

# Halton Hills Hydro

## 2016 Cost of Service Rate Application Settlement Proposal



*Providing Halton Hills with electricity distribution excellence in a safe and reliable manner.*

# Agenda

- Capital
- OM&A
- Revenue Requirement
- Rate Design
- RRFE





# OEB Staff Review of Settlement Proposal

- *OEB staff is of the view that the settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding...*
- *OEB staff submits that the outcomes arising from the OEB's approval of the settlement proposal would adequately reflect the public interest and lead to the setting of just and reasonable rates for customers.*

*Source: OEB Staff Submission (EB-2015-0074)*



# Capital Costs

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# Settlement Changes

- Decrease to 2016 opening capital balance from \$61.68 million to \$60.56 million through:
  - \$933,000 Land purchase for Transformer Station was reallocated from capital additions in 2015 to CWIP
  - \$220,000 reduction to forecasted capital additions for 2015
  - Full reconciliation of CGAAP to MIFRS continuity schedules 2012-2016 resulted in opening balance for 2016 increase of \$32,050
- 2016 capital additions reduced by \$500,000

# Summary of Capital Adjustments

**Table 2 – Gross Capital Additions Summary**

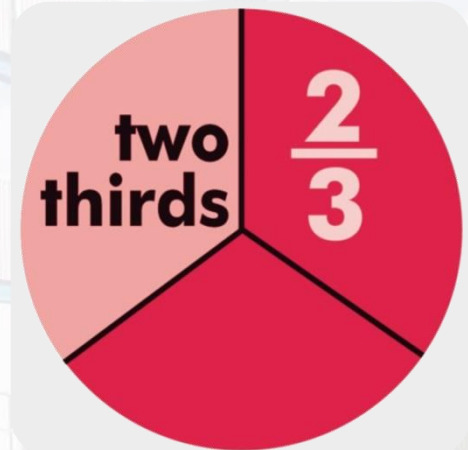
Capital Additions	Application	Interrogatory - Changes	Settlement Changes	Settlement Proposal
2015 Opening Balance	54,409,732	-	32,050	54,441,782
2015 Additions	8,715,948	- 933,000	- 220,000	7,562,948
2015 Contributed Capital	- 1,448,137			- 1,448,137
2015 Disposal	-	-	-	-
2015 Closing Balance/2016 Opening	61,677,543	- 933,000	- 187,950	60,556,593
2016 Additions	9,343,662	-	- 982,662	8,361,000
2016 Contributed Capital	- 1,132,703		480,304	- 652,399
2016 Disposal	-			-
<b>2016 Closing Balance</b>	<b>69,888,502</b>	<b>- 933,000</b>	<b>- 690,308</b>	<b>68,265,194</b>

# 2016 Revised Capital Expenditures

OEB Category	2016
System Access	\$508,640
System Renewal	\$4,119,558
System Service	\$2,302,791
General Plant	\$777,613
<b>Annual Totals:</b>	<b>\$7,708,602</b>
<b>5 year Annual Average:</b>	<b>\$7,789,735</b>

# Guiding Principles for our Distribution System Plan

- Safety for our crews and the public
- System reliability
- Customer feedback – proactive replacement
- Value proposition
  - Finding efficiencies
  - Pacing and prioritization of expenditures
- Modernizing our electricity system
  - Smart grid, automation, outage management



2/3 of respondents prefer pro-actively replacement rather than allowing assets to run to failure



# Pace & Priority: Pole Age and Condition

Based on the pole condition evidence filed with the DSP, OEB staff estimates that a significant number of poles in fair condition would be replaced.

