***EXHIBIT 4 – OPERATING COSTS***

***Interrogatory 4-Staff-57***

***OM&A Variance Analysis***

***Ref: Exhibit 4, Tab 3, Schedule 1, Pages 1-6***

***Question(s):***

***a) For the three categories (Operation, Maintenance, and Administrative and General) for the 2023 Test Year vs 2016 OEB-approved, please provide details on what is meant by general inflationary increases.***

***b) For the 2023 Test Year vs 2016 OEB-Approved, please explain why the GIS Technician costs are now reported separately in Operations.***

***c) For the Administrative and General category for the 2023 Test Year vs 2022 Bridge Year, please provide details and examples on what is meant by general inflationary increases, and how this pertains to the OM&A expenses charged by Utilities Kingston to Kingston Hydro.***

**Response**

a) Kingston refers to the term of "general Inflationary increases" as increases in the general price level of goods and services compared to a previous period or price point. Generally, this is measured by Statistics Canada on a year over year basis.

b) GIS technician costs are now more appropriately reported in Operations.

c) As explained in part a) above, Kingston refers to the term of "general Inflationary increases" as increases in the general price level of goods and services compared to a previous period or price point. Generally, this is measured by Statistics Canada on a year over year basis.

Kingston calculated inflation for the 2023 Test Year as the closing balance for the 2022 Bridge Year less employee costs, multiplied by 2%.

Inflation is calculated on both OM&A expenses that relate to the electrical distribution side of the business only (charged 100% to Kingston Hydro) and those that relate to multiple utilities (charged an appropriate allocation to Kingston Hydro).

***EXHIBIT 4 – OPERATING COSTS***

***Interrogatory 4-Staff-58***

***Non-Unionized Employees Compensation Strategy***
***Ref: Exhibit 4, Tab 4, Schedule 1, Page 6***

***Preamble:***

***Kingston Hydro states periodic third-party benchmarking is performed in order to have an independent, objective evaluation. The last benchmarking review was performed in 2018 with the next one expected to be completed in 2023.***

***Question(s):***

***a) Please provide a copy of the benchmarking review performed in 2018.***
***b) Please explain whether and, if so, how the results of the 2018 study have been reflected in Kingston Hydro's application.***

**Response**

a) Kingston has provided this report.

b) The results of the 2018 study have been reflected in Kingston Hydro's application. This was done by ensuring that non union pay bands and salary structures were appropriately evaluated and adjusted to strike a competitive balance between internal equity with external competitiveness. We strive to ensure the employees in

our organization are being compensated fairly in relation to those who perform similar jobs in other organizations.

Response to Ontario Energy Board (OEB)

Interrogatory #4-Staff-58 (a)

Attachment 1 of 1

(Utilities Kingston Compensation and Salary Structure – Review & Recommendations)

# Utilities Kingston Compensation and Salary Structure Review & Recommendations

**Marjorie Richards & Associates Ltd.**
marjorierichards33@gmail.com
November 12, 2018

Utilities Kingston

# Introduction

M. Richards was engaged by Utilities Kingston ('UK') to:

- Undertake a review of its management group's salary and mark competitiveness
- Review UK's Salary Structure to represent a more common compensation approach

The Review is supported by the following:

- Up-to-date Hay Points for all positions
- LDC Custom Survey
- Water Position Custom Survey
- Broader Public Sector & Industrial 2018 Databases (excluding G
- The MEARIE Group LDC Management Compensation Survey 20

# Review Approach

## *Market Analysis*

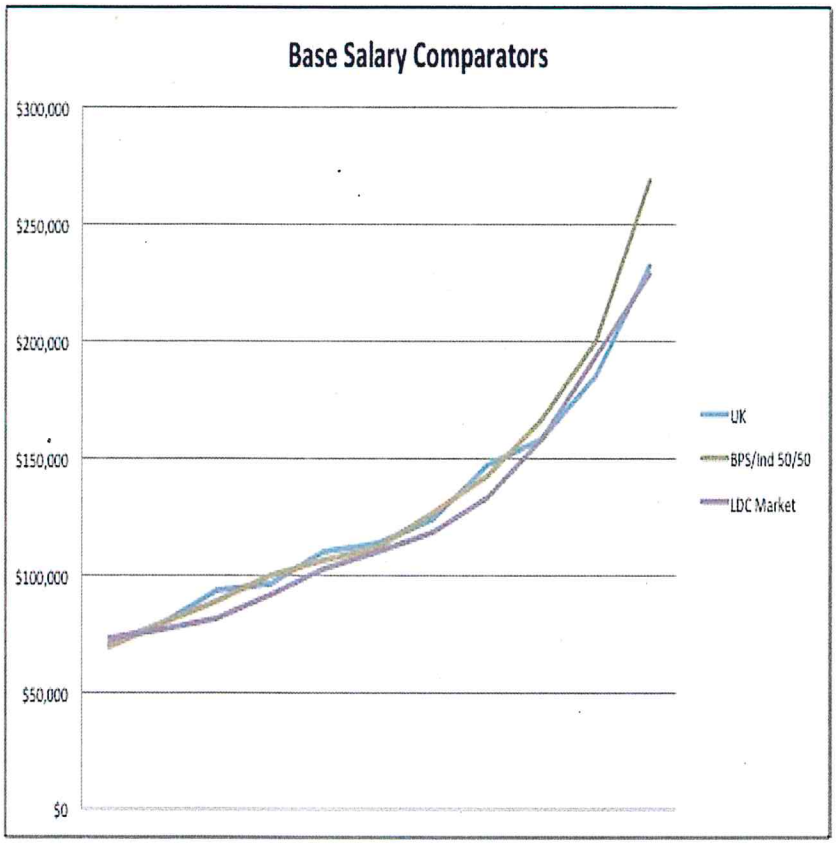
- Position matches were made (where able) based on:
  - The LDC or Water comparator positions as provided in the cust surveys (*primary match*)
  - The MEARIE Group's 2018 LDC survey, utilizing Position Titles (*secondary match*)

