

2021 and 2022 Budget Presentation

AUDIT COMMITTEE

NOVEMBER 23, 2020

Impact on Cost Types during Cost of Service Process

COST COMPONENT OF REVENUE REQUIREMENT	AMOUNT	IMPACT ON	
		CUSTOMER	LONDON HYDRO EQUITY
OM&A	\$38M	Pass Through Costs	None
Other Revenue	(\$5M)	Offsets Revenue Requirement and Rates for Customers	None
Amortization Expense	\$17M	Pass Through Costs (longer life of asset, less impact)	None
Payment in Lieu of Taxes	\$1M	Pass Through Costs	None
Deemed Interest (mathematical calculation)	\$5M	Pass Through Costs	Incremental Interest on Unused Debt Contributes to NI
Deemed ROE (mathematical calculation)	\$10M	Increased ROE % = Increased Rates	“Expected” Profit Generated for London Hydro

Amounts are based on the 2017 Approved Cost of Service rates.

OM&A – 2017 – 2022 (Excluding Cloud Costs)

	Impact (\$k)	BALANCE (\$k)
2017 Actual w/o Cloud		37,225
Inflation & customer growth	4,746	41,971
Customer Collection Charges (EB2017-0318/0183)	363	42,334
Lost CDM recoveries	325	42,659
Pole leasing	52	42,711
Tree Trimming	133	42,844
Credit Cards	87	42,931
Other Items	95	43,026
Total 2022 OM&A w/o Cloud		<u>43,026</u>

The change in OM&A w/o Cloud is a CAGR of 2.9%

OM&A – 2017 – 2022 (Including Cloud Costs)

	Impact (\$k)	BALANCE (\$k)
2017 Actual		38,091
Inflation & customer growth	4,940	43,031
Customer Collection Charges (EB2017-0318/0183)	363	43,394
Lost CDM recoveries	325	43,719
Pole leasing	52	43,771
Tree Trimming	133	43,904
Credit Cards	87	43,991
Other Items	828	44,819
Total 2022 OM&A		<u>44,819</u>

The change in OM&A is a CAGR of 3.3%

Performance History

YEAR	NET INCOME*	RoDE*	CAPITAL COSTS**	RELIABILITY: SAIDI	RELIABILITY: SAIFI
2020+	\$10.6M	7.4%	42.7M	0.84	1.01
2019	\$12.3M	8.9%	\$38.4M	0.80	1.14
2018	\$13.3M	10.2%	\$35.5M	0.82	1.40
2017	\$11.1M	9.2%	\$32.5M	0.93	1.00
2016	\$10.9M	9.2%	\$33.9M	0.97	1.03
2015	\$13.3M	11.6%	\$30.9M	0.93	1.08
2014	\$15.1M	13.5%	\$26.4M	0.98	1.21

*Excludes the Unrealized Gain/Loss on SWAP

**Excludes capital contributions

+Projected

2021 Budget Quick Facts

2021 BUDGET IN CAPSULE FORM

ITEM		NOTES
Distribution Revenue Increasing By	2.1%	Customer growth 1.0%, Rates increasing by 1.7%,
Controllable Expenses Decreasing By	1.5%	
Net Income	\$8.8M	
Return on Deemed Equity	5.7%	
Dividend to the City Remains At	\$5M	
Capital Spending	(net) \$46.4M	
Anticipated Cash Flow Impact	decrease of \$15M	

Distribution Revenue - 2021

- Distribution Revenue is budgeted to increase by \$1.4M (2.1%) compared to 2020 budget.
- Assumptions:
 - Rates increase by 1.7% (approved IRM amount)
 - Residential Revenue \$45.9M (\$44.6M - 2020)
 - Residential customer growth of 1.1% (\$565k).
 - Distribution Revenue for residential customers is 100% based off a fixed charge
 - All other Distribution Revenue \$24.9M (\$24.7M - 2020)
 - Usage projected to be reduced due to the continued impact of COVID-19

Capital Expenditures - 2021

- Net Capital Expenditures are budgeted to be \$46.4M (2020 – \$38.5M)
 - Infrastructure Projects – \$20M (2020 – \$19M)
 - Increase due to the final payment for the Nelson TS Station to Hydro One.
 - Demand Projects – \$20.5M (2020 – \$12.5M)
 - City works includes the first phase of BRT.
 - Equipment (meters, vehicles, etc.) – \$3.6M (2020 – \$4.0M)
 - Office Property & Equipment – \$3.6M (2020 – \$2.6M)
 - Information Systems – \$5.6M (2020 – \$6.6M)
 - Capital Contributions from Customers – \$6.5M (2020 – \$6.5M)

