



December 11, 2020

Ontario Energy Board
PO Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON
M4P 1E4

Attention: Ms. Long, Board Secretary and Registrar

Regarding: 2021 Cost of Service Application (EB-2020-0027)

Dear Ms. Long,

Hearst Power Distribution Company Ltd Inc is pleased to submit to the Ontario Energy Board its 2021 Cost of Service Application. This application consists of nine searchable Exhibits, and a suite of Excel live models in support of the evidence presented in this application. The documents have been filed pursuant to the Board's e-Filing Services RESS.

Should you have any questions relative to this application, please do not hesitate to contact me at the information provided below.

Yours truly,

Original Signed by:

Jessy Richard

Directeur Général

Hearst Power Distribution Co. Ltd.

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EXHIBIT 1 – ADMINISTRATIVE DOCUMENTS

2021 Cost of Service

Hearst Power Distribution Company Ltd.
EB-2020-0027

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1.2 EXECUTIVE SUMMARY

1.2.1 INTRODUCTION

Hearst Power Distribution Company Ltd. ("HPDCL") is pleased to present its Cost of Service application for rates effective May 1, 2020. This application consists of the following Exhibits, and Excel live models in support of the evidence presented in this application.

- ✓ Exhibit 1: Administrative Documents
- ✓ Exhibit 2: Rate Base and DSP
- ✓ Exhibit 3: Revenues
- ✓ Exhibit 4: Operation, Maintenance and Administrative Costs
- ✓ Exhibit 5: Cost of Capital
- ✓ Exhibit 6: Revenue Requirement
- ✓ Exhibit 7: Cost Allocation
- ✓ Exhibit 8: Rate Design
- ✓ Exhibit 9: Deferral and Variance Accounts
- ✓ EB-2020-0027 HPDCL 2021 Benchmarking Forecast Model
- ✓ EB-2020-0027 HPDCL 2021 Cost Allocation
- ✓ EB-2020-0027 HPDCL 2021 LRAMVA Workform
- ✓ EB-2020-0027 HPDCL 2021 PILs Workform
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- ✓ EB-2020-0027 HPDCL 2021 COS Checklist
- ✓ EB-2020-0027 HPDCL 2021 DVA Continuity Schedule
- ✓ EB-2020-0027 HPDCL 2021 Chapter 2 Appendices

All documents have been submitted to the OEB via their website.

1 The application along with all supporting evidence will also be posted on the utility's website
2 and customers informed of the filing via traditional media, social media and the utility's website
3 once the application is accepted by the Ontario Energy Board (OEB).

4 SUMMARY OF APPLICATION INTENDED FOR HPDCL CUSTOMERS

5 HPDCL is pleased to present at the next page a brief summary of the application. The summary
6 will be posted as a stand-alone document on the OEB's website for review by the general public
7 and be made available to customers of HPDCL via its website and social media and was also
8 published in the local newspaper Journal le Nord.

9



Hearst Power Distribution Co. Ltd.

2021 Rate Application

Dear Hearst Power customers,

Hearst Power Distribution Co. Ltd. ("Hearst Power") has applied to the Ontario Energy Board to increase its electricity distribution rates effective May 1, 2021. If the application is approved, a typical residential customer of Hearst Power will see an increase of \$3.87 per month and a typical General Service < 50kW customer of Hearst Power will see an increase of approximately \$5.18 per month. (ref: Exhibit 8 for detailed bill impacts)

The application, which was filed with the Ontario Energy Board is called a "Cost of Service" and involves the setting and approval of new rate based on the value of the utility's assets and the cost incurred in providing service to its customers. For Hearst Power, this involves the maintenance and service of poles, lines, transformers, and meters. (ref: Exhibit 2) All wages and material related to the distribution of power form the basis for the costs included in the application (ref: Exhibit 4).

Hearst Power is requesting a Revenue Requirement of \$1,233,292. This represents an increase of \$175,191 from its last Cost of Service in 2015. (ref: Exhibit 6). The table below shows the major changes since the utility's last Cost of Service in 2015. Over the past 6 years, Hearst Power has added approximately 850K in assets (ref: Exhibit 2) on which it's allowed to recover a return of 120K which represents a reduction of 16K from last Cost of Service in 2015 (Exhibit 5). The increase in assets has resulted in a decrease in yearly depreciation expense of 8.8K as a result of the adoption of new mandatory accounting standards. Hearst Power's yearly operating costs have increased by 188K since 2015. Taxes are estimated to be nil as they were in 2015, and revenues from charges other than rates, which offset the revenue requirement have increased by 6K. The table below shows the movement in revenue requirement since 2015.

2015 Revenue Requirement	\$1,058,101	
Average Fixed Asset	\$186,879	Added Assets since 2015
Working Capital Allowance	-\$134,973	Reduction in Working Cash Allowance
Regulated Return on Capital	-\$15,962	Decrease in return on assets
OM&A	\$188,224	Increase in Operation and Maintenance Costs and Billing and Collecting
Depreciation Expense	\$8,808	Reduction in depreciation expense as a result of MIFRS
Revenue Offset	\$5,879	Increase in Revenue Offsets
2021 Revenue Requirement	\$1,233,292	2021 Proposed Revenue Requirement

Aligning Rates with Costs

There are several reasons why Hearst Power is seeking a rate increase starting in May of 2021. The main reason is that Hearst Power's current base rates were approved set in 2015 and significant decrease in electricity sales has occurred since. As such, revenues from rates can no longer support Hearst Power's current costs.

Operating costs have increased by approximately \$188K over the past five years. The major contributing factors include:

- ✓ An increase in outside services to support accounting and regulatory requirements. (ref: Exhibit 4)
- ✓ Increase in Operation and Maintenance costs to address much needed investment in the distribution infrastructure. (ref: Exhibit 4)
- ✓ Increased Billing and Collecting Costs. (ref: Exhibit 4)

Aging Infrastructure

Like most utilities in Ontario, Hearst Power faces the need to renew aging electrical infrastructure. Much of the province's electrical system was built over decades ago and has reached the end of its productive life.

- ✓ Hearst Power is working on balancing its need for assets and the money needed to pay for assets keeping in mind its customers' need for value. Hearst Power has invested over \$850K in assets since 2015 – all of which are related to 'field' assets – including poles, wires, transformers and meters that are needed to reliably and safely deliver power to its customers. (ref: Exhibit 2)

Hearst Power has incurred other costs (wages and materials) in order to be able to make use of new systems. Much like other utilities, Hearst Power also faces external cost pressures, such as inflation. (ref: Exhibit 4)

Hearst Power has continued its efforts to improve operational performance and service excellence. Some highlights include:

- ✓ Reliability has improved steadily year after year, for the past ten years. (ref: Exhibit 2)

- ✓ Hearst Power has consistently exceeded OEB standards for billing accuracy during the last 5 years. (ref: Exhibit 2)
- ✓ In 2019 77.7 million kWh were delivered to Hearst Power customers. Since 2010, customer counts have continued to decrease as well as energy deliveries which is due to Hearst Power customer uptake of conservation and demand management initiatives as well as the innovation of energy efficient devices available today. (ref: Exhibit 3)

Focus on Customers

By focusing on customer engagement and communications, Hearst Power is helping customers make better choices and create healthy, sustainable results for the community it serves.

Hearst Power has taken a new attitude towards informing, educating and responding to customer needs as a top priority. (ref: Exhibit 1)

Results from a Customer Satisfaction Survey, undertaken by Hearst Power in the fall of 2019, demonstrate that the company is moving in a positive direction. It has helped to identify customer attitudes about the utility's conservation programs, smart meters, electricity prices and Hearst Power's standing and reputation in the community. The results will assist Hearst Power in fine tuning its programs, services and communications use direct and reliable customer feedback.

Overall Hearst Power customer satisfaction came in at a 98.2% approval rating. (ref: Exhibit 1)

Rebuild and Respond

Hearst Power is focusing its efforts going forward on enhancing performance levels in all aspects of its operation and planning activities to comply with its regulatory obligations and responsibilities to the Ontario Energy Board (OEB) and the Electrical Safety Authority (ESA).

At the core of Hearst Power's mandate, is the responsibility to deliver a trusted source of safe, efficient, and reliable power to its customers. A critical element in that equation is the ongoing pole replacement programs that will ensure the long-term integrity and sustainability of the distribution system.

An updated Distribution System Plan (DSP) forms the basis for the utility's capital and maintenance programs. The DSP reflects the latest performance priorities of the distribution

system and serves as a placeholder for the longer term projects recommended from the condition (age risk ratings) assessments.

Under a 5-year capital investment plan, the company has embarked on a prudent course to maintain and renew the utility's equipment assets. (ref: Exhibit 2)

Pass-through charges

Hearst Power is responsible for billing the customer for pass-through charges which are generally set by the province of the OEB. The billing and collecting of these charges most often create variance accounts which need to be disposed of. The total amount to be refunded to the residential class is a credit of \$28.8K and the total amount to be collected from the small business class is \$15.4. The proposed disposition period is of 12 months. (ref: Exhibit 9)

Conclusion

With this filing, Hearst Power now looks to the future with the intent to provide essential electricity services to benefit our community and our customers.

1 1.2.2 BUSINESS PLAN

2 In compliance with the Rates Handbook issued on October 13, 2016, the utility is pleased to
3 present its 2021 Business Plan in the next Section.

4

HEARST POWER DISTRIBUTION COMPANY LTD 2021 BUSINESS PLAN

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2. Executive Summary

Hearst Power Distribution Company Ltd. ("HPDCL" or the "Utility") is a fully licensed distributor of electricity under distribution license ED-2002-0533 issued by the Ontario Energy Board (the "OEB" or the "Board") under the Ontario Energy Board Act, 1998 (the "Act").

The utility develops and manages an electrical distribution network in Hearst and delivers electricity to six customer classes via its distribution system: residential, commercial (small and large general service classes), intermediate, street lighting, and sentinel lights. HPDCL earns income based on fixed and volumetric service charges for the distribution of this electricity. The service charges are set through a systematic rate-making process via applications to the OEB.

The utility operated with a revenue requirement of \$1,106,810 in 2019 and has applied for a revenue requirement of \$1,233,292 for the 2021 rate year. This projected revenue requirement will form the base revenue requirement for rates during a 2021-2025 term of rates under the Board's Renewed Regulatory Framework for Electricity Distributors (the "RRFE"). HPDCL plans to use the incremental funds mainly to:

- Invest consistently and prudently in asset replacements such as poles, transformers, smart meters; HPDCL Distribution Network is mature. Covid-19 has created delays and interruptions in the workflow. That being said, there is work to bring the network up to standards, meet regulations, and provide reliable service.

- Fund the costs associated with a 3rd party engineering firm to develop the Distribution System Plan required under the RRFE.
- Fund the cost of reviewing Cyber Security requirements and implement the findings of that review.
- Determining the necessary financial resources and workforce needs now and into the future.
- Improve communication with customers under the objectives of the RRFE.
- Fund increased use of accounting and regulatory services to comply with increased demands from the OEB.

2.1 Mission

Hearst Power Distribution Company Limited's mission is to create long-term value benefiting the customers we serve. HPDCL's goal is to provide a safe, effective, efficient, and reliable service to our customers at the lowest possible rates while ensuring local accountability per OEB codes, regulatory agencies, and the laws of the Province of Ontario

The vision and Mission Statement are categorized as follow:

For ourselves:

To be part of a productive and effective workforce where fulfillment, self-esteem, and team spirit fuel the desire to be our best.

For each other:

To function as a team, cooperating, supporting, and building a company that is known for its excellence.

For our company:

To be recognized as a company with integrity both on a personal and professional basis while providing excellence.

To ensure the safe, dependable and environmentally friendly supply of electricity in our service area, while providing policies and goals to ensure profitability and accountability to the shareholder.

For our community:

To be a responsible corporate leader in the community, respected for a strong work ethic and commitment to quality services.

HPDCL takes pride in servicing its customers and embraces its business values.

- **Reliability:** HPDCL's network reliability is a primary goal, designed to ensure its assets' appropriate management to provide a sustainable and reliable service to its customers. Since its last Cost of Service in 2015, HPDCL has seen the importance of proper asset management. Management has adopted a more proactive approach.
- **Safety:** HPDCL planning takes into consideration the safety of its staff and the public. Safety remains its number one priority over the planning period.
- **Trustworthy** – HPDCL's employees are taking responsibility for their conduct and obligations to serve their community. The turnover of employees since the last Cost of Service has made HPDCL's new employees aware of this aspect's importance in the industry. The obligation towards the client is well understood and is being developed further through training and understanding of their needs.
- **Asset Stewardship** – HPDCL understands the responsibility entrusted from the clients to be financially responsible and to make the best efforts to maintain and protect its assets. With the change in employees with more awareness of asset stewardship, it ensures continual enhancement of its asset management process as the basis for any increased investment.
- **Customer Focused** – HPDCL effectively meets the service expectations of its customers and delivers a good value for the money. This standard of Service is one HPDCL intends to preserve. The Board of Directors and employees understand the importance of being customer-focused and ensures the highest standards are put in place.
- **Collaborative** – Decisions are made jointly, in cooperation with all stakeholders represented by an appointed Board of Directors, as required, to optimize the planning process. The Board of Directors meets monthly to discuss and adopt new bylaws to better the business functionality. In a time of urgency, like budget planning for the Cost of Service, the Board meets with 48 hours' notice. There is continuous communication between the Stakeholder, in this case, the Board of Directors, and the utility employees.

2.2 Strategic Goals and Initiatives (result)

HPDCL has identified five key areas of focus that support the utility's mission:

- ✓ To keep providing safe, efficient, and reliable delivery of electricity to customers.
- ✓ To maintain costs at the lowest cost possible while maintaining efficient Service.
- ✓ To provide a safe and engaging work environment for its employees.
- ✓ To improve engagement with customers and the community.
- ✓ To plan and deliver system improvements required, including better asset management, to ensure future supply.

2.3 Objectives (steps to get to the result)

HPDCL plans on achieving its strategic goals by setting and meeting the following objectives:

- ✓ Make "reliability" a priority.
- ✓ Maintain a service-based utility whose primary goal is to exceed customers' expectations at a reasonable cost.
- ✓ Develop a better plan to improve the customer experience.
- ✓ Promote the long-term, efficient provision of utility services consistent with OEB policy.
- ✓ Continue to work with other utilities in the promotion of both an efficient and sustainable environment.
- ✓ Operate effectively with the staff currently in place.
- ✓ Educate the staff and the Stakeholder with a better understanding of HPDCL's mission.
- ✓ Reduce operational costs where and when possible.

2.4 Economic Overview of the Service Area

HPDCL expects the status quo for the business conditions over the planning horizon of this report; no growth and no decline. There are no known expansion plans for industrial, commercial, or residential segments of the economy. The future of the local college building is unknown. Besides that, there are no known planned closures in the industrial or commercial elements of the economy. The lack of change in the economy means that there is no growth-based capital work proposed by HPDCL

2.5 Utility Description

HPDCL's service area is an embedded utility almost wholly contained within the municipal boundaries of the Town of Hearst. The site is embedded within the Hydro One Networks Inc.

HPDC receives power from Hydro One Networks Inc. ("Hydro One") and the IESO. HPDC delivers power to its 2,850 customers via three feeders from a high voltage transformer station owned by Hydro One. The utility covers 93 square km and maintains 57 km of overhead lines and 11 km of underground lines. The distributor does not have any transmission or high voltage assets deemed by the Board as distribution assets and, as such, is not seeking approvals from the Board in that regard.

HPDCL's last Cost of Service application was for rates effective May 1, 2015.

HPDC is incorporated under the Ontario Business Corporations Act and is 100% owned by the Town of Hearst. HPDC is managed by a Board of Directors appointed by the Town of Hearst. HPDCL has seven employees; a General Manager, an Administrative Assistant, customer service & billing clerk in the office, a Lead Hand, and three linemen to oversee the outside plant. The current General Manager was hired in May 2014.

HPDCL's last Cost of Service application was for rates effective May 1, 2015.

2.6 Utility Ownership

Hearst Power Distribution Company Limited

HPDC is incorporated under the Ontario Business Corporations Act and is 100% owned by the Town of Hearst. HPDC is managed by a Board of Directors appointed by the Town of Hearst.

HPDCL is a utility that is tasked with the delivery of electricity. Profits are either reinvested for infrastructure, invested in increasing other revenues to lower distribution rates, or used to decrease long term debt. Gains could also be distributed to its shareholder in dividends but, since its incorporation HPDCL has not distributed dividends.

3. Outcomes of the Renewed Regulatory Framework

On October 18, 2012, the Ontario Energy Board ("The Board") issued its *"Report of the Board: A Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach."* The report set out a comprehensive performance-based approach for the Renewed Regulatory Framework, which promotes the achievement of outcomes that;

- ✓ benefit existing and future customers
- ✓ align customer and distributor interests
- ✓ continue to support the achievement of important public policy objectives
- ✓ place a greater focus on delivering value for money

On March 5, 2014, the Board issued its report on *"Performance Measurement for Electricity Distributors: A Scorecard Approach."* The report set out the Board's policies on the measures that are to be used to assess a distributor's effectiveness and improvement in achieving customer focus, operational efficiencies, public policy responsiveness, and financial performance to the benefit of existing and future customers.

With the above in mind, the next section provides an account of how HPDCL continues to improve its understanding of the needs and expectations of its customers and its delivery of services.

3.1 Customer Focus

HPDCL values customer input and feedback. Customers are engaged through surveys and directly by the utility for input on the main initiatives. Customer satisfaction is measured on the Distributor Scorecard and a bi-annual survey and then incorporated into goal setting and planning processes with a focus on ensuring and improving customer satisfaction.

By increasing and enhancing customer engagement and communications, HPDCL is enabling customers to make better choices and to create healthy, sustainable results for the community it serves.

3.2 Seeking Customer Input

Customer satisfaction largely depends on whether a utility's products or services fulfill a customer's expectations—i.e., whether it meets, exceeds, or falls short of expectations. Quantifying customer satisfaction involves accumulating customer perceptions, measured through bi-annual surveys—in HPDCL's case, using a 5- or 10-point scale, ranging from "poor" to "excellent. Customer Satisfaction Surveys are useful tools to understand how customers perceive the service they receive. HPDCL is also embracing new ways to effectively connect with its customers, such as the opening of a new Facebook account, in 2015 to help with customer communications for outages, safety, and during conservation campaigns and implementation of a new mobile-friendly customer portal in 2018.

While the utility did not receive feedback from its customers immediately prior to the creation of this Business Plan, in large part due to the impact of the COVID-19 pandemic on HPDCL's ability to reach out to customers in person as well as the impact on HPDCL's available resources, HPDCL is confident that with the communication plan in place, and considering the utility's capital budget, as proposed in the Distribution System Plan, supports HPDCL's customer priority and preferences.

✓ **Website Update**

The utility will be updating its website to show its current and upcoming capital projects. This new section of the website will be updated regularly so that HPDCL's customers can understand and comment on the utility's decision regarding its operational and capital planning.

✓ **Info letter via bill insert and social media**

Bill inserts are an excellent way to communicate relevant information to our customers. HPDCL will create which shall also be posted on Facebook.

3.3 Alignment of Goals to Needs and Preference of Customers

HPDCL's customer satisfaction results and finding based on discussions with its customers supports the valid hypothesis that good Service—i.e., high levels of reliability, or low SAIDI— combined with reasonable prices are essential to satisfying customers. In other words, all customers expect reliable Service at the lowest prices possible.

High level of reliability requires system-wide investments - notably enhancing the distribution system to provide more reliable Service can be expensive. Much like other utilities, HPDCL must frequently consider trade-offs between costs and benefits; that is, to target initiatives that will provide the biggest bang—or increase in customer satisfaction.

