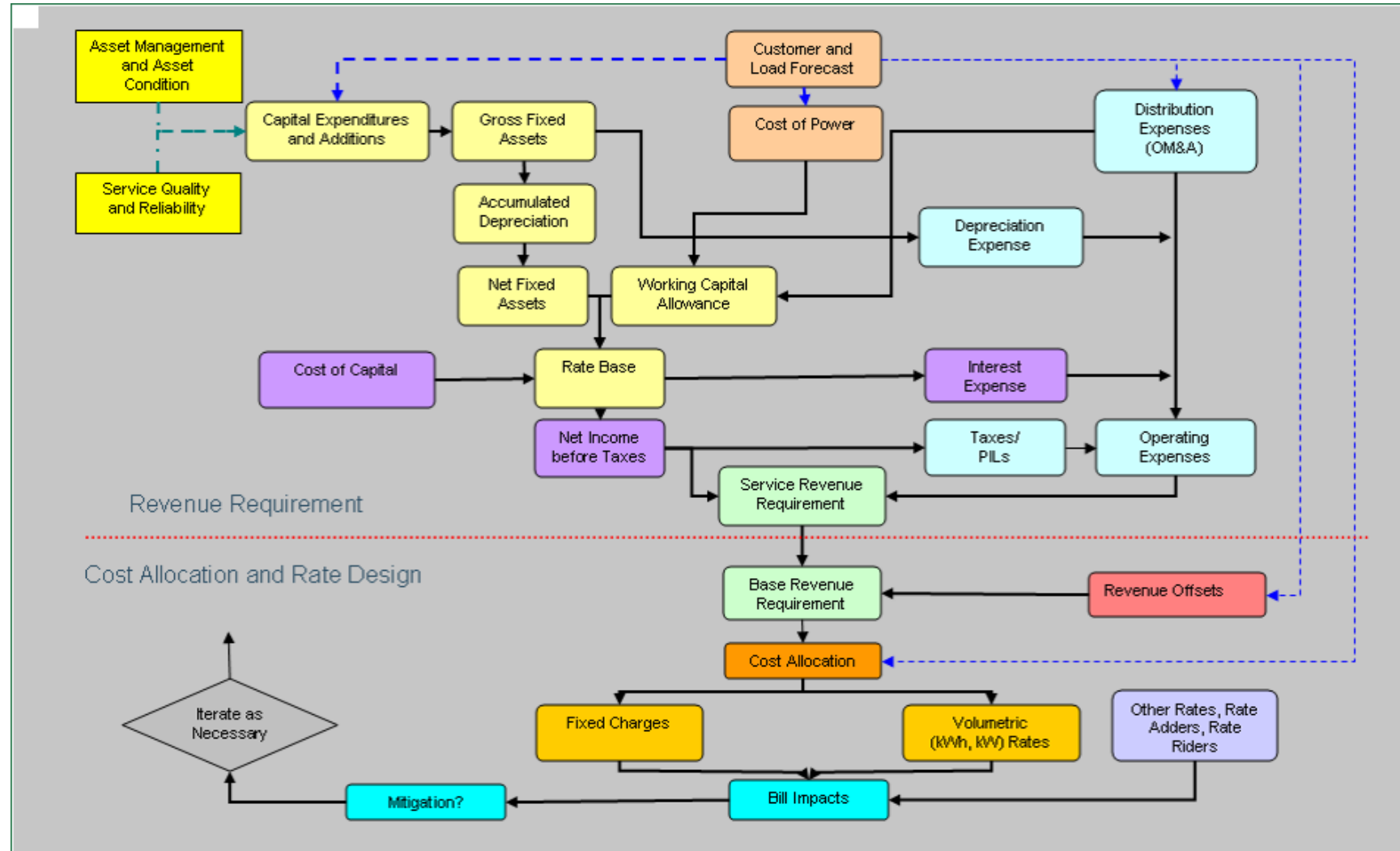


# Cost of Service Kick Off and Consensus Meeting

January 11, 2019

# What is a Cost of Service?

- “Cost of Service” or “Rebasing”
- Incorporates the full cost of providing service to customers including In Service Capital (Rate Base) plus Annual Operating Costs
- Fulfills the Filing Requirements of the Ontario Energy Board
- Advocates the need for the proposed rates, complete with sufficient evidence and justification for those rates
- Get approval for items or issues that have not yet been adjudicated in a prior rate application (for example – Standby Charges)



Who does what?

