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<b>TO:</b>	<b>Board of Directors</b>	<b>DATE:</b>	<b>September 27, 2022</b>
<b>FROM:</b>	<b>Glen McAllister, CFO/Treasurer</b>	<b>SUBJECT:</b>	<b>2023 Operating and Capital Budget &amp; 2024 Preliminary Operating and Capital Budget</b>

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**Background:**

The annual budget is InnPower's action plan for the coming fiscal year, based upon a series of company objectives and is used for planning, control and performance evaluation. It is used to communicate InnPower's plans to interested parties, stakeholders and coordinate activities between departments and motivate teams to perform within identified restraints.

The budget ensures achievement of plans through a planning control framework, is a tool for decision making and is used for benchmarking against which actual results can be measured.

The Ontario Energy Board, auditors, shareholders, and Board are all interested in the actual performance compared to budget.

**Report****2023 Operating and Capital Budget**

During the 2023 budget process, InnPower executive and management spent considerable time to review each departmental budget to ensure the prudence of every expenditure. To align with the Strategic Plan and to prepare InnPower for the forecasted growth, the 2023 budget presented includes a 6% increase in distribution revenues, 40% increase in other revenues (mainly due to amortization of contributed capital) and a 15% increase in operating expenses.

A substantial amount of time and discussion has been had to ensure that the 2023 budget aligns with the Strategic Plan and fully prepares InnPower for the future. While this budget has a significant increase in operating expenses, overall income from operations (EBITDA) shows an 8% increase.

The CEO and the CFO/Treasurer, in consultation with the Executive and Management Team present the following 2023 Operating and Capital budgets.

## Operating Budget Summary

Operating Budget Summary

	2021	2022	2023	Year to Year % Change
	Actual	Forecast	Budget	
Distribution Revenue	12,287,037	12,832,465	13,607,373	6.0 %
Other Revenue	1,816,570	2,298,623	3,226,172	40.4 %
<b>Total Revenue</b>	<b>14,103,606</b>	<b>15,131,089</b>	<b>16,833,545</b>	<b>11.3 %</b>
Operating Expenses	6,628,224	6,644,940	7,656,701	15.2 %
<b>EBITDA</b>	<b>7,475,382</b>	<b>8,486,149</b>	<b>9,176,843</b>	<b>8.1 %</b>
Depreciation and Amortization	3,248,821	3,597,089	4,463,387	24.1 %
Finance Cost	1,251,044	1,253,205	1,220,316	(2.6)%
Income before Taxes & Regulatory	2,975,517	3,635,855	3,493,140	(3.9)%
Payment in Lieu of Taxes	880,045	1,188,434	925,000	(22.2)%
Net Movement in Regulatory	(501,472)	(826,745)	(65,100)	(92.1)%
<b>Comprehensive Income</b>	<b>2,596,945</b>	<b>3,274,166</b>	<b>2,633,240</b>	<b>(19.6)%</b>

**Total OM&A – \$7,656,701**

Total Operating Expenses by Department

	2021	2022	2023	Year to Year % Change
	Actual	Forecast	Budget	
Distribution Operations	1,548,761	1,303,870	1,741,822	33.6 %
Distribution Maintenance	1,049,233	762,309	880,390	15.5 %
Customer Relations	1,222,641	1,323,891	1,265,748	(4.4)%
Internal Support Services	2,807,589	3,254,870	3,768,741	15.8 %
<b>Operating Expenses</b>	<b>6,628,224</b>	<b>6,644,940</b>	<b>7,656,701</b>	<b>15.2 %</b>

**Customer Growth – 4.2%**

	Actual 2017	Actual 2018	Actual 2019	Actual 2020	Actual 2021	Forecast 2022	Budget 2023	# Change
Residential	16,096	16,954	17,409	18,037	18,415	19,248	20,098	850
GS<50	1,037	1,109	1,140	1,165	1,210	1,299	1,321	22
GS>50	92	93	84	79	77	74	83	9
Sentinel Lights (Non-Retail)	160	162	198	193	189	191	191	0
Street Lights (Non-Retail)	3,044	3,195	3,320	3,588	3,852	4,039	4,201	162
USL	73	75	74	71	71	78	78	0
<b>Total</b>	<b>20,502</b>	<b>21,588</b>	<b>22,225</b>	<b>23,133</b>	<b>23,814</b>	<b>24,929</b>	<b>25,972</b>	<b>1,043</b>
<b>% Change</b>		<b>5.3 %</b>	<b>3.0 %</b>	<b>4.1 %</b>	<b>2.9 %</b>	<b>4.7 %</b>	<b>4.2 %</b>	<b>Ave 4.0 %</b>

