London Hydro Inc.

2013 Cost of Service Rate Application (EB-2012-0146/ EB- 2012-0380) Response to Interrogatories

Administrative Documents (Exhibit 1)

Board Staff Interrogatories Questions:

Letters of Comment

Question OEB 1

Has London Hydro received any letters of comment following its publication of the Notice of Application and Hearing on November 14, 2012? If so, please provide a copy of the letter(s) and London Hydro's response, removing any information that would identify the author(s).

Response OEB 1

London Hydro has not received any letters of comment following our publication of the Notice and Hearing on November 14, 2012.

Consolidation of Corrections and/or Modifications to the Revenue Requirement

Question OEB 2

Upon completion of all Board staff interrogatories, please identify any responses that contain any corrections or adjustments that London Hydro wishes to make to the revenue requirement.

a) *Please provide a log of each correction or adjustment*
b) *Please make any corrections or adjustments to the Revenue Requirement Work Form, in the middle column, leaving the first column unchanged from the application as filed.*

c) Please indicate the percentage change in the base revenue requirement resulting from the corrections and adjustments, and if the change is substantial provide an updated Appendix 2-W with impacts based on recalculated rates.

Response OEB 2

a) The log of corrections or adjustments that is proposed by London Hydro in response to Board staff interrogatories is contained in Table 1: Log of Proposed Corrections or Adjustments.

The Table for the Log of Proposed Corrections or Adjustments is as follows.

Table 1: Log of Proposed Corrections and Adjustments

Topic	Description	Referenced	Base Revenue Change
Water Billing Contract	In Original Sept 25, 2012 Application London Hydro recovery for water billing services was $3,950,000. This correct amount is in fact $3,750,000, a difference of $200,000 in OM&A.	Board Staff # 35 a) Cost Recovery	$ 201,865

Propose Adjustment:

a) Referenced Q #35 and Water Billing Contract

#35. Cost Recovery

References: Exh 4, pp. 77 and 102

In Exhibit 4 the forecast cost recovery for London Hydro's water billing services provided to the City of London is described at page 77, with a forecast amount of $3,950,000. At page 102, forecast price is shown at $3,750,000, against an incremental cost of $1,030,000.

Corrected cost recovery from Water Billing Services is in fact $3,750,000 and not $3,950,000 as reflected in the original Application. OM&A proposed adjusted reflects an increase of $200,000, or base revenue change of $201,865.

b) The revised Revenue Requirement work form is included as Excel filing LondonHydro__Rev_Reqt_Work_Form__Amended_20130108. As per Board staff request, only the middle column reflects proposed corrections and adjustments.

Copy of the updated Revenue Requirement Workform (Tab 9, Revenue Requirement)

Revenue Requirement

Line No.	Particulars	Application		Interrogatory Responses		Per Board Decision	
1	OM&A Expenses	$33,844,562	a).	$34,044,562		$34,044,562	
2	Amortization/Depreciation	$15,788,219		$15,906,200		$15,906,200	
3	Property Taxes	$ -					
5	Income Taxes (Grossed up)	$934,484		$934,783		$934,783	
6	Other Expenses	$ -					
7	Return						
	Deemed Interest Expense	$8,648,455		$8,634,049		$8,634,049	
	Return on Deemed Equity	$9,834,653		$9,818,270		$9,818,270	
	Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS	$117,981		$32,354		$32,354	
8	**Service Revenue Requirement (before Revenues)**	$69,168,354		$69,370,218		$69,370,218	
9	Revenue Offsets	$3,397,982		$3,397,982		$ -	
10	**Base Revenue Requirement (excluding Tranformer Owership Allowance credit adjustment)**	$65,770,372		$65,972,236		$69,370,218	
11	Distribution revenue	$65,770,371		$65,972,236		$65,972,236	
12	Other revenue	$3,397,982		$3,397,982		$3,397,982	
13	**Total revenue**	$69,168,353		$69,370,218		$69,370,218	
14	**Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)**	($0)	(1)	$ -	(1)	$ -	(1)

Notes

(1) Line 11 - Line 8

a). Water Billing Services recovery adjusted from $3,950,000 to corrected amount of $3,750,000, for a difference in OM&A of $200,000.

c) The percentage change in the base revenue requirement resulting from proposed corrections and adjustments as reflected in The Table for the Log of Proposed Corrections or Adjustments totals 0.3%.

