



# 2017 Cost of Service Rate Application

OEB Community Meeting  
Welland Community Wellness Centre  
January 31, 2017



# Governance and Corporate Structure

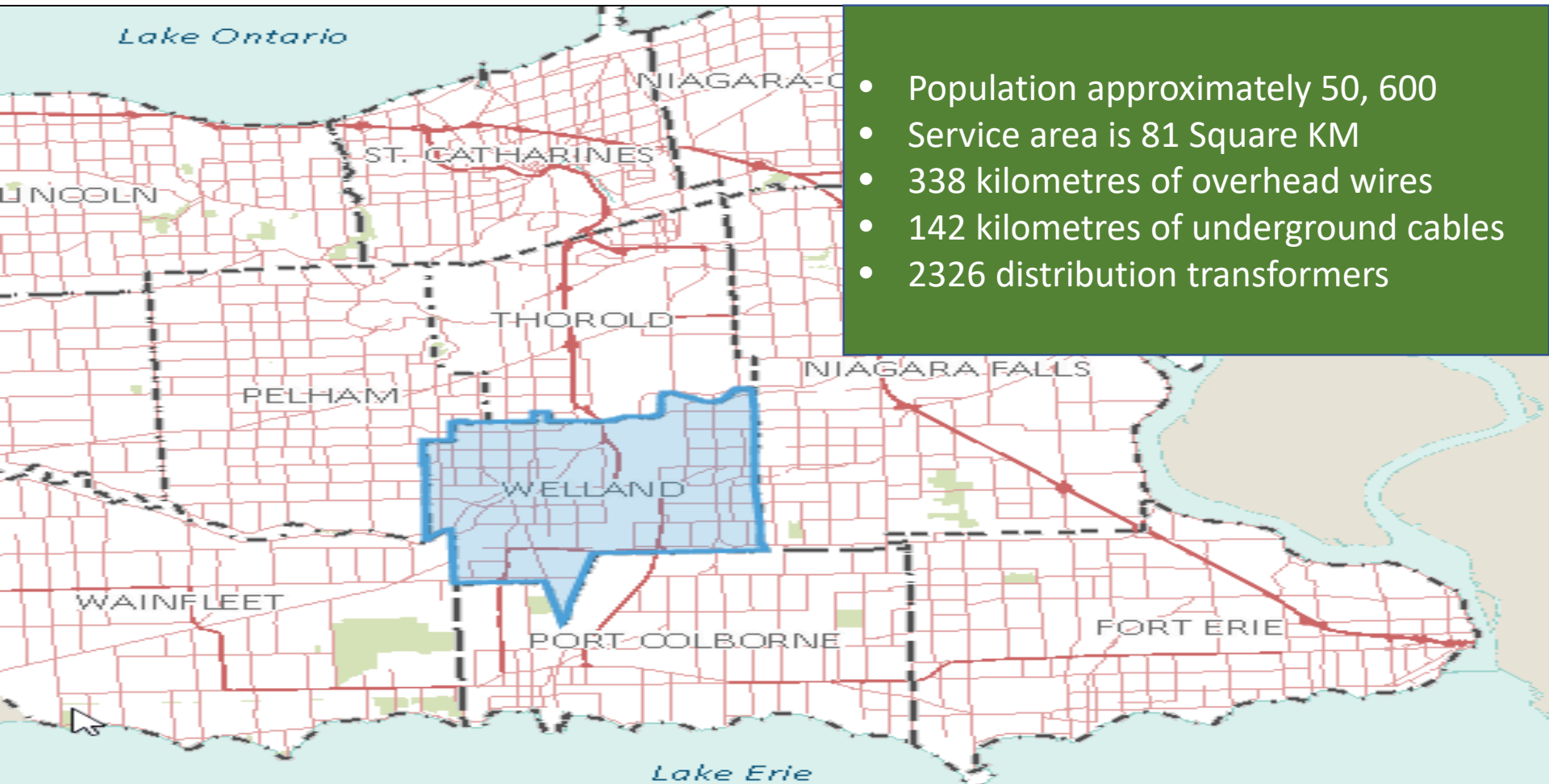


**WELLAND HYDRO-ELECTRIC  
HOLDING CORP.**



- Wholly owned by the City of Welland
- Independent corporation governed by a Board of Directors
- Managed by a Senior Leadership Team