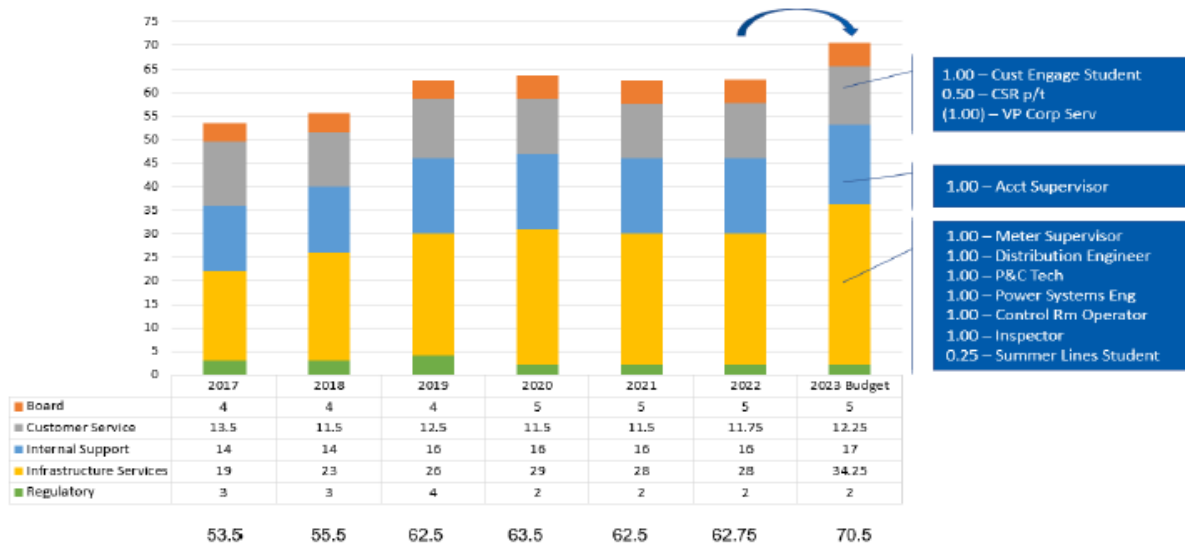
**Controllable Cost per Customer - \$364**

	Actual 2017	Actual 2018	Actual 2019	Actual 2020	Actual 2021	Forecast 2022	Budget 2023
Controllable Costs per Customer	365	335	312	333	340	329	364

## Total Net Capital Budget – \$11,484,597

2023 Capital Budget by Investment Category (000's)			
Category	Gross Budget	Contributions from Others	Net Budget
General Plant	1,155	0	1,155
System Access	21,958	(20,934)	1,024
System Expansion	3,457	(2,987)	470
System Renewal	9,994	(8,250)	1,744
System Services	11,967	(4,875)	7,091
<b>All</b>	<b>48,530</b>	<b>(37,046)</b>	<b>11,485</b>

## Full Time Equivalent – 7.75



## 2024 Preliminary Operating and Capital Budget

In preparation for the upcoming cost of service (COS) application to be filed in April 2023, the Executive and Management Team is looking for conditional approval of the 2024 preliminary operating and capital budgets. As with the 2023 budget, the team has prepared and reviewed the 2024 preliminary budget for prudence and alignment with the Strategic Plan. The 2024 preliminary budget presented includes an 8% increase in distribution revenues, 14% increase in other revenues and a 1.4% increase in operating expenses. While the operating expense increase is less than the prior year, additional staffing compliments in 2024 have been considered and the team is comfortable proceeding with the COS application using the budget presented. For your information, the 2024 final budget will incorporate the outcome of the upcoming COS decision and order. InnPower should receive the final decision and order on the COS application in the fourth quarter of 2024.

A substantial amount of time and discussion has been had to ensure that the 2024 preliminary budget aligns with the Strategic Plan and fully prepares InnPower for the future. While this budget has a significant increase in operating expenses, overall income from operations (EBITDA) shows an 8% increase.

The CEO and the CFO/Treasurer, in consultation with the Executive and Management Team present the following 2024 preliminary Operating and Capital budgets.

## Operating Budget Summary

Operating Budget Summary

	2022	2023	2024	Year to Year % Change
	Forecast	Budget	Outlook	
Distribution Revenue	12,832,465	13,607,373	14,669,912	7.8 %
Other Revenue	2,298,623	3,226,172	3,669,523	13.7 %
<b>Total Revenue</b>	<b>15,131,089</b>	<b>16,833,545</b>	<b>18,339,434</b>	<b>8.9 %</b>
Operating Expenses	6,644,940	7,656,701	7,764,078	1.4 %
<b>EBITDA</b>	<b>8,486,149</b>	<b>9,176,843</b>	<b>10,575,356</b>	<b>15.2 %</b>
Depreciation and Amortization	3,597,089	4,463,387	5,091,443	14.1 %
Finance Cost	1,252,499	1,220,316	1,169,241	(4.2)%
Income before Taxes & Regulatory	3,636,561	3,493,140	4,314,672	23.5 %
Payment in Lieu of Taxes	1,188,434	925,000	1,100,000	18.9 %
Net Movement in Regulatory	(826,039)	(65,100)	(65,100)	(0.0)%
<b>Comprehensive Income</b>	<b>3,274,166</b>	<b>2,633,240</b>	<b>3,279,772</b>	<b>24.6 %</b>

