DISTRIBUTION EXPENSES – VARIANCE ANALYSIS

DISTRIBUTION EXPENSES SUMMARY

Introduction

Distribution expenses based on the OEB's reporting categories, for 2008, 2009 and 2010 historical, bridge, and test years are presented below.

Table 1: Distribution Expense Summary ($ millions)

	2008 Board-Approved	2008 Historical	2009 Board-Approved	2009 Bridge	2010 Test	
Operations	57.2	45.8	59.2	51.5	64.6	
Maintenance	46.5	41.3	48.8	44.5	43.5	
Billing and Collections	35.6	31.9	38.6	35.4	37.0	
Community Relations	3.0	3.5	3.2	4.1	4.5	
Administrative and General	35.4	46.1	33.8	46.8	61.8	/C
Other Distribution Expenses	13.5	14.0	12.0	11.9	8.7	
Amortization Expense	146.9	149.0	154.4	158.4	167.0	
TOTAL	**338.1**	**331.6**	**350.0**	**352.6**	**387.1**	/C

Variance Analysis

Table 2: 2008 Board-Approved versus 2008 Historical ($ millions)

	2008 Board-Approved	2008 Historical	Variance ($)	Variance (%)
Operations	57.2	45.8	(11.4)	(19.9)
Maintenance	46.5	41.3	(5.2)	(11.2)
Billing and Collections	35.6	31.9	(3.7)	(10.4)
Community Relations	3.0	3.5	0.5	16.7
Administrative and General	35.4	46.1	10.7	30.2
Other Distribution Expenses	13.5	14.0	0.5	3.7
Amortization Expense	146.9	149.0	2.1	1.4
TOTAL	**338.1**	**331.6**	**(6.5)**	**(1.9)**

Total 2008 OEB-approved distribution expenses were $338.1 million compared to actual 2008 distribution expenses of $331.6 million, representing a decrease of $6.5 million or 1.9 percent. A change in methodology in the allocation of occupancy and fleet charges occurred after THESL's 2008-2010 rate filing (EB-2007-0680). The impact of this change has resulted in an overall shift within the reported variances noted above (specifically in Operations, Maintenance and Administration and General). The overall variance of the 2008 Historical to 2008 Board-Approved decrease of $6.5 million is primarily driven by the decrease in Billing and Collections expenses, which resulted from lower Call Centre costs as a result of a delay in Time-of-Use implementation. Operations expenses also decreased due to a delay in the expansion of the apprenticeship program. Further, amortization expense as compared to 2008 Board-Approved was higher (refer to Exhibit D1, Tab 13).

Table 3: 2008 Historical versus 2009 Bridge ($ millions)

	2008 Historical	2009 Bridge	Variance ($)	Variance (%)
Operations	45.8	51.5	5.7	12.4
Maintenance	41.3	44.5	3.2	7.7
Billing and Collections	31.9	35.4	3.5	11.0
Community Relations	3.5	4.1	0.6	17.1
Administrative and General	46.1	46.8	0.7	1.5
Other Distribution Expenses	14.0	11.9	(2.1)	(15.0)
Amortization Expense	149.0	158.4	9.4	6.3%
TOTAL	**331.6**	**352.6**	**21.0**	**6.3%**

Total 2009 forecasted distribution expenses are $352.6 million compared to 2008 historical distribution expenses of $331.6 million, representing an increase of $21.0 million or 6.3 percent. The increase is primarily due to higher operations costs due to an expanding workforce and an increase in external vendor costs related to suite metering. Operations costs will also increase as a result of the conversion of flat rate water heater customers to metered services. The increase in maintenance costs relate primarily to an expanding workforce. Costs in billing and collections are expected to be higher due to an increase in bad debt expense and higher compensation costs. The decrease in other distribution expenses is primarily due to a one-time increase in capital taxes related to the settlement in 2008 of the 2001, 2002, 2003 and 2004 PILs audits. Higher amortization expenses as compared to 2008 historical will result from increased capital expenditures for distribution plant and IT assets; refer to Exhibit D1, Tab 13.

Table 4: 2009 Board-Approved versus 2009 Bridge ($ millions)

	2009 Board-Approved	2009 Bridge	Variance ($)	Variance (%)
Operations	59.2	51.5	(7.7)	(13.0)
Maintenance	48.8	44.5	(4.3)	(8.8)
Billing and Collections	38.6	35.4	(3.2)	(8.3)
Community Relations	3.2	4.1	0.9	28.1
Administrative and General	33.8	46.8	13.0	38.5
Other Distribution Expenses	12.0	11.9	(0.1)	(0.8)
Amortization Expense	154.4	158.4	4.0	2.6
TOTAL	**350.0**	**352.6**	**2.6**	**0.7%**

Total 2009 OEB-approved distribution expenses were $352.6 million compared to the forecasted distribution expenses of $352.6 million, representing an increase of $2.6 million or 0.7 percent. A change in methodology in the allocation of occupancy and fleet charges occurred after THESL's 2008-2010 rate filing (EB-2007-0680). The impact of this change has resulted in an overall shift within the reported variances noted above (specifically in Operations, Maintenance and Administrative and General). Note the overall variance of the 2009 Bridge to 2009 Board-Approved is an increase of $2.6 million, primarily driven by an increase in amortization. The decrease in Billing and Collections is primarily due to lower than expected external services costs incurred to support the Call Centre.

Table 5: 2009 Bridge versus 2010 Test ($ millions)

	2009 Bridge	2010 Test	Variance ($)	Variance (%)	
Operations	51.5	64.6	13.1	25.4	
Maintenance	44.5	43.5	(1.0)	(2.2)	
Billing and Collections	35.4	37.0	1.6	4.5	
Community Relations	4.1	4.5	0.4	9.8	
Administrative and General	46.8	61.8	15.0	32.1	/C
Other Distribution Expenses	11.9	8.7	(3.2)	(26.9)	
Amortization Expense	158.4	167.0	8.6	5.4	
TOTAL	**352.6**	**387.1**	**34.5**	**9.8**	/C

Total 2010 distribution expenses are $387.1 million compared to 2009 distribution /C
expenses of $352.6 million, representing an increase of $34.5 million or 9.8 percent. The /C
increase is due to higher Administrative and General expenses resulting from an increase in financing costs, higher IT costs due to system implementations and increases in HR expenses to support the talent attraction and acquisition initiatives. Higher distribution expenses are due to an increase in external contracts primarily due to the introduction of the Contact Voltage Scan program, an increase in support costs related to the Time-of-Use implementation, the Green Energy Act initiative and communication circuits for Smart Meter data retrieval. Further, an overall increase in support costs for the capital program is expected. Lastly, higher amortization expenses are expected to result from increased capital expenditures for distribution plant, equipment and vehicle assets (refer to Exhibit D1, Tab 13).