



February 27, 2019

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

Attention: Ms. Kirsten Walli, Board Secretary
Regarding: Request for deferral of 2018 Cost of Service Application.

Dear Ms. Walli,

Hydro 2000 respectfully requests a retroactive deferral of its 2018 Cost of Service application. The utility's justifications for its request are explained below.

Preamble

Hydro 2000 filed its last Cost of Service in 2012 which would have scheduled, under the 4th Generation Incentive Rate-setting, its subsequent Cost of Service in 2016. In advance of the scheduled rate application, Hydro 2000 sought and obtain approval to defer its scheduled 2016 Cost of Service. In 2017, following a change in management, Hydro 2000 once again sought and obtain deferral of its Cost of Service application. In its Decision letter dated August 22, 2016, Hydro 2000, the OEB stated that if Hydro 2000 subsequently seeks a further deferral, the OEB will consider whether the Annual Incentive Rate-setting Index method that was developed for distributors intending longer periods without rebasing should be applied. In its letter, the OEB stated that it would consider whether the filing of a distribution system plan would be required at that time.

Hydro 2000 seeks approval to defer its 2018 Cost of Service to 2020. The utility's justifications for its request are explained below.

In its decision to seek a deferral of its 2018 Cost of Service, Hydro 2000 considered several factors in determining whether this option was possible and whether it would be in the best interest of all stakeholders including its management and customers. In doing so, the utility looked at the following factors;

- Appropriateness of using the annual Incentive Rate-setting Index method going forward.
- A second change in management in May of 2018.
- Past financial results.
- Scorecards and past safety and reliability performances.
- Time and expenses related to a Cost of Service Application.

Appropriateness of using the annual Incentive Rate-setting Index method going forward & A second change in management in May of 2018

When Hydro 2000 received the Decision and Order regarding its 2017 deferral, Hydro 2000 considered the option put forth by the OEB, of adopting the Annual IR mechanism. Hydro 2000 is of the view that the Annual IR mechanism would be a fitting option for a utility that has had stability in its staffing and management as well as stability in its daily processes over the past years which has not been the case for Hydro 2000. The main reason for the multiple deferrals and request for a Cost of Service is that the utility has seen two changes in management over the past two years. The first one in May of 2016 and the second one in May of 2018. Both of these changes in management have disrupted the day to day processes of the utility and force the focus towards a steep learning curve for the new manager, meeting regulatory deadlines and keeping the lights on. After careful consideration, Hydro 2000's new management, the board of directors and consultants, believe that the utility would benefit from going through a Cost of Service in order to re-establish rates that are more in line with its current costs.

Past financial results

On Financial Results, Hydro 2000 notes that since its 2012 Cost of Service, the utility's Return on Equity ("ROE") has fluctuated and has fallen outside of the deadband of +/- 3% on several occasions (2012/2014/2017). As shown in the table below, the utility's ROE was within the 300-basis points threshold in 2013, 2015 and 2016. The table below shows a summary of the utility historical financial performance including its ROE from 2012 Board Approved to 2017.

Hydro 2000 Financial Results

	Board Approved	Actual	Actual	Actual	Actual	Actual	Actual
		2012	2013	2014	2015	2016	2017
Derivation of Utility Income							
Operating Revenues							
Distribution Revenues	526,242	447,639	502,576	510,110	532,907	501,899	515,176
Other Revenue	23,303	106,979	15,795	52,909	25,492	48,798	36,359
Total Operating Revenues	549,545	554,617	518,371	563,018	558,399	550,697	551,535
OM&A Expenses	403,566	425,428	392,980	354,325	437,292	435,869	503,796
Depreciation & Amortization	76,703	160,881	61,981	58,304	51,899	52,237	47,324
Property and Taxes							
Total Costs & Expenses	480,269	586,308	454,961	412,628	489,191	488,106	551,120
Deemed Interest Expenses	24,850	20,638	26,415	9,632	5,849	2,848	1,855
Total Expenses	505,119	606,947	481,376	422,260	495,040	490,954	552,975
Utility Income before Income Taxes / PILs	44,426	-52,329	36,995	140,758	63,359	59,743	-1,440
PILs / Income Taxes	8,922	-8,536	5,734	21,817	9,905	6,769	-215
Utility Income	35,504	-43,793	31,261	118,941	53,454	52,974	-1,225
Deemed ROE	9.12%	9.12%	9.12%	9.12%	9.12%	9.12%	9.12%
Actual ROE		-17.49%	7.40%	31.76%	11.22%	5.25%	-6.25%

Hydro 2000's "Achieved" Rate of Return for 2012 Board Approved to 2017 was reported as 17.49%, 7.40%, 31.76%, 11.22%, 5.25%, -6.25% respectively.

Hydro 2000 notes that much of a utility's costs are considered fixed or static across all utilities and that these costs have a higher impact on the utility's financial results when a utilities is small and dealing with low revenues and costs.

Hydro 2000 notes that it is in the process of clearing errors that have been done in the recent past and putting together some financial models including checks and balance to better plan for its future.

Scorecards and past safety and reliability performances

With respect to Safety and Reliability measures, Hydro 2000's scorecard measures indicate that they have exceed the OEB's minimum standards in every measure and that the utility is maintaining its scores at a high level.

Hydro 2000 Scorecard Results

Indicator	OEB Minimum Standard	2013	2014	2015	2016	2017
New Residential/Small Business Services Connected on Time	90%	100%		100%	100%	100
Scheduled Appointments Met on Time	90%	100%	100%	100%	98.80%	100%
Telephone Calls Answered on Time	65%	99.70%	99.40%	99.60%	99.70%	100%
First Contact Resolution	96%		95%	95%	92%	99.00%
Billing Accuracy			99.86%	99.98%	99.93%	99.95%
Customer Satisfaction Survey Results			97%	97%	98%	99.00%
Avg Number of Hours that Power to a Customer is Interrupted		0.02	0.01	0.03	0.00	0.00
Avg Number of Times that Power to a Customer is Interrupted		0.02	0.01	0.06	0.00	0.00
Total Cost per Customer		\$531	\$480	\$545	\$596	\$565
Total Cost per Km of Line		\$33,838	\$27,930	\$31,773	\$31,348	\$33,741

In considering a deferral request for the upcoming rate year, Hydro 2000 has also evaluated whether the time and expense of a COS application would be to the benefit of the utility and its customers. In careful consideration of all aspects of a rebasing application, Hydro 2000 does not feel a 2018 COS application would be feasible given the change in management. As such, the

utility formally requests a deferral of its 2018 Cost of Service to 2020 Cost of Service. Hydro 2000 proposes to forego its 2018 Price Cap IR rate setting. Hydro 2000 is however seeking approval to apply the allowed Price Cap IR rate-setting methodology for its 2019 year.

Given all of the above arguments, Hydro 2000 feels it is reasonable and justifiable for the OEB to approve the utility's request for a deferral in filing its Cost of Service application.

Should the board have questions regarding this matter please contact Lise Wilkinson at the information below.

Respectfully Submitted,

Lise Wilkinson
Manager
Hydro 2000 Inc.
440, rue St-Philippe St. CP/PO Box :370
Alfred (Ontario) K0B 1A0
Tel: (613) 679-4093 ext. 202 / Fax: (613) 679-0452
email: lisewilkinson@hydro2000.ca