



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

January 18, 2022

BY RESS & COURIER

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
2023 and 2024 Cost of Service (“COS”) Application Deferral Request**

Festival’s last Cost of Service 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 March 31, 2021, Festival received approval to defer their next scheduled rebasing from January 1, 2022 to January 1, 2023. It was noted that in the absence of a 2023 COS Application from Festival Hydro, the OEB will move Festival Hydro from the Price Cap Rate-setting Index method to the Annual IR Index method. However, on December 1, 2021, the OEB delivered a

letter inviting interested distributors to submit expressions of interest to defer to a later year up to 2025.

Festival is requesting to further defer the setting of its rates on a COS basis until January 1, 2025 and is requesting an extension to the change to the Annual IR Index method, by maintaining the Price Cap Rate-setting Index method for rates effective January 1, 2023 and January 1, 2024. The extension to the change in Annual IR is based on the OEB request to defer. While this is the preferred option, Festival will accept the Annual IR Index method and is still requesting a deferral for 2023 and 2024 rates with the intent to file a COS Application for rates effective January 1, 2025. This request is based on several financial and non-financial factors as documented below. Festival views the deferral as appropriate for customers, Festival, and will make better use of Board resources.

Corporate Governance

Festival follows corporate governance best practices as per OEB Report EB-2014-0255. 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 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
2015	9.3%	14.24%
2016	9.3%	7.37%
2017	9.3%	8.43%
2018	9.3%	8.3%
2019	9.3%	9.1%
2020	9.3%	8.89%

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 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
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
2018	0.92	2.59	0.73	1.48
2019	1.79	2.64	1.78	1.52
2020	1.27	2.72	1.00	1.56

Festival has achieved a category 3 efficiency assessment via the PEG benchmarking analysis effective for both 2021 and 2022 rates. As explained in the last COS Application, Festival's previous investment in capital infrastructure has been the main driver of this efficiency ranking and as predicted in that rate application based on future costing projection, Festival has shifted into the third efficiency ranking. Of note, a significant capital component is related to the construction of the Transformer Station which was justified on an overall benefit to customers through reduced transmission payments which is not incorporated into the efficiency rating.

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 2020 utility yearbook shows that Festival continues to maintain lower OM&A costs per customer in comparison to many other utilities.

COVID-19 and Management Changes

Festival notes that the COVID-19 pandemic is ongoing, making it more difficult than normal to plan and manage activities. Festival has been managing throughout the last 22 months to ensure the continued safe and reliable distribution service and work environment. Due to the ongoing pandemic, resourcing is limited and requires deferral until stability can be maintained. In addition, over the past year there have been several changes to executive level positions at Festival Hydro. High levels of service have been maintained, however, due to these changes, filing a COS Application would further strain resources and could impact service quality.

New Filing Requirements

On December 16, 2021, the OEB released an updated version of its Filing Requirements for Electricity Distribution Rate Applications (Filing Requirements) for small electricity distributors. The threshold for small electricity distributors changed from less than 20,000 customers to less than 30,000 customers. Festival Hydro would now fall under these new requirements and Festival Hydro would like to ensure it can properly address and adapt to the change in requirements for its next COS Application.

Existing Rates

Festival's existing rates, if increased by the Price Cap Rate-setting Index or the Annual IR Index formula for 2023 and 2024, 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 Rate-setting Index or an Annual IR Index formula increase in 2023 and 2024.

Due to the reasons noted above, Festival requests a deferral of its next scheduled COS to January 1, 2025.

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

Thank you,
Festival Hydro Inc.

A. Conrad
Tel (519) 271-4700 x. 221