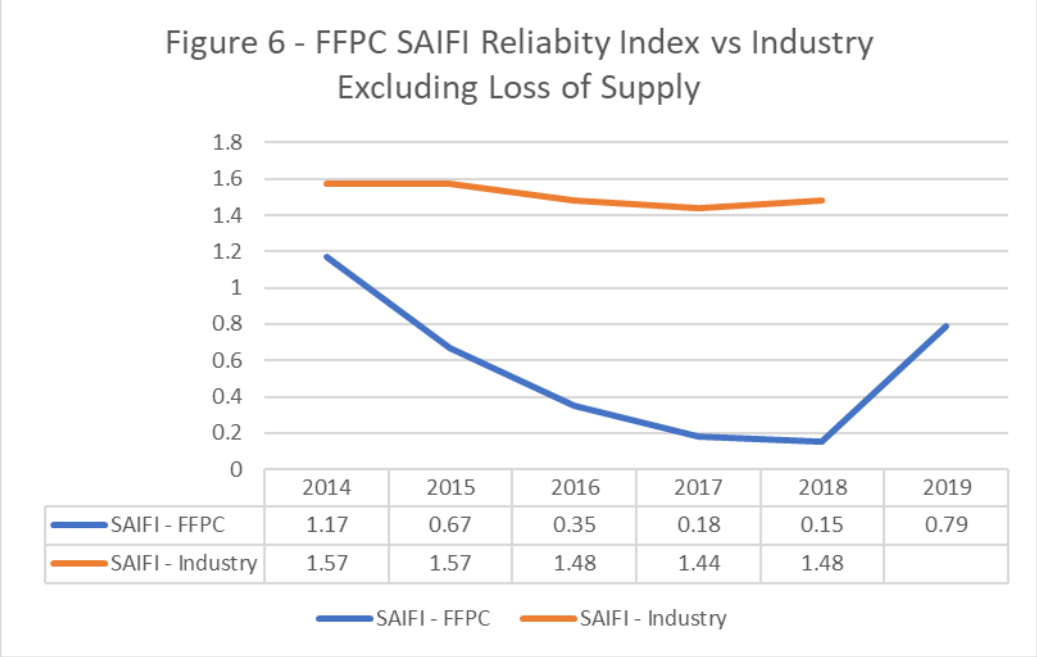


The utility's strategy is to match capital distribution system reinvestments to the rate at which assets are deteriorating, to maintain their current safe and reliable state perpetually. FFPC successful completed implementing its 2014 to 2018 "Distribution System Plan" ("DSP") that was approved by the Board during the utility's rate rebasing in 2014. FFPC's annual capital investment target as per the approved DSP was $402,929 or $2,014,645 over the five-year planning horizon. Over the five-year planning horizon FFPC invested $2,034,690 in actual total capital expenditures, achieving an overall investment level 1% above the planned $2,014,645 investment target.

FFPC finds the approved annual capital reinvestment target of $402,929 to be appropriate and accordingly is using the same target for 2019, 2020 and 2021. As such, FFPC intends to invest $1,208,787 into its capital asset base by the end of 2021. Preliminary unaudited 2019 capital expenditures are estimated to be $413,037, slightly above the annual target. During FFPC's customer engagement activities described in section "Customer Engagement", customers supported this level of capital reinvestment. As such FFPC will not be applying for an Incremental Capital Module over the requested deferral period.

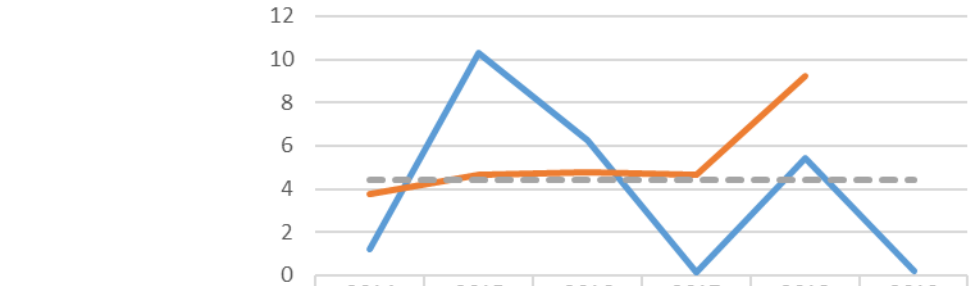
FFPC's reliability data indicates the utility has a very reliable distribution system that consistently outperforms industry, meets OEB's targets and exceeds customer expectations. As a transmission connected utility located in Northern Ontario, the utility's biggest reliability performance challenge is addressing "Loss of Supply" related outages that are beyond the utility's control. Figures 5 and 6 below illustrate FFPC's electrical distribution system reliability performance compared to industry averages, based on the Board's 2018 LDC Yearbook and Scorecard publications. This comparison excludes Loss of Supply type outages and are the metrics that appear on distributor performance scorecards. FFPC's 2019 SAIFI index increased slightly due to planned outages scheduled throughout the year to conduct scientific testing of primary cables and transformers.