In addition to system-wide investments, HPDCL continues to focus on maintaining its cost as low as possible to demonstrate to customers that they deliver as much value per dollar as possible. HPDCL has found that the key is to reach the right balance in delivering initiatives, such as properly pacing upgrades to its distribution system when possible, all while improving its customer interfaces or customizing customer engagement programs.

The priority going forward is to maintain HPDCL's distribution assets in proper order and manage its distribution system so that the utility can provide electricity to its customers reliably and responsibly. Other priorities involve maintenance of its distribution assets at a steady pace to minimize rate shock.

HPDCL is committed to providing its employees and third-party contractors, which represents the utility, with a safe and injury-free workplace and delivering its services in a manner that ensures both customer and public safety. HPDCL's customers have high expectations of reliability, and HPDCL strives to meet and exceed those expectations daily, now and into the future, as demonstrated by HPDCL's comprehensive Distribution System Plan.

4 Performance Metrics and Benchmarking

Another development that has brought utility customer satisfaction to the forefront is the use of benchmarking studies, which compare levels of customer satisfaction across utilities. High scores in benchmarking studies can show that utilities are recognized as being the best in class.

Perhaps the most widely known benchmark of efficiency rating comes from the PEG report which surveys all 64 utilities in Ontario. The PEG analysis is one of the only instruments that compares utilities' cost efficiencies on a consistent basis and is publicly available.

PEG produces an annual report that provides a ranking of the utilities included in the study, summarizes the results, and provides insight into the trends in utility efficiency scoring.

Because of this study, HPDCL has expended considerable effort to understand the drivers of their efficiency ranking and has undertaken initiatives to improve their scores.

The following section reviews past performances and introduces future performances based on load forecast and forecasted capital and operational expenditures.

4.1 Past performances

The PEG Past Performance table below shows HPDCL's rating for the last five historical years of business. The PEG report uses econometrics to determine the cost efficiency of distributors. Group 1 (of 5) is ranked as the most efficient group.

Table 1 - PEG Past Performance (Stretch Factor)

	2015	2016	2017	2018	2019	
<i>Stretch Factor Cohort - Annual Result</i>	2	2	2	2	2	

The percentage difference between actual and predicted cost is the measure of cost performance. Utilities with larger negative differences between actual and predicted costs, such as HPDCL, are better cost performers and therefore eligible for lower stretch factors. This table shows HPDCL's difference between its actual costs and predicted, and although total costs have increased, cost performances are improving.

HPDCL was given a lower Labour Price Level Index* than HPDCL expects applicable, as HPDCL was assigned to a "City Mapping" group much further away (Sudbury – 560 km away) than neighbouring cities and LDCs that are more geographically closer (Timmins – 262 km) to HPDCL's franchise area. Using a Labour Price Level Index geographically closer to Hearst, which would be Timmins at 0.935 instead of Sudbury at 0.901, would, HPDCL expects, been more in line with Hearst's actual labour conditions. If HPDCL had been assigned the Labour Price Level Index for Timmins within the PEG analysis, the change would move HPDCL benchmarking results into Stretch Factor Cohort 1 from 2015 to 2019.

* Reference: Pacific Economics Group - "Benchmarking the costs of Ontario power distributors," March 20, 2008; Table 2, page 60 & 61

Table 2 - Summary of Cost Performance Results as per PEG benchmarking reports

	2015	2016	2017	2018	2019
	(History)	(History)	(History)	(History)	(History)
Cost Benchmarking Summary					
Actual Total Cost	1,564,645	1,396,100	1,427,597	1,495,622	1,454,857
Predicted Total Cost	1,685,299	1,727,010	1,745,995	1,850,658	1,937,628
Difference	(120,654)	(330,910)	(318,398)	(355,036)	(482,771)
Percentage Difference (Cost Performance)	-7.4%	-21.3%	-20.1%	-21.3%	-24.92%
Stretch Factor Cohort - Annual Result	3**	2	2	2	2

** Actual Stretch Factor Cohort was set to 2 by OEB due to the Actual Cost shown above having been impacted by an out of period increase due to Smart Meter Deferral Account Disposal in 2015 (\$217k impact on OM&A expenses).

Table 3 - Historical Capital Spending

	2015	2016	2017	2018	2019
Capital Additions	\$148,073	\$188,878	\$88,922	\$153,147	\$248,646

The utility's Rate Base has increased proportionally to its capital investments and, as such has remained historically as stable as its other financial metrics.

4.2 Target Performance

This section summarizes the projected performance of the utility taking into consideration the long-term perspective of the health and age of the distribution assets. It captures the results of HPDCL's expected PEG performance, Rate Base and projected revenues based on its priorities for capital investments and operational expenditures.

Table 4 - PEG Target Performance (Stretch Factor)

	2020	2021
<i>Stretch Factor Cohort - Annual Result</i>	1	1

Table 5 - Target Cost Performance Results

	2020	2021
<i>Cost Benchmarking Summary</i>		
<i>Actual Total Cost</i>	1,502,237	1,488,945
<i>Predicted Total Cost</i>	1,987,952	1,949,776
<i>Difference</i>	(485,715)	(460,831)
<i>Percentage Difference (Cost Performance)</i>	-28.0%	-26.96%
<i>Stretch Factor Cohort - Annual Result</i>	1	1

Table 6 - Proposed Capital Additions for 2020-2021

	2020	2021
<i>Capital Additions</i>	180,000	387,500

4.3 Short and Long-Term Capital Spending

HPDCL is well aware of the importance of maintaining existing property, network & equipment and invest in other assets to meet higher standards. Its focus is to maintain high-performance levels in all aspects of its capital investments and planning activities to comply with its regulatory obligations and responsibilities to the Ontario Energy Board (OEB) and the Electrical Safety Authority (ESA).

At the core of HPDCL's mandate is to maintain high-quality service, including but not limited to delivering a trusted source of safe, efficient, and reliable power to its customers, which supports growth and accommodates economic development in the Town of Hearst.

The previous Cost of Service asset budget was more reactive than proactive. This approach did not allow the utility to adequately meet its needs and keep up with the constantly evolving legislation and regulatory environment as they arose. A new mandate is a proactive approach where there is a high priority on the upkeep and replacement of its aging infrastructure. Distribution equipment that was placed many in-service years ago, in many cases, has reached its expected useful life. Therefore, HPDCL is faced with the ongoing replacement of this aging infrastructure. Customer expectations for reliability are high and can only be met with a well-maintained distribution system. Thus, investment in replacement equipment along with its associated operational costs has become a continuous reality for HPDCL as it commits to satisfying the essential community needs.

2020-2021 Capital Planning

A newly updated Distribution System Plan forms the basis for the utility's capital and maintenance programs for 2021-2025. The Distribution System Plan reviews the fundamental principles of the network needs and its performance to ensure that it reflects the current and foreseeable substantial changes that are becoming priorities of the distribution system and serves as a placeholder for the longer-term projects recommended from the condition (age risk ratings) assessments. These challenges are poised to place increased financial pressures on HPDCL to continue delivering its targeted outcomes and maintain desired service levels. To maintain its excellent, safe, reliable service, HPDCL plans to reinforce its proactive approach to accommodate an evolving regulatory environment and to prevent unexpected power outage due to asset failure.

Priorities and strategies for budget development include the following:

- The replacements of poles, transformers, and other assets based on condition assessments, with high-risk of failure capital assets to be addressed first
- Maintenance and testing to ensure that the assets can remain in Service until the next Cost of Service application
- Maximize workforce efficiency through innovation and new industry practices
- Replacement of smart meters to meet Metering Canada standards
- Maintain regulatory compliance

5 Year Capital Planning to Accommodate Aging Infrastructure

Under a 5-year capital investment plan, HPDCL has embarked on a proactive course to maintain and renew the utility's equipment assets.

HPDCL places a high priority on balancing its obligations to serve its customers while addressing the upkeep and replacement of its aging infrastructure. The following are the actions that HPDCL plans to take over the next 5 years to bring about the desired future.

- Priority will be given to HPDCL's legislated/mandatory requirements, for example:
 - System access including the obligation to connect customers
 - Meet the OEB's – and other regulatory bodies' – quality, reliability, health, safety, environmental, etc. performance standards.
 - Accommodate City, Region, Ministry, etc. mandatory project requirements.
- To safeguard the major investments already made in its critical assets and continue to maintain and upgrade as necessary.

- Continue to invest prudently in modern information technology to provide customers with clear, meaningful bills that can assist them in managing their electricity usage.
- Optimal life extension, for example:
 - Intensify condition monitoring to minimize uncertainty regarding decisions relating to equipment maintenance, renewal, and replacement.
 - Where economically viable, refurbish equipment in-situ to extend their reliable, useful lives.

4.4 Operational Costs

HPDCL's Operations strategy is to provide safe, reliable Service at an appropriate level of quality throughout the licensed service areas.

HPDCL continually reviews its business and operational goals against its workforce needs, its financial strength and the impact on its customers. HPDCL recognizes the importance and value of maintaining a skilled and engaged workforce, where all employees are customer focused and enjoy working for the utility. HPDCL's analyzes its operation budget on a monthly basis as to not stray far from its budgets thus ensuring that its ROE stays within range of its approved ROE. The utility is very mindful that every dollar of increase in operation costs means that a dollar more is collected from the customers. Therefore, operational planning focuses mainly on efficiency and finding reductions wherever possible. Historical and projected costs are shown in Table 10 below.

Table 7 – Operating Costs

	Board Approved	2015	2016	2017	2018	2019	2020	2021
<i>Operations</i>	\$145,860	\$175,120	\$129,461	\$180,412	\$165,467	\$169,073	\$212,350	\$181,784
<i>Maintenance</i>	\$322,700	\$422,733	\$282,006	\$257,745	\$317,482	\$305,687	\$274,000	\$310,458
SubTotal	\$468,560	\$597,853	\$411,467	\$438,157	\$482,950	\$474,760	\$486,350	\$492,241
<i>%Change (year over year)</i>		27.6%	-31.2%	6.5%	10.2%	-1.7%	2.4%	1.2%
<i>Billing and Collecting</i>	\$282,250	\$304,232	\$287,594	\$311,125	\$289,861	\$303,101	\$320,550	\$328,564
<i>Community Relations</i>	\$8,000	\$15,068	\$9,089	\$6,063	\$9,048	\$3,895	\$5,000	\$5,063
<i>Administrative and General+LEAP</i>	\$260,414	\$298,826	\$339,676	\$337,252	\$339,857	\$319,991	\$392,950	\$381,580
SubTotal	\$550,664	\$618,126	\$636,359	\$654,440	\$638,766	\$626,987	\$718,500	\$715,206
<i>%Change (year over year)</i>		12.3%	2.9%	2.8%	-2.4%	-1.8%	14.6%	-0.5%
Total	\$1,019,224	\$1,215,979	\$1,047,826	\$1,092,597	\$1,121,716	\$1,101,747	\$1,204,850	\$1,207,448
<i>%Change (year over year)</i>		19.3%	-13.8%	4.3%	2.7%	-1.8%	9.4%	0.2%

4.5 Return on Equity

The actual Return on Equity for 2019 is 13.91%, which indicates an over earning compared to the Board Approved 2015 rate of return of 9.19%. Further information on the topic of Return on Equity can be found in Section 7.

4.6 Scorecard Results and Analysis

Service Quality

From the period of 2014-2019, the utility's scored high on all measures. HPDCL notes that its service area has had no growth since its last Cost of Service in 2015. Distribution system investments to date have focused on sustaining the existing distribution system infrastructure. HPDCL commits to concentrate its services on providing the best service possible and maintaining or improving its overall scores going forward.

SERVICE QUALITY

New residential/small business services connected on time

100% (2018)

The utility must connect new service for the customer within five business days, 90 % of the time, unless the customer agrees to a later date. This timeline depends on the customer meeting specific requirements ahead of time (such as no electrical safety concerns in the building, customer's payment information complete, etc.)



Target met



Customer Satisfaction

HPDCL has conducted its bi-annual customer satisfaction survey, which is presented in Section 1.7 of this Exhibit. Customers are generally satisfied with 98.2% satisfaction. While HPDCL manages less than 20% of the total customer bill, it continues its efforts to maintain appropriate cost control while providing safe and reliable power delivery to its customers. HPDCL's billing accuracy has been perfect since 2013, and the utility only received a complaint in 5 years.

CUSTOMER SATISFACTION

Billing accuracy

100% (2018)

An important part of business is ensuring that customer's bills are accurate. The utility must report on its success at issuing accurate bills to its customers.

[More information about billing accuracy](#)



Safety

Safety remains a core attribute of HPDCL's as it delivers power to its employees and customers daily. HPDCL continues to strive to communicate on safety throughout our distribution system through various methods including safety orientations, on-line, outreach, and telephone. Results over the past 5 years show no serious electrical incident.

System Reliability

With its Distribution System Plan, the reliability of the system and re-investment in the distribution system infrastructure is one of HPDCL's focus point. 2018 showed abnormally high indicators however, other years show excellent results. The primary drivers for these increased explained in detail in the Distribution System Plan and have seen major impact starting in 2016 with scheduled outages required for pole changes.

Asset Management

The Distribution System Plan detailing the utility's historical and projected capital plan can be found in Exhibit 2 of the 2021 Cost of Service application.

Cost Control

HPDCL has been assigned a Group 2 efficiency ranking since 2015. Despite being in one of the most efficient utilities in the province, HPDCL continues to strive to achieve greater efficiency through productivity improvements and cost control, without compromising safety and reliability. The utility commits to continue to look for ways of finding efficiencies in its Operation and Maintenance for the next rate period. The trend in costs per customers is discussed in further detail in Exhibit 4.

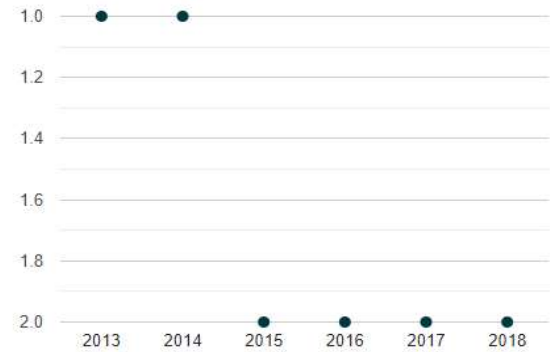
COST CONTROL

Efficiency rating

2 (2018)

The utility must manage its costs successfully in order to help assure its customers they are receiving value for the cost of the service they receive. Utilities' total costs are evaluated to produce a single efficiency ranking. This is divided into five groups based on how big the difference is between each utility's actual and predicted costs. Distributors whose actual costs are lower than their predicted costs are considered more efficient.

- 1 = Actual costs are 25% or more below predicted costs
- 2 = Actual costs are 10% to 25% below predicted costs
- 3 = Actual costs are within +/- 10% of predicted costs
- 4 = Actual costs are 10% to 25% above predicted costs
- 5 = Actual costs are 25% or more above predicted costs



2019 not shown on the OEB's graphs reflects a ranking of 2 as was the case from 2015-2018

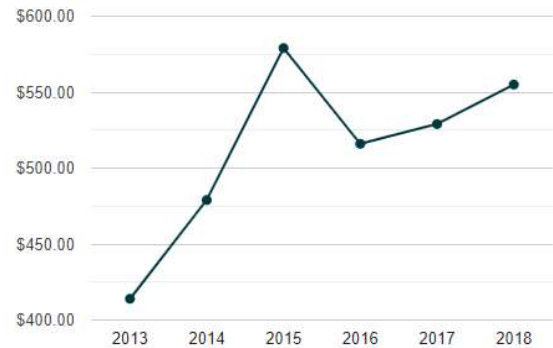
COST CONTROL

Cost per customer

\$555 (2018)

A simple measure that can be used as a comparison with other utilities is the utility's total cost per customer.

Total cost is a sum of all the costs incurred by the utility to provide service to its customers. The amount is then divided by the utility's total number of customers. This amount does not represent how much customers pay for their utility services.



[More information about Cost per Customer](#)

2019 not shown on the OEB's graphs reflect \$539, a decline from \$555 in 2018.

Financial Ratios

HPDCL financial ratios are discussed in detail in Section 7 of this Business Plan.

4.7 Future Outlook

HPDCL favors continuous self-improvement identifying areas where the effectiveness of the organization can be improved.

Since HPDCL is a small utility, planning is something very important. That being said, being a small utility in a small community provides the opportunity to discuss different programs on a one-on-one.

HPDCL will continue to monitor its business objectives to ensure that they are aligned with the OEB scorecard and actively drive cost reductions and productivity improvement.

Crafting the herein Business Plan and Distribution System Plan has been a worthwhile exercise in that it assisted HPDCL in thinking about how to plan and implement quick wins, mid-term improvements, and longer-term improvements.

Some of the self-assessment measures which informed HPDCL's Business Plan include;

- ✓ Reviewing its mission statement to ensure that it informs the direction of the utility and serve as a guide for long-term growth/development.
- ✓ Detailing specific long-term goals and short-term objectives by developing an action plan for each goal and objective.
- ✓ Reviewing its current management structure, including the roles and responsibilities management team and employees. In doing so, HPDCL reviewed areas for improvement in the current management structure to better understand its obstacles.
- ✓ Reviewing its financial burden and set priorities
- ✓ Analyzing its economic conditions to better understand its effect on business strategy – including consideration for load forecast, predicted capital and operational costs, resources.
- ✓ Analyzing its strengths and weaknesses to identify where it is the most vulnerable.

5 Strategy and Implementation Summary

5.2 SWOT Analysis

The use of the SWOT (strengths, weaknesses, opportunities, and threats) analysis is new to the utility. However, it has already proven to be a valuable management tool that has helped HPDCL review key aspects of the utility to identify factors that will drive performance and decision making going forward.

Strengths and Weaknesses are associated with internal factors such as:

- ✓ Financial resources, such as funding and ability to meet its financial obligations.
- ✓ Physical resources, such as the utility's location, facilities, and equipment.
- ✓ Human resources, such as employees, volunteers, and target audiences
- ✓ Access to natural resources, trademarks, patents and copyrights
- ✓ Current processes, such as employee programs, department hierarchies, and software systems

Opportunities and Threats are associated with external factors such as:

- ✓ Market trends such as new products and technology or shifts in audience needs
- ✓ Economic trends, such as local, national and international financial trends
- ✓ Funding, such as donations, legislature, and other sources
- ✓ Demographics, such as a target audience's age, race, gender and culture
- ✓ Political, environmental and economic regulations.

5.3 HPDCL Strengths

Personal Edge

While the values of top management have a significant impact on the performance of businesses of all sizes, in small businesses, social performance is more directly and personally shaped by management. A smaller town with a smaller utility such as HPDCL is more socially and economically embedded within the community in which they operate than are managers of big utilities. Managers of a small utility are more likely to meet most of their clients when they come to the office. Each relationship represents a potential personal invitation to get involved in a community organization and to engage with customers. In smaller towns such as the Town of Hearst, customer engagement is not always done at the utility's office; it is often done while waiting in line at the grocery store, bank or the gas pump.

When customers personally know (and like) the employees, they're more likely to support the idea of having and keeping it local utility in business. HPDCL has the advantage of knowing its customers face-to-face thus providing the utility with an inherent customer engagement in its day to day operation. Getting to know customers face-to-face is a natural and important outreach strategy. Offering bilingual customer support in a French community like Hearst is a key to customer satisfaction.