As reflected in the Table the total change from proposed corrections and adjustments to the total base revenue requirement is $201,566. The total base revenue requirement originally requested in this Application was $65,770,372. Therefore, the total base revenue requirement total percentage change calculates to 0.3%.

As the percentage change in total base revenue requirement is small, the updated Appendix 2-W with impacts based on recalculated rates has not been provided in this response.

London Properties Management Association (LPMA) Interrogatories Questions:

LPMA #1

Ref: OEB #2

In the response to part (a) of the question, London Hydro shows only one change in the Log of Proposed Corrections and Adjustments (Table). That change is an increase in OM&A of $200,000 related to a correction for water billing services recovery. However, in the Revenue Requirement Work Form (Amended) provided in response to part (b) of the question, there are a number of other changes from that originally submitted.

a) Please explain the reduction in Gross Fixed Assets of $471,922 shown on the Rate Base and Working Capital sheet of the RRWF. Please indicate the interrogatory response that gives rise to this change.

b) Please explain the increase in Depreciation/Amortization of $117,981 shown on the Utility Income sheet of the RRWF. Please indicate the interrogatory response that gives rise to this change.

c) Please explain the reduction in the Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS of $85,626 shown on the Utility Income sheet of the RRWF. Please indicate the interrogatory response that gives rise to this change.

d) Please explain why Income Taxes (line 4) increased as a result of the interrogatory responses despite a reduction in Taxable Income (line 3) as shown on the Taxes/PILs sheet of the RRWF. Please indicate the drivers of this increase despite a decrease in taxable income.

e) Please explain the increase of $5,789 shown at line 2 of the Revenue Deficiency/Sufficiency sheet of the RRWF in the At Proposed Rates column.

Response LPMA #1

Preamble: Recordings as identified in LPMA IR # 1 a) to d) are associated with OEB interrogatory # 63. The interrogatory requests that both Appendix CH-2 (copy below) and RRFW form (copy below) are amended to agree with guidelines made during an OEB MIFRS webinar.

As stated in the Board staff interrogatory question #63,

In the Modified IFRS Webinar (specifically Examples 1 & 2 related to PP&E Deferral Account) , the total difference in the closing net PP&E, CGAAP vs. MIFRS is split into 2 parts: the amortization portion and the return on rate base. Please refer to the flow of data in Appendix 2-EB to the RRWF, Revenue Requirement Tab and Appendix 2-CH provided in the webinar. The amortization portion of the PP&E is included in the total "Amortization/Depreciation" line and the return on rate base of the PP&E is shown under a separate item in the "Return" line in the RRWF, Revenue Requirement Tab. Note that the total amortization/depreciation comes from Appendix 2-CH (test year MIFRS).

Although London Hydro has made these adjustments to both Appendix CH-2 and RRFW form, the final result is no change in the revenue requirement total.

Appendix 2-EB
IFRS-CGAAP Transitional PP&E Amounts
2013 Adopters of IFRS for Financial Reporting Purposes

For applicants that adopt IFRS on January 1, 2013 for financial reporting purposes

Note: this sheet should be filled out if the applicant adopts IFRS for its financial reporting purpose as of January 1, 2013.

	2009 Rebasing Year	2010	2011	2012	2013 Rebasing Year	2014	2015	2016
Reporting Basis	CGAAP	IRM	IRM	IRM	MIFRS	IRM	IRM	IRM
Forecast vs. Actual Used in Rebasing Year	Forecast	Actual	Actual	Forecast	Forecast			
			$	$	$	$	$	$
PP&E Values under CGAAP								
Opening net PP&E - Note 1				215,885,605				
Additions				51,647,497				
Depreciation (amounts should be negative)				-23,094,191				
Net book value of disposals				-800				
Closing net PP&E (1)				244,438,111				
PP&E Values under MIFRS (Starts from 2012, the transition year)								
Opening net PP&E - Note 1				215,885,605				
Additions				50,962,797				
Depreciation (amounts should be negative)				-22,881,290				
Net book value of disposals				-923				
Closing net PP&E (2)				243,966,189				
Difference in Closing net PP&E, CGAAP vs. MIFRS (Shown as adjustment to rate base on rebasing)				471,922				
Account 1575 - IFRS-CGAAP Transitional PP&E Amounts								
Opening balance				-	471,922	353,942	235,961	117,981
Amounts added in the year				471,922				
Sub-total				471,922	471,922	353,942	235,961	117,981
Amount of amortization, included in depreciation expense - Note 2					(117,981)	(117,981)	(117,981)	(117,981)
Closing balance in deferral account				471,922	353,942	235,961	117,981	-