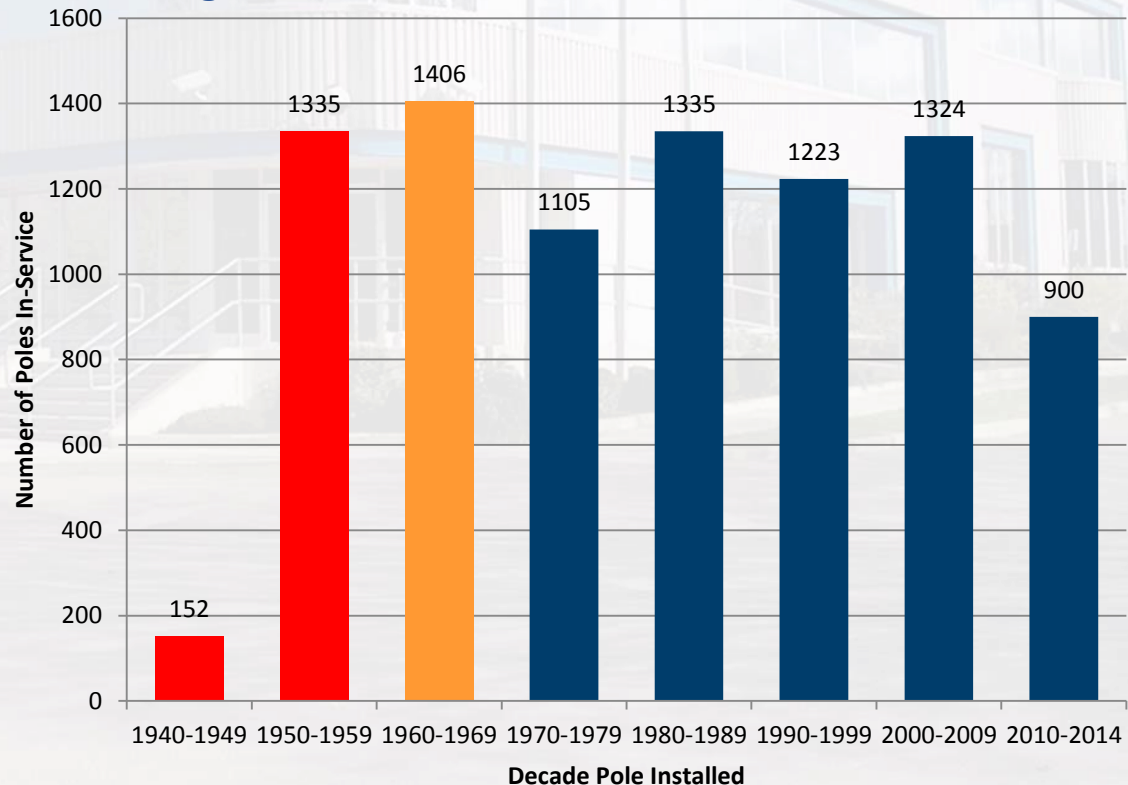
OEB Staff Submission (EB-2015-0074)

Expected Pole Lifespan: 50 years

- 1400 poles more than 55 years old
- Another 1400 poles older than 1970

Condition	Percent	Poles
Poor	4%	351
Fair-Poor	4%	351
Fair	26%	2283
Good	66%	5799
<b>Total</b>		<b>8780</b>

Age Profile of In-Service Wood Distribution Poles





# Distribution System Plan

*The Parties further agree that the Distribution System Plan filed in this proceeding, combined with the resources made available to HHHI in the Test Year under the terms of this Settlement Proposal, provide sufficient resources to HHHI in the Test Year and subsequent IRM years to continue to: **(a) pursue continuous improvement in productivity; (b) maintain system reliability and service quality objectives; and (c) maintain reliable and safe operation of its distribution system.***

*Source: OEB Staff Submission (EB-2015-0074)*

# Transformer Station

*OEB staff submits that including the MTS in the five year forecast of capital expenditures would have represented a fuller and more accurate picture of capital expenditures and resources required in the five year period. OEB Staff Submission (EB-2015-0074)*

- Not enough information at time of filing COS to include as ACM
  - Land purchase completed in November 2015
  - Engineering consultant selected in February 2016
  - Budget based on current costs and final design plan to be available in 2016
- Will be a separate ICM filing once commissioned
- Preliminary estimated as submitted: \$19 million
- Planned in service date: 2018
- DSP details a number of projects in support of the Transformer Station



# Operations, Maintenance & Administration

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# Operations Maintenance & Administration

**Table 3 – OM&A**

OM&A	Application	Interrogatory - Changes	Settlement Changes	Settlement Proposal
Distribution Expenses - Operation	1,355,647			1,355,647
Distribution Expenses - Maintenance	374,125			374,125
Billing and Collecting	1,890,937		- 331,697	1,559,240
Community Relations	-			-
Administrative and General Expenses	3,134,097	34,483	- 450,000	2,718,580
Property Tax	104,440			104,440
<b>Total OM&amp;A</b>	<b>6,859,246</b>	<b>34,483</b>	<b>- 781,697</b>	<b>6,112,032</b>