Customers and Close-Knit Community

HPDCL values the input and feedback of its customers and partners and respects the needs and expectations of its customers. HPDCL takes pride in making significant contributions to its community programs in which we can add value such as energy conservation projects and business development activities. It's important to mention that because of the size and closeness of the community, most customer are constantly kept aware of what is happening at the utility. Word of mouth is still the best form of communication in small towns.

Smaller Utilities are Ranked as More Efficient as per the PEG Benchmarking Report

Since the inception of the PEG report and ranking, smaller utilities are consistently ranking higher than the larger ones. HPDCL believes that because of the closeness and size of the utility, the smaller utilities are forced to be more efficient as costs cannot easily be absorbed by a large group of customers. In other words, the impact of costs per customers is often greater for small communities and as such create an environment where all costs are analysed and scrutinized to make sure that they are necessary. This concept forces the smaller utilities to constantly find efficiencies in how they operate.

Group 1 Utilities.

Utility	2019	Efficiency Ranking	# Customers
<i>Hydro Hawkesbury Inc.</i>	2019	-61.1%	5,549
<i>E.L.K. Energy Inc.</i>	2019	-46.6%	12,479
<i>Cooperative Hydro Embrun Inc.</i>	2019	-45.7%	2,366
<i>Wasaga Distribution Inc.</i>	2019	-45.1%	14,003
<i>Northern Ontario Wires Inc.</i>	2019	-37.2%	5,977
<i>Halton Hills Hydro Inc.</i>	2019	-29.3%	22,528
<i>Grimsby Power Incorporated</i>	2019	-28.1%	11,632
<i>Hearst Power Distribution Company Limited</i>	2019	-23.4%	2,700

Efficiency Ranking	1	2	3	4	5	Total
<i>Number of LDCs with less than 20,000 Customers</i>	6	11	13	5	2	37
<i>Number of LDCs with less than 100,000 Customers</i>	0	8	10	2	0	20
<i>Number of LDCs with more than 100K Customers</i>	0	0	3	2	1	6

5.4 HPDCL Weaknesses

✓ **Reliance on third party assistance to meet its regulatory requirements.**

HPDCL has statutory obligations and responsibilities to the Ontario Energy Board (OEB) and the Electrical Safety Authority (ESA). Both regulators issue comprehensive OEB codes and guidelines that come with compliance and reporting requirements. As a small utility with only 3 administrative employees, it can be difficult to conform to an ever-changing regulatory environment. Planning and budgeting for the unexpected can be difficult – especially with the current five-year rate rebasing period. HPDCL is also finding that many of the new requirements require expertise which goes beyond those of its current staff, and as such, the utility must often turn to third-party experts (such is the case for the DSP and Cyber Security) to bring external expertise to meet the requirements and level of standards which regulators expect. Under those circumstances, the utility will often "shop around" and negotiate rates and costs to find the best value for money.

✓ **Managing unexpected costs beyond the utility's control.**

As mentioned in the section above, planning and budgeting for the unexpected can be difficult – especially with the current five-year rate rebasing period. For the most part, the utility plans for significant investments well in advance, however, unexpected costs can arise as a result of a change in legislation or new regulatory requirements. Most larger utilities can absorb these costs without much impact on rates or performance. However, as smaller utility, HPDCL can be materially affected when faced with cost pressures that are beyond its control or ability to plan for.

✓ **Trying to keep up with standards designed for larger utilities.**

The industry assumption is that small utilities should adopt the same management principles as big utilities, only on a smaller scale. Underlying that assumption is the notion that small utilities are the same as larger utilities, except with lower revenues, lesser assets, and fewer employees.

For one thing, management salary in a small utility represents a much larger fraction of costs than in a larger utility, often such a large fraction that little is left over to pay additional managers or to provide dividends to the shareholder. Similarly, small utilities cannot usually afford to pay for external resources they need, nor can new employees be adequately trained to do their duties.

In addition, external forces tend to have more impact on small utilities than on large utilities. Changes in government regulations, tax laws, labour and interest rates usually affect a greater percentage of expenses for small utilities than they do for large corporations.

✓ **Aging community**

HPDCL tends to be home to a reasonably mature community whose primary source of communication is newspaper rather than social media, which can eliminate cost-efficient customer engagement options. Servicing an aging community can be viewed as an opportunity as well. More mature customers expect more in terms of communication and customer service and as such, encourages the utility to go above and beyond in terms of communicating with its customers.

5.5 HPDCL Opportunities

Opportunities include the following;

- ✓ To form strategic alliances with like-minded LDCs to realize greater efficiencies and integrate new ideas that improve operations and ensure sustainability in an evolving energy sector.
- ✓ To drive down operating costs as much as possible.
- ✓ To position the utility as a reliable and customer-focused LDC with high levels of trust
- ✓ To disaffirm negative perceptions that prevail, particularly in respect to energy increases
- ✓ To build a more substantial presence within the community.
- ✓ To engage current and prospective employees and partnerships, inspire them, build trust, and position HPDCL as a great place to work or as a great partner.

5.6 **HPDCL Threats**

In addition to its many regulatory responsibilities, the business of distributing electricity has several basic risk considerations that must be managed successfully to ensure business continuity.

The following areas of exposure were identified and evaluated as part of the HPDCL risk profile:

✓ **Reliability**

Although the utility's reliability metrics meets the OEB's standards, customers have very high service expectations, and any system interruptions should be handled quickly and professionally. Reputational risks can occur when incidents and outages are not perceived to be addressed in a quick and efficient manner. Customers accept the occasional power outage, but confidence is eroded when they cannot get access to timely information on the nature of the incident and an estimate of restoration times.

If an unplanned outage occurs within HPDCL's service area, HPDCL will immediately contact its operations personnel and escalate the issues. If an issue occurs where the utility suspects that it is outside of its territory, the utility will contact Hydro One to let them know that the HPDCL service area is out. For scheduled outages, the customers affected will be contacted at least 1 week in advance by either email, local newspaper, radio, social media, website, in-person door notice or by telephone; for a >50 customers planned outage, a combination using most of these methods is used.

For all outages, HPDCL personnel updates its social medias and attempts to give as much details as possible to its customers regarding the location, area affected and timing of the restoration of power.

✓ **Reliance on Electricity Provider**

HPDCL reliability depends greatly on the electricity provided by HONI. An outage on the HONI transmission line or distribution station results to an outage at HPDCL level. Outages on HONI feeders can also result to an outage on HPDCL level. HONI outages usually takes longer to address since the closest HONI distribution Powerline crew is at least 1 hr away from Hearst and the HONI transmission crew is located 6.5 hrs away. This is a concept that is difficult for customers to accept as their number one priority is to keep the lights on, and restore power as soon as possible, which is sometime out of the control of the utility.

✓ **Succession Planning**

The utility recognizes that finding a candidate with industry-specific competencies in smaller rural LDCs is difficult. As such, over the past year, HPDCL has put substantial effort into its succession planning, which involves training its employees on every aspect of the utility. Documenting processes have also become a priority. As a result, the utility has put together a succession plan to ensure that it is prepared for the eventuality of staff retiring or leaving.

✓ **Difficulties in providing backup staffing**

For operations, maintenance, capital projects as well as billing processes to be completed in an orderly manner and achieved customer expected performance, HPDCL must consider the risk of staff injuries or leave of absence and have backup staffing available when needed.

Since finding trained office employees, with knowledge of the smart meter billing system is practically impossible in the area, HPDCL retains a third party as a "backup" for billing purposes. This Service was retained in 2020 during the COVID-19 pandemic as a leave of absence occurred.

As for outside workers, HPDCL maintains a good relationship with retired employees and the local Hydro One powerline crew. In recent years, Retirees have been asked to complete tasks when there is insufficiently trained power linemen available or when non-work-related injuries occurred. Each time the Retirees' responses have been positive. The support of retired power linemen helps to keep the work schedule on track and budget. Also, HPDCL maintains a unique assistance agreement with Hydro One that allows work from Hydro One on the HPDCL system and HPDCL on the Hydro One system. This service agreement was used in 2020, where HPDCL completed a pole change for Hydro One to help ease the workload on the local HONI powerline crew.

6 Personnel Plan

HPDCL is facing the same challenges the electricity industry is regarding its aging demographics and infrastructure. Matching the resource capability with the work demands in the electricity sector requires planning which is what HPDCL is currently executing. Numerous contributing factors are impacting workforce planning, including a shortage of proficiently skilled labour, and increased work demands, therefore, HPDCL has opted to invest instead in its current staff members on the various aspects of running a utility.

HPDCL currently employs a General Manager, a field Superintendent/Leadhand, an administrative assistant, a billing and customer service clerk (since Oct 2014) and 3 linemen. HPDCL does not plan to hire additional staff in the foreseeable future. HPDCL must also rely on third party contractors and consultants, mainly for the smart meters management, billing expertise and software, cyber security and assistance with meeting its regulatory requirements.

HPDCL continues to review its business and operational goals against its workforce needs, its financial strength, and the impact on its customers. HPDCL recognizes the importance and value of maintaining a highly skilled and engaged workforce, where all employees are customer focused and proud to work for the utility.

7 Financial Results

HPDCL's financial performance has been irregular since its last Cost of Service application in 2015. Over the past five years, HPDCL has seen its income fluctuate from a -173,629 in 2015 to a sufficiency of \$186,546 in 2019, primarily due to specific external factors including:

- Smart meter disposal in 2015 (added \$217k in OM&A expense)
- Non-utility income in 2018 (includes a CDM performance bonus of \$82k)
- Non-utility income in 2019 (includes non-regulated work under the Affordability Fund Program, as an LDC, and as a contractor the Hydro One Northeastern Ontario area, in the amount of \$80k)

Table 8 – Reported Income

	Income/(Loss)	Sufficiency/(Deficiency)
2015	-173,629	-234,586
2016	60,568	-136
2017	49,549	-9,299
2018	116,590	76,637
2019	186,546	139,358

Table 9 – Financial Ratios from Scorecards

	Financial Ratios			
	Liquidity: Current Ratio (Current Assets/Current Liabilities)	Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio	Profitability (Approved ROE)	Regulatory Return on Equity (Achieved ROE)
2015	2.22	.40	9.19	-24.02
2016	2.14	.39	9.19	8.33
2017	2.34	.38	9.19	8.19
2018	2.38	.37	9.19	6.77
2019	2.05	.28	9.19	13.91

7.2 Important Assumptions

Load forecasting affects all aspects of the utility's future, including the distribution system's supply capacity and revenue requirements. HPDCL notes that the method in which it determines the load forecast is done in accordance with the filing requirements. That being said, the actual load can differ from the approved load forecast and create variances in revenues going forward.

Since expenses and revenues are often closely tied to the utility's customer count and load, it is important to go over the utility's historical and projected load before discussing financial results. HPDCL's is not projecting growth in any of its classes except for a small yet steady increase in the Residential. HPDCL's load and customer projections indicate that population growth is expected to remain unchanged in 2020 and 2021. The second important assumption is the stability of operating costs going forward. Table 13 below shows the utility historical operating costs and projected costs for 2021.

Table 10 - Load and Customer Forecast Table

Final Load Forecast Results								
	Year	2015 Actuals	2016 Actuals	2017 Actuals	2018 Actuals	2019 Actuals	2020 Predicted	2021 Predicted
Residential	Cust/Conn	2,261	2,257	2,257	2,253	2,255	2,250	2,250
	kWh	23,678,804	22,546,128	21,777,281	22,434,635	22,186,869	23,652,429	23,652,429
	kW							
General Service < 50 kW	Cust/Conn	453	453	450	457	462	470	478
	kWh	10,713,015	10,266,745	10,334,459	11,004,125	10,694,021	10,991,463	10,991,463
	kW							
General Service > 50 to 1499 kW	Cust/Conn	42	43	42	36	36	36	35
	kWh	25,486,582	25,437,497	24,933,472	24,388,623	24,264,710	23,398,367	23,398,367
	kW	71,584	69,687	69,073	66,209	66,925	65,172	65,172
Intermediate	Cust/Conn	2	2	2	2	2	2	2
	kWh	19,768,633	19,768,633	19,768,633	19,994,465	20,144,203	19,969,100	19,969,100
	kW	58,405	56,343	56,200	56,067	60,137	57,468	57,468
Sentinel	Cust/Conn	13	10	11	12	12	12	12
	kWh	16,557	12,863	8,920	9,452	9,452	9,598	9,724
	kW	46	36	25	26	26	27	27
Street Lighting	Cust/Conn	942	953	961	962	962	967	973
	kWh	1,031,237	565,469	448,057	448,820	448,820	451,236	453,699
	kW	3,159	2,105	1,356	1,359	1,359	1,366	1,373
Total	Cust/Conn	3,713	3,717	3,723	3,722	3,728	3,737	3,750
	kWh	80,694,828	78,597,335	77,270,822	78,280,120	77,748,075	78,472,193	78,474,783
	kW	133,194	128,171	126,654	123,660	128,447	124,032	124,040

Hearst Power Distribution Company Limited

HPDCL's 2021 Test Year operating costs are projected to be \$1,207,448 which represents an increase of \$188,224 from its 2015 Cost of Service or 18.5%. These operating costs are necessary to comply with the Distribution System Code, environmental requirements, and government direction. The increase in OM&A in 2020-2021 is attributable to an increase in Administrative Costs, which is for the most part related to an increase in Outside Services and Regulatory Costs necessary to comply with new policies and requirements (ie: Cybersecurity, customer portal, billing software, as well as legal and consultants fees). Another external factor contributing to the increase is the discontinuation of CDM and Affordability programs which in previous years, diverted distribution expenses (Labour) to tend to these activities which are recorded under "non-rate regulated" accounts.

Table 11 - Operation Costs Table

	Board Approved	2015	2016	2017	2018	2019	2020	2021
Operations	\$145,860	\$175,120	\$129,461	\$180,412	\$165,467	\$169,073	\$212,350	\$181,784
Maintenance	\$322,700	\$422,733	\$282,006	\$257,745	\$317,482	\$305,687	\$274,000	\$310,458
SubTotal	\$468,560	\$597,853	\$411,467	\$438,157	\$482,950	\$474,760	\$486,350	\$492,241
%Change (year over year)		27.6%	-31.2%	6.5%	10.2%	-1.7%	2.4%	1.2%
%Change (Test Year vs Last Rebasing Year - Actual)								5.1%
Billing and Collecting	\$282,250	\$304,232	\$287,594	\$311,125	\$289,861	\$303,101	\$320,550	\$328,564
Community Relations	\$8,000	\$15,068	\$9,089	\$6,063	\$9,048	\$3,895	\$5,000	\$5,063
Administrative and General+LEAP	\$260,414	\$298,826	\$339,676	\$337,252	\$339,857	\$319,991	\$392,950	\$381,580
SubTotal	\$550,664	\$618,126	\$636,359	\$654,440	\$638,766	\$626,987	\$718,500	\$715,206
%Change (year over year)		12.3%	2.9%	2.8%	-2.4%	-1.8%	14.6%	-0.5%
%Change (Test Year vs Last Rebasing Year - Actual)								29.9%
Total	\$1,019,224	\$1,215,979	\$1,047,826	\$1,092,597	\$1,121,716	\$1,101,747	\$1,204,850	\$1,207,448
%Change (year over year)		19.3%	-13.8%	4.3%	2.7%	-1.8%	9.4%	0.2%

7.3 Actual Return vs. Allowed Return

✓ Liquidity: Current Ratio (Current Assets/Current Liabilities)

HPDCL's current ratio has remained relatively unchanged since 2015 hovering between 2.22 (2015 to 2.05 in 2019). HPDCL's ratios are indicator of good financial health. HPDCL expects its liquidity to remain stable if not improve going forward.

✓ **Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio**

By Board policy, the utility used a deemed capital structure of 60% debt, 40% equity when establishing rates. The utility does not foresee asking for a different capital structure than the one that is established by the OEB.

✓ **Profitability: Regulatory Return on Equity – Deemed (included in current rates) and Achieved**

HPDCL's current distribution rates were approved by the OEB in 2020 and included an expected (deemed) regulatory return on equity of 9.19% established in 2015. The OEB allows a distributor to earn within +/- 3% of the expected return on equity. HPDCL has, for the most part, kept its achieved ROE within the Board Approved ROE of 9.19. Fluctuations are usually due to unexpected expenses or due to external factors. HPDCL uses financial tools to checks and ensures the utility maintains its profitability at the approved level, but since it is a small utility, even a \$10k variance in OM&A can represent near a one percentage point change in ROE, such that relatively large fluctuations in ROE are to be expected.

Table 12 - Return on Equity Table

<i>Year</i>	Profitability (Approved ROE)	Regulatory Return on Equity (Achieved ROE)
2015	9.19	-24.02
2016	9.19	8.33
2017	9.19	8.19
2018	9.19	6.77
2019	9.19	13.91

* HPDCL notes that the reason for the overearning in 2019 is as a result of 123K in Rate riders that are recorded in distribution revenues collected for the year

7.4 Profit and Loss

Outlined below, and in the following table, are some of the essential components of the projected profit and loss for HPDCL:

- ✓ Operating Revenues for 2021 are forecast to be \$1,468,674
- ✓ Costs for 2021 are predicted to be \$1,207,448
- ✓ Depreciation Expenses are forecast to be \$140,435
- ✓ Deemed Interest Expenses for \$40,232
- ✓ The net profit/loss for 2021 are forecast to be \$80,560

HPDCL anticipates that under the new management and with the new financial tracking tools in place, the utility will be able to maintain its utility income at the level approved by its regulator.

