FFPC

FORT FRANCES POWER CORPORATION

May 15, 2020

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

Attention: Christine E. Long, Registrar and Board Secretary

Dear Ms. Long:

RE: Fort Frances Power Corporation
Application for 2021 Electricity Rates OEB File No.: EB-2020-0023

This letter is in response to your letter dated April 29, 2020, granting Fort France Power Corporation's (FFPC's) request to defer its 2021 cost of service application and requiring the Annual Incentive Rate-setting Index method to be used by the corporation for 2021 rates.

Per its letter to the Ontario Energy Board (OEB) dated January 30, 2020, FFPC had requested a two-year deferral from 2021 to 2023. This was the third consecutive year that FFPC had sought a deferral to filing a cost of service rate application. The OEB had previously approved FFPC's request to defer its rebasing from 2019 to 2021 on November 19, 2018. As per the direction provided, FFPC will adhere to the Annual Incentive Rate-setting Index method in seeking its 2021 rate adjustment.

Furthermore, FFPC will also be applying the Annual Incentive Rate-setting Index method in seeking its 2022 rate adjustment. As directed, FFPC will file its 2022-2026 Distribution System Plan (DSP) with the OEB no later than August 30, 2021 for 2022 rates. I would like to take this opportunity to inform the OEB that FFPC's 2022-2026 DSP may include a large incremental investment for one-time projects to implement solutions to address reliability issues arising from Hydro One's loss of supply to FFPC's High Voltage transformer station Fort Frances Municipal Transformer Station (FFMTS). Hydro One's loss of supply performance in Fort Frances has been a great ongoing concern for FFPC and its customers. For example, during the period of 2015-2019, approximately 93% of all customer interruption hours in Fort Frances were due to "Loss of Supply" from Hydro One, which FFPC had no control over. Unfortunately, Hydro One will not address the service reliability issue on its own initiative unless FFPC pays for the required investment solution.

In 2018, FFPC undertook an independent third-party engineering feasibility study exploring various solutions for addressing the Hydro One loss of 115 kV transmission supply issue to FFMTS. The recommended solution encompasses switching the incoming Hydro One 115 kV supply to a shorter, more reliable circuit and adding a new second 115 kV supply circuit given the close proximity to Hydro One’s station in Fort Frances. FFPC surveyed its customers and conducted a series of customer focus groups meetings where customers fully supported FFPC in undertaking the project and making the necessary investment to enhance service reliability. FFPC is planning to make a one-time investment of approximately $1.26 Million throughout the 2022-2026 planning horizon to improve service reliability and reduce "Loss of Supply" related power outages. The details of these projects will be included as a part of FFPC’s 2022-2026 DSP. Accordingly, FFPC is informing the OEB that FFPC may require filing an Incremental Capital Module when filing its DSP in 2021 under the Annual Incentive Rate-setting Index methodology.

FFPC understands that the Annual Index Rate-setting method is a variation of the Price Cap IR method that does not have a fixed term and that is suitable for utilities with very stable investment expectations. FFPC further understands that the OEB may initiate a regulatory review if the distributor performs outside of the ±300 basis points earnings dead band or if its performance erodes to unacceptable levels.

Based on preliminary audited financial results, FFPC’s 2019 regulated Return-On-Equity (ROE) is -1.73%, which is within the ±300 basis points earnings dead band established for FFPC’s target ROE of 0%. FFPC will monitor its financial and scorecard performance results, and file a comprehensive cost of service application if and when its circumstances change. This will include any material changes to FFPC’s revenue and cost structures and its customer growth, among others, which may require rebasing.

If you require further information, please do not hesitate to contact me at (807) 274-9291.

Sincerely,

FORT FRANCES POWER CORPORATION

Joerg Ruppenstein
President & CEO