Who will be impacted?

Why am I here?

# Cost of Service Components

**Exhibit 1: Administrative Documents** – includes executive summary, corporate objectives, business plan, customer engagement, performance measurement and financial information, “Our Story”

Responsibility: Executive and Regulatory – Need to ensure full alignment with application

**Exhibit 2: Rate Base** – includes everything to do with CAPITAL, including a stand-alone 5 year forecasted Distribution Systems Plan, and historical capital variances

Responsibility: Herb (assistance Eng, Ops, IT, Finance) and Regulatory

**Exhibit 3: Operating Revenue** – includes load and revenue forecasts, CDM adjustments, and other revenue

Responsibility: Regulatory, Consultants, CDM, Engineering and Customer Service

# Cost of Service Components (cont'd)

**Exhibit 4: Operating Expenses** – includes OM&A variances and forecasts, workforce planning and employee compensation, shared services, regulatory costs, one time costs, LEAP, Depreciation, PILS, property taxes etc., LRAM

**Responsibility:** Regulatory with assistance from all departments for variances and cost explanations, CDM/Consultants

**Exhibit 5: Cost of Capital and Capital Structure** – includes capital structure, cost of capital (return on equity), cost of debt

**Responsibility:** Regulatory

**Exhibit 6: Calculation of Revenue Deficiency or Sufficiency** – includes revenue requirement workform

**Responsibility:** Regulatory

# Cost of Service Components (cont'd)

**Exhibit 7: Cost Allocation** – includes cost allocation between rate classes, class revenue requirements, revenue to cost ratios

**Responsibility: Regulatory with assistance from Consultants**

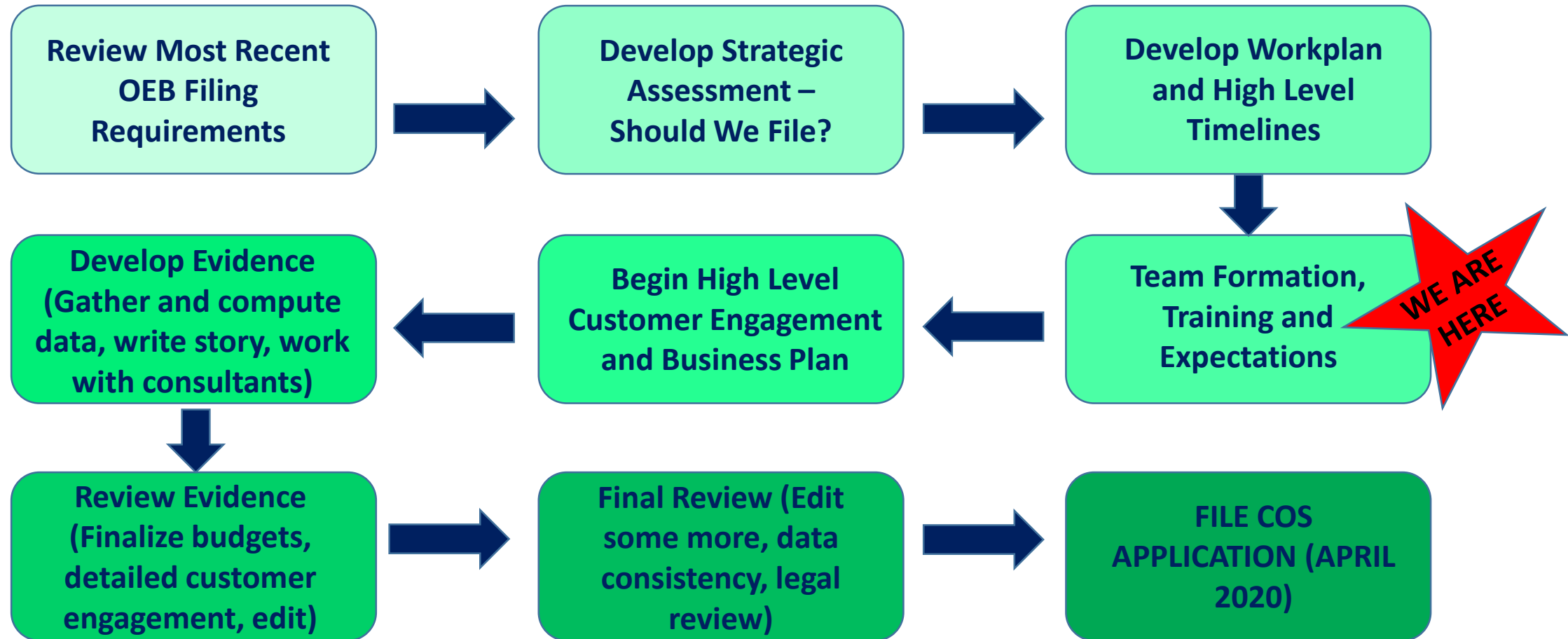
**Exhibit 8: Rate Design** – includes fixed / variable proportion, retail transmission service charges, regulatory charges, specific service charges, low voltage service rates, smart meter entity charge, loss factors and standby charges if applicable (combines to provide bill impacts)