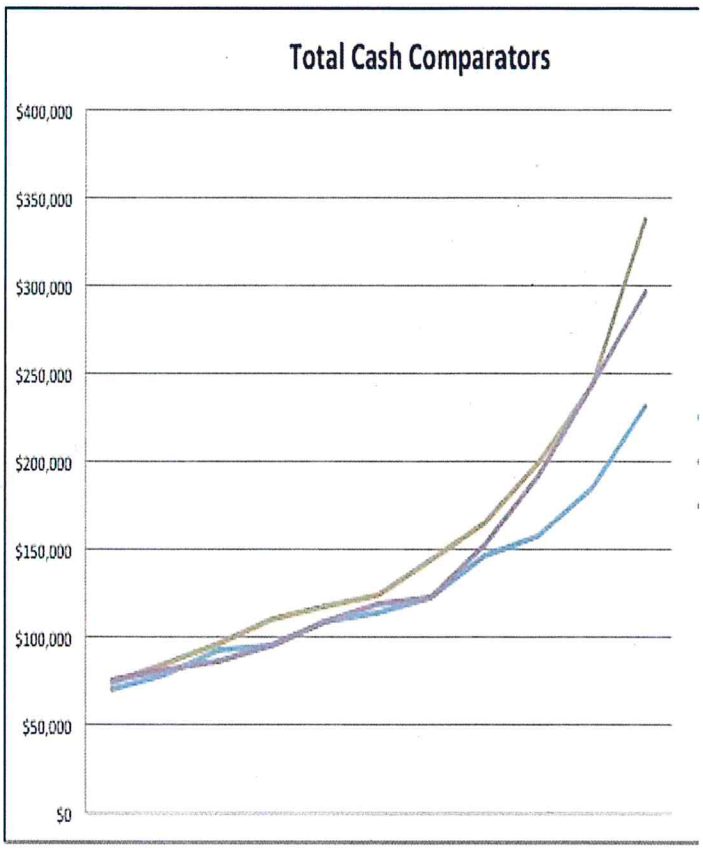
## *Comparator Markets*

- Market data was analyzed based on the following sectors:
  - *50/50 Blended Market of the:*
    - *Broader Public Sector (BPS) Ontario – excluding GTA*
    - *Industrial Sector (Industrial) Ontario – excluding GTA*
  - *LDC Custom Compensation Survey – 17 LDC Comparators*
  - *Water Custom Compensation Survey - 6 Comparators*

# Overview of Compensation Review Findings

# LDC Base/Total Cash Trend Lines



# Observations

## *Base Salary*

- The normal variability in market data, ***slightly + or -10%*** is considered accepted practice for reasonable competitivene
- UK against similar LDC and Water comparators fall within th acceptable range

## *Incentive Pay (Total Cash)*

- UK does not offer an Incentive Pay opportunity within any c pay bands
- Of the original 17 LDC survey participants, 15 pay incentive

# Recommended NEW Salary Structure

# Overview of 'NEW' Structure

## *'NEW' Salary Structure*

We developed a Structure that:

- Maintains 12 Grade levels
  - Grade 11 remains vacant to be utilized for future use in the event the organizati evolves and needs to distinguish executive positions more concisely – such as a COO, CIO, etc.
- Provides Hay Point spreads that align to common and best practice structu
- Maintains reasonable and aligned Grade Differentials throughout the Stru
  - It is important to have sufficient spreads in Grade Differentials to mitigate comp issues, and allow for internal equity between position accountabilities
- Maintains a market competitive and healthy Salary Structure that will sust the organization into the future, and if maintained, will continue to have a level of integrity and flexibility

# 'New' 2018 Salary Structure

| Pay Grade | Pay Grade Differential | Job Rate 100% | Hay Points Range |
|---|---|---|---|
| 12 | 22% | $260,000 | 1491-1760 |
| 11 | 18% | $213,000 | 1201-1490 |
| 10 | 22% | $180,000 | 951-1200 |
| 9 | 11% | $147,000 | 800-950 |
| 8 | 7% | $132,000 | 705-799 |
| 7 | 6% | $123,500 | 626-704 |
| 6 | 6% | $116,000 | 530-625 |
| 5 | 7% | $109,400 | 479-529 |
| 4 | 10% | $102,000 | 408-478 |
| 3 | 10% | $92,800 | 350-397 |
| 2 | 10% | $84,000 | 308-349 |
| 1 | | $76,500 | 265-307 |

# ‘NEW’ Salary Structure
# Analysis & Observations

# Analysis & Observations

## *'NEW' Competitiveness*

### Base Salary Comparison

- Within the 'NEW' Structure all but 2 LDC position matches f within the ***slightly < or > 10%***
  - Both the CEO and CFO positions are 12.1% higher

### Total Cash Comparison

- With 1 exception, within the 'NEW' Structure there are no changes to any positions, and the CFO falls within the acceptable range
  - The CEO falls out at 14.3% lower

# Analysis & Observations

## *Salary Range Spread*

Currently UK maintains a unique, layered and progressing approach to salaries, which:

- Does not reflect 'common' management practice
- Does not provide flexibility to assign a salary between steps
- Limits the ability to bring in above 100% for market purposes

LDC's who participated in the 2018 Salary Survey (15 of 17) utilize spreads:

| **Average Spread** | **83%** | **100%** | **113%** |
|---|---|---|---|
| **Lowest to Highest** | 80% | 100% | 120% |

# Recommendations

# Recommendations

## *'NEW' Salary Structure*

*The 'NEW' Structure positions UK as competitive against its LD comparator Total Cash positions. It also provides integral Hay Point spreads and position alignment*

***Recommendation***: that, UK adopt the proposed 'NEW' Salary Structure for the 2019 performance year

***Considerations:*** UK establishes a more competitive structure against both its LDC and BPS/Industrial comparators. The 'NEW Structure is easier to administer and provides more integral internal equity amongst position levels

# Recommendations

## *CEO Incentive Pay*

*The CEO position remains lower in Total Cash than against all comparators. 15 of the 17 LDC Comparators offer an incentive plan, 4 of those only at the CEO and/or Executive level(s)*

***Recommendation***: that, recognizing the CEO is the only positic lower in Total Compensation from its comparators, the UK Boa may wish to consider implementing incentive pay for this position only – at the appropriate time (see below)

***Considerations:*** UK will be seeking to recruit for the CEO positi within the next few years, it may find the 'NEW' CEO is competitive or it may need to implement an incentive pay opportunity to be competitive to attract the required expertise and talent (either within the LDC or other sectors)