Effect on Revenue Requirement	
Amortization of deferred balance as above - Note 2	117,981
Return on Rate Base Associated with deferred PP&E balance at WACC - Note 3	32,354
Amount included in Revenue Requirement on rebasing	150,335

WACC	6.86%
Disposition Period - Note 4	**4**

Revenue Requirement Work Form (Amended as per Board staff IR Response #2 and # 63)

Data Input [1]

		Initial Application	(2)	Adjustments		Interrogatory Responses
1	**Rate Base**					
	Gross Fixed Assets (average)	$421,406,711		($471,922)		$ 420,934,789
	Accumulated Depreciation (average)	($194,026,004)	(5)			($194,026,004)
	Allowance for Working Capital:					
	Controllable Expenses	$33,844,562		$200,000	a.	$ 34,044,562
	Cost of Power	$335,766,210				$ 335,766,210
	Working Capital Rate (%)	11.42%	(9)			11.42%
2	**Utility Income**					
	Operating Revenues:					
	Distribution Revenue at Current Rates	$59,355,023		$0		$59,355,023
	Distribution Revenue at Proposed Rates	$65,770,371		$201,865		$65,972,236
	Other Revenue:					
	Specific Service Charges	$2,264,982		$0		$2,264,982
	Late Payment Charges	$1,133,000		$0		$1,133,000
	Other Distribution Revenue					
	Other Income and Deductions					
	Total Revenue Offsets	$3,397,982	(7)	$0		$3,397,982
	Operating Expenses:					
	OM+A Expenses	$33,844,562		$200,000	a.	$ 34,044,562
	Depreciation/Amortization	$15,788,219	(10)	$117,981		$ 15,906,200
	Property taxes					
	Other expenses					
3	**Taxes/PILs**					
	Taxable Income:					
	Adjustments required to arrive at taxable income	($6,496,114)	(3)			($6,496,114)
	Utility Income Taxes and Rates:					
	Income taxes (not grossed up)	$696,658				$696,864
	Income taxes (grossed up)	$934,484				$934,783
	Federal tax (%)	15.00%				15.00%
	Provincial tax (%)	10.45%				10.45%
	Income Tax Credits	($153,000)				($153,000)
4	**Capitalization/Cost of Capital**					
	Capital Structure:					
	Long-term debt Capitalization Ratio (%)	56.0%				56.0%
	Short-term debt Capitalization Ratio (%)	4.0%	(8)			4.0%
	Common Equity Capitalization Ratio (%)	40.0%				40.0%
	Prefered Shares Capitalization Ratio (%)	0.0%				0.0%
		100.0%				100.0%
	Cost of Capital					
	Long-term debt Cost Rate (%)	5.58%				5.58%
	Short-term debt Cost Rate (%)	2.08%				2.08%
	Common Equity Cost Rate (%)	9.12%				9.12%
	Prefered Shares Cost Rate (%)	0.00%				0.00%
	Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS ($)	$117,981	(11)	($85,627)		$32,354

a) Board staff interrogatory # 63 e) through i) gives rise to this change. London Hydro's reply as to matter:

" …the original amount reported as Gross Fixed Assets (average) in the RRWF included the IFRS-CGAAP Transitional amount, which has now been corrected. The average of gross fixed assets reported in the RRWF as originally filed and that reported in the amended version provided can be summarized as follows:"

	Cost Dec 31, 2012	Cost Dec 31, 2013	Average
MIFRS, Gross Fixed Assets January 1, 2012 per 2012 continuity schedule (OEB Appendix 2-B)	428,343,345	443,392,388	
Differences between OEB Appendix 2-B and RRWF Gross Fixed Assets			
Work-in-progress	(10,617,840)	(10,617,840)	
Renewable generation assets	(3,785,237)	(4,845,237)	
	(14,403,077)	(15,463,077)	
MIFRS, NBV January 1, 2012 per OEB Appendix 2-CG	413,940,268	427,929,311	841,869,579
			/2
			420,934,789
IFRS-CGAAP Transitional amount			471,922
Gross Fixed Assets (average) as originally reported			421,406,711
Less: IFRS-CGAAP Transitional amount			(471,922)
Gross Fixed Assets (average) per amended RRWF			420,934,789