**Responsibility: Regulatory with assistance from Engineering**

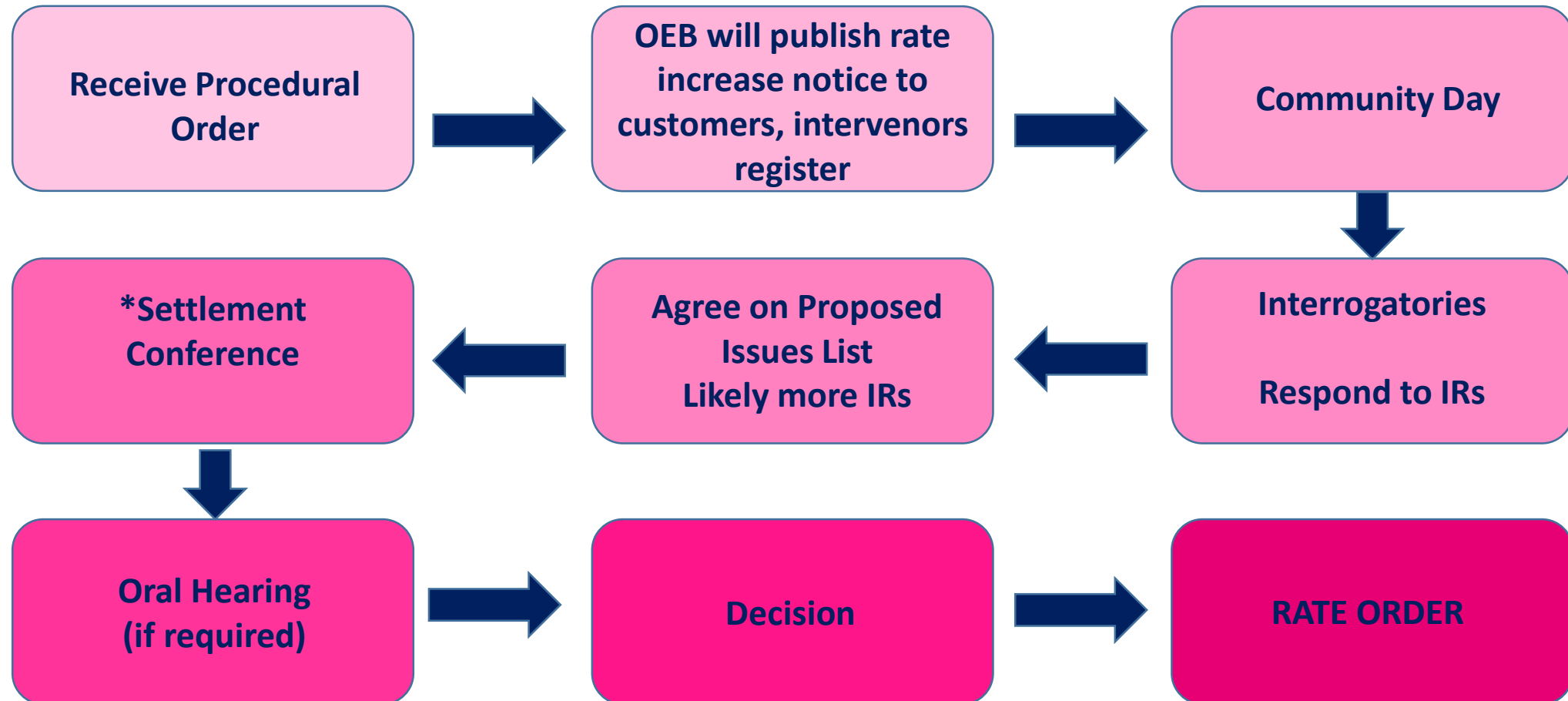
**Exhibit 9: Deferral and Variance Accounts** – includes application for clearing deferral and variance accounts