# Service Area Profile



- Population approximately 50, 600
- Service area is 81 Square KM
- 338 kilometres of overhead wires
- 142 kilometres of underground cables
- 2326 distribution transformers

# Performance Scorecard

To provide customers with a better understanding of how their local electricity utility is performing relative to other distribution companies across the province, the Ontario Energy Board compiles an annual Scorecard to measure and communicate Welland Hydro's performance:

## 2015 HIGHLIGHTS

### 1. Customer Focus:

- 90% Customer Satisfaction Survey
- 99.99% Billing Accuracy

### 2. Operational Effectiveness:

- Total Cost/Customer 12<sup>th</sup> lowest in Province
- Average number of outages per customer per year is 1.39 (2016 - 0.91)
- Average length per outage is 1.74 hours (2016 – 0.63)

# Scorecard - Welland Hydro-Electric System Corp.

9/29/2016

Performance Outcomes	Performance Categories	Measures	2011	2012	2013	2014	2015	Trend	Target	
									Industry	Distributor
<b>Customer Focus</b>  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%	94.00%	100.00%	👍	90.00%	
		Scheduled Appointments Met On Time	99.70%	99.70%	99.40%	99.70%	98.50%	👍	90.00%	
		Telephone Calls Answered On Time	99.90%	98.40%	99.00%	96.90%	98.50%	👍	65.00%	
	Customer Satisfaction	First Contact Resolution				78%	84			
		Billing Accuracy				99.99%	99.99%	👍	98.00%	
		Customer Satisfaction Survey Results				88%	90			
<b>Operational Effectiveness</b>  Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	Safety	Level of Public Awareness					84.00%			
		Level of Compliance with Ontario Regulation 22/04 <sup>1</sup>	C	C	C	C	C	👍		C
		Serious Electrical Incident Index Number of General Public Incidents Rate per 10, 100, 1000 km of line	0	0	0	0	0	👍		0
			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 <sup>2</sup>	2.84	1.26	4.86	1.53	1.74	👍		2.27
		Average Number of Times that Power to a Customer is Interrupted <sup>2</sup>	1.92	1.33	2.34	1.76	1.39	👎		1.80
	Asset Management	Distribution System Plan Implementation Progress				On Track	On Track			
	Cost Control	Efficiency Assessment		2	2	2	2			
		Total Cost per Customer <sup>3</sup>	\$463	\$482	\$472	\$483	\$493			
		Total Cost per Km of Line <sup>3</sup>	\$33,562	\$23,071	\$23,533	\$23,278	\$23,293			
<b>Public Policy Responsiveness</b> 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 <sup>4</sup>					6.78%			25.50 GWh
	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time	50.00%							
		New Micro-embedded Generation Facilities Connected On Time			100.00%	100.00%	100.00%	👍	90.00%	
<b>Financial Performance</b>  Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)	2.87	2.84	1.42	1.61	1.50			
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio	1.23	1.16	1.15	0.87	0.84			
		Profitability: Regulatory Return on Equity Deemed (included in rates) Achieved	8.01%	8.01%	8.93%	8.93%	8.93%			
			5.74%	6.73%	10.50%	9.98%	8.72%			

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 fixed 5-year (2010 to 2014) average 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 new 2015-2020 Conservation First Framework. This measure is under review and subject to change in the future.

**Legend:**

5-year trend  
 👍 up   👎 down   ➡ flat

Current year  
 🟢 target met   🟠 target not met



# Summary of Historical Expenditures (Million\$)

	2013 COS	2013	2014	2015
OM&A Expenses	\$6.4	\$6.2	\$6.2	\$6.3
Capital Expenditures	\$2.0	\$2.1	\$2.2	\$2.2

## Highlights of Projects Completed 2013 to 2015 (Million\$)

### **Total Capital Spending 2013 to 2015 - \$6.5**

- Overhead Line Renewal - **\$3.4**
- Underground Rebuild - **\$1.4**
- Vehicle Replacement - **\$0.6**
- Computer Systems - **\$0.4**