Table 13 - Profit and Loss Table

	Board Approved	Actual	Actual	Actual	Actual	Actual	Projected	Projected
WCA	2015	2015	2016	2017	2018	2019	2020	2021
Cost of Power	10,030,148	9,879,823	10,719,015	9,639,620	8,702,931	9,042,549	8,042,551	8,042,286
WCA Rate	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
	828,703	832,185	882,513	804,916	736,848	760,822		
	Board Approved	Actual	Actual	Actual	Actual	Actual	Projected	Projected
Derivation of Utility Income	2015	2015	2016	2017	2018	2019	2020	2021
Operating Revenues								
Distribution Revenues	1,058,101	1,352,864	1,124,977	1,167,290	1,210,941	1,239,660	1,176,843	1,233,292
Other Revenue	229,503	108,664	170,833	155,332	277,588	286,521	317,750	235,382
Total Operating Revenues	1,287,604	1,461,527	1,295,809	1,322,622	1,488,529	1,526,181	1,494,593	1,468,674
OM&A Expenses	1,019,224	1,215,979	1,047,826	1,092,597	1,121,716	1,101,747	1,204,850	1,207,448
Depreciation & Amortization	131,627	344,309	94,346	100,725	124,014	108,885	131,750	140,435
Property and Taxes	0	0	0	0	0	0	0	0
Total Costs & Expenses	1,150,851	1,560,288	1,142,172	1,193,322	1,245,730	1,210,633	1,336,600	1,347,883
Deemed Interest Expenses	56,761	84,011	80,946	77,091	96,081	96,081	62,515	40,232
Total Expenses	1,207,611	1,644,299	1,223,118	1,270,413	1,341,811	1,306,714	1,399,116	1,388,114
Utility Income before Income Taxes / PILs	79,992	-182,772	72,691	52,210	146,718	219,467	95,477	80,560
PILs / Income Taxes	0	-9,143	12,123	2,661	30,128	34,921	11,144	0
Adjustments for FS purposes (donations)		0	0	0	0	-2,000		
Utility Income	79,992	-173,629	60,568	49,549	116,590	186,546	84,333	80,560

7.5 Rate Base and Revenue Deficiency

Table 14 - Table of Rate Base and Revenue Deficiency

	Board Approved	Actual	Actual	Actual	Actual	Actual	Projected	Projected
	2015	2015	2016	2017	2018	2019	2020	2021
Utility Income	79,992	-173,629	-60,568	-49,549	-116,590	-186,535	84,333	80,560
Gross Fixed Assets (year end)	4,980,312	1,943,436	2,031,163	2,178,808	2,401,656	2,568,179	2,748,179	3,135,679
Accum. Depreciation	-3,632,943	-549,811	-678,650	-811,900	-909,949	-1,018,834	-1,150,584	-1,291,020
Remove Non-Distribution Assets (2180)								
Net Fixed Assets	1,347,369	1,393,625	1,352,513	1,366,908	1,491,706	1,549,344	1,597,594	1,844,659
Average Net Fixed Assets	1,347,369	1,476,223	1,373,069	1,359,710	1,429,307	1,520,525	1,573,469	1,721,127
	2,176,072	2,308,259	2,255,582	2,164,627	2,166,156	2,281,348	2,267,024	2,414,857
Utility Rate Base	2,176,071	2,308,409	2,255,582	2,164,627	2,166,156	2,281,348	2,267,024	2,414,857
Deemed Equity Portion of Rate Base	870,429	923,363	902,233	865,851	866,462	912,539	906,810	965,943
Income/(Equity Portion of Rate Base)	9.19%	-7.52%	-2.69%	-2.29%	-5.38%	-8.18%	3.72%	3.34%
Indicated Rate of Return	6.28%	-3.88%	6.27%	5.85%	9.82%	12.39%	6.48%	5.00%
Approved Rate of Return	6.28%	6.28%	6.28%	6.28%	6.28%	6.28%	6.28%	5.00%
Sufficiency / (Deficiency) in Return	0.00%	(10.16%)	(0.01%)	(0.43%)	3.54%	6.11%	0.20%	0.00%
Net Revenue Sufficiency / (Deficiency)	0	-234,586	-136	-9,299	76,637	139,358	4,480	0

1.3 APPLICATION SUMMARY

This section is devoted to defining each element of HPDCL's 2021 cost-of-service, explaining how each element is determined and explaining the relationship between the various components. The major components covered in this application summary are as follows:

- ✓ Budgeting Assumptions
- ✓ Revenue Requirement
- ✓ Rate Base and Capital Planning
- ✓ Overview of Operation Maintenance and Administrative Costs
- ✓ Load Forecast Summary
- ✓ Statement of Cost of Capital Parameters
- ✓ Overview of Cost Allocation and Rate Design
- ✓ Overview of Deferral and Variance Account Disposition
- ✓ Overview of Bill Impacts

Budgeting and Economic Assumptions

HPDCL compiles budget information for the three major components of the budgeting process: (1) revenue forecasts; (2) operating, maintenance and administration ("OM&A"); and (3) capital costs.

Revenue Forecast

The revenue forecasts are based on throughput volume and existing rates for the 2020 Bridge Year and HPDCL's proposed rates for the 2021 Test Year. The forecasted volumes have been weather normalized and consider such factors as new customer additions and load for all classes of customers. Details are presented in Section 3.1.4. of Exhibit 3.

OM&A Costs

OM&A costs presented in Exhibit 4 show HPDCL's maintenance and customer focused activity needed to meet public and employee objectives. These costs are essential in order to comply with the Distribution System Code, environmental requirements, and government direction, and

to maintain distribution service quality and reliability at targeted performance levels. OM&A costs also include providing services to customers connected to HPDCL's distribution system and meeting the requirements of the OEB's Standard Supply Code and Retail Settlement Code.

The proposed OM&A cost expenditures for the 2021 Test Year are the result of planning and work prioritization process that ensures that the most appropriate, cost effective solutions are put in place.

Capital Costs

In managing its capital assets, HPDCL's primary objectives are to optimize asset performance cost-effectively, enhance safety, protect the environment, improve operational efficiency, maintain high standards of reliability, adhere to regulation and meet customer demand. As part of the development of its Distribution System Plan, HPDCL develops capital programs on both a short and longer-term basis and prepares annual budgets and forecasts as the basis for capital investments. HPDCL's approach to managing its distribution system is comprised of the following strategy:

System Planning: add new assets and/or replace assets that are at or nearing the end of their useful life. This includes consideration for:

- ✓ Capital Investment
- ✓ Contingency Planning
- ✓ Managing and Sustaining Existing Assets.

HPDCL's approach to managing its distribution assets is described in more detail in HPDCL's Distribution System Plan.

Capital costs in Exhibit 2 have been developed with the key strategies above in mind.

Overall Budgeting Process

The capital and operating budgets are prepared annually by management and reviewed and approved by the Board of Directors. Once approved, the budget is only revised if a material

- 1 change in plan is required. In such cases, the revised budget is once again approved by the
- 2 Board of Directors.
- 3 HPDCL continues to deliver its operating and capital plans on target and on a budget.
- 4

Application Summary

The following section summarizes this Cost of Service application and how it measures against HPDCLs last Cost of Service application in 2015 Board Approved:

Table 1 – 2021 Parameters vs 2015 Board Approved Parameters

<i>Particular</i>	NEWGAAP	MIFRS	Diff
	2015	2021	
<i>Long Term Debt</i>	4.54%	2.85%	-1.69%
<i>Short Term Debt</i>	1.65%	1.75%	0.10%
<i>Return on Equity</i>	9.19%	8.34%	-0.85%
<i>Weighted Debt Rate</i>	4.35%	2.78%	-1.57%
<i>Regulated Rate of Return</i>	6.28%	5.00%	-1.28%
<i>Controllable Expenses</i>	\$1,019,224	\$1,207,448	\$188,224
<i>Power Supply Expense</i>	\$10,030,148	\$8,042,286	-\$1,987,862
<i>Total Eligible Distribution Expenses</i>	\$11,049,372	\$9,249,733	-\$1,799,638
<i>Working Capital Allowance Rate</i>	7.50%	7.50%	0.00%
<i>Total Working Capital Allowance ("WCA")</i>	\$828,703	\$693,730	-\$134,973
<i>Fixed Asset Opening Bal Bridge Year</i>	\$4,980,312	\$2,941,929	-\$2,038,383
<i>Fixed Asset Opening Bal Test Year</i>	-\$3,632,943	-\$1,220,802	\$2,412,141
<i>Average Fixed Asset</i>	\$673,684	\$860,563	\$186,879
<i>Working Capital Allowance</i>	\$828,703	\$693,730	-\$134,973
<i>Rate Base</i>	\$1,502,387	\$1,554,293	\$51,906
<i>Regulated Rate of Return</i>	6.28%	5.00%	-1.28%
<i>Regulated Return on Capital</i>	\$136,753	\$120,791	-\$15,962
<i>Deemed Interest Expense</i>	\$56,761	\$40,232	-\$16,529
<i>Deemed Return on Equity</i>	\$79,992	\$80,560	\$567
<i>OM&A</i>	\$1,019,224	\$1,207,448	\$188,224
<i>Depreciation Expense</i>	\$131,627	\$140,435	\$8,808
<i>PILs</i>	\$0	\$0	\$0
<i>Revenue Offset</i>	\$229,503	\$235,382	\$5,879
<i>Revenue Requirement</i>	\$1,058,101	\$1,233,292	\$175,191

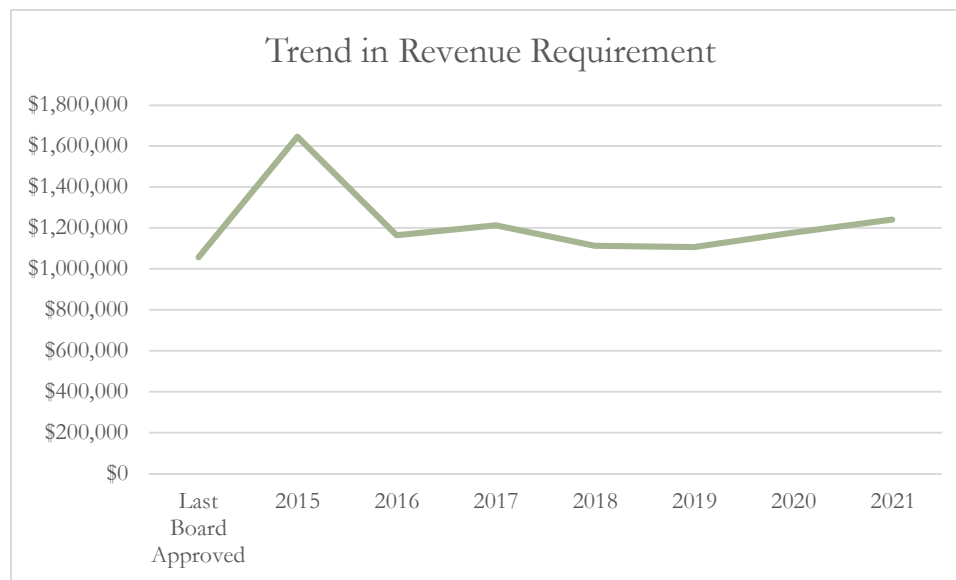
Revenue Requirement

The table below shows HPDCL's revenue requirement from the last Cost of Service in 2015 up to the proposed 2021 revenue requirement.

The proposed Revenue Requirement for the 2021 test year of \$1,233,292 reflects an increase of \$175,191 relative to the 2015 Board Approved. The increase in 2020 and 2021 is largely due to an increase in OM&A as a result of outside services hired for various regulatory requirements.

Regulatory costs are projected to be higher for 2021 due to provisions for accounting and legal assistance as well as the drafting of the Distribution System Plan by a third-party engineering firm. Year over year variances in OM&A are explained throughout Exhibit 4 and Revenue Offsets and explained in detail at Exhibit 3.

Table 2 – Trend in Revenue Requirements (2015-2021)



1

Table 3 - 2021 Proposed Revenue Requirements

Particular	Last Board Approved	2015	2016	2017	2018	2019	2020	2021
<i>OM&A Expenses</i>	\$1,019,224	\$1,215,979	\$1,047,826	\$1,092,597	\$1,121,716	\$1,101,747	\$1,204,850	\$1,207,448
<i>Depreciation Expense</i>	\$131,627	\$398,572	\$128,840	\$133,250	\$98,049	\$108,885	\$131,750	\$140,435
<i>Property Taxes (other expenses)</i>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<i>Total Distribution Expenses</i>	\$1,150,851	\$1,614,551	\$1,176,666	\$1,225,846	\$1,219,764	\$1,210,633	\$1,336,600	\$1,347,883
<i>Regulated Return On Capital</i>	\$136,753	\$149,520	\$146,108	\$140,216	\$140,315	\$147,777	\$146,849	\$120,791
<i>Grossed up PILs</i>	\$0	-\$9,143	\$12,123	\$2,661	\$30,128	\$34,921	\$11,144	\$0
Service Revenue Requirement	\$1,287,604	\$1,754,928	\$1,334,896	\$1,368,723	\$1,390,207	\$1,393,330	\$1,494,593	\$1,468,674
<i>Less: Revenue Offsets</i>	-\$229,503	-\$108,664	-\$170,833	-\$155,332	-\$277,588	-\$286,521	-\$317,750	-\$235,382
Base Revenue Requirement	\$1,058,101	\$1,646,264	\$1,164,064	\$1,213,391	\$1,112,619	\$1,106,810	\$1,176,843	\$1,233,292

2

3 Rate Base and Capital Planning

4 The proposed Rate Base for the 2021 Test Year of \$2,414,857 reflects an increase of \$238,785
5 from the 2015 Board Approved. The increase suggests a prudent and reasonable investment in
6 the distribution assets and is necessary in order to meet other regulatory requirements. Capital
7 priorities in 2021 includes the replacement of poles and transformers as they show sign of
8 deterioration. The investment in 2020 continues in 2021 and beyond with the addition of a
9 bucket truck in 2021.

10 The utility is not proposing to recover any costs from any rate class for renewable energy
11 connections/expansions, smart grid, and regional planning initiatives. The table below shows the
12 change in Rate Base from the last Cost of Service in 2015 to the proposed 2021 Cost of Service.

13

1

Table 4 - Rate Base

Particulars	Last Board Approved	2015	2016	2017	2018	2019	2020	2021
<i>Capital Assets in Service:</i>								
<i>Avg Gross Fixed Assets</i>	4,980,312	3,449,975	1,987,300	2,104,986	2,290,232	2,484,917	2,658,179	2,941,929
<i>Avg Accumulated Depreciation</i>	-	-	-	-	-	-	-	-
Average Balance	1,347,369	1,476,223	1,373,069	1,359,710	1,429,307	1,520,525	1,573,469	1,721,127
<i>Working Capital Allowance</i>	828,703	832,036	882,513	804,916	736,848	760,822	693,555	693,730
Total Rate Base	2,176,072	2,308,259	2,255,582	2,164,627	2,166,156	2,281,348	2,267,024	2,414,857

2

3

Table 5 - Working Capital Allowance

Expenses for Working Capital	Last Board Approved	2015	2016	2017	2018	2019	2020	2021
<i>3500-Distribution Expenses - Operation</i>	145,860	175,120	129,461	180,412	165,467	169,073	212,350	181,784
<i>3550-Distribution Expenses - Maintenance</i>	322,700	422,733	282,006	257,745	317,482	305,687	274,000	310,458
<i>3650-Billing and Collecting</i>	282,250	304,232	287,594	311,125	289,861	303,101	320,550	328,564
<i>3700-Community Relations</i>	8,000	15,068	9,089	6,063	9,048	3,895	5,000	5,063
<i>3800-Administrative and General Expenses</i>	260,414	296,831	339,676	337,252	339,857	319,991	392,950	381,580
<i>6105-Taxes other than Income Taxes</i>	-	-	-	-	-	-	-	-
Total Eligible Distribution Expenses	1,019,224	1,213,984	1,047,826	1,092,597	1,121,716	1,101,747	1,204,850	1,207,448
<i>3350-Power Supply Expenses</i>	10,030,148	9,879,823	10,719,015	9,639,620	8,702,931	9,042,549	8,042,551	8,042,286
Total Expenses for Working Capital	11,049,372	11,093,807	11,766,841	10,732,216	9,824,646	10,144,297	9,247,401	9,249,733
<i>Working Capital factor</i>	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Total Working Capital	828,703	832,036	882,513	804,916	736,848	760,822	693,555	693,730

4

5 HPDCL follows the best practices of the electricity distribution industry. This has included
6 adhering to the Ontario Energy Board's (OEB) Distribution System Code that sets out, among
7 others, good utility practice and performance standards for the industry in Ontario, and
8 minimum inspection requirements for distribution equipment. Over the years HPDCL has
9 replaced or upgraded equipment when necessary or economically viable. The result has been
10 that while the average age of the system has increased, the reliability of the system has
11 remained steady as to meet the expectations of HPDCL's customers.

Details of historical and projected capital expenses are summarized in the table below:

Table 6 - Capital Expenditure Summary

	2015	2015	2016	2017	2018	2019	2020	2021
<i>System Access</i>	11,000	0	0	0	0	0	0	0
<i>System Renewal</i>	81,448	142,115	51,696	123,617	95,107	105,039	135,000	115,000
<i>System Service</i>	23,625	27,396	7,124	25,201	53,537	5,094	12,500	7,500
<i>General Plant</i>	32,000	19,367	30,102	4,329	100,003	56,259	32,500	265,000
<i>Contribution</i>	\$0	\$0	-\$29,251	-\$13,751	-\$29,510	-\$13,052	-\$15,000	-\$15,000
Total Capital Expenditures	\$148,073	\$188,878	\$88,922	\$153,147	\$248,646	\$168,991	\$180,000	\$387,500

Major capital cost drivers 2015

System Renewal:

- Distribution Overhead - Replace Poles \$110,636
- Line Transformers - Replace transformer \$31,144

System Service:

- Overhead Conductors & Devices \$26,604

General Plan:

- New natural gas furnace + Building sign \$10,574
- Computer Equipment Hardware \$1,440
- Tools & Equipment - New tools \$7,353

Major capital cost drivers 2016

System Renewal:

- Distribution Overhead - Replace Poles \$69,251
- Line Transformers - Replace transformer \$9,880

System Service:

- Overhead Conductors & Devices \$8,940

General Plan:

1	- Warehouse interior renovations	\$24,635
2	- Tools & Equipment - New tools	\$5,167

3

4 **Major capital cost drivers 2017**

5 **System Access:**

6	- New Construction:	\$13,751
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7 **System Renewal:**

8	- Distribution Overhead - Replace Poles	\$96,783
9	- U/G conductors and devices	\$706
10	- Line Transformers - Replace transformer	\$26,128

11 **System Service:**

12	- Services	\$351
13	- Overhead Conductors & Devices	\$24,849

14 **General Plan:**

15	- Computer Software	\$1,116
16	- Transportation - New Bucket truck	\$1,363
17	- Tools & Equipment - New tools	\$1,850

18

19 **Major capital cost drivers 2018**

20 **System Access:**

21	- New Construction:	\$29,510
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22 **System Renewal:**

23	- Distribution Overhead - Replace Poles	\$82,842
24	- U/G conductors and devices	\$489
25	- Line Transformers - Replace transformer	\$11,776

26 **System Service:**

27	- Services	\$6,931
28	- Meters - New meters	\$24,429
29	- Overhead Conductors & Devices	\$22,176

30 **General Plan:**

1	-	Electric Vehicle Charging Stations	\$13,879
2	-	Building & Fixtures	\$2,853
3	-	Office Furniture Equipment	\$19,288
4	-	Transportation - New Pickup	\$61,484
5	-	Tools & Equipment - New tools	\$2,499

6

7 **Major capital cost drivers 2019**

8 **System Access:**

9	-	New Construction:	\$10,454
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10 **System Renewal:**

11	-	Distribution Overhead - Replace Poles	\$91,129
12	-	Line Transformers - Replace transformer	\$13,909

13 **System Service:**

14	-	Services	\$2,891
15	-	Overhead Conductors & Devices	\$4,802

16 **General Plan:**

17	-	Computer Equipment Hardware	\$7,346
18	-	Transportation - New Pickup	\$3,454
19	-	Tools & Equipment - New tools	\$5,787
20	-	Tools & Equipment – Trencher	\$23,300
21	-	Tools & Equipment - Wood chipper	\$16,372

22

23 **Major capital cost drivers 2020**

24 **System Access:**

25	-	New Construction:	\$15,000
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26 **System Renewal:**

27	-	Distribution Overhead - Replace Poles	\$110,000
28	-	Line Transformers - Replace transformer	\$25,000

29 **System Service:**

30	-	Services	\$2,500
31	-	Meters - New meters	\$5,000

1 - Overhead Conductors & Devices \$5,000

2 **General Plan:**

3 - Building & Fixtures \$25,000

4 - Office Furniture Equipment \$2,500

5 - Tools & Equipment - New tools \$5,000

6

7 **Major capital cost drivers 2021**

8 **System Access:**

9 - New Construction: \$15,000

10 **System Renewal:**

11 - Distribution Overhead - Replace Poles \$100,000

12 - Line Transformers - Replace transformer \$15,000

13 **System Service:**

14 - Services \$2,500

15 - Overhead Conductors & Devices \$5,000

16 **General Plan:**

17 - Tools & Equipment - New Bucket Truck \$265,000

18

Overview of Operation, Maintenance, and Administrative Costs

The increase of \$188,224 in OM&A spending from its 2015 (BA) Cost of Service to the 2021 Test Year can be attributed to following programs.