# Recommendations

## *Salary Range Spreads*

*The current entry level spreads are inconsistent and are not aligned with common practice. UK's maximum is currently at 100% whereby LDC comparators are 'averaged' at 83% - 100% - 113% (See Slide 12)*

***Recommendation***: that, UK institutionalize Salary Range Sprea of 80% - 100% - 110%

***Considerations:*** 80% start rate, recognizes that you would exp any individual to be 'no less' than 80% proficient in the job. 110% allows for hiring above market when needed, recognizin high performing individuals who cannot exceed 100% and allo flexibility when required

***EXHIBIT 4 – OPERATING COSTS***

***Interrogatory 4-Staff-59***

***Pension & OPEB***
***Ref 1: Exhibit 4, Tab 4, Schedule 1, page 11***
***Ref 2: EB-2015-0040, Report of the Ontario Energy Board, Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs, September 14, 2017, page 2***

***Preamble:***

***Kingston Hydro proposes to recover OPEB amounts using the accrual basis, which is different than its 2016 Custom IR proceeding, which used the cash basis.***

***The Report of the OEB was issued after the conclusion of Kingston Hydro's 2016 Custom IR proceeding. The Report of the OEB established the use of the accrual accounting method as the default method on which to set rates for pension and OPEB amounts in cost-based applications.***

***Question(s):***

***a) Please confirm that the proposed change to the OPEB accrual basis is effective January 1, 2023. If this is not the case, please explain.***

**Response**

a) Kingston confirms that it proposes to utilize the default accrual basis method effective January 1, 2023 and commits to tracking variances from January 1, 2023 onward in the variance account as required in the Report of the Board.

***EXHIBIT 4 – OPERATING COSTS***

***Interrogatory 4-Staff-60***

***Pension & OPEB***
***Ref 1: Exhibit 4, Tab 2, Schedule 1, page 12***
***Ref 2: Exhibit 4, Tab 2, Schedule 1, page 3, Table 2 – Cost Driver Table (Appendix 2-JB)***
***Ref 3: Exhibit 4, Tab 4, Schedule 1, page 11***
***Ref 4: Exhibit 4, Tab 4, Schedule 1, Attachment 1, Utilities Kingston – Actuarial Valuation of Post-Retirement Non-Pension, Supplemental Pension and Sick Leave Benefits as at December 31, 2021***
***Ref 5: Exhibit 9, Tab 3, Schedule 1, page 13***

***Preamble:***

***Kingston Hydro stated that regarding Employee Pensions and OPEB, there was a decrease of $209,000 in OM&A. A credit was recorded relating to Kingston Hydro's future benefits resulting in an actuarial gain, as recorded in Appendix 2-JB, Recoverable OM&A Cost Driver Table for the year 2021. OEB staff further notes that there may be other amounts in OM&A and capital that may relate to OPEB actuarial gains and losses.***

***Kingston Hydro also provided in Exhibit 4 "Table 2 – OPEB – Kingston Hydro 2016- 2020" and in Exhibit 9 "Table 7 – 1508 Sub-account OPEB Forecast Cash versus Forecast Accrual Differential Balances" which showed OPEB amounts in rates and amounts expensed excluding actuarial gains and losses, for the period***

***2016 to 2020.***

***Another table provided by Kingston Hydro in Exhibit 4 "Table 3 – OPEB – Kingston Hydro 2021-2023" showed zero actuarial gains and losses for the period 2022 and 2023, which is supported by page 25 of the actuarial valuation. The period 2021 shows an actuarial gain of a credit of $160,680 to Kingston Hydro's OM&A and a credit of $54,346 to capital.***

***Question(s):***

***a) Please confirm and explain why for the year 2021 and possibly other years during the period 2016 to 2022 (please indicate and quantify), Kingston Hydro has presented OPEB OM&A and capital amounts for rate-making purposes on an accrual basis, including actuarial gains and losses (for example in Appendix 2-JB).***

***b) Please describe why an accrual basis (including actuarial gains and losses) has potentially been included for the period 2016 to 2022, as it is OEB staff's understanding that OPEB amounts were to be calculated on a cash basis prior to 2023 (and not an accrual basis) for rate-making purposes, given the outcome of the 2016 Custom IR proceeding.***

***c) Please confirm that for the 2023 test year, Kingston Hydro has presented OPEB OM&A and capital amounts for rate-making purposes on an accrual basis, but excluding actuarial gains and losses. If this is not the case, please quantify and explain the impact on the 2023 revenue requirement.***

***d) In the Exhibit 4 "Table 2 – OPEB – Kingston Hydro 2016-2020" and the Exhibit 9 "Table 7 – 1508 Sub-account OPEB Forecast Cash versus Forecast Accrual Differential Balances", please confirm that the column "Amount expensed***

***excluding actuarial gains and losses" has been presented on an accrual basis. If this is not the case, please explain.***

***e) Please expand the above noted Table 2 and Table 7 to include rows for 2021, 2022, and 2023. Please also provide additional columns to show the "Amount expensed including actuarial gains and losses" and the "Actuarial gains and losses" themselves for the period 2016 through 2023. Please also provide a breakdown between OM&A and capital.***

**Response**

a) Kingston confirms it has presented its expenditures on an accrual basis for all years as this is the default and the requested method for 2023 rates. In addition it is the actual expense incurred under IFRS.

b) Kingston included the accrual amounts in 2016-2022 as this was the true IFRS expense for those years, the information shown represents a better comparison to the 2023 requested accrual amount and the Report of the Board dated May 18, 2017 recommended the accrual method.

c) Confirmed.

d) Confirmed.

e) Kingston is not requesting recovery of actuarial/gains and losses, but a recovery of $63,142 in OM&A but nonetheless has included the information requested.