## Adjustments:

- Other Post-Employment Benefits in test year increased by \$34,483
  - Result of move from CGAAP to MIFRS
- Reduce billing & collecting costs by \$331,697 associated with providing billing & collecting services to an affiliate
  - With corresponding reduction in other revenues
- Reduce OM&A in test year by \$450,000



# Revenue Requirement

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# Revenue Requirement

**Table 1 – Revenue Requirement**

Revenue Requirement	Application (A)	Interrogatories (B)	Variance (C) = (B) - (A)	Settlement (D)	Variance (E) = (D) - (B)
OM&A Expenses	6,754,806	6,789,289	34,483	6,007,592	- 781,697
Property Taxes	104,440	104,440	-	104,440	-
Amortization Expenses	2,356,442	1,528,052	- 828,390	1,508,054	- 19,998
Regulated Return On Capital	3,477,714	3,388,753	- 88,961	3,293,050	- 95,703
PILs	- 220,666	-	220,666	-	-
<b>Service Revenue Requirement</b>	<b>12,472,736</b>	<b>11,810,534</b>	<b>- 662,202</b>	<b>10,913,135</b>	<b>- 897,398</b>
Less: Revenue Offsets	1,210,681	1,282,841	72,160	959,144	- 323,697
<b>Base Revenue Requirement</b>	<b>11,262,055</b>	<b>10,527,693</b>	<b>- 734,362</b>	<b>9,953,991</b>	<b>- 573,702</b>
Revenue at Existing Rates	9,052,472	8,993,676	- 58,796	9,162,101	168,425
<b>Revenue Deficiency</b>	<b>2,209,583</b>	<b>1,534,017</b>	<b>- 675,566</b>	<b>791,890</b>	<b>- 742,127</b>

# Rate Base

- Halton Hills Hydro accepts the Board allowance of 7.5% of working capital
- Working capital increase of \$2,796,671 primarily due to updated Cost of Power calculation related to load forecast and 2016 rates
- OM&A reallocation of \$331,697 in relation to billing services to an affiliate
- Increase of \$8,000 to reflect microFIT revenues

**Table 4 – Rate Base Calculation**

Rate Base	Application (A)	Interrogatories (B)	Variance (C) = (B) - (A)	Settlement (D)	Variance (E) = (D) - (B)
Average Gross Fixed Assets	86,942,725	86,009,725	- 933,000	85,570,596	- 439,128
Average Accumulated Depreciation	30,251,761	29,739,076	- 512,685	29,813,010	73,934
Average Net Book Value	56,690,964	56,270,649	- 420,315	55,757,587	- 513,062
Working Capital	72,761,304	75,557,975	2,796,671	75,532,902	- 25,073
Working Capital Allowance (%)	7.5%	7.50%	-	7.50%	-
Working Capital Allowance (\$)	5,457,098	5,666,848	209,750	5,664,968	- 1,880
<b>Rate Base</b>	<b>62,148,062</b>	<b>61,937,497</b>	<b>- 210,565</b>	<b>61,422,555</b>	<b>- 514,942</b>





# Other Revenues

- The Parties have agreed on a test year amount for Other Revenues of \$959,144
- There were two adjustments made to get to this amount:
  - Removal of \$331,697 in revenues received by Halton Hills for billing and collection services provided to an affiliate.
  - Inclusion of an amount of \$8,000 in microFIT revenues.



# Cost of Capital

- Long term debt rate of 4.12% on \$16,141,970 Promissory note to the Town of Halton Hills.
- Halton Hills Hydro has agreed to conduct a review of its long-term debt financing options and include the results of such review in Halton Hills Hydro's next rebasing application.