63 h) provides response that the Gross Fixed Assets (average), to agree with Board's MIFRS webinar requirements, should total $420,934,789 and not what was originally filed, an amount of $421,406,711. The adjustment of $471,922 credit permits Gross Fixed Asset (average) to total $420,934,789.

b) The Board staff interrogatories associated with the recording of $117,981 to Depreciation on the RRFW form is 63 a) through d), and particularly IR 63 c).
The IR response stated in 63 c) by London Hydro is:

The RRWF has been amended so that depreciation expense is provided in the amount of $15,906,200, which now corresponds to that provided in Appendix 2-CH and Appendix 2-B. The original amount reported excluded the amortization of the IFRS-CGAAP Transitional amount since this amount was inadvertently reported under the line item for Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS.

Therefore in order to satisfy Board's MIFRS webinar requirements, Depreciation was adjusted to $15,906,200 from original amount filed of $15,788,219, an adjustment total of $117,981.

c) The Board staff interrogatory associated with the recording of $85,627 credit to Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS is on the RRFW form is 63 a).

The RRWF was amended so that the Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS is provided in the amount of $32,354 as per the amended Appendix 2-EB. The amount originally reported represented the amortization of the IFRS-CGAAP Transitional amount, due to a misunderstanding of the presentation requirements.

d) London Hydro's apologies as to this matter in that adjusted Distribution Revenue and Utility Income Taxes and Rates were not correctly updated in the RRFW Data Input sheet. We would like to thank LPMA for identifying this error.

A corrected Revenue Requirement Work Form- Tab #6 Taxes/ PILS can be referenced below. Both Income Tax (line 4) and Taxable Income (line 3) have reductions in balances from original filing.

Revenue Requirement Work Form- Tab #6 Taxes/ PILS (Amended as per Board staff IR Response #2 and # 63/ LPMA #1 d and e)

Taxes/PILs

Line No.	Particulars	Application	Interrogatory Responses
	Determination of Taxable Income		
1	Utility net income before taxes	$9,834,653	$9,818,270
2	Adjustments required to arrive at taxable utility income	($6,496,114)	($6,496,114)
3	Taxable income	$3,338,539	$3,322,156
	Calculation of Utility income Taxes		
4	Income taxes	$696,658	$692,252
6	Total taxes	$696,658	$692,252
7	Gross-up of Income Taxes	$237,826	$236,345
8	Grossed-up Income Taxes	$934,484	$928,596
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	$934,484	$928,596
10	Other tax Credits	($153,297)	($153,297)
	Tax Rates		
11	Federal tax (%)	15.00%	15.00%
12	Provincial tax (%)	10.45%	10.45%
13	Total tax rate (%)	25.45%	25.45%

e) Associated with the adjustments identified in LPMA IR # 1 d), the corrections to revenue requirements and PIL/ Income in the Revenue Requirement Work Form Input Sheet have resulted in the Tab #8 Revenue Deficiency/ Sufficiency eliminating the variance amount of $5,789. This is reflected in the following Table.

Revenue Requirement Work Form- Tab #8 Revenue Deficiency/ Sufficiency (Amended as per Board staff IR Response #2 and # 63/ LPMA #1 d and e)