1

| | Amount in Rates | Amount expensed excluding actuarial gains and losses | OPEB Variance account | Amount capitalized excluding actuarial gains and losses | Actuarial Gain/Loss OM&A | Actuarial Gain/Loss Capital |
|---|---|---|---|---|---|---|
| 2016 | $ 48,391 | $ 64,282 | $ 15,891 | $ - | $ - | $ - |
| 2017 | $ 49,262 | $ 64,025 | $ 14,763 | $ - | $ 54,062 | $ - |
| 2018 | $ 50,149 | $ 64,221 | $ 14,072 | $ - | $ 156,486 | $ - |
| 2019 | $ 51,051 | $ 79,084 | $ 28,033 | $ - | $ 87,052 | $ - |
| 2020 | $ 51,970 | $ 79,554 | $ 27,584 | $ 22,134 | $ 44,149 | $ 12,283 |
| **Total** | $ 250,824 | $ 351,166 | $ 100,342 | | | |
| 2021 | $ 52,958 | $ 75,184 | $ 22,226 | $ 25,429 | -$ 160,680 | -$ 54,346 |
| 2022 | $ 54,547 | $ 63,131 | $ 8,584 | $ 17,383 | $ - | $ - |
| Total to end of 2022 | $ 358,328 | $ 489,481 | $ 131,153 | | | |
| **2023** | **$ 63,142** | **$ 63,142** | | $ 17,387 | $ - | $ - |

2

***EXHIBIT 4 – OPERATING COSTS***

***Interrogatory 4-Staff-61***

***Pension & OPEB***

***Ref 1: EB-2015-0040, Report of the Ontario Energy Board, Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs, September 14, 2017, page 12 & 13***

***Preamble:***

***As per the Report of the OEB, the OEB stated that as the pension and OPEBs accrual amount that is recovered in rates is derived from the accounting expense recognized in net income, utilities who are recovering their pension and OPEB costs on an accrual basis under IFRS will not be able to dispose of any amounts pertaining to actuarial gains and losses because they will never form part of net income.***

***The OEB further stated that for some utilities, the OEB has already approved the use of a deferral account to capture the cumulative actuarial gains or losses in post-retirement benefits.***

***Question(s):***

***a) Please explain Kingston Hydro's proposal regarding its treatment of OPEB actuarial gains and losses for rate-making purposes.***

**Response**

a) Due to the volatile nature of actuarial gains and losses and insignificant amounts over time, Kingston is proposing to not include actuarial gains and losses for rate making purposes.

***EXHIBIT 4 – OPERATING COSTS***

***Interrogatory 4-Staff-62***

***DVAs***
***Ref 1: Exhibit 4, Tab 4, Schedule 1, page 11***
***Ref 2: EB-2015-0040, Report of the Ontario Energy Board Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs, September 14, 2017, p. 8, 11, 12, 21***

***Preamble:***

***As noted in an earlier interrogatory, Kingston Hydro proposes to recover OPEB amounts using the accrual basis, which is different than its 2016 Custom IR proceeding, which used the cash basis.***

***In the Report of the OEB, the OEB stated that if the accrual accounting method is used for either pension and/or OPEB, a variance account will be used to track the difference between the forecasted accrual amount in rates and actual cash payment(s) made. An asymmetric carrying charge sub-account in favour of ratepayers will be used.***

***The OEB directed electricity distributors to establish the following sub-accounts under Account 1522.***

- ***Pension & OPEB Forecast Accrual versus Actual Cash Payment Differential***

- ***Pension & OPEB Forecast Accrual versus Actual Cash Payment Differential Contra Account***
- ***Pension & OPEB Forecast Accrual versus Actual Cash Payment Differential Carrying Charges***

***The OEB stated that utilities are also required to begin recording entries in Account 1522, effective from the date that the utilities' rates are set based on the accrual amount for pensions and OPEBs (i.e. typically the effective date of the rate order of its next cost-based application).***

***Question(s):***

***a) Please confirm that Kingston Hydro will establish the above-noted sub-accounts of Account 1522, effective January 1, 2023, which is the date that Kingston Hydro is proposing to change from the cash basis to the accrual basis for OPEB. If it is not the case, please explain.***

**Response**

a) Confirmed.

***EXHIBIT 4 – OPERATING COSTS***

***Interrogatory 4-Staff-63***

***Shared Services and Corporate Cost Allocation***
***Ref: Exhibit 4, Tab 5, Schedule 1, Page 4-5***

***Preamble:***

***Kingston Hydro states that, included in part of the Shared Service Costs charged to Kingston Hydro Utilities Kingston, are allocated Corporate Costs for services that the City of Kingston provides to Utilities Kingston.***

***a) Please provide a table showing full FTEs for all employees of the City of Kingston providing services to the Applicant, and break down those FTEs into the FTEs allocated to the Applicant (through Utilities Kingston), and the FTEs allocated to other activities of the City including other activities of Utilities Kingston.***
***b) Please provide a table showing full FTEs for all employees of Utilities Kingston providing services to the Applicant and break down those FTEs between the FTEs allocated to the Applicant and the FTEs allocated to each of the other business areas of Utilities Kingston.***

**Response**

a) Below is a table showing City FTEs allocated to Utilities Kingston, and further allocated from Utilities Kingston to Kingston Hydro for Shared Services and

Corporate Cost Allocation.

The City has 207 FTEs in these service areas. Utilities Kingston is allocated 27.2 of those and the remaining 179.7 FTEs are allocated to other activities within the City. Of the 27.2 FTEs allocated to Utilities Kingston, 4.5 FTEs are allocated to Kingston Hydro and the remaining 22.7 FTEs are allocated to other activities of Utilities Kingston.

| Service | Pricing Methodology | Number of FTE | | | FTE Allocated to Kingston Hydro |
|---|---|---|---|---|---|
| | | Total | City | Utilities Kingston | |
| Information System Services | Total IT operating and capital budgets allocated to UK based on proportion of desktop computers. | 50 | 44.1 | 5.9 | 1.4 |
| Client Services | Costs allocated to UK based on tracked time that each staff position spends on UK related inquiries. | 12 | - | 12.0 | 1.4 |
| Human Resources | Payroll and compensation/HRMS budgets allocated to UK based on proportion of full time employees. | 28 | 26.1 | 1.9 | 0.5 |
| Communications | Costs allocated to UK based on an hourly rate applied to estimated hours utilized in communication activities solely for UK programs and initiatives. | 42 | 40.9 | 0.9 | 0.1 |
| Financial Services | Costs allocated to UK based on proportion of time that each staff position spends working on UK accounting related tasks. | 42 | 37.1 | 5.0 | 0.9 |
| Legal services | Costs allocated to Utilities Kingston for legal and insurance services are based on an hourly rate, calculated to recover actual costs incurred in providing the services. | 12 | 11.3 | 0.7 | 0.2 |
| CAO Office | Costs allocated to Utilities Kingston for corporate management oversight / strategic planning. | 7 | 6.4 | 0.6 | - |
| Clerk's Department | Allocation of mailroom and delivery costs, based on proportion of UK pieces of mail to total pieces of mail, including salary costs plus mileage, lease of postage meter and actual postage costs. Provide storage and mangement services for archived files. | 14 | 13.8 | 0.2 | - |
| Social Services | Community Services Investment costs allocated to municipal utility services. | - | - | - | - |
| **Total** | | **207** | **179.7** | **27.2** | **4.5** |