# Cost of Service (COS) Rate Application

# Background

## Welland Hydro:

- is funded by the distribution rates paid by its customers
- must submit evidence to justify the amount of funding it needs to operate
- gathers and considers the input and preferences of customers in planning and prioritizing its spending



# Rate Setting Process

- Welland Hydro's last Cost Of Service (COS) application resulted in rates effective:
  - **May 1, 2013- Overall Reduction of (3.3)% (Change in Accounting Methodology)**
- Between COS applications, marginal increases to distribution rates were approved based on inflation and less an adjustment designed to promote efficiency:
  - **May 1, 2014 1.55% increase**
  - **May 1, 2015 1.45% increase (Loss of large user)**
  - **May 1, 2016 1.95% increase**
- Through the COS process the rates are rebalanced to consider the actual level of prudent costs associated with operating and maintaining the distribution system
- The rate impact is forecasted to be greatest in the first year (2017- projected to start May 1, 2017) and lower in the subsequent years (2018-2021)

# Highlights of Customer Preferences and Planned Responses

Welland Hydro has a comprehensive and ongoing customer engagement program, featuring multiple consultation activities over the past few years

Preference Identified	Planned Response
<b>Maintain System Reliability</b> <ul style="list-style-type: none"><li>1. Proactive and consistent approach to system maintenance.</li><li>2. Proactive replacement of aging infrastructure (little support for a run-to-failure).</li><li>3. Invest in the equipment and tools needed to manage the system efficiently.</li></ul>	<ul style="list-style-type: none"><li>1. Preventative Maintenance Programs</li><li>2. Asset Condition Assessment &amp; Health Index</li><li>3. Prioritize Capital Spending within General Plant Capital</li></ul>
<b>Affordable Price</b> <ul style="list-style-type: none"><li>1. Prudent financial planning and investment strategy.</li><li>2. Demonstrate cost savings.</li><li>3. Programs to help customers better manage electricity consumption and lower bills</li></ul>	<ul style="list-style-type: none"><li>1. Levelized Capital Spending</li><li>2. Reduction of Two (2) Full Time Employees</li><li>3. Customer Connect</li></ul>
<b>Enhanced Customer Services</b> <ul style="list-style-type: none"><li>1. Improved estimated time of restoration (ETOR) during outages.</li><li>2. Better communication on CDM programming and tools to manage electricity usage.</li><li>3. Customer representatives should demonstrate empathy and customer respect.</li></ul>	<ul style="list-style-type: none"><li>1. Improved Social Media Communications</li><li>2. Target Marketing of SaveONenergy programs through local media outlets</li><li>3. Enhanced Customer Service Representative Training</li></ul>