**Total OM&A – \$7,764,078**

Total Operating Expenses by Department

	2022	2023	2024	Year to Year % Change
	Forecast	Budget	Outlook	
Distribution Operations	1,303,870	1,741,822	1,715,890	(1.5)%
Distribution Maintenance	762,309	880,390	906,669	3.0 %
Customer Relations	1,323,891	1,265,748	1,308,473	3.4 %
Internal Support Services	3,254,870	3,768,741	3,833,245	1.7 %
<b>Operating Expenses</b>	<b>6,644,940</b>	<b>7,656,701</b>	<b>7,764,078</b>	<b>1.4 %</b>

**Customer Growth – 4.8%**

	Actual 2018	Actual 2019	Actual 2020	Actual 2021	Forecast 2022	Budget 2023	Outlook 2024	# Change
Residential	16,954	17,409	18,037	18,415	19,248	20,098	21,135	1,037
GS<50	1,109	1,140	1,165	1,210	1,299	1,321	1,332	11
GS>50	93	84	79	77	74	83	86	3
Sentinel Lights (Non-Retail)	162	198	193	189	191	191	191	0
Street Lights (Non-Retail)	3,195	3,320	3,588	3,852	4,039	4,201	4,398	197
USL	75	74	71	71	78	78	78	0
<b>Total</b>	<b>21,588</b>	<b>22,225</b>	<b>23,133</b>	<b>23,814</b>	<b>24,929</b>	<b>25,972</b>	<b>27,220</b>	<b>1,248</b>
% Change		3.0 %	4.1 %	2.9 %	4.7 %	4.2 %	4.8 %	Ave 3.9 %

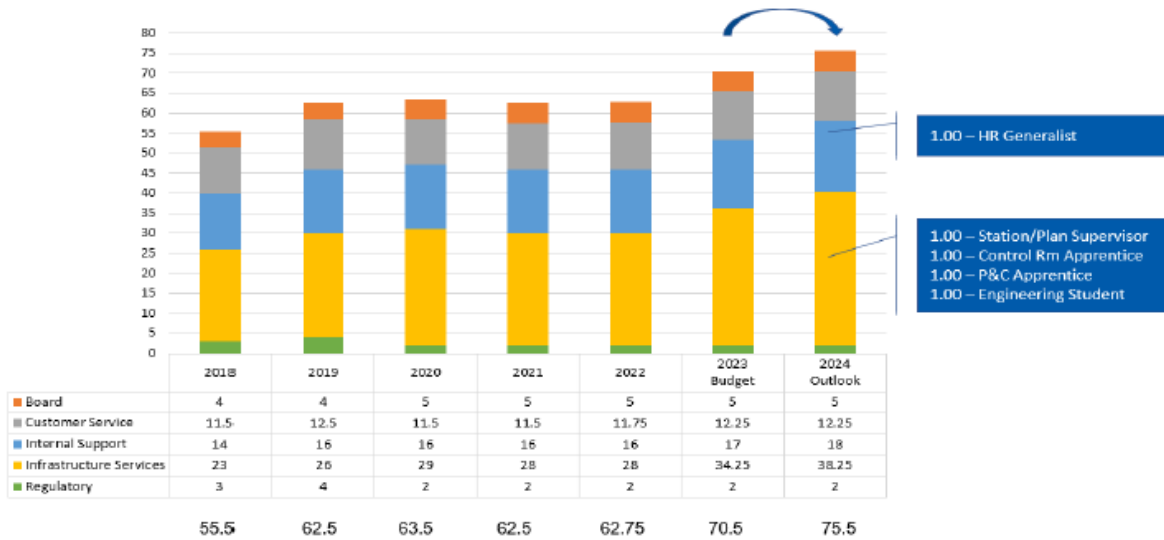
**Controllable Cost per Customer - \$352**

	Actual 2018	Actual 2019	Actual 2020	Actual 2021	Forecast 2022	Budget 2023	Outlook 2024
Controllable Costs per Customer	335	312	333	340	329	364	352

**Total Net Capital Budget – \$13,843,739**

2024 Capital Outlook by Investment Category (000's)			
Category	Gross Budget	Contributions from Others	Net Budget
General Plant	930	0	930
System Access	20,823	(18,573)	2,250
System Expansion	2,587	(2,587)	0
System Renewal	1,529	0	1,529
System Services	12,234	(3,100)	9,134
<b>All</b>	<b>38,104</b>	<b>(24,260)</b>	<b>13,844</b>

**Full Time Equivalent - 5**



**Recommendation:**

It is recommended that the staff report and the presentation of the 2023 Operating and Capital budgets be received.

Further, it is recommended that the 2023 OM&A budget, totaling \$7,656,701, be approved.

Further, it is recommended that the 2023 Net Capital budget, totaling \$11,484,597 be approved.

Further, it is recommended that the presentation of the 2024 Preliminary Operating and Capital budgets be received.

Further, it is recommended that the 2024 Preliminary OM&A budget, totaling \$7,764,078 be tentatively approved.

Further, it is recommended that the 2024 Preliminary Net Capital budget, totaling \$13,843,739 be tentatively approved.

**Presented By: Glen McAllister, CFO**