b) FTE tables

| | 2021 Actuals-Utilities Kingston | 2021 Actuals-Kingston Hydro | 2021 Actuals-Other Utilities |
|---|---|---|---|
| **Number of Employees (FTEs including Part-Time)** | | | |
| Management (including executive) | 17.50 | 3.70 | 13.80 |
| Non-Management (union and non-union) | 193.23 | 41.68 | 151.55 |
| Total | 210.73 | 45.38 | 165.35 |

| | 2022 Bridge Year-Utilities Kingston | 2022 Bridge Year-Kingston Hydro | 2022 Bridge Year-Other Utilities |
|---|---|---|---|
| **Number of Employees (FTEs including Part-Time)** | | | |
| Management (including executive) | 19.45 | 3.91 | 15.54 |
| Non-Management (union and non-union) | 221.10 | 44.21 | 176.89 |
| Total | 240.55 | 48.12 | 192.43 |

| | 2023 Test Year-Utilities Kingston | 2023 Test Year-Kingston Hydro | 2023 Test Year-Other Utilities |
|---|---|---|---|
| **Number of Employees (FTEs including Part-Time)** | | | |
| Management (including executive) | 19.95 | 3.91 | 16.04 |
| Non-Management (union and non-union) | 224.85 | 45.46 | 179.39 |
| Total | 244.80 | 49.37 | 195.43 |

***EXHIBIT 4 – OPERATING COSTS***

***Interrogatory 4-Staff-64***

***Regulatory Costs***
***Ref 1: Exhibit 4, Tab 6, Schedule 3, page 1***
***Ref 2: Appendix 2-M***

***Preamble:***

***Kingston Hydro budgeted a one-time cost of $350,00 associated with the regulatory costs to prepare its cost of service application.***

***Question(s):***

***a) Please explain the assumptions used for the $350,000 one-time regulatory cost for the 2023 cost of service proceeding (e.g., how many intervenors, written or oral hearing).***

**Response**

a) From the 2015-0083 proceeding total legal and consulting costs were approximately $220,000. As a starting point for this application, we reduced the previous number by 40% to account for the fact it was a one year cost of service instead of a 5 year custom IR. After the reduction we increased the number by 2.3% per year for inflation for 7 years coming to an amount of $185,000.

For OEB costs, the amount in our records from 2015-0083 is $27,000. Using the same methodology as above, Kingston Hydro has included $23,000 in its application.

For intervenors, the amount in our records from 2015-0083 is $122,076. This amount was not reduced as Kingston felt most inquiries in the last proceeding were based on the 2016 rate year and thus increased by 2.3% per year for an amount of $143,000.

***CCC Interrogatory #23***

***Ref: Ex. 4/T1/S1***

***Please explain the extent to which Kingston Hydro has embedded a level of productivity into its 2023 OM&A budgets. What are the productivity savings expected over the period 2023-2027? Please provide details.***

**Response**

Kingston Hydro is a low rate, low-cost utility as a result of the multi-utility model. Kingston Hydro has filed on the record documented support for the multi-utility costs savings.

Kingston response to IR 1-SEC-5 includes a report submitted in EB-2015-0083 (which was included as Exhibit 1, Tab 2, Schedule 2, Attachment 1). This attachment was prefaced by the writeup at Exhibit 1, Tab 2, Schedule 2 of that proceeding.

The most current CPI numbers for 2022 show year over year inflation at 7.6% in July while Kingston's 2023 OPEX has a forecast increase of 2% over 2022. Productivity would be included in this difference.

Kingston also refers to excel file Kingston Hydro_2023 CoS Appl_Model for Benchmarking Ontario Power Distributors_2020-2023_20220617 which illustrates planned movement to a greater efficiency cohort.

***CCC Interrogatory #24***

***Ref: Ex. 4/T3/S1/p. 2***

***Please explain the significant increase in Office Supplies and Expenses from 2021 to 2022.***

**Response**

"Office Supplies and Expenses" (Account 5620) in the 2022 (bridge) and 2023 (test) years include membership fees of $117,169 and $119,212, respectively. However, in the years 2017 through 2021, membership fees were reported in "Miscellaneous General Expenses" (Account 5665).

***CCC Interrogatory #25***

***Ref: Ex. 4/T1/S1/p. 2***

***Please describe, in detail, the process used by Kingston Hydro to develop the 2022 and 2023 OM&A budgets.***

**Response**

Kingston Hydro's senior leadership team leads the OM&A budget process with the fundamental strategy to leverage economies of scope by participating in the multi-utility model, leverage cross-functional expertise, efficiencies, and external shared services and to monitor and respond to local customer and community needs while maintaining high levels of safety and reliability.

With this guidance from senior leadership, managers build a budget for their respective cost centres, supported and advised by the finance team.

First, managers review the impact of current staffing levels and the organization's capacity to meet business requirements and customer needs as customers transition to greener electricity. These capacity requirements form the basis of the labour component of the budget process where vacancies and compensation are assessed and where possible, leveraged cross-functionally across multiple utilities. Managers review allocations to the different utilities to ensure no cross subsidization between utilities.

Once capacity requirements are established, managers review current YTD expenses

and historical actuals. For the 2022 and 2023 budget process, managers analyzed historic actuals from 2019-2021 to include pre-pandemic expenditures. Managers review program costs both year-over-year and budget-to-actuals. Budgets are adjusted based on forecast program requirements. Where possible, managers build budgets on specific expected costs. In cases where inflation is expected, KHC uses an inflation assumption of 2% with productivity and internal efficiencies expected to offset the difference to current inflation rates.

Kingston Hydro aims to distribute electricity in a safe and reliable manner, meet business and regulatory requirements while meeting customer expectations, keeping rates affordable and providing short and long-term value to the community.