Figures 7 and 8 illustrate the reliability of the supply of electricity to customers including events of Loss of Supply from the Provincial transmission system, which are out the control of distributors.

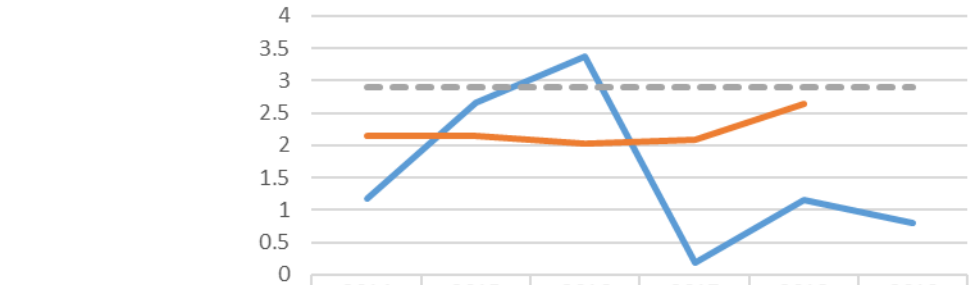
Figure 7 - FFPC SAIDI Reliabity Index vs Industry Including Loss of Supply



	2014	2015	2016	2017	2018	2019
SAIDI - FFPC	1.18	10.27	6.27	0.12	5.41	0.19
SAIDI - Industry	3.74	4.64	4.75	4.67	9.25	
SAIDI - FFPC Customer Expectation	4.4	4.4	4.4	4.4	4.4	4.4

SAIDI - FFPC SAIDI - Industry SAIDI - FFPC Customer Expectation

Figure 8 - FFPC SAIFI Reliabity Index vs Industry Including Loss of Supply



	2014	2015	2016	2017	2018	2019
SAIFI - FFPC	1.17	2.67	3.37	0.18	1.15	0.79
SAIFI - Industry	2.14	2.15	2.03	2.08	2.65	
SAIFI - FFPC Customer Expectation	2.9	2.9	2.9	2.9	2.9	2.9

SAIFI - FFPC SAIFI - Industry SAIFI - FFPC Customer Expectation

With the inclusion of Loss of Supply related outages, FFPC's customers experienced longer and more frequent outages as illustrated in 2015 and 2016. In 2015 and 2016, Loss of Supply outages accounted for 96.8% and 94.7% respectively, of the total customer interruption hours reported in that calendar year. The dominance of this outage type is related to the nature of the transmission system design in remote parts of Ontario, where communities are typically connected via only a single supply point. With the inclusion of Loss of Supply related outages Customers' expectations were not met in 2015, 2016 and 2018.

FFPC has been working jointly with Hydro One Networks to explore transmission supply connectivity options that would reduce Loss of Supply type outages to FFPC's transformer

station, including the construction of a parallel supply point as the station is in close proximity to additional Provincial and International supply points.

Customer Engagement:

In 2017, FFPC launched and implemented a customer engagement planning process and its first formal multiyear Customer Engagement Plan in accordance with the Board's requirement for electricity distributors to establish formal, ongoing customer engagement to inform utility planning. The Plan serves as a road map to gather and use information regarding customers' preferences, needs and insights and is an integral part of FFPC's Business Planning Process.