# Other Areas of Settlement

## Cost Allocation

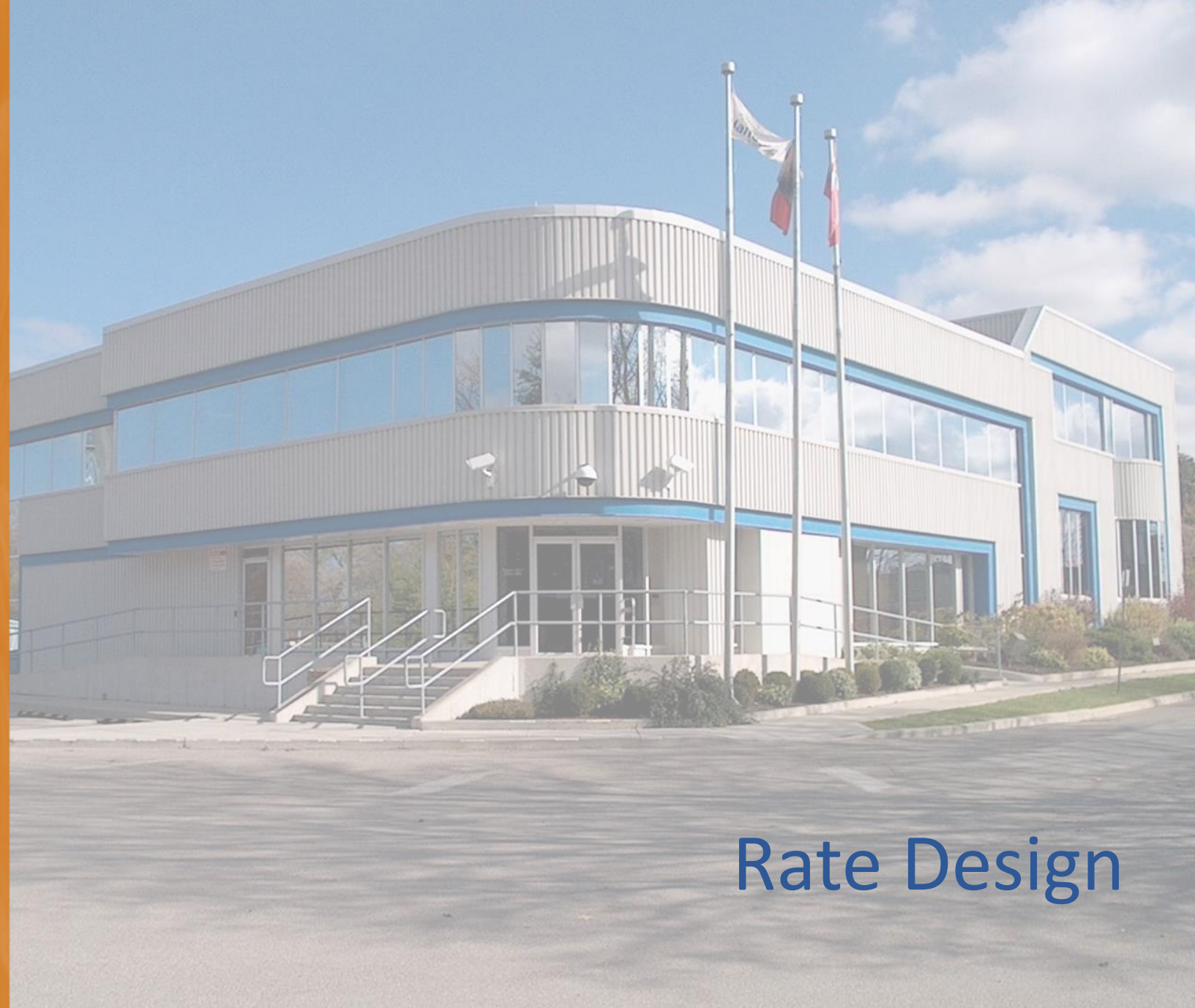
- Adjusted weighting factors for billing and collecting based on weighting factors developed by HHH in previous re-basing application

## Rate Design

- HHH agrees to maintain its current fixed monthly charges for any non-residential class where current charge is higher than calculated ceiling

## Retail Transmission Service Rates

- Retail Transmission Service Rates updated & agreed upon
- All other regulated rates and charges agreed upon



# Rate Design

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# Residential Rate Design

- Increase in monthly fixed charge is below \$4.00 threshold
- Total bill impact is 0.48%

*Given these factors, OEB staff takes no issue with HHHI's proposal as it effectively achieves the outcomes of providing a timely implementation of the OEB's rate design policy, and ensuring that the bill impacts are not excessive for customers most impacted by this change. OEB Staff Submission (EB-2015-0074)*

# Lost Revenue Adjustment Mechanism Variance Account

- LRAM claim updated based on IESO's final 2011-2014 CDM results to reflect a credit amount of \$18,852 to be returned to customers
  - Actual CDM savings were lower than assumed in load forecast
  - Credit is below materiality threshold