Revenue Deficiency/Sufficiency

Line No.	Particulars	Initial Application		Interrogatory Responses	
		At Current Approved Rates	At Proposed Rates	At Current Approved Rates	At Proposed Rates
1	Revenue Deficiency from Below		$6,414,951		$6,611,027
2	Distribution Revenue	$59,355,023	$59,355,420	$59,355,023	$59,355,023
3	Other Operating Revenue Offsets - net	$3,397,982	$3,397,982	$3,397,982	$3,397,982
4	**Total Revenue**	$62,753,005	$69,168,353	$62,753,005	$69,364,032
5	Operating Expenses	$49,632,781	$49,632,781	$49,950,762	$49,950,762
6	Deemed Interest Expense	$8,648,455	$8,648,455	$8,634,049	$8,634,049
7	Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS	$117,981 (2)	$117,981	$32,354 (2)	$32,354
8	**Total Cost and Expenses**	$58,399,217	$58,399,217	$58,617,165	$58,617,165
9	**Utility Income Before Income Taxes**	$4,353,787	$10,769,136	$4,135,840	$10,746,867
10	Tax Adjustments to Accounting Income per 2013 PILs model	($6,496,114)	($6,496,114)	($6,496,114)	($6,496,114)
11	**Taxable Income**	($2,142,327)	$4,273,022	($2,360,274)	$4,250,753
12	Income Tax Rate	25.45%	25.45%	25.45%	25.45%
13	**Income Tax on Taxable Income**	($545,222)	$1,087,484	($600,733)	$1,081,894
14	**Income Tax Credits**	($153,297)	($153,297)	($153,297)	($153,297)
15	**Utility Net Income**	$5,052,306	$9,834,652	$4,889,870	$9,818,271
16	**Utility Rate Base**	$269,590,257	$269,590,257	$269,141,175	$269,141,175
17	Deemed Equity Portion of Rate Base	$107,836,103	$107,836,103	$107,656,470	$107,656,470
18	Income/(Equity Portion of Rate Base)	4.69%	9.12%	4.54%	9.12%
19	Target Return - Equity on Rate Base	9.12%	9.12%	9.12%	9.12%
20	Deficiency/Sufficiency in Return on Equity	-4.43%	0.00%	-4.58%	0.00%
21	Indicated Rate of Return	5.08%	6.86%	5.02%	6.86%
22	Requested Rate of Return on Rate Base	6.86%	6.86%	6.86%	6.86%
23	Deficiency/Sufficiency in Rate of Return	-1.77%	0.00%	-1.83%	0.00%
24	Target Return on Equity	$9,834,653	$9,834,653	$9,818,270	$9,818,270
25	Revenue Deficiency/(Sufficiency)	$4,782,346	($0)	$4,928,400	$1
26	**Gross Revenue Deficiency/(Sufficiency)**	$6,414,951 (1)		$6,611,027 (1)	

Revenue Requirement Work Form- Tab #9 Revenue Requirement (Amended as per Board staff IR Response #2 and # 63/ LPMA #1 d and e)

Revenue Requirement

Line No.	Particulars	Application			Interrogatory Responses
1	OM&A Expenses	$33,844,562	a) $200,000		$34,044,562
2	Amortization/Depreciation	$15,788,219			$15,906,200
3	Property Taxes	$ -			
5	Income Taxes (Grossed up)	$934,484			$928,596
6	Other Expenses	$ -			
7	Return				
	Deemed Interest Expense	$8,648,455			$8,634,049
	Return on Deemed Equity	$9,834,653			$9,818,270
	Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS	$117,981			$32,354
8	**Service Revenue Requirement (before Revenues)**	$69,168,354			$69,364,031
9	Revenue Offsets	$3,397,982			$3,397,982
10	**Base Revenue Requirement (excluding Tranformer Owership Allowance credit adjustment)**	$65,770,372			$65,966,049
11	Distribution revenue	$65,770,371			$65,966,050
12	Other revenue	$3,397,982			$3,397,982
13	**Total revenue**	$69,168,353			$69,364,032
14	**Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)**	($0)		(1)	$1

LPMA #2

Ref: Exhibit 1, page 15

Please confirm that despite the opportunity to defer the adoption of IFRS to January 1, 2014, London Hydro has adopted IFRS as of January 1, 2013. If this cannot be confirmed, please explain.

Response LPMA #2

London Hydro will be accepting the deferral for IFRS provided by the AcSB to adopt IFRS as of January 1, 2014 for financial statement purposes. Section 2.3.4 of the Ontario Energy Board Filing Requirements For Electricity Transmission and Distribution Applications last revised on June 28, 2012 indicates the following:

"For those applicants that must adopt IFRS for financial reporting purposes by January 1, 2013, 2013 cost of service applications must be filed on the basis of Modified IFRS ("MIFRS")….Per the Board's letter of April 30, 2012, 2013 cost of service application are to be filed on the basis of MIFRS."

In a further letter dated July 17, 2012 from the OEB it reads "This letter serves to provide the Board's regulatory account policy direction to electricity distributors on matters arising from the one year-deferral option for the IFRS changeover in 2012. The Board will permit electricity distributors electing to remain on Canadian GAAP ("CGAAP") in 2012…The Board however will require that these changes be mandatory in 2013 for all distributors that have not yet made these changes, even if there is a further option to defer IFRS changeover in 2013."