FFPC conducted one-on-one customer site visits, customer questionnaires and various focus group meetings, reaching out to 100% of its customer base and obtaining feedback from close to 15% of all customers. Overall customers were very supportive of FFPC and its activities. Customer class specific and organizational specific Customer Engagement Sessions were also held to obtain customer feedback on FFPC's 2014 to 2018 Distribution System Plan (DSP), input and direction towards the development of a future DSP and input towards the development of the 2019 to 2023 Strategic Plan. Customized sessions with Residential, General User under 50 kW, General User over 50 kW, Social Services Agencies, Community Emergency Control Group, Economic Development Group and the Municipality (Shareholder) were held. The sessions were very well received and provided valuable information regarding customer' preferences, needs and insights.

FFPC's scorecard illustrates the utility's ongoing commitment to customer focus. FFPC has met and consistently exceeded the Board's targets for New Residential/Small Business Services Connected on Time, Scheduled Appointments Met on Time, Telephone Calls Answered on Time and Billing Accuracy. The utility received scores of 88.5%, 89.3% and 89.8% respectively, for Customer Satisfaction during its 2015, 2017 and 2019 Customer Satisfaction Surveys. Please refer to FFPC's 2018 Scorecard in Appendix B that illustrates the utility's strong performance track record.

Appendix B – FFPC 2018 Distributor Scorecard

Scorecard - Fort Frances Power Corporation 9/29/2019

Performance Outcomes	Performance Categories	Measures		2014	2015	2016	2017	2018	Trend	Target: Industry	Target: Distributor
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	New Residential/Small Business Services Connected on Time		100.00%	100.00%	100.00%	100.00%	100.00%	flat	90.00%	
		Scheduled Appointments Met On Time		100.00%	100.00%	98.90%	100.00%	100.00%	flat	90.00%	
		Telephone Calls Answered On Time		94.30%	94.30%	97.70%	96.90%	96.33%	up	65.00%	
	Customer Satisfaction	First Contact Resolution		98.6%	99.0%	99.40%	100.00%	99.9%			
		Billing Accuracy		99.27%	99.59%	98.26%	99.46%	99.52%	up	98.00%	
		Customer Satisfaction Survey Results		90%	88.5%	88.5%	89.3%	89.3%			
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	Safety	Level of Public Awareness			79.35%	79.35%	78.51%	78.51%			
		Level of Compliance with Ontario Regulation 22/04 [1]		C	C	C	C	C	flat		C
		Serious Electrical Incident Index	Number of General Public Incidents	0	0	0	0	0	flat		0
			Rate per 10, 100, 1000 km of line	0.000	0.000	0.000	0.000	0.000	flat		0.000
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted [2]		1.18	0.33	0.33	0.12	0.17	down		0.47
		Average Number of Times that Power to a Customer is Interrupted [2]		1.17	0.67	0.35	0.18	0.15	up		0.46
	Asset Management	Distribution System Plan Implementation Progress		71.4%	49.8%	97.5%	159.3%	127%			
	Cost Control	Efficiency Assessment		3	3	3	3	3			
		Total Cost per Customer [3]		$638	$660	$688	$665	$676			
		Total Cost per Km of Line [3]		$31,495	$32,382	$32,194	$30,793	$31,236			
Public Policy Responsiveness Distributors deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	Conservation & Demand Management	Net Cumulative Energy Savings [4]			6.37%	20.50%	49.20%	66.00%			4.00 GWh
	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time									
		New Micro-embedded Generation Facilities Connected On Time		100.00%	100.00%			100.00%	flat	90.00%	
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)		4.15	5.28	4.48	4.95	6.06			
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio		0.00	0.00	0.00	0.00	0.00			
		Profitability: Regulatory Return on Equity	Deemed (included in rates)	0.00%	0.00%	0.00%	0.00%	0.00%			
			Achieved	0.05%	1.88%	-2.52%	-2.42%	-1.78%			

1. Compliance with Ontario Regulation 22/04 assessed: Compliant (C); Needs Improvement (NI); or Non-Compliant (NC).
2. The trend's arrow direction is based on the comparison of the current 5-year rolling average to the distributor-specific target on the right. An upward arrow indicates decreasing reliability while downward indicates improving reliability.
3. A benchmarking analysis determines the total cost figures from the distributor's reported information.
4. The CDM measure is based on the 2015-2020 Conservation First Framework. 2018 results are based on the IESO's unverified savings values contained in the March 2019 Participation and Cost Report.

Legend:
5-year trend: up, down, flat
Current year: target met, target not met