Table 7 - Summary OM&A Programs

<i>Programs</i>	2015 Board Approved	2021	Variance (Test Year vs. Last Rebasing Year (2015 Board- Approved))
Customer Focus			
360 Communication	8,000	2,500	-5,500
Customer Service, Mailing Costs, Billing and Collections ²	274,193	326,001	51,808
Bad Debts	14,557	13,325	-1,232
Locates	\$24,705	\$39,719	15,014
Sub-Total	321,455	381,545	60,090
Operational Effectiveness			
Meters	14,593	11,538	-3,055
Overhead lines	250,170	209,170	-41,000
Underground Lines	3,839	25,575	21,736
Operations & engineering, Inspection drafting & design construction services	7,788	19,988	12,200
Distribution Transformers	60,000	67,650	7,650
Poles Towers & Fixtures	75,000	81,600	6,600
Warehouse and garage building costs	31,368	32,800	1,432
Admin, Legal, Professional and Insurance Services ¹	120,514	127,513	6,999
- Other (Misc. Gen. Expenses, Rent)	43,697	54,783	11,086
Sub-Total	606,969	630,617	23,648
Public & Regulatory Responsiveness			
Regulatory & Compliance ¹	88,800	190,725	101,925
Community and Public Assistance	0	2,563	2,563
Sub-Total	88,800	193,288	104,488
Miscellaneous			
Special Purpose Charge as per OEB			
Donations - LEAP Funding	2,000	2,000	0
Sub-Total	2,000	2,000	0
Total	1,019,224	1,207,450	188,224

The increase from the last Board Approved resides mainly in Customer Focus related programs, which account for over 3/4 of the overall increase. Cost drivers include an increase in billing and collecting, e-billing, cybersecurity, Distribution System Plan, new software requirements, etc.

1 Operational Effectiveness and Public and Regulatory Responsiveness account for a fair portion
2 of the increase. The main driver for the increase in both these costs is inflation. Details of
3 variances and cost drivers are presented in Exhibit 4.

4 **Table 8 - Summary of Recoverable OM&A Expenses**

	Board Approved	2015	2016	2017	2018	2019	2020	2021
<i>Operations</i>	\$145,860	\$175,120	\$129,461	\$180,412	\$165,467	\$169,073	\$212,350	\$181,784
<i>Maintenance</i>	\$322,700	\$422,733	\$282,006	\$257,745	\$317,482	\$305,687	\$274,000	\$310,458
Subtotal	\$468,560	\$597,853	\$411,467	\$438,157	\$482,950	\$474,760	\$486,350	\$492,241
%Change (year over year)		27.6%	-31.2%	6.5%	10.2%	-1.7%	2.4%	1.2%
%Change (Test Year vs Last Rebasing Year - Actual)								5.1%
<i>Billing and Collecting</i>	\$282,250	\$304,232	\$287,594	\$311,125	\$289,861	\$303,101	\$320,550	\$328,564
<i>Community Relations</i>	\$8,000	\$15,068	\$9,089	\$6,063	\$9,048	\$3,895	\$5,000	\$5,063
<i>Administrative and General+LEAP</i>	\$260,414	\$298,826	\$339,676	\$337,252	\$339,857	\$319,991	\$392,950	\$381,580
Subtotal	\$550,664	\$618,126	\$636,359	\$654,440	\$638,766	\$626,987	\$718,500	\$715,206
%Change (year over year)		12.3%	2.9%	2.8%	-2.4%	-1.8%	14.6%	-0.5%
%Change (Test Year vs Last Rebasing Year - Actual)								29.9%
Total	\$1,019,224	\$1,215,979	\$1,047,826	\$1,092,597	\$1,121,716	\$1,101,747	\$1,204,850	\$1,207,448
%Change (year over year)		19.3%	-13.8%	4.3%	2.7%	-1.8%	9.4%	0.2%

5
6 The inflation factor used for historical budgeting has been 2.0%. Going forward, HPDCL plans on
7 using the Price Cap Index adjusted for its benchmarking grouping as an inflation factor. Further
8 details can be found at Exhibit 4.

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10

Load Forecast Summary

The load forecast for 2021 is based on a methodology that predicts class specific consumption using a multiple regression analysis that relates historical monthly wholesale kWh usage to monthly historical heating degree days and cooling degree days. The result of the regression analysis using the variables described below yielded an adjusted R-Square of 90%.

In HPDCL's case, variation in monthly electricity consumption is influenced by four main factors – weather (e.g. heating and cooling), which is by far the most dominant effect on most systems, the number of days per month, Spring/Fall flag and Shutdown Flag. Specifics relating to each variable used in the regression analysis are presented in the next section.

- ✓ Wholesale Purchases (main)
 - Heating Degree Days (included)
 - Cooling Degree Days (included)
 - Days per month(included)
 - Spring/Fall Flag
 - Shutdown Flag

Weather normalized values are determined by using the regression equation with a "10-year average monthly degree days (2010-2019)". The 10-year average is consistent with recent years' weather and has been used in other electricity distribution rate applications accepted by the Board.

Allocation to specific weather sensitive rate classes (Residential, GS<50, GS>50) is based on the average share of each classes' actual retail kWh (exclusive of distribution losses) of actual wholesale kWh for the 2010 to 2019 period.

The 2015 to 2021 Load Forecast is shown below and detailed explanations of the load forecast can be found in Exhibit 3.

1

Table 9 - Load Forecast

Final Load Forecast Results

	Year	2015 Actuals	2016 Actuals	2017 Actuals	2018 Actuals	2019 Actuals	2020 Predicted	2021 Predicted
Residential	Cust/Conn	2,261	2,257	2,257	2,253	2,255	2,250	2,250
	kWh	23,678,804	22,546,128	21,777,281	22,434,635	22,186,869	23,652,429	23,652,429
	kW							
General Service < 50 kW	Cust/Conn	453	453	450	457	462	470	478
	kWh	10,713,015	10,266,745	10,334,459	11,004,125	10,694,021	10,991,463	10,991,463
	kW							
General Service > 50 to 1499 kW	Cust/Conn	42	43	42	36	36	36	35
	kWh	25,486,582	25,437,497	24,933,472	24,388,623	24,264,710	23,398,367	23,398,367
	kW	71,584	69,687	69,073	66,209	66,925	65,172	65,172
Intermediate	Cust/Conn	2	2	2	2	2	2	2
	kWh	19,768,633	19,768,633	19,768,633	19,994,465	20,144,203	19,969,100	19,969,100
	kW	58,405	56,343	56,200	56,067	60,137	57,468	57,468
Sentinel	Cust/Conn	13	10	11	12	12	12	12
	kWh	16,557	12,863	8,920	9,452	9,452	9,598	9,724
	kW	46	36	25	26	26	27	27
Street Lighting	Cust/Conn	942	953	961	962	962	967	973
	kWh	1,031,237	565,469	448,057	448,820	448,820	451,236	453,699
	kW	3,159	2,105	1,356	1,359	1,359	1,366	1,373
Total	Cust/Conn	3,713	3,717	3,723	3,722	3,728	3,737	3,750
	kWh	80,694,828	78,597,335	77,270,822	78,280,120	77,748,075	78,472,193	78,474,783
	kW	133,194	128,171	126,654	123,660	128,447	124,032	124,040

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Statement of Cost of Capital Parameters

In this application, HPDCL seeks to recover a weighted average cost of capital of 5.00% through rates in the 2021 Test Year. HPDCL has followed the Report of the Board on Cost of Capital for Ontario's Regulated Utilities, December 11, 2009, as well as the Review of the Existing Methodology of the Cost of Capital for Ontario's Regulated Utilities, January 14, 2016, in determining the applicable cost of capital.

In calculating the applicable cost of capital, HPDCL has used the OEB's deemed capital structure of 56% long-term debt, 4% short-term debt, and 40% equity, in conjunction with the Cost of Capital parameters in the OEB's letter of November 9, 2020, for the allowed return on equity ("ROE"). HPDCL is not seeking any changes in its Capital Structure from its 2015 Board Approved Structure.

Table 10 - Overview of Capital Structure

<i>Particulars</i>	<i>Cost Rate</i>		<i>Return</i>	
	(%)	(\$)	(%)	(\$)
<i>Debt</i>				
<i>Long-term Debt</i>	56.00%	\$1,352,320	2.85%	\$38,541
<i>Short-term Debt</i>	4.00%	\$96,594	1.75%	\$1,690
<i>Total Debt</i>	60.0%	\$1,448,914	2.78%	\$40,232
<i>Equity</i>				
<i>Common Equity</i>	40.00%	\$965,943	8.34%	\$80,560
<i>Preferred Shares</i>		\$ -		\$ -
<i>Total Equity</i>	40.0%	\$965,943	8.34%	\$80,560
	100.0%	\$2,414,857	5.00%	\$120,742

*2021 Rate Base

HPDCL commits to updating its Cost of Capital forecast in accordance with applicable OEB updates to the Board's cost of capital parameters.

Overview of Cost Allocation and Rate Design

The main objectives of a Cost Allocation study are to provide information on any apparent cross-subsidization among a distributor's rate.

HPDCL has prepared and is filing a cost allocation information filing consistent with the utility's understanding of the Directions, the Guidelines, the Model and the Instructions issued by the Board back in November of 2006 and all subsequent updates.

HPDCL has prepared a Cost Allocation Study for 2021 based on an allocation of the 2021 test year costs (i.e., the 2021 forecast revenue requirement) to the various customer classes using allocators that are based on the forecast class loads (kW and kWh) by class, customer counts, etc.

HPDCL has used the most recent Board-approved Cost Allocation Model and followed the instructions and guidelines issued by the Board to enter the 2021 data into this model.

After the initial cost allocation exercise two of the classes' revenue to cost ratios fell outside the Board's acceptable range of ratios for those classes. For those two classes, the utility proposes reallocation of revenues to reduce the impact on the bills. The table below shows the utility's proposed Revenue to Cost reallocation based on an analysis of the proposed results from the Cost Allocation Study vs. the Board imposed floor and ceiling ranges. Further details on Cost Allocation can be found in Exhibit 7.

Table 11 - Proposed Allocation

Customer Class Name	Calculated R/C Ratio	Proposed R/C Ratio	Variance	Target Range	
				Floor	Ceiling
<i>Residential</i>	0.9696	0.9842	0.01	0.85	1.15
<i>General Service < 50 kW</i>	1.0027	1.0026	0.00	0.80	1.20
<i>General Service > 50 to 4999 kW</i>	1.1512	1.1512	-0.00	0.80	1.20
<i>Intermediate</i>	0.8136	0.8136	-0.19	0.80	1.20
<i>Sentinel</i>	0.6726	0.7991	-0.13	0.80	1.20
<i>Street Lighting</i>	1.4611	1.1993	0.26	0.80	1.20

In mid-year 2015, OEB introduced a new policy for all-fixed distribution rates for residential customers. HPDCL has completed its transition to fully fixed rates.

For all other classes, distribution revenues are derived from a combination of fixed monthly charges and volumetric charges based either on consumption (kWh) or demand (kW).

Commodity Charges and deferral and variance rate riders, along with HPDCL specific other adders are added to the distribution rates to arrive at a final all-encompassing bill.

The table below shows HPDCLs existing rates in comparison to the 2021 proposed rates. As can be seen, the fixed charge for the Residential class is increasing while the variable charge is decreasing. Details can be found in Exhibit 8.

Table 12 - Proposed Rates

Customer Class Name	Proposed Fixed Charge			Resulting Variable		
	Fixed Rate	Fixed %	Variable %	Variable	Rate	per
<i>Residential</i>	\$28.93	100.00%	0.00%	0	\$0.0000	kWh
<i>General Service < 50 kW</i>	\$22.32	60.16%	39.84%	83,365	\$0.0076	kWh
<i>General Service > 50 to 4999 kW</i>	\$60.95	19.90%	80.10%	135,161	\$2.0739	kW
<i>Intermediate</i>	\$236.69	9.79%	90.21%	77,107	\$1.3417	kW
<i>Sentinel</i>	\$11.44	83.48%	16.52%	331	\$12.2368	kW
<i>Street Lighting</i>	\$4.41	93.85%	6.15%	3,358	\$2.4450	kW

Overview of Deferral and Variance Account Disposition

HPDCL proposes to dispose of a debit of \$38,208 related to Group 1 (excluding 1589) and a credit of \$36,299 for Group 2 Variance/Deferral Accounts. The balances in Group 1 and Group 2 balances are as of December 1, 2019 and are consistent with the utility's audited financial statements with the exception of 1568 which has been calculated in the process of this application.

A net debit balance of \$52,916 recorded in account 1568 being the Lost Revenue Adjustment Mechanism Variance Account.

Group 1 and Group 2 DVA balances are proposed to be disposed of over 1 years.

HPDCL confirms that it has followed the OEB's guidance as provided in the OEB's Electricity Distributor's Disposition of Variance Accounts Reporting Requirements Report.

Table 13 - Account and Balances sought for disposition/recovery

		Amounts from Sheet 2	Allocator
LV Variance Account	1550	92,382	kWh
Smart Metering Entity Charge Variance Account	1551	(320)	# of Customers
RSVA - Wholesale Market Service Charge	1580	2,964	kWh
RSVA - Retail Transmission Network Charge	1584	(15,978)	kWh
RSVA - Retail Transmission Connection Charge	1586	(19,959)	kWh
RSVA - Power (excluding Global Adjustment)	1588	(20,880)	kWh
RSVA - Global Adjustment	1589	(5,388)	Non-RPP kWh
Disposition and Recovery/Refund of Regulatory Balances (2014)	1595	0	%
Disposition and Recovery/Refund of Regulatory Balances (2015)	1595	0	%
Disposition and Recovery/Refund of Regulatory Balances (2016)	1595	0	%
Disposition and Recovery/Refund of Regulatory Balances (2017)	1595	0	%
Disposition and Recovery/Refund of Regulatory Balances (2018)	1595	0	%
Disposition and Recovery/Refund of Regulatory Balances (2019)	1595	0	%
Total of Group 1 Accounts (excluding 1589)		38,208	
Other Regulatory Assets - Sub-Account - Deferred IFRS Transition Costs	1508	194	kWh
Pole Attachment Revenue Variance	1508	(41,323)	Distribution Rev.
Retail Service Charge Incremental Revenue	1508	0	kWh
Other Regulatory Assets - Sub-Account - Other	1508	0	kWh
Retail Cost Variance Account - Retail	1518	4,826	kWh
Pension & OPEB Forecast Accrual versus Actual Cash Payment Differential	1522	0	kWh
Carrying Charges			
Misc. Deferred Debits	1525	4	kWh

<i>Retail Cost Variance Account - STR</i>	1548	0	kWh
<i>Extra-Ordinary Event Costs</i>	1572	0	kWh
<i>Deferred Rate Impact Amounts</i>	1574	0	kWh
<i>RSVA - One-time</i>	1582	0	kWh
<i>Other Deferred Credits</i>	2425	0	kWh
Total of Group 2 Accounts		(36,299)	
<i>PILs and Tax Variance for 2006 and Subsequent Years (excludes sub-account and contra account)</i>	1592	0	kWh
<i>PILs and Tax Variance for 2006 and Subsequent Years- Sub-account CCA Changes</i>	1592	0	kWh
Total of Account 1592		0	
LRAM Variance Account (Enter dollar amount for each class)	1568	52,916	
<i>Renewable Generation Connection OM&A Deferral Account</i>	1532	0	kWh
<i>Smart Meter Capital and Recovery Offset Variance - Sub-Account - Stranded Meter Costs</i>	1555	(1,092)	kWh
Total of Group 1 Accounts (1550, 1551, 1584, 1586 and 1595)		56,125	
Total of Account 1580 and 1588 (not allocated to WMPs)		(17,917)	
Account 1589 (allocated to Non-WMPs)		2,432	
Group 2 Accounts (including 1592, 1532, 1555)		(37,391)	
<i>IFRS-CGAAP Transition PP&E Amounts Balance + Return Component</i>	1575	0	kWh
<i>Accounting Changes Under CGAAP Balance + Return Component</i>	1576	0	kWh
Total of Accounts 1575 and 1576		0	

1

2

1 Overview of Bill Impacts

2 A summary of the bill impacts by class is presented below. Detailed explanations of the bill
3 impacts are presented in Exhibit 8.

4 The only class which fell outside of the 10% threshold is the Sentinel class. HPDCL commits to
5 exploring, during settlement, adjustments to revenue/costs ratios and fixed to variable.

6 HPDCL confirms that it has abided by Board Policy on all aspects of rate design and has also
7 explored various scenarios with respect to the disposition of deferral and variance account and
8 other rate riders

9

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Table 14 - Bill Impacts associated with Revenue Requirement

<i>RATE CLASSES / CATEGORIES</i> <i>(e.g.: Residential TOU, Residential Retailer)</i>	Units	Sub-Total						Total	
		A		B		C		Total Bill	
		\$	%	\$	%	\$	%	\$	%
<i>RESIDENTIAL SERVICE CLASSIFICATION - RPP</i>	KWhs	\$5.22	21.1%	\$6.10	19.7%	\$5.74	14.1%	\$4.69	4.1%
<i>GENERAL SERVICE LESS THAN 50 KW SERVICE CLASSIFICATION - RPP</i>	KWhs	\$4.90	15.0%	\$9.65	20.1%	\$8.88	12.4%	\$7.29	2.7%
<i>GENERAL SERVICE 50 TO 1,499 KW SERVICE CLASSIFICATION - Non-RPP (Other)</i>	Kw	\$17.33	10.3%	-\$42.92	-15.6%	-\$56.08	-10.2%	\$95.89	0.7%
<i>INTERMEDIATE USER SERVICE CLASSIFICATION - Non-RPP (Other)</i>	Kw	\$125.30	8.6%	\$353.50	15.5%	\$102.30	1.4%	\$1,548.99	1.2%
<i>SENTINEL LIGHTING SERVICE CLASSIFICATION - Non-RPP (Other)</i>	Kw	\$10.72	43.9%	\$7.73	30.5%	\$7.56	26.2%	\$6.14	20.8%
<i>STREET LIGHTING SERVICE CLASSIFICATION - Non-RPP (Other)</i>	Kw	-\$439.44	-8.9%	-\$1,936.18	-38.3%	-\$1,954.68	-35.9%	-\$2,151.45	-19.6%
<i>RESIDENTIAL SERVICE CLASSIFICATION - Non-RPP (Retailer)</i>	KWhs	\$5.22	21.1%	\$5.49	17.8%	\$5.13	12.7%	\$4.20	4.1%

2

3 The impact is further adjusted by overall credit/debit rate riders to dispose of the balances that
4 have accumulated in certain variance accounts. Decreases in rates for retail transmission service
5 and wholesale market service also contribute to reducing the utility's distribution rates further.

1.4 ADMINISTRATIVE

1.4.1 CONTACT INFORMATION

Application contact information is as follows:

Applicants Name: Hearst Power Distribution Company Ltd.

Applicants Address: Hearst Power Distribution Company Limited

Postal Bag 5000 – 925 Alexandra Street

Hearst (Ontario) – P0L 1N0

Telephone : (705) 372-2815

Fax : (705) 362-5902

HPDCL's Contact Info. Jessy Richard

General Manager

Telephone: (705) 372-2815

jrichard@hearstpower.com

HPDCL Counsel: Michael Buonaguro

Email: Michael Buonaguro <mrb@mrb-law.com>

Phone: 416-767-1666

Social Media: Facebook : <https://www.facebook.com/Hearst-Power-Distribution-Corporation-de-distribution-%C3%A9lectrique-de-Hearst-2017471381624419/>

1 1.4.2 CONFIRMATION OF INTERNET ADDRESS

- 2 The application is posted on HPDCL's website address at www.hearstpower.com, and a message
3 to that effect was posed on the utility's website, Facebook page and Twitter site.

1.4.3 STATEMENT OF PUBLICATION

Upon receiving the Letter of Direction and the Notice of Application and Hearing from the Board, the OEB will arrange to have the Notice of Application and Hearing for this proceeding published in the following local community newspaper which has the highest circulation in its service area.