***Interrogatory 4-SEC-20***

***[Ex.4, Appendix 2-JD] Please provide a revised version of Appendix 2-JD that includes three additional columns, showing year-to-date actuals for 2022, and year-to-date actuals at the same point in time in each of 2020 and 2021.***

**Response**

Revised Appendix 2-JD included in the IR responses.

***Interrogatory 4-SEC-21***

***[Ex.4, Appendices 2-JA and 2-JD] The total variance in the 2023 OM&A forecast from actual 2016 of $1.2M ($7.0M to $8.2M) is due to increased Administration and General (A&G) from $2.2M to $3.4M. The increase is primarily in Salaries and Expenses, Outside Services Employed and Regulatory. Please explain the reasons for the increases in these three specific areas.***

**Response**

*Salaries and Expenses*

The increase in Salaries and Expenses is due to the addition of an electrical engineer as discussed in Exhibit 4, Tab 4, Schedule 1 Workforce Planning and Employee Compensation.

*Outside Services Employed*

The increase in Outside Services Employed relates to consulting fees for asset management and planning for distribution stations.

*Regulatory*

The increase in Regulatory is due to the following:

- Increase of $71,800 in 2022 for one-fifth of the costs for the preparation and filing of Kingston Hydro's 2023 Cost of Service Rate Application EB-2022-0044

- Increase of $26,200 in 2022 for consulting expenses with respect to research being done for a potential new distribution station
- Increase of $120,000 in 2023 for the addition of a Regulatory Analyst as discussed in Exhibit 4, Tab 4, Schedule 1 Workforce Planning and Employee Compensation
- Increase of $40,000 in 2023 for OEB cost assessments
- Other inflationary adjustments

***Interrogatory 4-SEC-22***

***[Ex. 4-4-1, p. 2] In 2023 Kingston Hydro is planning to add two positions: an Electrical Engineer and a Regulatory Analyst and expects one substation maintenance position to retire and not be replaced. The increased budget ($159k +$120k) for the two positions is included in A&G:***

***a) Please explain why an Electrical Engineer position is recorded in A&G given the nature of their work.***

***b) Where is the decrease for the substation maintenance position in 2023 shown?***

**Response**

a) This position includes overall system planning and supporting the facilitation of distributed energy resources. The nature of such work may not be applicable to a particular capital asset or capital project.

b) The decrease for the substation maintenance position in 2023 is split between capital (62.5%), maintenance (21.2%), operations (12.3%) and customer-recoverable (4.0%). This effectively reverses the addition in 2022.

***Interrogatory 4-SEC-23***

***[Ex.4-6-3, p. 1, Appendix 2-M, Ex. 9, p.10 Table 5] Kingston Hydro shows the following for OEB assessments:***

| *$000* | *2016 OEB approved* | *2016 actual* | *2017* | *2018* | *2019* | *2020* | *2021* | *2022 forecast* | *2023 forecast* |
|---|---|---|---|---|---|---|---|---|---|
| *Appendix 2-M* | *74* | *73* | | | | | *74* | *79* | *127* |
| *Amount in rates adjusting for IRM* | *74* | *74* | | | | | | | |
| *Table 5 – variance from actual* | | *50* | *56* | *36* | *46* | *44* | *38* | | |
| *Actual amount assessed* | | | | | | | | | |

***a) Confirm that the amount built into rates in 2016 for OEB assessment costs was $74k.***

***b) Complete the table showing the actual amount assessed for all years.***

***c) The updated Cost Assessment Model (CAM) came into effect on April 1, 2022. Is the forecast of $127k in 2023 based on the updated CAM?***

***d) Kingston Hydro states that 'The large increase is because the full amount of the OEB Cost assessment is now requested to be recovered in rates'. Why does Kingston Hydro want to continue Account 1508 OEB Cost Assessment if this is the case?***

**Response**

a) No. The amount in rates in 2016 for OEB assessment costs were $68,069 for Annual Assessment Costs and $3,402 for OEB Section 30 Costs which are OEB-initiated, for a total of $71,471.

b) Completed table below. Additional data added for clarity.

| | 2016 OEB approved | 2016 actual | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 forecast | 2023 forecast |
|---|---|---|---|---|---|---|---|---|---|
| Per Appendix 2-M: | | | | | | | | | |
| OEB Annual Assessment Costs | 68,069 | 68,069 | | | | | 75,154 | 78,700 | 118,000 |
| OEB Section 30 Costs (OEB-initiated) | 3,402 | 474 | | | | | 5,031 | 6,000 | 8,000 |
| Total | 71,471 | 68,543 | | | | | 80,185 | 84,700 | 126,000 |
| | | | | | | | | | |
| IRM % | | | 1.84% | 1.84% | 1.84% | 1.84% | 1.90% | 3.00% | |
| Amount in rates adjusting for IRM | | | | | | | | | |
| OEB Annual Assessment Costs | 68,069 | 68,069 | 69,321 | 70,597 | 71,896 | 73,219 | 74,610 | 76,848 | |
| OEB Section 30 Costs (OEB-initiated) | 3,402 | 3,402 | 3,465 | 3,528 | 3,593 | 3,659 | 3,729 | 3,841 | |
| Total | 71,471 | 71,471 | 72,786 | 74,125 | 75,489 | 76,878 | 78,339 | 80,689 | |
| | | | | | | | | | |
| Table 5 – variance from actual | | 50,053 | 55,904 | 35,682 | 45,611 | 43,503 | 37,770 | | |
| | | | | | | | | | |
| Actual amount assessed: | | | | | | | | | |
| OEB Annual Assessment Costs | | 118,122 | 125,335 | 116,668 | 117,847 | 116,822 | 112,924 | | |
| OEB Section 30 Costs (OEB-initiated) | | 474 | 3,158 | 2,146 | 612 | 4,233 | 5,031 | | |
| Total | | 118,596 | 128,493 | 118,814 | 118,459 | 121,055 | 117,955 | | |

c) No. Kingston has not analyzed the OEB's CAM.

d) Kingston has recorded OEB Cost Assessment Variance in 1508 sub-account for 2016 to 2021. Kingston would record the variance for 2022 and discontinue use of the variance account for 2023.

