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January 4, 2013

**BY COURIER**

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

**Re: Festival Hydro Inc. 2014 Cost of Service Application Deferral Request**

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Dear Ms. Walli:

Festival Hydro Inc. (Festival) is scheduled to file a Cost of service application for rates effective May 1, 2014 as noted in the Board's letter dated December 11, 2012. Festival respectfully requests a departure from this rebasing schedule and requests a cost of service application be filed by Festival for rates effective January 1, 2015.

Festival highlights that this letter serves two purposes. One to request a transition from May 1 rates to January 1 rates, and secondly to request a deferral from a 2014 cost of service application to a 2015 application based on the report cited below.

Festival notes that in the Board report "Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach" dated October 18, 2012, page 69 indicates that:

*"For distributors scheduled to rebased for 2014 and planning to seek the Board's approval for January 1 rates, there will be two options available.....(2) Delay rebasing by one year – rebase for January 1, 2015 rates, in which case the application will be filed using the Cost of Service Filing Requirements and Consolidated Capital Plan Filing Requirements, and the total term will be 5 years."*

Festival is making the deferral request under this highlighted option in the report.

Festival performed significant analysis in determining if a request at this time was feasible. Festival considered the following:

- Benefit of having rate changes aligned with our fiscal year
- Financial impact of rebasing May 1, 2014 versus January 1, 2015
- Approval or disapproval of our ICM application as we may not get a final response on this until as late as April 2013
- A January 1, 2015 application approval would also require one additional third generation IRM filing for an eight month period (May 1, 2014 – January 1, 2015)

Festival's believes the benefits of moving to a rate year that matches our fiscal year are substantial in that this matches distribution rates with the expenses upon which the rates are granted.

Festival performed a financial analysis on the feasibility of the deferral and noted that an eight month deferral would not negatively impact our financial position by any significant amount. Festival also notes that we are not earning an unacceptable return on equity currently. Festival advises that its actual rate of return on average equity for 2011, the most recent year for which complete data is available, was 11.71%, and falls within the trigger of 300 basis points from the Board-approved return of 9.85%. Festival estimates its 2012 rate of return on average equity to be 9.08%, also within the trigger of 300 basis points from the Board-approved return.

Festival also notes that this deferral request is contingent on Board approval of our incremental capital rate rider request in our 2013 IRM application, as our financial analysis performed in making the deferral request indicates that the deferral would not be feasible should the ICM rate rider not be approved. In addition, Festival's deferral decision is based on an ICM rate rider being approved effective May 1, 2013, to be in effect until the effective date of the next cost of service rate rider. Festival has at this point answered all concerns of OEB staff and interveners in regards to our ICM application and believes that the application is supported by Board staff and our interveners. As such Festival feels it is reasonable to move forward with our COS deferral request.

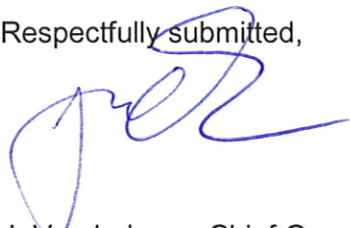
It would be Festival's intention to submit a third generation IRM rate application for rates effective May 1, 2014, with Board approval to defer our cost of service application to January 1, 2015. This amounts to only an eight-month deferral.

In relation to the other considerations the Board will have in deciding on this deferral beyond Festival's financial position, Festival feels our performance with respect to system reliability indicators and electricity service quality requirements as reported to the Board are satisfactory.

In summary, Festival requests deferral of its rebasing due to the fact that it meets the Board requirements to request such deferral and there is a desire to have distribution rates match the fiscal year of the utility. Given the release of the Renewed Regulatory Framework, Festival has been given the option of deferring a January 1, 2014 cost of service application to January 1, 2015.

Should you require any further information or clarification please contact me.

Respectfully submitted,

A handwritten signature in blue ink, appearing to be 'J. Vanderbaan', written in a cursive style.

J. Vanderbaan, Chief Operating Officer