- “Journal Le Nord” which is the only local newspaper available. HPDCL also publishes all notices related to this Application on its website. www.hearstpower.com

Once the Notice of Application and Hearing has been published in the above listed newspapers, HPDCL will file an Affidavit of Publication.

1.4.4 LEGAL APPLICATION

**In the matter of; the Ontario Energy Board Act, 1998; S.O. 1998,
c.15, Schedule B, as amended; and in the matter of; an
Application by Hearst Power Distribution Company Limited for
an Order or Orders approving or fixing just and reasonable
distribution rates effective May 1, 2021.**

HPDCL is a fully licensed distributor of electricity under distribution license ED-2002-0533 issued by the Ontario Energy Board (the "OEB" or the "Board") under the Ontario Energy Board Act, 1998 (the "Act").

HPDCL hereby applies to the Board pursuant to section 78 of the Act for an Order or Orders approving or fixing just and reasonable distribution rates effective May 1, 2021.

This Application is made in accordance with the Board's Chapter 2 of the Board's Filing Requirements for Transmission and Distribution Applications dated May 14, 2020 and Chapter 2 of the Board's Filing Requirements for Transmission and Distribution Applications dated May 14, 2020 wherever possible. HPDCL accordingly applies to the Board for the following Order or Orders:

- 1) Approval to charge distribution rates effective May 1, 2021 to recover a base revenue requirement of \$1,233,292 which includes a revenue deficiency of \$160,126 using the Service Revenue Requirement as detailed in Exhibit 6. The schedule of proposed rates is set out in Exhibit 8.
- 2) Approval of the Distribution System Plan as outlined in Exhibit 2 Section 2.5.2.
- 3) Approval to adjust the Retail Transmission Rates – Network and Connection as detailed in Exhibit 8.
- 4) Approval of the proposed loss factors as detailed in Exhibit 8.
- 5) Approval to continue to charge Wholesale Market and Rural Rate Protection Charges as approved by the OEB.
- 6) Approval of the rate riders for a two-year disposition of the Group 1 and Group 2 and Other Deferral and Variance Accounts as detailed in Exhibit 9.

7) Approval to dispose of balances in the LRAM variance account as presented in Exhibit 9.

8) Such other approvals that HPDCL may request and that the OEB accepts.

A full list of approvals is presented in PDF format at Appendix G of this Exhibit.

Certification of accuracy and completeness of application:

HPDCL hereby certifies that the application has been reviewed and approved by the General Manager and Board of Directors. Board of Directors, who have been kept informed throughout the preparation of the budget and application, have passed a resolution approving the application. HPDCL and confirms that the information and evidence presented herein is accurate to the best of HPDCL's knowledge.

Confidential Information:

HPDCL confirms that the application does not include any confidential information.

Align rate year with fiscal year:

HPDCL is not proposing to align its rate year with its fiscal year in this proceeding. Therefore, no further adjustments are required in that respect. HPDCL notes that it has no special conditions in its license.

1.4.5 BILL IMPACTS

The 2021 distribution rates proposed by HPDCL will result in the following bill impacts.

RATE CLASSES / CATEGORIES (eg: Residential TOU, Residential Retailer)	Units	Sub-Total						Total	
		A		B		C		Total Bill	
		\$	%	\$	%	\$	%	\$	%
RESIDENTIAL SERVICE CLASSIFICATION - RPP	KWhs	\$5.22	21.1%	\$6.10	19.7%	\$5.74	14.1%	\$4.69	4.1%
GENERAL SERVICE LESS THAN 50 KW SERVICE CLASSIFICATION - RPP	KWhs	\$4.90	15.0%	\$9.65	20.1%	\$8.88	12.4%	\$7.29	2.7%
GENERAL SERVICE 50 TO 1,499 KW SERVICE CLASSIFICATION - Non-RPP (Other)	Kw	\$17.33	10.3%	-\$42.92	-15.6%	-\$56.08	-10.2%	\$95.89	0.7%
INTERMEDIATE USER SERVICE CLASSIFICATION - Non-RPP (Other)	Kw	\$125.30	8.6%	\$353.50	15.5%	\$102.30	1.4%	\$1,548.99	1.2%
SENTINEL LIGHTING SERVICE CLASSIFICATION - Non-RPP (Other)	Kw	\$10.72	43.9%	\$7.73	30.5%	\$7.56	26.2%	\$6.14	20.8%
STREET LIGHTING SERVICE CLASSIFICATION - Non-RPP (Other)	Kw	-\$439.44	-8.9%	-\$1,936.18	-38.3%	-\$1,954.68	-35.9%	-\$2,151.45	-19.6%
RESIDENTIAL SERVICE CLASSIFICATION - Non-RPP (Retailer)	KWhs	\$5.22	21.1%	\$5.49	17.8%	\$5.13	12.7%	\$4.20	4.1%

Residential customers using 750kWh per month will see an increase of \$5.22 or 21.11% increase on Distribution Charges. The increase for the total bill is \$4.69 or 4.14%

GS<50 customers using 2000kWh per month will see an increase of \$4.90 or 15.02% increase on Distribution Charges. The increase for the total bill is \$7.29 or 2.7%

GS 50-1,499kWh using 100,000 or 60kW per month will see an increase of \$17.33 or 10.31% increase on Distribution Charges. This increase is offset by the disposal of variance account balances resulting in overall bill reduction of \$95.89 or 0.68%.

The Intermediate class using 900,000 kWh or 1000 kW per month will see an increase of \$125.30 or 8.62% increase on Distribution Charges. The increase for the total bill is \$1,549 or 1.20%.

Sentinel customers using 63kWh or 1kW per month will see an increase of \$10.72 or 43.92% increase on Distribution Charges. The increase for the total bill is \$6.14 or 20.83%

Street Lighting customers using 36,000kWh or 111kW per month will see a decrease of -\$439.44 or -8.88% increase on Distribution Charges. The increase for the total bill is -\$2,151 or -19.6%

A full list of the bill impacts applicable to all customer classes is found in Exhibit 8, Section 8.1.15 of this application. All HPDCL's customers will be affected by this application. 1.4.6 Statement as to the Form of Hearing Requested

This Application is supported by written evidence. The written evidence will be pre-filed and may be amended from time to time, prior to the Board's final decision on the Application.

HPDCL requests that pursuant to Section 34.01 of the Board's Rules of Practice and Procedure, this proceeding be conducted by way of written hearing in an effort to minimize costs but understands that if certain issues remain unsettled post settlement, the utility may be asked to participate in an oral hearing.

HPDCL notes that the methodology used to determine rates is mandated by the OEB and has not fundamentally changed from its last Cost of Service application in 2015.

1.4.7 PROPOSED ISSUES LIST

In establishing the overall appropriateness of the proposed rates, HPDCL anticipates that the following issues will be addressed by the Board and interveners.

Planning

Capital

Is the level of planned capital expenditures appropriate and is the rationale for planning and pacing choices appropriately and adequately explained, giving due consideration to:

- ✓ customer feedback and preferences
- ✓ productivity
- ✓ benchmarking of costs
- ✓ reliability and service quality
- ✓ impact on distribution rates
- ✓ trade-offs with OM&A spending
- ✓ government-mandated obligations, and
- ✓ the objectives of the Applicant and its customers.

OM&A

Is the level of planned OM&A expenditures appropriate and is the rationale for planning choices appropriate and adequately explained, giving due consideration to:

- ✓ customer feedback and preferences
- ✓ productivity
- ✓ benchmarking of costs
- ✓ reliability and service quality
- ✓ impact on distribution rates
- ✓ trade-offs with capital spending
- ✓ government-mandated obligations, and
- ✓ the objectives of the Applicant and its customers.

Revenue Requirement

- ✓ Are all elements of the Revenue Requirement reasonable, and have they been appropriately determined in accordance with OEB policies and practices?
- ✓ Has the Revenue Requirement been accurately determined based on these elements?

Load Forecast, Cost Allocation, and Rate Design

- ✓ Are the proposed load and customer forecast, loss factors, CDM adjustments and resulting billing determinants appropriate, and, to the extent applicable, are they an appropriate reflection of the number and energy and demand requirements of the applicant's customers?
- ✓ Are the proposed cost allocation methodology, allocations, and revenue-to-cost ratios appropriate?
- ✓ Are the applicant's proposals, including the proposed fixed/variable splits, for rate design appropriate?

Are the proposed Retail Transmission Service Rates and Low Voltage Service Rates appropriate?

Accounting

- ✓ Have all impacts of any changes in accounting standards, policies, estimates and adjustments been properly identified and recorded, and is the rate-making treatment of each of these impacts appropriate?
- ✓ Are the applicant's proposals for deferral and variance accounts, including the balances in the existing accounts and their disposition, and the continuation of existing accounts appropriate?

1.4.8 STATEMENT OF DEVIATION OF FILING REQUIREMENTS

Except where specifically identified in the Application, HPDCL followed Chapter 2 of the OEB's "Filing Requirements for Electricity Transmission and Distribution Applications," dated May 14, 2020 (the "Filing Requirements") as well as the Addendum to Filing Requirements For Electricity Distribution Rate Applications - 2021 Rate Applications - Issued: May 14, 2020 in order to prepare this application. The Excel version of the complete Cost of Service checklist is being filed in conjunction with this application.

1.4.9 CHANGES IN METHODOLOGIES

The projections for the 2021 Test Year were prepared in accordance with HPDCL's budget process as described in Section 1.5 of this Exhibit. All processes are in compliance with policies, directives and rules and guidelines from the Ontario Energy Board and other regulators.

1.4.10 BOARD DIRECTIVE FROM PREVIOUS DECISIONS

At the date of this submission, HPDCL is not aware of any Board Directives from any previous Board Decisions and/or Orders that require addressing in this Application.

1 1.4.11 CONDITIONS OF SERVICE

2 The utility's most recent Conditions of Service are accessible on the utility's website at
3 <http://www.hearstpower.ca>. HPDCL confirms that that the conditions of service do not purport
4 to establish any charges that are not approved as part of the posted tariff sheet Conditions of
5 Service but that the tariff sheet is posted on the utility's website.

1.4.12 ACCOUNTING STANDARDS FOR REGULATORY AND FINANCIAL REPORTING

Information presented in the application

In compliance with the filing requirements, HPDCL has used 6 months of actuals and 6 months of projections in determining its 2020 bridge year. The historical years presented in this application have been audited. The following information is being filed as part of this application

Capital Spending

- 2015-2019 Audited balances
- 2020 six months actuals and six months projections
- 2021 Budgeted balances

Operating Expenses

- 2015-2019 Audited balances
- 2020 six months actuals and six months projections
- 2021 Budgeted balances

Other Revenues

- 2015-2019 Audited balances
- 2020 six months actuals and six months projections
- 2021 Budgeted balances

10 Year Load Forecast

- 2010-2019 Actuals
- 2020-2021 Forecasted using regression analysis

RTSR

- 2019 Actuals (due to the availability of UTR rates)

Accounting Standard used in Application

HPDCL confirms that it made the required changes to its depreciation rates in 2013. HPDCL adopted MIFRS in January of 2015. The details with respect to these changes are provided in Exhibit 2 and Exhibit 4. Details with respect to the new useful lives applied to capital assets and the resulting impact on depreciation are shown in Exhibit 4.

In accordance with the Filing Requirements, HPDCL has provided information for the historical, bridge and test years using modified MIFRS.

Changes in Tax Status:

HPDCL is a corporation incorporated pursuant to the Ontario Business Corporations Act and has not had a change in tax status since its last Cost of Service Application.

Existing/Proposed Accounting Orders

The Accounting Standard Board ("AcSB") adopted MIFRS for qualifying rate-regulated entities on January 1, 2015. In accordance with a Board's letter of July 17, 2013, electricity distributors electing to remain on CGAAP were required to implement regulatory accounting changes for depreciation expenses and capitalization policies by January 1, 2013.

HPDCL confirms it implemented the regulatory accounting changes for depreciation in 2013.

The herein 2021 Cost of Service Application is being filed based on the MIFRS accounting basis.

1 Employee Pension and Benefits.

2 HPDCL has Employee Future Benefits ("EFB") and as such, has recorded costs in OM&A in USoA
3 5645 during each year. The utility then redistributes this amount based on ratio percentages
4 across the accounts where the labor expenses occur during the year. The topic is discussed
5 further in Exhibit 4.

6 Compliance with the Uniform System of Accounts

7 HPDCL strives to follow the accounting principles and main categories of accounts as stated in
8 the OEB's Accounting Procedures Handbook (the "APH") and the Uniform System of Accounts
9 ("USoA") in the preparation of this Application.

10 The useful lives proposed by HPDCL in this Application are consistent with the typical useful
11 lives in the Kinectrics Report commissioned by the OEB dated July 8, 2010. HPDCL's accounting
12 methodology change in this regard took effect in 2013 pursuant to Board policy.

13 HPDCL has never capitalized administration and other general administrative overhead costs,
14 which is, in any event, no longer permitted under MIFRS.

15 HPDCL has also adopted the various account changes prescribed by the Board in relation to the
16 USoA (Article 210 – Chart of Accounts and Account 220 – Account Descriptions). Consistent with
17 recent applications to the Board, HPDCL no longer includes PST in its OM&A cost estimates.
18 Regulatory costs for 2021 have been normalized by allocating one fifth of those costs to the
19 2021 Test Year.

20 Monthly Billing

21 HPDCL confirms that all its customers are billed on a monthly basis..

22

23 Implementation of New Accounting Guidance for 1588/1589

- 1 • Upon review of the new accounting guidance related to accounts 1588 and 1589 – Feb
2 21, 2019, HPDCL, along with its accountants/auditors, confirm that to the best of its
3 knowledge, it complies with the new policies that have come in effect on August 31,
4 2019 as well as the guidance from the May 23 letter. HPDCL does not report any
5 adjustments as it uses actual numbers for accounts 1588 and 1589. Further details
6 regarding the accounting process as it relates to 1588/1589 and Global Adjustment is
7 found in Exhibit 9.
- 8 • HPDCL confirms that it has gone back to January 1st 2017 and applied the new guidance
9 retroactively.

10

1.4.13 ACCOUNTING TREATMENT OF NON-UTILITY RELATED BUSINESS

Up until the new government and OEB guidance related to Conservation and Demand Side Management initiatives, HPDCL was engaged in the delivery of the Independent Electricity System Operator's ("IESO") (previously the Ontario Power Authority) conservation and demand management programs. The accounting for these activities has been segregated from HPDCL's rate regulated activities in accordance with the Board's Accounting Procedures Handbook for Electricity Distributors. HPDCL also engages in non-utility related business through its affiliate/shareholder company. Further details on corporate cost allocation are presented in Exhibit 4.

HPDCL confirm that the accounting treatment for non-utility related businesses is segregated from its rate-regulated activities.

HPDCL does not own generation facilities.

HPDCL provides non-utility services on different distinct sectors which are:

- "Water – maintenance, customer service and billing"
- "Street Lighting services"
- "Conservative Demand Management and other energy savings programs including the "Affordability Fund Program"
- Other small misc. work (ex: MicroFit solar panels repairs)

1.4.14 APPLICANT OVERVIEW AND OPERATING ENVIRONMENT

HPDCL's service area is an embedded utility almost completely contained within the municipal boundaries of the Town of Hearst. The area is embedded within the Hydro One Networks Inc.

HPDC receives power from Hydro One Networks Inc. ("Hydro One") and the IESO. HPDC delivers power to its 2,850 customers via three feeders from a high voltage transformer station, which is owned by Hydro One. The utility covers an area of 93 square km and maintains 57 km of overhead lines and 11 km of underground lines. The distributor does not have any transmission or high voltage assets deemed by the Board as distribution assets and as such is not seeking approvals from the Board in that regards.

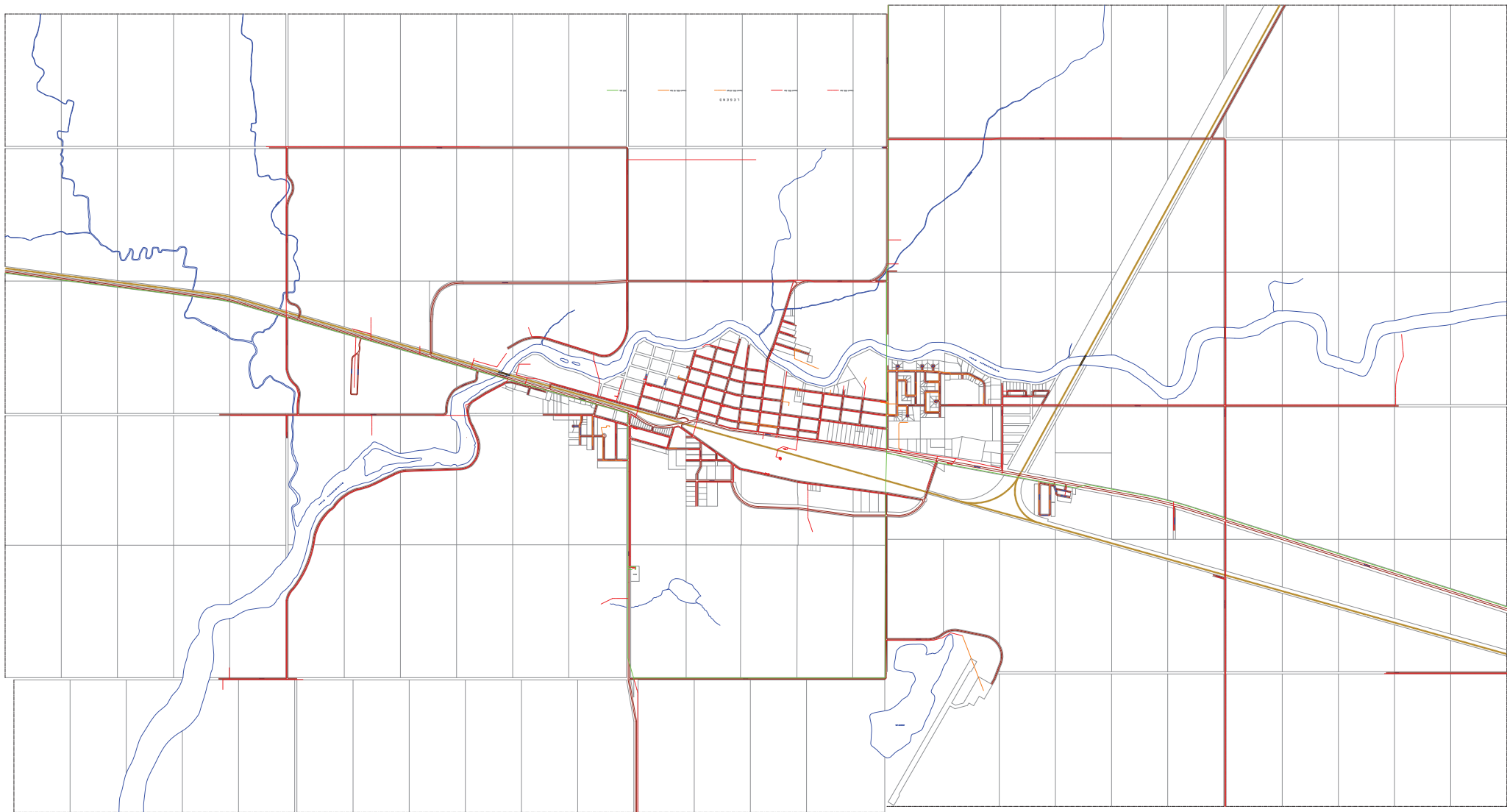
HPDCL's last Cost of Service application was for rates effective May 1, 2015. The map at the next page shows the utility's service area.