***OPERATING COSTS (EXHIBIT 4)***

***Interrogatory 4.0 -VECC -21***

***Reference: Exhibit 4, Tab 2, Schedule 1***

***a) Please explain how the estimates for "Miscellaneous Distribution Expense – Account 5085 were estimated for 2022 and 2023.***

**Response**

a) Miscellaneous Distribution Expense includes inventory costs (i.e. inventory write-offs), administration costs, salaries and benefits (GIS and purchasing), municipal taxes, lease & rentals, licence & permit fees.

Kingston Hydro has developed its OM&A budget for the 2022 and 2023 years based on an analysis of historical actuals including pre pandemic expenditures and the impact of current staffing levels. Kingston Hydro needs to ensure it has proper organizational capacity to meet customers' needs as its customers transition to greener electricity and continue to invest in distributed energy resources. Kingston Hydro also needs to ensure proper staffing to operate and maintain the distribution system for continued reliability.

For non-labour items, Kingston Hydro has based its budgets on specific expected costs in 2022 and 2023, to the greatest extent possible. A reasonable expectation for the volume and pricing of individual budget items has been applied, where possible. In cases where inflation is expected, Kingston Hydro has used an inflation

assumption of 2% but now realizes that percentage is likely considerably lower than necessary.

***OPERATING COSTS (EXHIBIT 4)***

***Interrogatory 4.0 -VECC -22***

***Reference: Exhibit 4, Tab 2, Schedule 1, Appendix 2-JD***

***a) Please identify the amount included in each year for the amortized costs of the prior cost of service application in Appendix 2-JD (Account 5655 Regulatory Programs).***

***b) Please confirm (or correct) that $71,800 of the costs of this application are included in the costs of Account 5655 for 2022 (as per page 13 of 16). If this is correct why is the amount different that the 70k shown as 1/5 of the cost of the application in Appendix 2-M?***

***c) What were the costs of the research for a potential new distribution station in 2022?***

**Response**

a) There were no amortized costs included in any of the years for the prior cost of service application. For accounting purposes, these costs were expensed in the year incurred - 2015.

b) Kingston included an approximation in its 2022 budget to reflect 1/5 of the cost of the rate application. It was for illustrative purposes only.

The commencement of the amortization of rate application costs will be 2023 budget. The amount for 2023 will depend on final costs for the application, which is

hoped to be less than the budgeted $350,000 but is unknown at this time. The $70,000 in Appendix 2-M is a placeholder.

c) Costs to mid-August are $6,500.

***OPERATING COSTS (EXHIBIT 4)***

***Interrogatory 4.0 -VECC -23***

***Reference: Exhibit 4, Tab 4, Schedule 1 / Appendix 2-K***

***a) Please amend Appendix 2-K to show the total employee costs capitalized in each year.***

***b) Please also identify in each year and by category (i.e., Management and Non-Management) the number of FTEs whose compensation is 100% charged to Kingston Hydro.***

**Response**

a) Appendix 2-K uploaded on July 7, 2022 titled Kingston Hydro_2023 CoS Appl_Ch 2 Appendices_20220707 shows the total employee costs capitalized in each year.

b)

| | Last Rebasing Year (2016 OEB Approved) | Last Rebasing Year (2016 Actuals) | 2017 Actuals | 2018 Actuals | 2019 Actuals | 2020 Actuals | 2021 Actuals | 2022 Bridge Year | 2023 Test Year* |
|---|---|---|---|---|---|---|---|---|---|
| Number of Employees (FTEs including Part-Time) | | | | | | | | | |
| Management (including executive) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 |
| Non-Management (union and non-union) | 32 | 31 | 30 | 29 | 28 | 27 | 25 | 28 | 29 |
| Total | 33 | 32 | 31 | 30 | 29 | 28 | 26 | 28 | 29 |
| *of the total FTE above, 8 FTE are allocated 100% to Kingston Hydro, 21 FTE are allocated 96% to Kingston Hydro and 4% to recoverable work (i.e. damage claims) and 2 FTE are allocated 75% to Kingston Hydro and 25% to recoverable work | | | | | | | | | |

***OPERATING COSTS (EXHIBIT 4)***

***Interrogatory 4.0 -VECC -24***

***Reference: Exhibit 4, Tab 4, Schedule 1, page 2 -3***

***a) KHC is proposing to add two incremental FTEs - an electrical engineer and a regulatory analyst. Are both of these FTEs anticipated as 100% charge to the distribution utility?***

**Response**

a) Yes. Both FTEs are 100% charged to Kingston Hydro.

***OPERATING COSTS (EXHIBIT 4)***

***Interrogatory 4.0 -VECC -25***

***Reference: Exhibit 4, Appendix 2-K***

***a) Please explain why the 2016 actual FTEs was 44 whereas that approved by the Board for the purpose of rates was 50.***

***b) Was the reduction in FTEs in 2020 and 2021 (by approximately 4 FTEs) related to the pandemic? If not please explain why in these years KHC was able to operate with a substantially smaller workforce.***

**Response**

a) The difference between 2016 Board Approved and 2016 Actual FTEs was due to the following:

- During 2016, an electric overhead journeyperson became Supervisor of Hydro Lines and the electric overhead position was not replaced
- An electric overhead journeyperson was on LTD leave for all of 2016 and this position was not replaced
- A substation maintenance position was vacant for part of 2016
- A new substation maintenance position was expected in 2016 but was not filled until 2017
- In addition, a substation maintenance journeyperson retired during 2016 and this position was not replaced

b) Yes.

***OPERATING COSTS (EXHIBIT 4)***

***Interrogatory 4.0 -VECC -26***

***Reference: Exhibit 4, Appendix 2-k and Appendix 2-JD***

***a) Appendix 2-K shows 4 FTEs for the category of Management (including executive). Appendix 2-JD (OMA by Programs/Accounts) shows that in 2016 the actual Executive Salaries & Expenses was $164,721 and in 2023 it is estimated to be $323,777 an increase of almost 100%. Please explain this large increase in costs for what appears to be the same number of FTEs as in 2016.***

**Response**

a) Executive salaries and expenses are portions of 5 different executives that work on the hydro utility as well as the other municipally owned utilities. This is part of the shared service model that achieves economies of scope for all the utilities, including hydro.

In 2016 a director was erroneously reported in 5610 Management Salaries and Expenses instead of 5605 Executive Salaries and Expenses. This has been corrected in the 2023 estimate.