# Customer Engagement

## How does Welland Hydro listen to its customers:

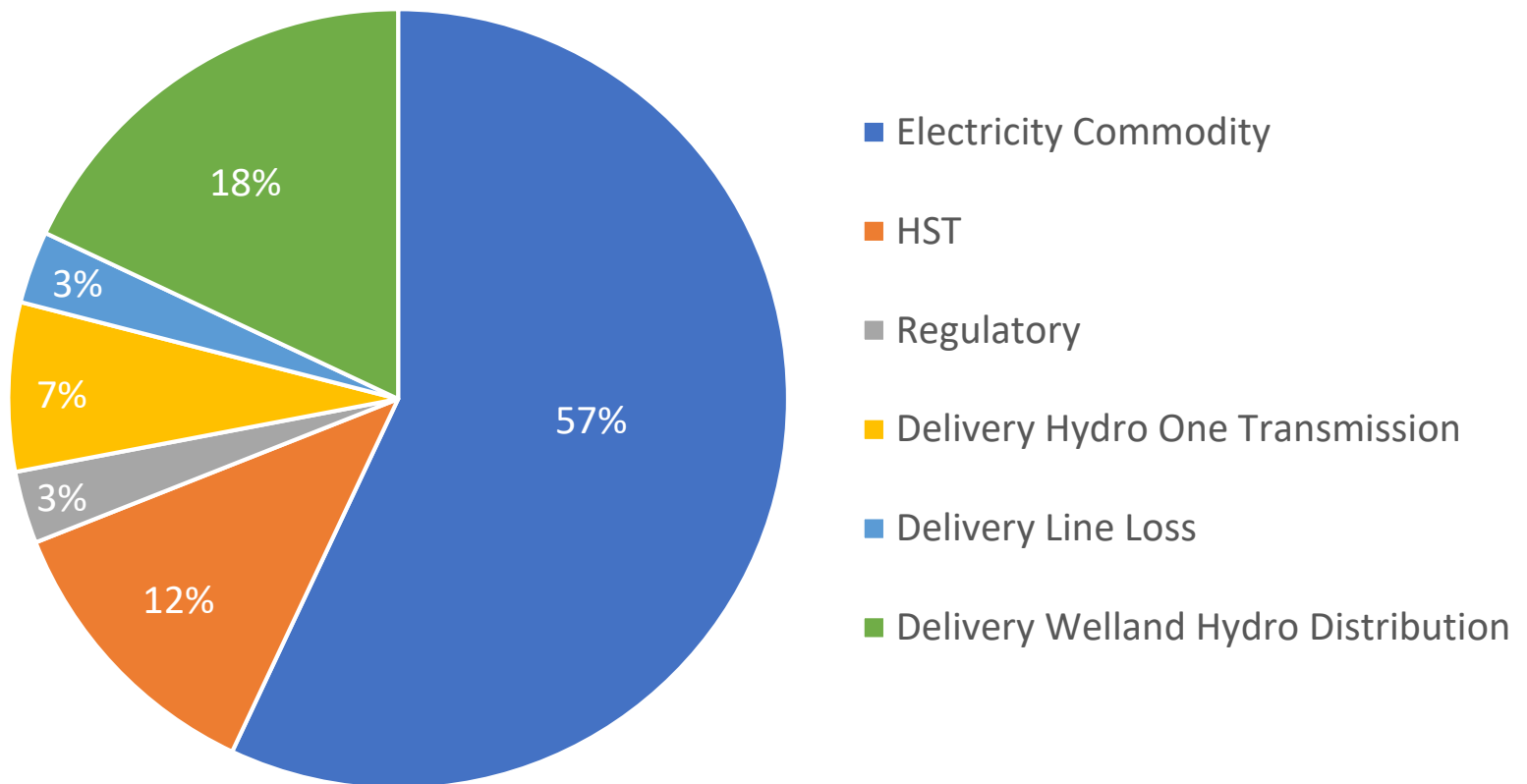
1. Customer Satisfaction Surveys (2013 – 2016)
2. Community Meetings/Corporate Calls for Commercial Accounts
3. 2017 Rate Application (August 2016)
  - Customer Focus Group - Residential
  - Customer Focus Group - Small Business
  - Telephone Surveys Seeking Customer Input
  - Meetings with Large Commercial/Industrial Customers
4. Local Customer Contact Centre
  - Phone/Email
  - \*In Person\*
5. Meetings with Local Social Agencies

# Understanding where your money goes...

Your Electricity Charges – Residential 750 kWh per month		
<b>Electricity</b>		
Off-Peak @ \$.08700		\$42.41
Mid-Peak @ \$.13200		\$16.83
On-Peak @ \$.1800		\$24.30
<b>Delivery</b>	WHESC (\$27.14)	\$41.92
<b>Regulatory Charges</b>		\$4.99
<b>Debt Retirement</b>		\$0.00
<b>Total Electricity Charges</b>		\$130.45
<b>HST</b>		<u>\$16.96</u>
<b>Total Amount</b> (*Before 8% Provincial Rebate Effective January 1, 2017)		<b>\$147.41</b>
<b>*Total Amount After Provincial Rebate</b>		<b>\$136.97</b>

# Understanding where your money goes...

## Percentage of Charges



# Impact of 2017 to 2021 COS Application

## May 1, 2017 Implementation Date

Year	Average Residential Bill	Distribution Portion of the Bill (excl. Pass Through)	Change from Previous Yr. – Distribution excl. Pass Through	Change From Previous Yr.-Total Bill (incl. tax)	% Change (on total bill)
2016	\$147.41	\$27.14			
2017	\$148.69	\$28.75	\$1.61	\$1.28	0.86%
2018	\$149.26	\$29.25	\$0.50	\$0.57	0.38%
2019	\$149.84	\$29.76	\$0.51	\$0.58	0.39%
2020	\$150.43	\$30.28	\$0.52	\$0.59	0.39%
2021	\$151.03	\$30.81	\$0.53	\$0.60	0.40%

Bill Impacts are calculated on a typical monthly bill for the average residential customer consuming 750 kWh per month. Future years' increases are illustrative projections only.