2021 Capital Asset Summary

SIMPLIFIED RATE BASE		
2020 Estimated Rate Base		\$359,000
2021 Budget Additions	\$46,400	
Less: Amortization	<u>(\$21,200)</u>	
Rate Base Increase from Additions		\$25,200
2021 Estimated Rate Base		<u>\$384,200</u>
Change in Rate Base		7.0%

2021 Controllable Expenses

2020 Budget	\$43.7M	
2021 Budget	<u>\$43.0M</u>	
Budget Decrease	<u>\$0.7M</u>	1.5% Decrease

2021 Incremental Controllable Expenses

Labour	-\$986k	-3.4%
Non-Labour	<u>\$313k</u>	2.1%
	<u>-\$673k</u>	1.5% Decrease

2021 Labour & Benefits – Detail

CAUSE	GROSS \$k IMPACT	COMMENTS
Gross Wage Escalation	\$600	2.1% escalation based on union agreement
Allocation to Capital	(400)	Increased allocation to capital.
Job Progression	100	Promotion / pay escalation for newer employees
Non-Leap Year	(100)	Remove February 29th in the 2020 budget.
Benefits	300	Statutory (CPP), OMERS & Benefits
Removal of Positions	(700)	Eliminated positions.
Change in “Unfilled” Heads Allocation	(750)	Set up “Allowance” associated with historical open heads.
Other	(36)	Includes impact of rounding items above
Total	<u>-\$986</u>	

2021 Other Revenue

- Other Revenue is budgeted to decrease by \$0.4M (5%) compared to 2020 budget. The most significant changes from the 2020 Budget are:
 - Interest Earned – \$800k decrease
 - 2021 – \$429k (2020 – \$1,277k)
 - Interest rates have decreased significantly and therefore the interest earned for cash on hand as well as carrying charges on regulatory balances have decreased significantly.
 - Contributed Capital – \$143k increase
 - 2021 – \$824k (2020 – \$675k)
 - Non-cash item. This is an offset to depreciation expense.
 - Late Payment Charges - \$300k increase
 - 2021 – \$1.9M (2020 – \$1.6M)
 - Due to the increased overdue accounts since the pandemic, additional late payment charges are expected for 2020.

2021 Summarized Cash Flow

INCOMING CASH	AMOUNT
Net Income	\$8.8M
Amortization	\$21.2M
Regulatory Recoveries	\$6.0M
Other	<u>\$0.7M</u>
Total Cash Available	<u>\$36.0M</u>

OUTGOING CASH	AMOUNT
Net Capital Purchases	\$46.8M
Dividend	\$5.0M
Total Cash Spent 2021	<u>\$51.8M</u>
Total net cash used	\$15.1M

2022 Budget Quick Facts

2021 BUDGET IN CAPSULE FORM

ITEM		NOTES
Distribution Revenue Increasing By	10%	Increase is based primarily on the approved cost of service application (8 months at new rates, 4 months of existing rates)
Controllable Expenses Increasing by	4.2%	
Net Income	\$15.3M	Includes the unrealized gain from the expiration of the SWAP. Excluding the SWAP adjustment, NI - \$12.1M
Return on Deemed Equity	7.3%	Only 8 months at new distribution rates
Dividend to the City Remains At	\$5M	
Capital Spending	(net) \$39.3M	
Anticipated Cash Flow Impact	decrease of \$2M	

Distribution Revenue - 2022

- Distribution Revenue is budgeted to increase by \$7.0M (10%) compared to 2021 budget.