Although there has been a further deferral to allow the adoption of IFRS for financial reporting purposes until 2014, no such deferral has been provided by the OEB for rate making purposes, therefore our 2013 Application has been submitted using MIFRS values.

LPMA #3

Ref: Exhibit 1, page 38

How many months of actual data are included in each of the 2012 forecasts for revenues (distribution and other), OM&A, and capital expenditures?

Response LPMA #3

The 2012 forecast does not include actual data for revenues (distribution or other), OM&A, and capital expenditures.

Vulnerable Energy Consumers Coalition (VECC) Interrogatories Questions:

VECC - 1.0

Reference: Exhibit 1, pg. 21, Strategic Plan

At section 7.3.0 "Distribution Rate Regulation", page 21 of the Strategic Plan it states "Other changes, aside from extraordinary, will have to wait until the next cost of service in 2013 with a submission in 2012. In all our initiatives, we should keep in perspective our rate making cycle when deciding allocation of resources to various initiatives arising out of the Strategic Plan." Please explain what is meant by this statement and comment on what, if any impact the particular rate year should have on the necessary investments of the Utility.

The Plan refers to the foundation of Watts Laboratories. Please explain more fully what this refers to.

Response VECC – 1.0

a) The question seems to be implying that London Hydro only invests in Capital Infrastructure during cost of service years when it will be quickly compensated for such investments. This is not the meaning of this section of the Strategic Plan discussing the Distribution Rate Regulator or the Distribution System Infrastructure Renewal. London Hydro will answer this question in two parts.

   i. The gross capital expenditures between 2009 and 2012 have averaged $30.6M while the average actual amortization expense between 2009 and 2012 is $17.3M. The purpose of this comment is to show that London Hydro is spending over 75% more on capital assets than is currently being compensated from through its enacted rates and therefore does not limit investment plans based on the year in which the rates are based. Although London Hydro considers the cash flow implications of any purchases (either capital or operating), the most important factors for any decision is first and foremost the safety to our employees and our customers. After dealing with safety concerns, a cost/benefit analysis for projects will be examined for reliability or customer service issues.

As indicated in the preceding paragraph, the first concern/allocation of resources is always focused on safety (Tier 1). The second concern/allocation of resources is implementing mandated programs (Tier 2). All other programs/projects are done on a case by case basis as warranted/approved. (Tier 3)

The goal for capital infrastructure as outlined in the asset management plan is to replace the aging infrastructure as required in an attempt to maximize reliability while minimizing costs to our customers.

ii. Finally, the rate application is a major undertaking. London Hydro utilizes primarily internal resources to complete the application. This involves utilizing resources from all departments and areas within the organization. As a result of the involvement of various key individuals, long-term strategic planning is done with one of the factors being how/where internal resources are already committed. The effect of this is there may be slightly less "Tier 3" work performed in 2012 compared to other years with all other things being equal.

b) Please refer to **Appendix 1J** for the Media release explaining the purpose and function of the Lab.

VECC 2.0

Reference: Exhibit 1

Please provide the inflation factors for each year 2008 through 2013 assumed for comparison basis in this application. Please identify the source of the inflation factor.

Response VECC 2.0

Although inflation may be an appropriate indicator of cost increases in some areas, London Hydro does not use this to any large extent as a way to develop the operating or capital plans. Forecasted price increases/decreases related to commodity prices, newly negotiated service contracts, outsourcing plans, in-housing plans, regulatory change/compliance, employee and customer safety, negotiated union contracts, customer demand, technology change, among others are all used to formulate the 2012 Bridge and 2013 Test Year forecasts. There are many cost drivers underpinning the budget development. See the filed Rate Application Exhibit 4, beginning on Page 20 for both quantitative and qualitative information related to major cost drivers.

School Energy Coalition (SEC) Interrogatories Questions:

SEC – 1.0

Please confirm that there are 242 schools in the Applicant's service area. Please provide a breakdown of the rate classes of those schools between GS<50 and GS>50.

RESPONSE SEC #1:

London Hydro is unable to confirm the number of schools in the London Hydro service area.