## Bill Impact – Average Residential

	<b>Current</b>	<b>Proposed</b>	<b>\$ Change</b>
WHESC Charges	\$27.14	\$28.75	\$1.61
Other Distribution Charges	\$3.80	\$3.57	(\$0.23)
Transmission Charges	\$10.98	\$10.76	(\$0.22)
<b>Sub-Total Delivery</b>	<b>\$41.92</b>	<b>\$43.08</b>	<b>\$1.16</b>
Regulatory Charges	\$4.99	\$4.96	(\$0.03)
Electricity (Time of Use)	\$83.54	\$83.54	\$0.00
HST	\$16.96	\$17.11	\$0.15
<b>Total Bill Impact Before Rebate</b>	<b>\$147.41</b>	<b>\$148.69</b>	<b>\$1.28</b>
8% Provincial Rebate	(\$10.44)	(\$10.53)	(\$0.09)
<b>Total Bill Impact After Rebate</b>	<b>\$136.97</b>	<b>\$138.16</b>	<b>\$1.19</b>



# Planned Capital Investments

## System Access

**Definition:** Investments that respond to customer requests for new connections or new infrastructure development. These are high priority, “must do” projects, as Welland Hydro is mandated to connect new customers to the distribution system.

**Projects include:** new subdivision and business customer connections, and relocating assets based on infrastructure needs

## System Renewal

**Definition:** These projects are a mix of planned end-of-life replacement and assets susceptible to failure in the near term.