- Assumptions:

- 4 months at 2021 Rates \$23.875M

- 8 months at 2022 COS approved rates

- (Revenue requirement of \$81,000) \$54.0M

Total Distribution Revenue \$77.875M

Capital Expenditures - 2022

- Net Capital Expenditures are budgeted to be \$39.3M (2021 – \$46.4M)
 - Infrastructure Projects – \$18.8M (2021 – \$20.2M)
 - Decrease due to the final payment for the Nelson TS Station to Hydro One of \$1.5M made in 2021.
 - Demand Projects – \$14.2M (2021 – \$20.5M)
 - Significantly less BRT related work in 2022 compared to 2021.
 - Equipment (meters, vehicles, etc.) – \$3.6M (2021 – \$3.6M)
 - Office Property & Equipment – \$2.4M (2021 – \$3.6M)
 - Information Systems – \$5.7M (2021 – \$5.6M)
 - Capital Contributions from Customers – \$4.6M (2021 – \$6.5M)

2022 Capital Asset Summary

SIMPLIFIED RATE BASE		
2021 Estimated Rate Base		\$384,200
2022 Budget Additions	\$39,300	
Less: Amortization	<u>(\$22,900)</u>	
Rate Base Increase from Additions		\$16,400
2022 Estimated Rate Base		<u>\$400,600</u>
Change in Rate Base		4.2%

2022 Controllable Expenses

2021 Budget	\$43.0M	
2022 Budget	<u>\$44.8M</u>	
Budget Decrease	<u>\$1.8M</u>	4.2% Increase

2022 Incremental Controllable Expenses

Labour	\$1,190k	4.2%
Non-Labour	<u>\$631k</u>	4.3%
	<u>\$1,821k</u>	4.2% Increase

2022 Labour & Benefits – Detail

CAUSE	GROSS \$K IMPACT	COMMENTS
Gross Wage Escalation	\$800	2.5% escalation based on union agreement
Allocation to Capital	(300)	Increased allocation to capital mostly related to the wage escalation.
Job Progression	\$100	Promotion / pay escalation for newer employees
Benefits	\$300	Statutory (CPP), OMERS & Benefits
Change in “Unfilled” Heads Allocation	\$250	Reduction in the expected open heads. (\$500K)
Other	40	Includes impact of rounding above items
Total	<u>\$1,190</u>	

2022 Non-Labour – Incremental Expenses

CAUSE	\$K IMPACT	COMMENTS
New IT/Cloud Costs	\$200	Enhanced cyber security; Increased cloud costs from self service
Credit Card Fees	75	Net cost of accepting VISA in addition to MasterCard
Facilities	80	Insurance & various anticipated repairs
Fleet	70	Increased vehicle amortization and maintenance
All Other (collectively)	186	All other items including inflationary increases
Total	<u>\$631</u>	

2022 Other Revenue

- Other Revenue is budgeted to decrease by \$0.1M (1%) compared to 2021 budget. The most significant changes from the 2021 Budget are:
 - Interest Earned – \$200k decrease
 - 2021 – \$200k (2021 – \$429k)
 - As the cash on hand has been used for capital projects, less cash will be earning interest.
 - Contributed Capital – \$139k increase
 - 2021 – \$963k (2020 – \$824k)
 - Non-cash item. This is an offset to depreciation expense.
 - Late Payment Charges - \$300k decrease
 - 2021 – \$1.6M (2021 – \$1.9M)
 - Overdue and Aged accounts are expected to return back to historic levels and therefore the associated late payment charges have also decreased.

2022 Summarized Cash Flow

INCOMING CASH	AMOUNT
Net Income	\$15.3M
Amortization	\$22.9M
Regulatory Recoveries	\$5.0M
Total Cash Available	<u>\$43.2M</u>

OUTGOING CASH	AMOUNT
Net Capital Purchases	\$39.3M
Dividend	\$5.0M
Other	1.2M
Total Cash Spent 2022	<u>\$44.3M</u>
Total drain on Cash flow Requirements	\$2.3M

Projected Changes in Revenue Requirement between 2017 and 2022

COST COMPONENT OF REVENUE REQUIREMENT	2017	2022	CAGR
Rate Base*	303,070	408,250	6.1%
Revenue Requirement*	66,300	81,000	4.4%
OM&A	\$38,M	44.8M	3.3%
OM&A w/o Cloud	\$37M	43M	2.9%
Other Revenue	(\$5M)	(\$7M)	7.0%
Amortization Expense	\$17M	\$22.7	5.6%
Payment in Lieu of Taxes	\$1M	\$1.7M	11.2%
Deemed Interest * (mathematical calculation)	\$5M	\$6.4M	5.1%
Deemed ROE * (mathematical calculation)	\$10M	\$12.5M	4.6%

- 2022 amounts are based on rate base and deemed percentage estimates.