Based on the Web sites of the Thames Valley School Board and the London Catholic School Boards the totals are 162 and 32. We cannot determine appropriately identify through our CIS systems as to exact numbers of relevant schools in our service area (whether, public, catholic, or other independent school organizations).

SEC - 2.0 [General]

With respect to the first table attached to these interrogatories, marked "London Timeline Data":

a) *Please confirm that the data in the table correctly transposes the data from 2008 through 2011 Electricity Yearbooks relative to the Applicant, and performs correct calculations on that data. If any of the data is incorrect, please provide the correct information. A live copy of the Excel spreadsheet has been provided for assistance in responding.*

b) *Please complete the columns for 2012 and 2013 with actuals or forecasts for each of the line items, calculated on the same basis as the past data.*

c) *Please provide any reasons known to the Applicant to explain the unusual pattern of Net Losses over the four years listed, including any major storms or other factors that would have had a material influence on the difference between kwhr. Purchased and Sold.*

d) *Please advise the basis on which the overall level of capital spending was established annually during this four year period, prior to the current Asset Management Plan. Please advise whether that capital planning was bottom-up, top-down, or a combination of both, and whether the level of depreciation for the year was a factor in establishing the total.*

e) *Please advise whether the decrease in actual equity thickness from 2008 to 2009 was part of a plan to increase actual leveraging. If that was the case, please provide the planning and/or approval document related to the leveraging plan. If it was not part of a plan, please advise the reasons for the decrease in equity thickness, and any plans to adjust financial equity thickness in the future.*

Response SEC – 2.0

a) London Hydro confirms the information contained in the spreadsheet has been updated to reflect data in the 2008 through 2011 Electricity Yearbooks.

b) The table below contains the updated actual/forecasted information as requested.

London Timeline Data							
Comparator		2008	2009	2010	2011	2012	2013
Customers		143,797	145,298	146,974	148,331	149,742	151,639
	Residential	130,245	131,734	133,452	134,714	136,032	138,004
	GS<50	11,940	11,914	11,897	11,962	12,058	11,970
	GS>50	1,609	1,647	1,621	1,652	1,649	1,662
	Large User	3	3	4	3	3	3
	Percentage Increase		1.04%	1.15%	0.92%	0.95%	1.27%
Volumes Sold (kwh) (millions)		3,334	3,151	3,377	3,317	3,252	3,308
	Total Losses	3.16%	4.98%	1.52%	2.69%	2.91%	3.57%
	Average Peak Demand	541,266	519,443	545,926	540,982	525,723	525,723
DX Revenues (000s omitted)		$55,368	$57,089	$61,886	$61,936	$64,318	$68,776
	Residential	$33,409	$33,503	$38,555	$36,389	$38,176	$37,160
	GS<50	$8,698	$8,450	$7,937	$7,917	$8,334	$9,508
	GS>50 and Large	$10,025	$10,248	$11,259	$13,278	$13,534	$17,542
	Other	$3,236	$4,888	$4,135	$4,352	$4,274	$4,566
Property, Plant & Equipment (000s omitted)		$185,381	$191,886	$195,549	$202,185	$223,434	$231,662
	PP&E per Customer	$1,289.19	$1,320.64	$1,330.50	$1,363.07	$1,492.13	$1,527.72
	Percentage Increase		2.44%	0.75%	2.45%	9.47%	2.39%
	Capital Additions/Depreciation	179.9%	170.6%	166.6%	173.1%	222.7%	157.6%
OM&A (000s omitted)		$27,079	$27,680	$30,085	$31,043	$31,550	$33,845
	Operations	$6,639	$6,738	$7,101	$7,804	$8,433	$8,812
	Maintenance	$6,276	$5,624	$6,305	$6,756	$7,281	$7,792
	Administration	$13,933	$15,215	$16,572	$16,377	$15,703	$17,141
	Other	$231	$103	$107	$106	$133	$100
	OM&A per Customer	$188.31	$190.51	$204.70	$209.28	$210.70	$223.19
Actual Shareholders' Equity (000s omitted)		$136,620	$112,663	$119,213	$124,248	$128,858	$138,643
	Equity Thickness	52.7%	44.4%	42.9%	44.6%	49.4%	51.9%
	LTD & Aff. Debt (000s omitted)	$70,000	$70,000	$92,954	$87,650	$85,346	$83,042
	Net Income (000s omitted)	$6,841	$8,326	$9,050	$7,867	$7,802	$12,785
	Financial ROE	5.01%	7.39%	7.59%	6.33%	6.05%	9.22%
	Interest Cost (000s omitted)	$4,439	$4,248	$4,896	$5,386	$5,189	$4,634
	PILs (000s omitted)	$3,232	$3,305	$2,536	$1,600	$743	$934
	Total Cost of Capital	$14,512	$15,879	$16,482	$14,853	$13,734	$18,353