**Projects include:** substation upgrades, and underground cable, overhead cable and pole & transformer replacements

## System Service

**Definition:** These investments consist of projects that improve system reliability and customer service.

**Projects include:** automated switches and improved distribution monitoring equipment

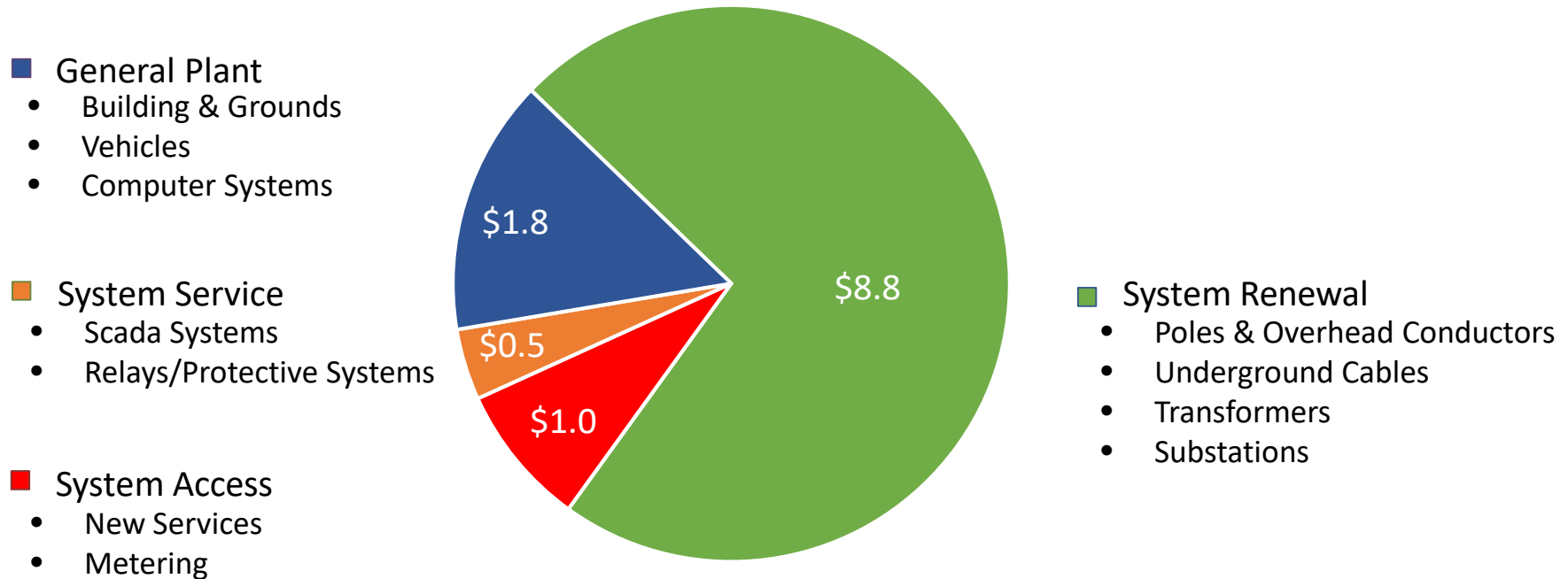
## General Plant

**Definition:** These investments, such as tools, vehicles, buildings and the information technology systems used to manage financial and customer information, are required to operate and maintain the distribution system efficiently and service customers.

**Projects include:** financial and customer information system upgrades, vehicle replacement

# Planned Capital Investments

## Forecasted Capital Expenditures, 2017- 2021 (\$12.1million)



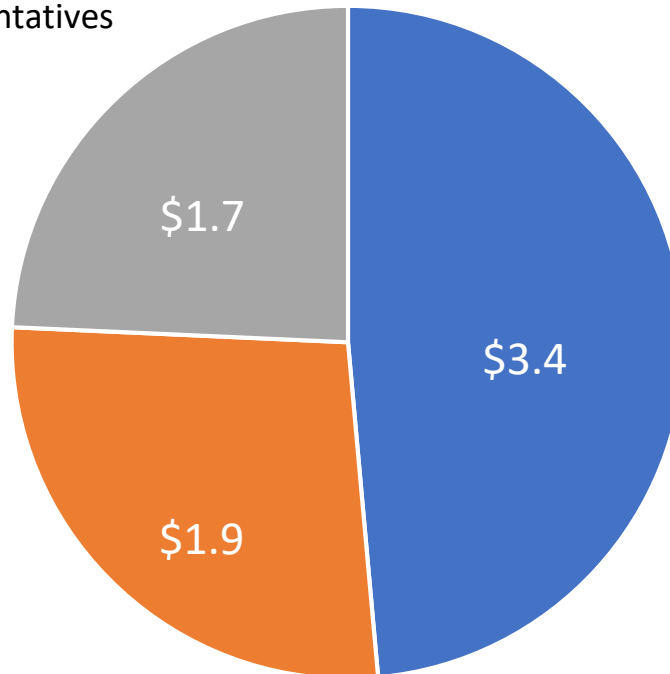
# 2017 Planned OM&A Expenses (Million\$)

## ■ Customer Service

- Customer Contact Representatives
- Customer Billing Systems
- Postage

## ■ Administrative & General

- Administrative/Accounting
- IT Systems
- Regulatory Expenses
- Audit/Legal/Consulting



## ■ Operations and Maintenance

- Line/Metering Departments
- Engineering
- Vehicle Maintenance
- Vegetation Control
- Locates
- Preventative Maintenance Programs

# The Risks

## 1. Welland Hydro capital expenditures are primarily related to System Renewal (73%) to Sustain / Enhance System Reliability

### Risks

- Delaying investments in the distribution system will ultimately cost even more to fix in the long-run.
- An unreliable system, plagued by power quality issues will make it difficult for Welland to attract new business.
- Climate change has led to the increased occurrence of adverse weather and major storms. Without investments in system renewal and hardening, longer and more frequent power service interrupts may become the norm.

## 2. Recovery of OM&A Expenses

### Risks

- 2017 COS manpower of 41 is a reduction of two (2) from the 2013 COS
  - Further reductions could impact:
    - Customer service activities
    - Preventative maintenance programs
    - Outage response times
    - Long term workforce planning

# Feedback, Discussion and Results

## Contact Information:

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