HPDC is incorporated under the Ontario Business Corporations Act and is 100% owned by the Town of Hearst. HPDC is managed by a Board of Directors appointed by the Town of Hearst. HPDCL has 7 employees; a General Manager, an Administrative Assistant and a customer service & billing clerk in the office, a Lead Hand, two linemen and a utility person to oversee the outside plant.

HPDC expects the status quo for the business conditions over the planning horizon of this report; no growth and no decline. There are no known expansion plans for industrial, commercial, or residential segments of the economy nor are there any known planned closures in the industrial or commercial segments of the economy. The primary business in the area is the production of forest products. This involves timber cutting, hauling, processing, and shipping to market as well as reforestation. The lack of change in the economy means that there is no growth-based capital work proposed by HPDC.

1
2

Table 15 - Map of Service Area



1.4.15 CORPORATE ORGANIZATION

HPDC currently employs 7 employees, including:

- A General Manager;
- A field Superintendent/Leadhand
- An administrative assistant
- A billing and customer service clerk
- 3 linemen

The above relationships are shown in the Utility Organization Chart at the next page.

The General Manager is responsible for all internal and external financial activities of the company including liaison with banks and other financial institutions; providing financial reports to its Shareholder; development of budgets and tracking the company's progress towards achieving approved financial targets and capital investments. He is the liaison with regulatory bodies including the OEB; accountants, purchasing and stores; Canada Revenue Agency, IESO and Hydro One, as well as conservation and demand management. The General Manager also oversees the operation of the distribution system, customer service, billing and metering. The General Manager is also responsible for providing human resource support including salary and benefit services; maintaining effective communications throughout the company; and ensuring that operations and office staff have access to the highest quality information and training to allow them to perform their work safely and efficiently.

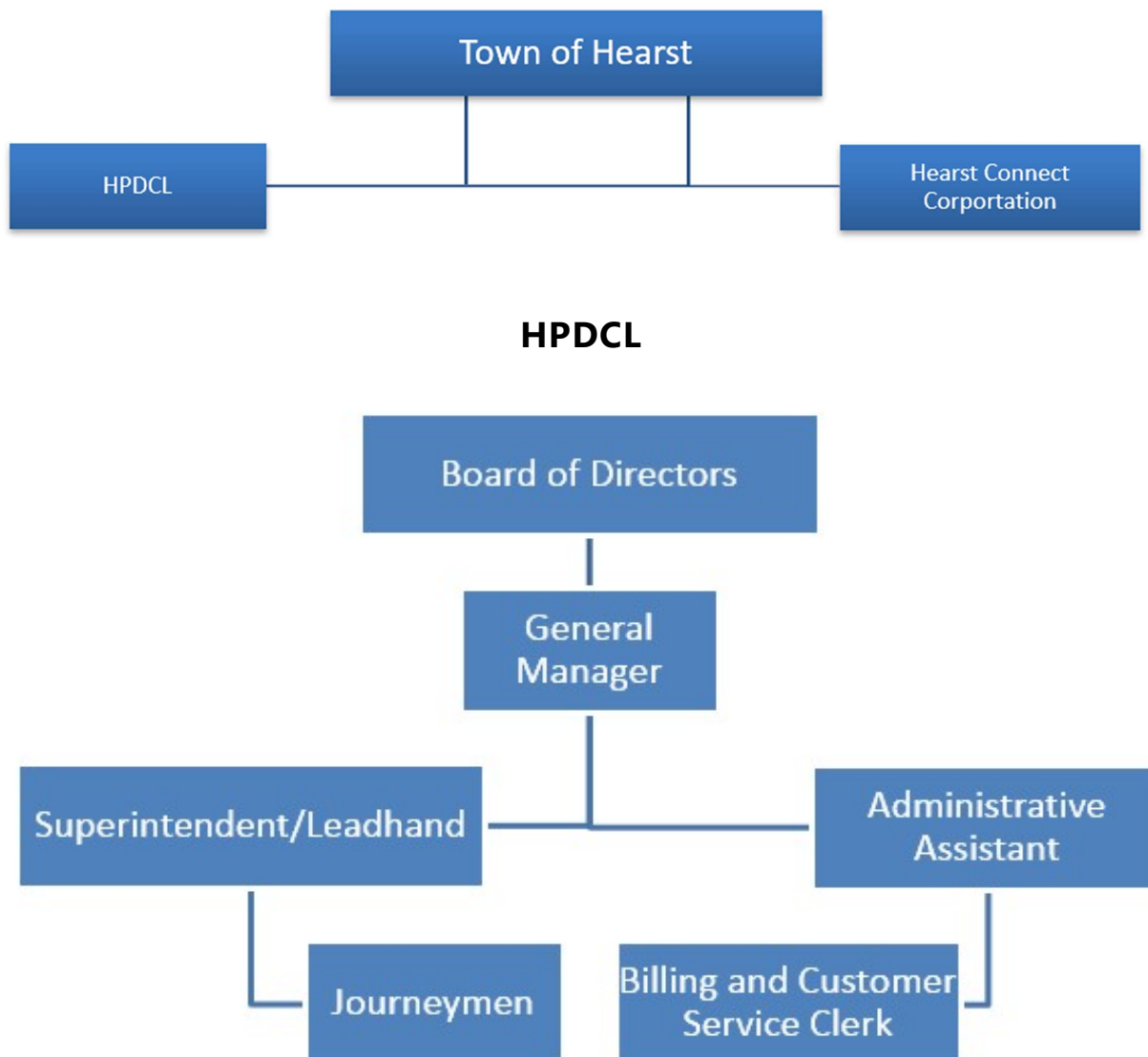
The field Superintendent/Leadhand, is responsible for ensuring that employees, contractors and public remain safe when interfacing with the distribution system; ensuring the reliable operation – including maintenance and repair – of the distribution system and general plant; and ensuring that customer requests for electricity service are provided promptly and according to code.

The Assistant Administrator is responsible for metering, bookkeeping, customer billing as well as many other financial and administrative tasks to support the General Manager.

The billing and customer service clerk is responsible for customer support, data entry and billing support.

The utility's main affiliate is its shareholder, the Town of Hearst. The utility also has a Telecom affiliate owned by the Town of Hearst, where HPDCL provide pole attachment services.

Table 16 - Organizational and Corporate Structure Chart (at time of filing)



1.4.16 CORPORATE GOVERNANCE

HPDC presents at the next page its Shareholder Agreement with the shareholder. The report details the role and mandate of HPDC's Board of Directors. The name of the Directors and the schedule of Board meetings is presented at the table below. The only issue that is not discussed in either the table below or the Shareholder Agreement is the issue of "Continuing Education". Since Hearst is located in remote Ontario, it is difficult for Board members to engage in any type of education courses without the utility incurring travel costs. The General Manager makes a point of keeping the Board Members up to date on all requirements, filings, rate applications and any policy changes at the OEB. HPDC Board receives monthly reports by General Manager on operations, financial status and planned projects. Directors are also handed OEB changes related to the Electrical Distributors as well as all EDA and MEARIE reports and publications.

In 2019, the HPDC board had 10 regular meetings as well as 2 special meetings. Special meetings are defined as meetings with Shareholder or Affiliates, presentations from companies or individuals on various electrical subjects or EDA/MEARIE conferences.

The overall attendance of the HPDC board members has been exemplary; at minimum, each Director has attended 90% of the meetings in 2019.

1.5 DISTRIBUTION SYSTEM OVERVIEW

1.5.2 HOST /EMBEDDED DISTRIBUTOR

HPDCL is a partially embedded distributor who receives electricity at distribution level voltages from Hydro One Networks Inc.

HPDCL does not have any embedded distributors within its territory.

1.5.3 TRANSMISSION OR HIGH VOLTAGE ASSETS

HPDCL does not own any transmission or high voltage assets."

1.6 MATERIALITY THRESHOLD

The Minimum Filing Requirements state that a distributor with a distribution revenue requirement less than \$10 million must use \$50,000 as a materiality threshold. With a proposed base revenue requirement of \$1,233,292, HPDCL has used this amount as a materiality threshold throughout this application.

1.7 CUSTOMER ENGAGEMENT

1.7.1 OVERVIEW OF CUSTOMER ENGAGEMENT

HPDC engages in regular customer engagement activities on a regular basis. It is HPDC's view that effective customer engagement opens new opportunities for utilities by creating a dialogue where before there had been none.

It is important to HPDC and its Shareholder that its employees support and give back to their community, and as such the utility participates in several community projects and events (at no cost to ratepayers) such as:

- Christmas Lights: As the main contributor to this popular annual holiday celebration, the volunteer crew from HPDC assists with wiring, set-up and removal of Christmas lights throughout the town of Hearst.
- Canada Day: HPDC, in partnership with the Town of Hearst, also helps the coordination and operation of the festivities of Canada Day which runs for a period of one week at the end of June. The volunteer crew assists with energizing the big tent which is setup downtown Hearst to host music and entertainment, as well as to offer lunches and kids' activities.
- Financial Assistance Program: HPDC provides support through partnerships with the province's Low-income Energy Assistance Program (LEAP). Both of these emergency financial assistance programs are designed to help low-income customers who have difficulty making their electricity bill payments.

- 1 - Educational Publications: HPDC distributes in schools publications / training workbooks
2 called "The Shocking Truck – About Electrical Safety" for grades 2 to 4. HPDC also
3 provide in-person training with the in-house developed "Basic Electrical Safety
4 Awareness for Emergency First Responders" PowerPoint presentation. Police officer,
5 Firefighters, Emergency medical services agent and others are welcome to attend this
6 training which present the various facets of the distribution system, including the danger
7 identification and safety tips. HPDC also provides written educational publications on
8 various electrical subjects via newspapers and online to keep customers educated &
9 informed, and to provide some background on the complex electrical sector. The utility
10 is also publishing on their website important information about the industry, the
11 regulator, electricity rates, available assistance program and Customer Choice billing, etc.
12
13 - Conditions of Service; as a collaborative project with other French utilities in Ontario,
14 HPDC is working on translating its conditions of service.

15 HPDC also conducted a customer satisfaction survey with its residential class. The survey was
16 developed in-house through a collaborative effort of, Hearst Power Distribution Company
17 Limited Inc. Hydro Hawkesbury Inc., Hydro 2000 Inc., Cooperative Hydro Embrun, Renfrew Hydro
18 and Ottawa River Power Corporation ("the Group"). The Group was also assisted with Tandem
19 Energy Services Inc. in developing the survey.

20 The main purpose of the collaborative effort was to minimize the cost of the survey by the
21 sharing of intellect and resources. HPDC conducted its survey starting September 2019 and
22 ending December 2019. A report of the survey results is presented at Appendix F.

23 HPDC is of the opinion that Utilities have a higher chance of successfully engaging their
24 customers when they think about what will please those customers. It is critical for utilities to
25 understand what really has meaning to their customers and how their customers form an
26 opinion of the utility. Effective customer engagement addresses each of these through
27 presenting meaningful information in an accessible manner.

1 Reaching out to customers through CDM programs; Engaging in CDM programs help
2 encourage customers to become more knowledgeable and concerned about how they use, and
3 what they spend, on energy.

4 Successful utilities are becoming more customer-centric by investing in new capabilities,
5 programs, and technologies that allow them to market and communicate more effectively and
6 efficiently. Table 1.10 below details the utility's customer engagement efforts.

7 The utility did not reach out to inform its customers of the proposals being considered for
8 inclusion in the application and the value of those proposals to customers i.e. costs, benefits,
9 and the impact on rates. The utility discussed various options with its Board of Directors and
10 none appealed to the utility, especially when considering COVID-19. The idea of a Town Meeting
11 was explored but the based-on history, there is usually very little interest from the customer in
12 attending such meetings. The utility is working on revamping its website to include information
13 on the rate process and the utility capital investments. Unfortunately, this was not done in time
14 to seek feedback from the customer.

15

1

Table 17 - OEB Appendix 2-AC – Customer Engagement Activities

Provide a list of customer engagement activities	Provide a list of customer needs and preferences identified through each engagement activity	Actions taken to respond to identified needs and preferences. If no action was taken, explain why.
E-Billing - Online account services	Customer needs online access to their consumption data, invoice and details, as well as their historical data. Customers shared that they wanted a platform that was user friendly and included incremental data for current readings, not only past readings.	In 2018, HPDC implemented one of the most advanced, mobile friendly, customer portal available today for its customers which provides access to customer invoices in electronic copies and immediate incremental data reading (current unbilled and historical) of their consumption for both electricity and water. Using the portal, customer can access the Smart Meter data and the system can generate an estimated bill based on the current readings, before the invoice is actually calculated. Customers have the ability to build custom charts, to add multiple accounts, compare consumptions to their neighborhood, set alerts for their own specified custom thresholds which they would receive notifying once the threshold is reached. Customers have the opportunity to pay any amount via their portal and they can also leave feedback using links provided in their individual web accounts, which assists HPDC in enhancing its online portal.
Affordability Fund, Home Assistance Program, CDM and SaveOnEnergy programs - Inform and assist customer on Provincial conservation and demand management programs	Customers express the desire to enroll, as well as the need for consultation and assistance with these programs.	Marketing of programs online, via the local radio stations, newspaper ads, highway billboards, as well as community meetings and one-on-one consultations. Customer First, now name "Ecobility" was contracted to assist and simplify with

		application process for conservation programs.
Bi-annual customer survey - Identify customer needs and opinions	Customers are given a possibility to express their needs and opinions by completing an online or hard copy bi-annual survey. Fifteen percent (19%) of HPDC's residential customers responded to the 2019-2020 survey. The results identified an 98% overall good or better performance.	As the survey identified possible areas where HPDC could improve, the following actions were taken: - Build database of customers opinions and establish trends; - Promote and inform on HPDC's various services offered; - Facilitate access to customer energy data and behind the meter services.
Christmas lights and Canada Day festivities	HPDC customers seek to have lights during Christmas time, and assistance for Canada Day festivities and entertainment. Customers are looking for HPDC to participate and give back to the community.	HPDC volunteer crew sets up Christmas lights, and provides assistance during Canada Day festivities.
Financial assistance program (LEAP, CEAP, CEAP-SB)	Low-income customers need assistance to pay for higher costs of heating during winter months and HPDC recommends customers to get assistance from LEAP when in need. Covid-19 Emergency funding is also promoted and offered to residential and small business customers.	HPDC continues to promote verbally, through educational publications as well, online as well as on invoices, notices of past due balances and disconnections notices of emergency financial assistance programs that are designed to help customers having difficulty paying their balance due.
Educational publications	Younger generations need to receive electrical safety introductions and all customers need to be kept informed on the fast-changing electrical sector. Emergency first responders also are requiring training to respond to emergencies around distribution power lines.	HPDC distributes in schools publications / training workbooks called "The Shocking Truck – About Electrical Safety" for grades 2 to 4. HPDC also provide in-person training with the in-house developed "Basic Electrical Safety Awareness for Emergency First Responders" PowerPoint presentation. Police officer, Firefighters, Emergency

		<p>medical services agent and others are welcome to attend this training which present the various facets of the distribution system, including the danger identification and safety tips.</p> <p>HPDC also provides written educational publications on various electrical subjects via newspapers and online to keep customers educated & informed, and to provide some background on the complex electrical sector.</p>
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1

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1.7.1 COVID-19 CUSTOMER ENGAGEMENT

COVID-19 has been one of the biggest global challenges of our generation. Customer behavior is changing at a fast pace, and digital adoption has become necessary for survival. When the pandemic eventually recedes, the utilities will have to continue to accommodate new attitudes and behaviors.

Below are principles HPDCL uses to mitigate those risks and deepen utility relationships with consumers:

Be a trusted voice.

During the pandemic, customers are placing increasing trust in experts to convey critical information. HPDCL strives to provide empathetic, relevant messaging on energy habits that are clear, transparent, and frequent. As the crisis continues, HPDC targets its messaging to help customers manage changing energy use by providing tips and resources, promoting available assistance program and the new Customer Choice initiative.

Meet consumers where they are.

During crisis that compel consumers to stay home, media consumption invariably increases. Throughout the COVID-19 pandemic, this has been especially true for web browsing, television, and social media channels. HPDC is helping customers enroll in electronic billing, providing assistance in using the customer portal and remain readily available to answer all customer questions about the industry. HPDC virtually engages with consumers as their habits shift, such as reallocating media spending from outdoor billboards to virtual social media platforms.

Plan for uncertainty.

Based on the rapidly changing situations, HPDCL is reevaluated all in-person interactions, the utility has closed the front desk to customer "walk-ins", created new health and safety policies and considering potentially carrying on with these changes once the crisis has passed.

1 **Help consumers put their home and energy to work for them**

2 As families spend more and more time at home, they increase their use of electric products and
3 overall household daily electricity. They are also more concerned about finances, which could
4 translate to greater interest in energy efficiency for the home and the desire for customer to
5 have no restrictions regarding the time of day they are actually using hydro; therefore, the new
6 Customer Choice billing is of interest to many instead of Time-of-Use pricing.

7 What this rapidly changing environment means for the consumer's long-term relationship with
8 their utility remains uncertain. But by leveraging emerging insights, utilities can nimbly and
9 effectively navigate customer engagement in this new era.

1.7.2 CUSTOMER SATISFACTION SURVEY

As part of a commitment to provide customers with reliable and quality utility services that meet current and future needs, HPDCL surveyed its customers in 2019 receiving 503 responses.

The objectives of the survey included measuring.

- ✓ Utility's overall performance.
- ✓ Reliability.
- ✓ Billing and Payment Options
- ✓ The quality of service provided by customer care.
- ✓ The quality of service provided by field employees.
- ✓ Customer support for greater use of renewable energy.
- ✓ Customer opinions regarding how aggressively sustainable practices should be pursued.
- ✓ Cost of Electricity
- ✓ Overall Performance

The survey was developed in-house through a collaborative effort of, Hearst Power Distribution Company Limited Inc. HPDCL, Hydro Hawkesbury, Cooperative Hydro Embrun and HPDCL Inc.

The main purpose of the collaborative effort was to minimize the cost of the survey by the sharing of intellect and resources.

Customers were given a possibility to express their needs and opinions by completing an online, telephone or hard copy survey. Out of 2,710 HPDC residential and small and medium business customers, 503 or 18.6% responded to the survey. The results identified 98.2% overall good performance in serving customers.

The utility intends on continuing surveying its customers on a bi-annual basis in an effort monitor and assess residential and commercial customer knowledge, perceptions and satisfaction regarding utility services.

1.8 LETTERS OF COMMENT

1.8.1 LETTERS OF COMMENT

HPDCL published a notice announcing its intent on filing an adjustment to its rates. The notice which is presented at Appendix F of this exhibit was posted in the newspaper, and finally posted on the utility's website. While the utility did not receive feedback from its customers at the date of the filing, HPDCL is confident that the plan in place, and considering the utility's capital budget, as proposed in the Distribution System Plan, supports HPDCL's customer priority and preferences.

1.9 SCORECARD ANALYSIS

1.9.1 SCORECARD RESULTS AND ANALYSIS

Discussion of performance of each of HPDCL's scorecard measures over the last five years is presented in Section 5.6 of the Business Plan and replicated below. HPDCL notes that it has used the most up to date scorecard analysis as published on the OEB website.

Customer Focus – Service Quality

From the period of 2014-2019, the utility 's scored high on all measures. HPDCL notes that its service area has had no growth since its last Cost of Service in 2015. Distribution system investments to date have focused on sustaining the existing distribution system infrastructure. HPDCL commits to focusing its services on providing the best service possible and maintaining or improving its overall scores going forward.

