Festival Hydro INC.

P.O. Box 397, Stratford, Ontario N5A 6T5

187 Erie Street, Stratford
Telephone: 519-271-4700
Toll-Free: 1-866-444-9370
Fax: 519-271-7204
www.festivalhydro.com

February 1, 2019

BY RESS & COURIER

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
2300 Yonge Street, 26th Floor, P.O. Box 2319
TORONTO, ON M4P 1E4

Re: Festival Hydro Inc. – ED-2002-0513
2021 Cost of Service ("COS") Application Deferral Request

Dear Ms. Walli,

Festival's last COS application (EB-2014-0073) was filed for rates effective January 1, 2015, however the Decision and Order and Final rate order were not received until May 28, 2015 and June 4, 2015 respectively and as such the Decision and Order indicated:

> *"Festival confirmed its request for a rate year alignment to January 1 in its draft rate order. Festival noted that although the effective date of the Decision and Order for 2015 rates is May 1, 2015, it is Festival's understanding that its rate year is now aligned with the fiscal year and that its next IRM application will be filed for rates effective January 1, 2016.*
>
> *The interveners concurred with Festival's understanding. OEB staff noted that while the settlement agreement did not explicitly address this issue it was not identified as an unsettled issue.*
>
> *OEB Findings*
> *The OEB approves Festival's request to align its rate year to January 1."*

On November 16th, 2018, Festival received approval to defer their next scheduled rebasing from January 1, 2020 to January 2, 2021.

Festival is requesting to further defer the setting of its rates on a COS basis until January 1, 2022 and continue on the Price Cap IR stream for rates effective January 1, 2021. This request is based on several financial and non-financial factors as documented below. Festival views the deferral as appropriate for ratepayers, Festival, and will make a better use of Board resources.

Corporate Governance

Festival follows corporate governance best practices. Festival's Board of Directors is skills based with a range of experience including utility management, utility regulation, corporate governance, and human resources. Of Festival's 8-member Board, 3 members are independent. The Board consists of several committees including Finance & Audit, Human Resources, and Risk.

Scorecard Results

Since the last rebasing, Festival has had consistently strong scorecard results. The table below includes the deemed ROE since Festival's last rebasing compared to the actual ROE.

Note that the 2015 reported achieved ROE over earnings was explained in the RRR filing 2.1.5.6 for that year indicating that it was the result of the regulated disposition of the ICM variance account #1508 for the transformer station as part of the 2015 COS application as well as the approval by the OEB of an additional ICM rate rider for the 7-month period ending December 31, 2015. The ROE in 2015 without these regulated adjustments would've been within the 300 basis points of Festival's deemed ROE.

	Deemed ROE	Achieved ROE
2013	9.85%	10.5%
2014	9.85%	8.18%
2015	9.3%	14.24%
2016	9.3%	7.37%
2017	9.3%	8.43%

The reliability stats included in Festival's scorecard are within the regulated thresholds and are included in the table below for reference. Festival's SAIDI and SAIFI stats are well below the industry averages (our customers experience on average fewer hours of interrupted power and fewer occurrences where power is interrupted). Note that these figures are adjusted for loss of supply and major events.

	Festival SAIDI	Industry Avg. SAIDI	Festival SAIFI	Industry Avg. SAIFI
2013	1.34	2.56	1.73	1.55
2014	0.65	2.74	1.05	1.57
2015	1.02	2.77	1.21	1.57
2016	1.32	2.79	0.93	1.48
2017	1.69	2.85	1.92	1.44
5 Yr Avg	1.20	2.74	1.37	1.52

Festival has achieved a category 4 efficiency assessment via the PEG benchmarking analysis. As explained in the last rebasing application, Festival's previous investment in capital infrastructure has been the main driver of this efficiency ranking. While the PEG report places Festival in the 4th category, Festival saw a decline in total cost per customer in 2017 and moved from the 34th lowest cost/customer in the province in 2016 at $645/customer to the 28th at $612/customer.

Prior to the PEG report, Festival achieved the higher efficiency ratings as the previous rating was based on OM&A costs only, which have historically been maintained reasonably by Festival. In fact, the recently released 2017 utility yearbook shows that Festival continues to maintain lower OM&A costs per customer in comparison to many other utilities (Festival would be in the second quartile when comparing OM&A cost per customer as per the 2017 yearbook).

In Festival's 2015 COS application, Festival indicated that based on budgets and projections, the total cost performance results under PEG were expected to decrease each year, gradually moving Festival to an improved category ranking. The PEG statistics for Festival are included in the table below and show how Festival is achieving this reduction as planned:

	Cost Performance Results
2013	19.6%
2014	16.6%
2015	14.0%
2016	13.4%
2017	8.8%

Festival would note that other than a singular customer issue, see below, customer growth is steady at approximately 1%, in-line with the previous forecast provided in EB-2014-0073 as are capital and OM&A spending.

Significant New Customer

While growth has been consistent, there is a singular significant issue that has arisen. In 2018, Festival connected a new large customer, a battery storage customer, to our distribution system. This customer is participating in a pilot project with the IESO under a three-year contract. This customer is forecasted to provide significant distribution revenues to Festival during the 3-year contract term. Festival understands the three-year period will end in 2021.

The customer is not in a position to make any commitments beyond the three-year period at this time or in the next several months. As such, Festival is uncertain at this time if the contract will be renewed with the IESO for 2021 and for what term, or if it will be cancelled after the initial term. If required to file for rates effective January 1, 2021, Festival would need to begin preparation of its evidence in spring 2019. The future of the customer's contract with the IESO would not likely be clear at that point which would provide significant uncertainty in the forecast. However, if the deferral is granted, Festival would begin preparing a January 1, 2022 filing early in 2020 for filing with the OEB by April of 2021, at which point we would have sufficient knowledge to properly reflect the operational impact of this customer on Festival's distribution system.

Existing Rates

Festival's existing rates, if increased by the Price Cap IR formula for 2021, are sufficient to maintain the safe, reliable and high-quality service our customers expect. Festival submits that incurring the expense required to file a COS application would not be prudent given all of the elements highlighted above, as well as Festival's ability to maintain service with a Price Cap increase in 2021.

Due to the reasons noted above, Festival requests a deferral of its next scheduled COS to January 1, 2022.

Should the board have any questions regarding this request, please contact me at the number noted below or by email at kmccann@festivalhydro.com.

Yours truly,
Festival Hydro Inc.

Kelly McCann

K. McCann, CPA, CA
Tel (519) 271–4703 x. 221