



An impact fee is a one-time fee charged to new development to pay for the cost of system infrastructure necessary to serve that particular development. Impact fees do not pay for “project improvements” (such as the power distribution lines within a new subdivision); instead, impact fees pay for “system improvements” (or the portion thereof) necessary to serve that development (such as a portion of substation upgrades that increase the capacity of the entire system).

IMPACT FEE FACILITIES PLAN SUMMARY

The purpose of the Impact Fee Facilities Plan is to identify the system improvements necessary to serve the electrical demands of new development within HL&P’s service territory. Based on the expected growth within the Company’s service area, the Company obtained load flow studies by an outside engineering firm that identify the expected needs of the system. From those reports, the Company has identified specific facilities necessary to serve that expected new growth and the costs of those facilities. The Impact Fee Facilities Plan includes only those facilities that are required to serve new growth and does not include costs of replacement or repair of existing assets. Since the Company’s electrical system is operating very near capacity and the system operates as one combined unit rather than discrete parts, the Impact Fee Facilities Plan assumes that the system has no existing excess capacity to serve new growth. All of this means that the Impact Fee Facilities Plan includes only those projects that are required to serve the expected growth within HL&P’s service territory. In turn, impact fees collected in the future will only be spent on these projects.

IMPACT FEE ANALYSIS SUMMARY

While the Impact Fee Facilities Plan analyzes the new facilities necessary to serve future growth, the Impact Fee Analysis calculates the amount of the impact fee to be paid by each development project that places additional demand on the Company’s electrical system. The purpose of the Impact Fee Analysis is to calculate the appropriate amount of impact fees to be charged to new development so that new customers are not subsidizing existing customers or vice-versa, all while maintaining the current level of service provided by HLP. The Impact Fee Analysis relies on data from HLP’s Impact Fee Facilities Plan, which in turn relies on a number of studies by outside parties and HLP’s capital improvements plan. HLP engaged an outside consultant to prepare the Impact Fee Analysis. The Impact Fee Analysis accounts for the contributions (through normal

electrical rates) of new customers toward capital projects and then calculates the gap between that amount and the Company's costs of providing the facilities necessary to serve those new customers. That number then forms the basis for calculating impact fees that allow new customers to cover the costs of facilities necessary to serve those new customers. The impact fee for a given development is expressed on a per-kVA basis, which accounts for both the service size (in amps) of the electrical connection that that customer and the voltage at which electricity is supplied to that customer. The per-kVA impact fee is based on the costs of serving a typical residential customer, and the per-kVA rate is then applied to all new service connections. The recommended impact fee per the Impact Fee Analysis is \$70.47 per kVA. Recommended impact fees for a given service size and voltage are listed in table in the Impact Fee Analysis.