SERVICE QUALITY

New residential/small business services connected on time

100% (2018)

The utility must connect new service for the customer within five business days, 90 % of the time, unless the customer agrees to a later date. This timeline depends on the customer meeting specific requirements ahead of time (such as no electrical safety concerns in the building, customer's payment information complete, etc.)



Target met



2019 which is not shown on the OEB's graphs reflect a 100% success in residential and small business services connected on time.

SERVICE QUALITY

Scheduled appointments met on time

100% (2018)

For appointments during the utility's regular business hours, the utility must offer a window of time that is not more than four hours long, and must arrive within that window, 90 % of the time.



- 1
- 2 2019 which is not shown on the OEB's graphs reflect a 100% success scheduled appointments
- 3 met on time.

4

SERVICE QUALITY

Telephone calls answered on time

88.08% (2018)

During regular call centre hours, the utility's call centre staff must answer within 30 seconds of receiving the call directly or having the call transferred to them, 65 % of the time



- 5
- 6 2019 which is not shown on the OEB's graphs reflect a 92.14% success in telephone calls
- 7 answered on time.

8

9

Customer Focus – Customer Satisfaction

HPDCL has conducted its bi-annual customer satisfaction survey which is presented at Section 1.7 of this Exhibit. Customers are generally satisfied 98.2% with HPDCL. While HPDCL manages less than 20% of the total customer bill, it continues its efforts to maintain appropriate cost control while providing a safe and reliable delivery of power to its customers. HPDCL's billing accuracy has been perfect since 2013 and the utility only received a complaint in 5 years.

CUSTOMER SATISFACTION

Billing accuracy

100% (2018)

An important part of business is ensuring that customer's bills are accurate. The utility must report on its success at issuing accurate bills to its customers.

[More information about billing accuracy](#)



2019 not shown on the OEB's graphs reflect a 99.91% success in billing accuracy.

CUSTOMER SATISFACTION

Complaints

0.00 (2018)

This metric measures the number of complaints the Ontario Energy Board received from customers about matters within our authority. Complaints made directly to the utility are not reported here. We measure this per 1000 customers so utilities that serve much larger or smaller populations can be compared against each other.

Year	Complaints per 1000 customers	Total number of complaints
2013	0.00	0
2014	0.37	1
2015	0.00	0
2016	0.00	0
2017	0.00	0
2018	0.00	0

2019 not shown on the OEB's graphs reflect no complaints.

1 Operational Effectiveness – System Reliability

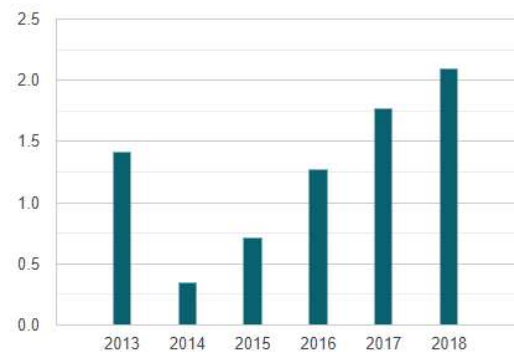
2 With its Distribution System Plan, the reliability of the system and re-investment in the
3 distribution system infrastructure is one of HPDCL's focus point. 2018 showed abnormally high
4 indicators however, other years show excellent results. The primary drivers for these increased
5 explained in detail in the Distribution System Plan and have seen major impact starting in 2016
6 with scheduled outages required for pole changes.

SYSTEM RELIABILITY

**Average number of times power
to a customer was interrupted
2.09465 (2018)**

Another important feature of a reliable distribution system is reducing the frequency of power outages. Utilities must also track the number of times their customers experienced a power outage during the past year.

[More information about interruption frequency](#)



7
8 2019 not shown on the OEB's graphs reflect results of 1.18 – a considerable decline from 2018.

9 Operational Effectiveness – Cost Control

10 HPDCL has been assigned a Group 2 efficiency ranking since 2015. Despite being in one of the
11 most efficient utilities in the province, HPDCL continues to strive to achieve greater efficiency
12 through productivity improvements and cost control, without compromising safety and
13 reliability. The utility commits to continue to look for ways of finding efficiencies in its Operation
14 and Maintenance for the next rate period. The trend in costs per customers is discussed in
15 further detail in Exhibit 4.

16

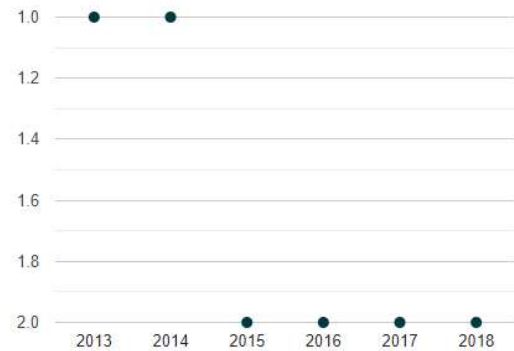
COST CONTROL

Efficiency rating

2 (2018)

The utility must manage its costs successfully in order to help assure its customers they are receiving value for the cost of the service they receive. Utilities' total costs are evaluated to produce a single efficiency ranking. This is divided into five groups based on how big the difference is between each utility's actual and predicted costs. Distributors whose actual costs are lower than their predicted costs are considered more efficient.

- 1 = Actual costs are 25% or more below predicted costs
- 2 = Actual costs are 10% to 25% below predicted costs
- 3 = Actual costs are within +/- 10% of predicted costs
- 4 = Actual costs are 10% to 25% above predicted costs
- 5 = Actual costs are 25% or more above predicted costs



- 1
- 2 2019 not shown on the OEB's graphs reflects a ranking of 2 as was the case from 2015-2018
- 3

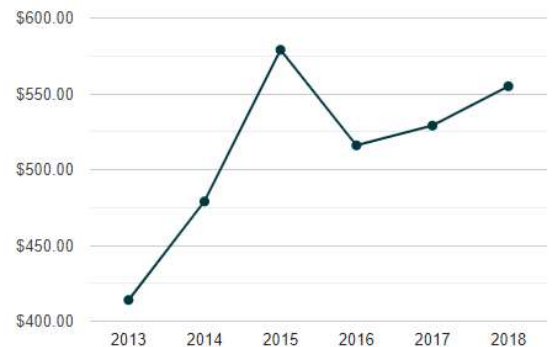
COST CONTROL

Cost per customer

\$555 (2018)

A simple measure that can be used as a comparison with other utilities is the utility's total cost per customer.

Total cost is a sum of all the costs incurred by the utility to provide service to its customers. The amount is then divided by the utility's total number of customers. This amount does not represent how much customers pay for their utility services.



- 4 **More information about Cost per Customer**
- 5 2019 not shown on the OEB's graphs reflect \$539 a decline from \$555 in 2018.
- 6
- 7

1 Financial Performance – Financial Ratios

2 With the exception of 2015 where rates were approved later than should have been, HPDCL has
3 managed to keep its ROE in line with its Deemed ROE of 9.19% a task which is sometimes
4 difficult for small utilities where any spending out of the ordinary can have a material effect on
5 results. Under the current management, the utility has put financial tools in place to monitor its
6 budgets and compare them to its approved budgets to ensure that they are kept in line with its
7 deemed results. HPDCL anticipates that its results going forward will remain in line with the
8 board approved ROE.

9 Overall

10 HPDCL has continued to reflect a customer focused, financially sound, safe and reliable Local
11 Distribution Company. Customer satisfaction and feedback inform and influence HPDCL's
12 operations, which are reflected in the continued low number of dissatisfied customers. HPDCL
13 continues to be a financially strong company that re-invests in technology that will bring
14 improvements to customer interactions, system reliability, and safety.

15 The table below shows the current Scorecard on the OEB website.

1

Scorecard - Hearst Power Distribution Company Limited

10/16/2020

Performance Outcomes	Performance Categories	Measures	2015	2016	2017	2018	2019	Trend	Target	
									Industry	Distributor
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	New Residential/Small Business Services Connected on Time	100.00%	100.00%	100.00%	100.00%	100.00%	🟢	90.00%	
		Scheduled Appointments Met On Time	100.00%	100.00%	100.00%	100.00%	100.00%	🟢	90.00%	
		Telephone Calls Answered On Time	89.20%	87.30%	87.30%	88.08%	92.14%	🟢	65.00%	
	Customer Satisfaction	First Contact Resolution	98%	99.74%	99%	99%	99%	🟢		
		Billing Accuracy	99.89%	99.91%	99.96%	99.98%	99.91%	🟢	98.00%	
		Customer Satisfaction Survey Results	97% Good	96% Good	96% Good	96% Good	98.2% Good	🟢		
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	Safety	Level of Public Awareness	76.00%	76.00%	78.00%	78.00%	77.43%	🟢		
		Level of Compliance with Ontario Regulation 22/04 ¹	C	C	C	C	C	🟢		C
		Serious Electrical Incident Index	0	0	0	0	0	🟢		0
		Number of General Public Incidents Rate per 10, 100, 1000 km of line	0.000	0.000	0.000	0.000	0.000	🟢		0.000
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted ²	2.00	2.19	4.33	2.67	2.48	🟢		3.65
		Average Number of Times that Power to a Customer is Interrupted ²	0.71	1.27	1.77	2.09	1.18	🔴		1.12
	Asset Management	Distribution System Plan Implementation Progress	Established	Established	Established	Established	Established			
	Cost Control	Efficiency Assessment	2	2	2	2	2			
		Total Cost per Customer ³	\$579	\$516	\$529	\$555	\$539			
		Total Cost per Km of Line ³	\$23,009	\$20,531	\$16,409	\$15,419	\$14,999			
Public Policy Responsiveness Distributors deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	Conservation & Demand Management	Net Cumulative Energy Savings ⁴	47.50%	154.51%	174.13%	190.00%	196.00%			3.18 GWh
	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time								
		New Micro-embedded Generation Facilities Connected On Time							90.00%	
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)	2.22	2.14	2.34	2.38	2.05			
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio	0.40	0.39	0.38	0.37	0.28			
		Profitability: Regulatory Return on Equity	9.19%	9.19%	9.19%	9.19%	9.19%			
		Deemed (included in rates) Achieved	-24.02%	8.33%	8.19%	6.77%	13.91%			

1. Compliance with Ontario Regulation 22/04 assessed: Compliant (C); Needs Improvement (NI); or Non-Compliant (NC).
2. The trend's arrow direction is based on the comparison of the current 5-year rolling average to the distributor-specific target on the right. An upward arrow indicates decreasing reliability while downward indicates improving reliability.
3. A benchmarking analysis determines the total cost figures from the distributor's reported information.
4. The CDM measure is based on the now discontinued 2015-2020 Conservation First Framework. 2019 results include savings reported to the IESO up until the end of February 2020.

Legend: 5-year trend
🟢 up 🟡 down 🟠 flat
Current year
🟢 target met 🔴 target not met

2

1.10 FINANCIAL INFORMATION

1.10.1 FINANCIAL RESULTS

HPDCL's financial performance has been stable since its last Cost of Service application in 2015 as can be seen from its earnings. The revenue deficiency for 2021 is expected to be 160K based on current rates; the 2021 deficiency is expected to be nil with the implementation of new rates.

Going forward the utility continues to budget and track its spending in a way that it stays well within the Board Approved range.

Actual Return vs. Allowed Return

Profitability: Regulatory Return on Equity – Deemed (included in current rates) vs Achieved (2019)

HPDCL's current distribution rates were approved by the OEB in 2015 and included an expected (deemed) regulatory return on equity of 9.19%. The OEB allows a distributor to earn within +/- 3% of the expected return on equity.

HPDCL's actual return on equity has historically has only been outside of the dead band of 3% once in 2015 and again marginally in 2019.

Unplanned or unusually large expenses tend to have more impact on small utilities than on large utilities, as well as the impact of deferred expenses or revenue. For example, the apparent negative ROE in 2015 was the result of clearing several years of smart meter expenses that had been tracked in a deferral account in the year and the 2019 higher ROE was due to non-rate regulated work completed, including CDM.

Table 18 – Return on Equity Table

<i>Year</i>	Profitability (Approved ROE)	Regulatory Return on Equity (Achieved ROE)
2015	9.19	-24.02
2016	9.19	8.33
2017	9.19	8.19
2018	9.19	6.77
2019	9.19	13.91

1

2 Profit and Loss

3 Outlined below, and in the following table, are some of the essential components of the
4 projected profit and loss for HPDCL:

- 5 ✓ Operating Revenues for 2021 are forecast to be and \$1,468,674
- 6 ✓ Costs for 2021 are predicted to be \$1,207,448
- 7 ✓ Depreciation Expenses are forecast to be \$140,435
- 8 ✓ Deemed Interest Expenses for \$40,232

9 The net profit/loss for 2021 are forecast to be \$80,560

10 HPDCL anticipates that under the new management and with the new financial tracking tools in
11 place, the utility will be able to maintain its utility income at the level approved by its regulator.

12

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Table 19 - Profit and Loss Table

	Board Approved	Actual	Actual	Actual	Actual	Actual	Projected	Projected
WCA	2015	2015	2016	2017	2018	2019	2020	2021
<i>Cost of Power</i>	10,030,148	9,879,823	10,719,015	9,639,620	8,702,931	9,042,549	8,042,551	8,042,286
<i>WCA Rate</i>	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
	828,703	832,185	882,513	804,916	736,848	760,822		
	Board Approved	Actual	Actual	Actual	Actual	Actual	Projected	Projected
Derivation of Utility Income		2017	2016	2017	2018	2019	2019	2020
Operating Revenues								
<i>Distribution Revenues</i>	1,058,101	1,352,864	1,124,977	1,167,290	1,210,941	1,239,660	1,176,843	1,233,292
<i>Other Revenue</i>	229,503	108,664	170,833	155,332	277,588	286,521	317,750	235,382
Total Operating Revenues	1,287,604	1,461,527	1,295,809	1,322,622	1,488,529	1,526,181	1,494,593	1,468,674
<i>OM&A Expenses</i>	1,019,224	1,215,979	1,047,826	1,092,597	1,121,716	1,101,747	1,204,850	1,207,448
<i>Depreciation & Amortization</i>	131,627	344,309	94,346	100,725	124,014	108,885	131,750	140,435
<i>Property and Taxes</i>	0	0	0	0	0	0	0	0
Total Costs & Expenses	1,150,851	1,560,288	1,142,172	1,193,322	1,245,730	1,210,633	1,336,600	1,347,883
<i>Deemed Interest Expenses</i>	56,761	84,011	80,946	77,091	96,081	96,081	62,515	40,232
Total Expenses	1,207,611	1,644,299	1,223,118	1,270,413	1,341,811	1,306,714	1,399,116	1,388,114
Utility Income before Income Taxes / PILs	79,992	-182,772	72,691	52,210	146,718	219,467	95,477	80,560
<i>PILs / Income Taxes</i>	0	-9,143	12,123	2,661	30,128	34,921	11,144	0
<i>Adjustments for FS purposes (donations)</i>		0	0	0	0	-2,000		
Utility Income	79,992	-173,629	60,568	49,549	116,590	186,546	84,333	80,560

2

RATE BASE AND REVENUE DEFICIENCY

As shown in the following table, HPDCL's revenue deficiency has fluctuated since the last Board Approved rates in 2015. The necessity for new rates is to support an increase in OM&A of \$188,224. The increase is due to a growing need for 3rd party services in order to meet the regulator's requirements and inflationary increases. This is an indication that the utility's costs have exceeded its revenues and as such better aligned rates are needed.

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Table 20 - Table of Rate Base and Revenue Deficiency

	Board Approved	Actual	Actual	Actual	Actual	Actual	Projected	Projected
	2015	2015	2016	2017	2018	2019	2020	2021
Utility Income	79,992	-173,629	60,568	49,549	116,590	186,535	84,333	80,560
<i>Gross Fixed Assets (year end)</i>	4,980,312	2,042,599	2,155,249	2,324,325	2,580,753	2,580,753	2,748,179	3,135,679
<i>Capital Expenditures (additions)</i>							180,000	387,500
<i>Accum. Depreciation</i>	-3,632,943	-422,384	-549,289	-815,142	-915,237	-915,237	1,150,584	1,291,020
<i>Remove Non-Distribution Assets (2180)</i>								
<i>Net Fixed Assets</i>	1,347,369	1,620,214	1,605,960	1,509,183	1,665,516	1,665,516	3,898,763	4,426,698
<i>Average Net Fixed Assets</i>	1,347,369	1,476,223	1,373,069	1,359,710	1,429,307	1,520,525	1,573,469	1,721,127
	2,176,072	2,308,259	2,255,582	2,164,627	2,166,156	2,281,348	2,267,024	2,414,857
<i>Utility Rate Base</i>	2,176,071	2,308,409	2,255,582	2,164,627	2,166,156	2,281,348	2,267,024	2,414,857
<i>Deemed Equity Portion of Rate Base</i>	870,429	923,363	902,233	865,851	866,462	912,539	906,810	965,943
<i>Income/(Equity Portion of Rate Base)</i>	9.19%	-7.52%	-2.69%	-2.29%	-5.38%	-8.18%	3.72%	3.34%
<i>Indicated Rate of Return</i>	6.28%	-3.88%	6.27%	5.85%	9.82%	12.39%	6.48%	5.00%
<i>Approved Rate of Return</i>	6.28%	6.28%	6.28%	6.28%	6.28%	6.28%	6.28%	5.00%
<i>Sufficiency / (Deficiency) in Return</i>	0.00%	(10.16%)	(0.01%)	(0.43%)	3.54%	6.11%	0.20%	0.00%
Net Revenue Sufficiency / (Deficiency)	0	-234,586	-136	-9,299	76,637	139,358	4,480	0

2

HPDCL is committed to being financially responsible in controlling capital and OM&A expenditures to provide a rate of return within the OEB allowed a return on equity is thereby meeting the shareholder's expectations while continuing to reinvest in its distribution system to meet customer expectations and operational efficiencies for the safe and reliable delivery of electricity.

1.10.1 HISTORICAL FINANCIAL STATEMENTS

The following attachments are presented in this next section.

- ✓ Appendix A Year ended 31 December 2015 (compared to 2016)
- ✓ Appendix B Year ended 31 December 2016 (compared to 2017)
- ✓ Appendix C Year ended 31 December 2018 (compared to 2019)

1.10.2 RECONCILIATION BETWEEN FINANCIAL STATEMENTS AND RESULTS FIELD

A detailed reconciliation between the financial results shown in HPDCL's RRR filings, Audited Financial Statements and with the regulatory financial results filed in the application is presented in Appendix A-C of this Exhibit.

1.10.3 ANNUAL REPORT & MD&A

HPDCL does not publish an annual report to its shareholders. The MD&A report is filed at Appendix I of this Exhibit

1.10.4 PROSPECTUS AND RECENT DEBT/SHARE ISSUANCE UPDATE

HPDCL does not issue debt or share nor do they publish any prospectus.

1.10.5 OTHER RELEVANT INFORMATION

Distributor Consolidation

HPDCL has not nor is currently contemplating selling its utility or amalgamating with other utilities and as such, no savings are identified in this application.

HPDCL has never applied or been approved for and ICM/ACM.

The utility does not have any additional or relevant information other than what is being filed in this application.

APPENDICES

Appendix A	Financial Statements 2014 / 2015
Appendix B	Financial Statements 2016 / 2017
Appendix C	Financial Statements 2018 / 2019
Appendix E	Reconciliation for RRR to FS
Appendix F	Survey Results
Appendix G	Newsletter
Appendix H	PDF of List of Approvals
Appendix I	2019 MD&A Scorecard Report
Appendix J	PDF of Chapter 2 Appendices