**Responsibility: Regulatory**

# Cost of Service Process Overview – Pre-Filing



# Cost of Service Process Overview – Post-Filing



\*There used to be a technical conference which has been removed, may come back by the time we file



# Lessons Learned – 2016 COS

- Start Early! You always underestimate how much time it takes to compile data and write evidence. Internal effort is always more than you plan.
- Ensure everyone knows their responsibilities and is on board – communication and corporate strategy is important.
- What was acceptable last time, is not good enough this time. More data, more analysis and more customer feedback is required. Link everything you do back to RRFE outcomes.
- Always consider the impact to the customer, how are they benefiting from our plan? what will it cost them?
- Take into consideration Internal and external benchmarking - should show improvement.

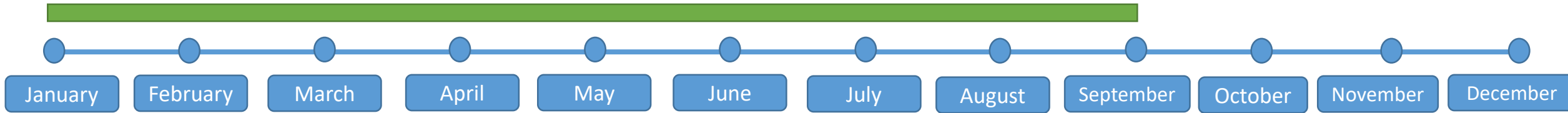
# Tentative 2019 Timeline

- 1) Asset Condition Assessments & Data Verification
- 2) Asset Management Software Implementation
- 3) DSP – First Draft Complete including: 5 year investment plans – distribution, stations, metering, fleet, IT, facilities, renewable energy generation, asset maintenance plan, grid performance & modernization
- 4) Conditions of Service Update

Final Budget Updates and Approval – December Board Meeting

Second Draft DSP Complete

Double Budget Preparation and Review, High Level Budget Approval – September Board Meeting



Kick-off Meeting

Set Cost Drivers and Calculate Materiality

First Round – Customer Engagement

Formal Business Plan – Board Approval – June Meeting

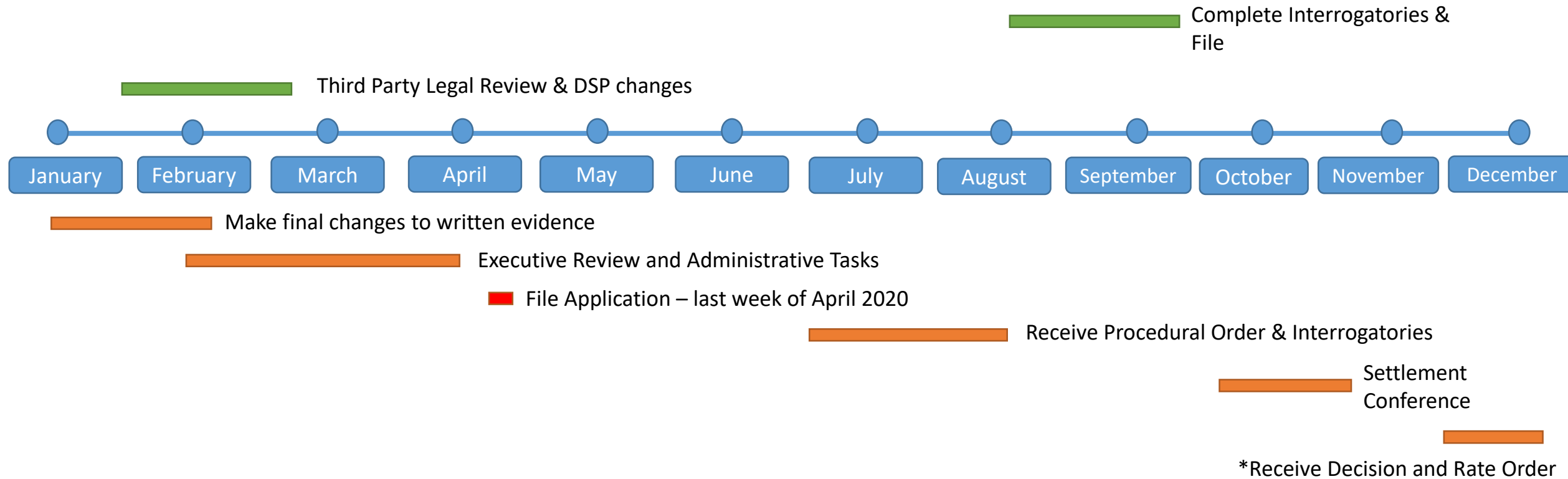
2016 -2018 Variance Reconciliations (projections to 2021)

Load Forecast, LRAM, Cost Allocation, Rate Design

Prepare Written Evidence

Rate Impacts and Second Round of Customer Engagement

# Tentative 2020 Timeline



\* Timeline after filing heavily reliant on OEB, intervenors, ability and willingness to settle, major issues – hard to plan.