Rate Class	Unit	Balance (\$)
Residential	kWh	(5,380)
GS<50 kW	kWh	(9,907)
GS>50 kW	kW	(6,172)
GS>1,000 kW	kW	2,607
<b>TOTAL</b>		<b>(18,852)</b>



# Deferral and Variance Accounts (DVAs)

- HHH has agreed to forego disposition of \$14,859 in Account 1572
  - Z-factor application associated with the ice storm
- Based on asymmetrical sharing arrangement with respect to capital expenditures for Steeles Ave Projects:
  - Include \$57,530 in principal & \$3,152 in carrying charges in Account 1508 to be disposed through Group 2 deferral and variance account rate rider.
- Include total of \$115,916 in principal and \$4,328 in carrying charges in Account 1592 to be disposed in Group 2 deferral and variance accounts.
  - 4 years of tax charges not incurred by Halton Hills Hydro

# Load Forecast - Settlement

Class	2016 Weather Normalized
<b>Predicted kWh Purchases</b>	546,431,631
<b>By Class</b>	
<b>Residential</b>	
Customers	19,971
kWh	205,578,737
<b>General Service less than 50 kW</b>	
Customers	1,967
kWh	58,991,538
<b>General Service 50 to 999 kW</b>	
Customers	206
kWh	136,566,740
kW	362,031
<b>General Service 1000 to 4999 kW</b>	
Customers	13
kWh	112,173,675
kW	302,644

<b>Sentinel Lighting</b>	
Connections	175
kWh	461,109
kW	628
<b>Street Lighting</b>	
Connections	4,649
kWh	1,535,681
kW	4,282
<b>Un-Metered Scattered Load</b>	
Connections	144
kWh	895,971
<b>Total of Above</b>	
Customer/Connections	27,124
kWh	516,203,452
kW from applicable classes	669,585

## Updates:

- Increase in customer counts: Residential, small general service, streetlight connections, sentinel light & unmetered scattered load connections
- Decrease in customer count – mid-large general service
- CDM adjustment to include the persistence of 2011-2014 programs as outlined in the IESO's 2011-2014 Final Report into 2016.



# Sentinel Light Class Bill Impact

- Total bill impact 16.6% exceeds 10% requirement for mitigation plan
- HHH is not proposing any mitigation measures
  - Exceedance is minor
  - There are only 6 customers that bill for sentinel light charges only
  - All other sentinel light customers also have residential or general service charges.
  - For those customers, Sentinel light charges make up a very small component of bill

*OEB staff submits that the explanation provided by HHHI is reasonable and that a mitigation plan is not required in these circumstances.*

*OEB Staff Submission (EB-2015-0074)*

# Residential Bill Impact

Based on a typical residential customer bill of 800 kWh per month

	Current Charges	Proposed Charges	\$ Change	% Change
Halton Hills Hydro Charges				
Distribution Charges	\$24.76	\$25.04	\$0.28	1%
Z-Factor Ice Storm Recovery (ends 10/31/16)	\$2.23	\$2.23	\$0	0%
	<b>\$26.99</b>	<b>\$27.27</b>	<b>\$0.28</b>	<b>1%</b>
Other Delivery Charges	\$20.18	\$17.64	-\$2.54	-13%
Regulatory Charges	\$5.08	\$5.32	\$0.24	5%
Time of Use Charges	\$86.13	\$86.13	\$0	0%
HST	\$17.99	\$17.73	-\$0.26	-1%
<b>Total Bill Impact</b>	<b>\$156.37</b>	<b>\$154.08</b>	<b>-\$2.29</b>	<b>-1%</b>



# Renewed Regulatory Framework for Electricity Distributors

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# Achieving Just and Reasonable Rates

- Customer Focus
  - Extensive consultation with customers in development of DSP
  - Listening to customer preference – 2/3 of customers prefer proactive replacement over run-to-failure asset management strategies
  - Provides value for customers
- Operational Effectiveness
  - Proactive replacement strategy ensures continued public safety and system reliability
  - Asset Management Plan addresses pace and prioritization of asset replacement
- Public Policy Responsiveness
  - Distribution System Plan ensures ability to connect renewable generation facilities
- Financial Performance
  - Prudent 5 year capital plan and OM&A strategy

# Summary

- Halton Hills Hydro has a comprehensive 5 year investment strategy
- Halton Hills Hydro continues to find efficiencies in achieving best in class performance excellence



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