***OPERATING COSTS (EXHIBIT 4)***

***Interrogatory 4.0 -VECC -27***

***Reference: Exhibit 4, Tab 5, Schedule 1 page 16 – Appendix 2-JD MOA Programs/Account***

***a) Please provide KHC's tree trimming costs for each of 2016 through 2023 (forecast).***

***b) Please provide KHC's fleet service costs for the same years as above in a).***

***c) Under which USoA accounts are tree trimming and fleet service costs captured?***

**Response**

a)

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Forecast 2022 | Budget 2023 |
|---|---|---|---|---|---|---|---|---|
| Overhead Distribution Lines and Feeders - Right of Way | $ 245,894 | $ 351,045 | $ 295,466 | $ 306,439 | $ 415,247 | $ 314,643 | $ 321,767 | $ 364,022 |

b) Kingston Hydro, through its affiliate, Utilities Kingston, receives fleet services from the City of Kingston. Kingston Hydro is charged usage fees for these vehicles based on actual usage. These usage fees include only a maintenance component and are based on actual costs.

During the year, vehicles are charged to jobs at a standard fixed hourly rate. At

year end, there is a true-up between these standard fixed hourly charges and the actual costs. If actual costs are greater, the difference between actual costs and the standard hourly costs is allocated to OM&A and capital work proportionate to vehicle use. If actual costs are less than the standard fixed hourly charges vehicle rate, the difference is credited to Kingston Hydro proportionally allocated to OM&A and capital.

Kingston has discovered that in the period from 2016-2021, that true up portion had not been allocated to capital but was fully allocated to OM&A. While the total actual fleet costs remain unchanged, the allocation between OM&A and capital has been incorrect. Kingston will review processes to ensure proper allocation going forward for 2022 and 2023. The charts below illustrate the "as booked" costs and the "going forward" costs.

| Actual Fleet Costs - as recorded | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| Fleet - OM&A | $ 158,316 | $ 76,442 | $ 114,396 | $ 64,313 | -$ 12,305 | $ 5,277 |
| Fleet - Capitalized | $ 64,905 | $ 122,809 | $ 94,818 | $ 159,469 | $ 198,542 | $ 197,967 |
| Total Actual Fleet Costs | $ 223,221 | $ 199,251 | $ 209,214 | $ 223,781 | $ 186,238 | $ 203,244 |

| Actual Fleet Costs - with correct allocation | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 Forecast | 2023 Budget |
|---|---|---|---|---|---|---|---|---|
| Fleet - OM&A | $ 164,351 | $ 112,085 | $ 113,979 | $ 108,873 | $ 82,292 | $ 95,376 | $ 87,480 | $ 182,550 |
| Fleet - Capitalized | $ 58,871 | $ 87,167 | $ 95,234 | $ 114,909 | $ 103,946 | $ 107,868 | $ 107,062 | |
| Total Actual Fleet Costs | $ 223,221 | $ 199,251 | $ 209,214 | $ 223,781 | $ 186,238 | $ 203,244 | $ 194,542 | |

c) Tree trimming costs are captured in USoA 5135 Overhead Distribution Lines and Feeders – Right of Way.

Fleet service costs are capture in a variety of USoA accounts allocated to jobs as part of the cost of that particular work. The accounts ranged primarily from 5005 through 5160.

***OPERATING COSTS (EXHIBIT 4)***

***Interrogatory 4.0 -VECC -28***

***Reference: Exhibit 4, Appendix 2-JD OMA Programs/Account***

***a) Please explain how the 2022 and 2023 bad debt expense was forecast.***

**Response**

a) Kingston calculated the average Bad Debt expense from 2016 to 2021 ($212,000) and forecast a slightly higher Bad Debt expense of $250,000 for 2022. Kingston anticipates an increase in Bad Debts due to the reduction of Covid supports available which may impact the customer's ability to pay in 2022.

The 2023 budget amount includes an inflationary increase of 2% to $262,500.

***OPERATING COSTS (EXHIBIT 4)***

***Interrogatory 4.0 -VECC -29***

***Reference: Exhibit 4, Appendix 2-JD OMA Programs/Account***

***a) Please explain why the amount for "Office Supplies and Expenses" (Account 5620) is significantly more in the 2022 (bridge) and 2023 (test) years than the actual amounts spent in the years 2016 through 2021.***

**Response**

a) "Office Supplies and Expenses" (Account 5620) in the 2022 (bridge) and 2023 (test) years include membership fees of $117,169 and $119,212, respectively. However, in the years 2017 through 2021, membership fees were reported in "Miscellaneous General Expenses" (Account 5665).

***OPERATING COSTS (EXHIBIT 4)***

***Interrogatory 4.0 -VECC -30***

***Reference: Exhibit 4, Appendix 2-M Regulatory Costs***

***a) For the $350,000 in one-time application costs please provide by the 7 categories shown in Appendix 2-M the amounts incurred to-date.***

***b) Please describe the nature of the consultant (92k) costs and what activity is intended to be captured under the OEB section 30 (23k) costs.***

***c) What was the actual invoiced OEB Annual Assessment costs in 2021 and 2022. If the actual amounts are, as shown in Appendix 2-M: $74.3k and $78.7k then please explain the increase in forecasted costs in 2023 to $126.8k.***

**Response**

a) See attached breakdown of costs incurred regarding this application.

| Type | To | Amount |
|---|---|---|
| Expert Witness costs | | $ - |
| Legal costs | 31-Aug | $ 46,013 |
| Consultants' costs | 31-Aug | $ 16,400 |
| Incremental operating expenses associated with staff resources allocated to this application. | | $ 1,000 |
| Incremental operating expenses associated with other resources allocated to this application. [1] | | $ - |
| Intervenor costs | | $ - |
| OEB Section 30 Costs (application-related) | | $ - |

b) The nature of the consultant costs include assistance related to CDM/LRAM, load forecast, cost allocation, rate design and rate mitigation/modelling.

OEB Section 30 costs are the expected costs to be billed to Kingston Hydro for this application from the OEB.

c) The actual amount invoiced in 2021 was $112,924.

The actual amount invoiced in 2022 year to date is $91,404. A future invoice for Q4 is expected to be $31,000 which would total $122,404 for 2022.

The actual amount for 2023 is expected to be $126,800 which is estimated to be 3.6% more than 2022.