# Double Budget Timeline

<b>End of April 2019 –</b>	2018 Yearend complete, financial statements approved, Sungard opening 2019 balances rolled forward, Budget system rolled over
<b>May 2019 –</b>	2020 Budget Preparation by all departments – capital and operating
<b>June 2019 –</b>	2020 Budget Review by Finance & Executive
<b>July 2019 –</b>	2021 Budget Preparation by all departments – capital and operating
<b>August 2019 –</b>	2021 Budget Review by Finance & Executive
<b>September 2019 –</b>	2020 - 2021 Budgets presented to Board of Directors for high level approval
<b>Nov/beg. Dec 2019 –</b>	2020 - 2021 Budgets changes based on Customer Engagement
<b>December 2019 –</b>	Final Board Budget Approval
<b>After Settlement</b>	
<b>Complete 2020 –</b>	Update 2021 budget for settlement impacts

# Customer Engagement & Business Plan

## Grimsby Power

OM&A reduction of \$790,817 from original application

Reduction is 25% of the total approved OM&A budget of \$3,134,546

### Key Quote:

*“Grimsby Power did not seek its customers’ response to the proposed rate increase or operating performance targets. **The OEB finds this lack of customer engagement is inconsistent with RRFE filing requirements.** Despite Grimsby’s lack of confidence in customer engagement activities, **it is a requirement to engage customers and ensure the customers’ perspective is incorporated in a cost of service application.** While Grimsby Power submitted that its survey responses indicated that its customers wanted increased communication particularly regarding outages, the associated cost was not discussed with customers.”*

Decision and Order dated Aug 18, 2016

EB-2015-0072

# Customer Engagement & Business Plan

## RRFE Requirement - Customer Engagement

LDCs must provide evidence of **\*enhanced engagement\***

**Demonstrate an understanding** of customer **needs and preferences**

**Demonstrate alignment between** the **LDC's plans in your application** and those **customer needs and preferences**.

## Ch. 2 Filing Requirements

LDCs **must** consult with customers informing them **about the proposals included in the application**

Obtain customer feedback

Then demonstrate how that feedback has shaped the application

Appendix 2-AC - identifies customer needs and preferences and then shows how the LDC is responding to each such need and preference.

## Ch. 5 Filing Requirements

Additional customer engagement obligations specifically for the DSP.

# Communication Process

- Learned from last COS that internal communication is most important to ensure we meet deadlines, have accurate information and consistent story
- Understand that there are multiple competing demands over this 2 year period, ensure that you let Alyson and/or Herb know if you cannot meet deadlines so that we can rearrange and reprioritize tasks
- Discuss with your VP how you want to respond to inquiries (i.e. go through them first) and how you should prioritize your time
- New email address set up [Regulatory@wnhydro.com](mailto:Regulatory@wnhydro.com)
- All communications about the rate filing from regulatory/finance will be sent by this email, please respond back to this email
- Guideline to respond to requests is 24 hrs even if just to notify that you have received the information request and are working on it, with an idea of how long it will take to respond
- If sending data, table or chart, please also send back up information (excel) so that we can keep the backup for future inquiries (IRs) or next filing

# Progress Updates / Information Sharing / Data Accuracy

- Regulatory will provide key pieces of reference information to be used throughout the application, for example: customer count per year, KM of line, OM&A totals by year, kWh and kW totals, peaks etc.
- This will ensure consistency throughout and will reduce errors
- Alyson will provide monthly status updates with any changes to timelines as required
- Careful attention is required when writing Cognos reports or requesting data/report assistance from IT or other departments
- Alyson will send out formatting guidelines to those who will be writing and preparing tables/charts in January



# Consensus, Issues & Questions?

## 2019 Projections and 2020 Budget

Thu 4/25/2019 9:58 AM

To:

📎 1 attachments (74 KB)

DIB0001;

Hello,

2018 Yearend is now complete and therefore we are ready to start the 2020 Budget!

As per the Cost of Service Kick Off and Consensus Meeting held on January 11, 2019, this is the year of Double Budget.

**2020 Budget Preparation** - Month of May by ALL Departments (finance will review in June and roll forward for July)

**2021 Budget Preparation** - Month of July by ALL Departments (finance will review in August and bring forward preliminary budget numbers to September Board Meeting).

### Deadlines:

**May 21st, 2019** - Labour Resource File **Due** for 2020 to [REDACTED]. [REDACTED] provided Labour files earlier today (April 26, 2019). You will be notified once [REDACTED] updates the Budget System and therefore please ensure your department labour hours are balanced by May 31, 2019. If you submit prior to the deadline, we will update the system ASAP.

**May 31st, 2019** - 2019 Projections and 2020 Budget **Due**.

Projections this year will be slightly challenging considering you have data for the first four months of the year compared to eight-nine months, but please try your best at an high level. There will be another opportunity in September to review your projections and budget.

**Month of June** - Finance will be going through the budget to ensure there are no errors and the data entered is reasonable.

**End of June, 2019** - Start 2021 Budget - [REDACTED] to provide Labour Resource File

**July 24th, 2019** - Labour Resource File **Due** for 2021. You will be notified once [REDACTED] updates the Budget System and therefore please ensure your department labour hours are balanced by July 31, 2019. If you submit prior to the deadline, we will update the system ASAP.

**July 31st, 2019** - 2021 Budget **Due**. There will be another opportunity in the Fall to review your budget.

**Month of August** - Finance will be going through the budget to ensure there are no errors and the data entered is reasonable.

### Tips:

IT, Operations and Engineering - Think about prioritizing projects

Ensure all capital projects are coordinated with [REDACTED] for the DSP

Please try to increase operating budget by less than 1%

Please ask any reporting questions earlier rather than later

## Notes:

If you have any process or COS related questions, please speak to [REDACTED]

If you have any questions about the Budget, please speak to [REDACTED]

Finance department will try to respond within 24-48 hours to ensure that all the departments have sufficient time to work on their budgets

[REDACTED] are away May 1 - 3, 2019 with no access to e-mails, but we will respond as soon as we can.

Please note that [REDACTED] will be away in Training on May 15-16, 2019 and June 11-12, 2019 - but will be available via e-mail

Budget Presentations - TBD

Please let me know if you have any questions. I will send you Calendar Invites as reminders for the deadline.

Good luck!

Kind Regards,

[REDACTED]

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**Waterloo North Hydro Inc.**

526 Country Squire Road, R.R. 1, Waterloo, ON N2J 4G8

[REDACTED]



## 2021 Budget

Thu 6/27/2019 3:09 PM

To: [REDACTED]



DIB0001;

Good afternoon,

Hope everyone is enjoying the weather.

2021 Budget is now ready to be entered! I have rolled 2020 Budget into 2021 Budget for the respective departments.

### Deadlines:

**MONTH OF JULY - 2021 Budget Preparation** - ALL Departments (finance will review in August and bring forward preliminary budget numbers to September Board Meeting).

**July 24th, 2019 - 2021 Labour Resource File Due.** You will be notified once [REDACTED] updates the Budget System and therefore please ensure your department labour hours are balanced by **July 31, 2019**. If you submit prior to the deadline, we will update the system ASAP. Please note that [REDACTED] is vacation the week of July 15-19, 2019.

**July 31st, 2019 -2021 Budget Due.** There will be another opportunity in the Fall to review your budget. No extensions.

**Month of August** - Finance will be going through the budget to ensure there are no errors and the data entered is reasonable.

**September 24th and 26th - 2019 Projections, 2020 & 2021 Budget Presentations**

### Tips:

**Everything must be defensible!**

IT, Operations and Engineering - Consider how you would prioritize projects if needed

Ensure all capital projects are coordinated with [REDACTED] for the DSP

Please try to increase operating budget by less than 1%

Please ask any reporting requirements earlier rather than later

### Notes:

If you have any process or COS related questions, please speak to [REDACTED]

If you have any questions about the Budget, please speak to me.

Finance department will try to respond within 24-48 hours to ensure that all the departments have sufficient time to work on their budgets

Please let me know if you have any questions. I will send out Calendar Invites as reminders for the deadlines.

Kind Regards,

[REDACTED]

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**Waterloo North Hydro Inc.**

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