Notes:

Note 1 - 2012 data is preliminary, pending audit and management review
Note 2 - 2012 distribution revenue includes SMIRR - RES $1,364K, GS<50 $265K
Note 3 - 2013 revenues and expenses IFRS - from original trial balance submitted plus revenue requirement
Note 4 - 2013 customer statistics and volumes are from the load forecast
Note 5 - Unsure how the equity thickness values were calculated for 2008-2011 . Not adjusted.

c) Please reference VECC IR Response #41.

d) Please refer to Appendix 2D – EI-31 Asset management Policy and Procedures. This engineering instruction (EI) was released in 2011 to document the process associated with developing the Engineering & Operations capital plan. It describes the basic approach that has been used for many years and that was in place before the Asset Sustainment Plan. The evolution of the capital planning process now includes the Asset Sustainment Plan which makes it easier by having all of the asset information in one place.

The capital planning process essentially follows a "bottom-up" methodology which is based on a balanced approach considering factors that include: safety, reliability, regulatory, operability, environmental, and capacity. A summary for the rational used in the selection of capital projects is provided in the Principles, Introduction and Analytical Ranking Model sections of the Asset Management Plan found in Appendix 2B. London Hydro does not use the level of financial depreciation of its assets to establish the level of capital expenditure. The level of capital expenditure is based on the factors relating to the distribution system previously mentioned.

e) London Hydro is unsure of the exact definition of Equity Thickness and has made the assumption that Equity Thickness represents the Equity % as a % of Rate Base.

The decision to pay out a special dividend to the shareholder during 2009 was only partially related to the leveraging model utilized by London Hydro/the City of London but was more based upon the dividend policy that has been in place since inception of the Corporation.

The dividend policy states that "the Board shall use its best efforts to declare and pay a regular dividend to the Shareholder. The payment of any dividend shall be subject to the following:

i) As a target, annual dividend payments are expected to comprise 40% of annual net earnings of the Corporation.
ii) Where annual net earnings of the Corporation exceed normal net earnings, the Board shall consider declaring a special payment in an amount equal to such excess net earnings; and
iii) No payment is to be declared where to do so would, in the Board's reasonable opinion, impair the Corporation's ability to carry out necessary or appropriate improvements and maintenance of existing infrastructure.

During 2008, the City of London requested a special dividend as no dividends were paid from 1999 until 2004 and the 40% dividend payout had never been achieved.

London Hydro then completed the analysis comparing the net earnings from inception to 2008 and compared the 40% payment per the policy to the amount of income that had been actually paid.

As a result of this analysis, it was determined that total dividends of $20M would be paid to the shareholder.

There are no current plans for any further short term decreases in equity thickness in addition to the annualized dividend payments.

SEC – 3.0

Please provide, with respect to the Applicant and its parent company:

a) *Any current Shareholder's Agreement or Direction, and any previous Shareholders' Agreement or Direction dated after 2000.*

b) *Any current Business Plan other than the Strategic Plan.*

Response SEC-3.0

a) **See Appendix (1A)**

b) London Hydro does not have a Business Plan document in addition to the Strategic Plan.

SEC-4

[Ex. 1, p. 8] Please confirm that, for a school in the GS>50KW class with a 100 kW load, the Applicant is proposing to increase its charges (monthly fixed charge plus volumetric rate) from $454.94 per month to $602.02 per month, totaling $1,794.96 per year, an increase of 32.3% from existing rates.

Response SEC #4:

London Hydro was not able to duplicate the results as determined by SEC for a General Service 50-4,999 customer as to the proposed distribution charges (volumetric and fixed). However, the proposed increase for a GS 50-4,999 kW Non-Interval Metered Customer (100 kw consumption) would total $587.82. This represents a total increase per year of $1,594.56 or 29.2% increase from existing distribution rates.

Bill Impact spreadsheets are reflected below for both GS 50-4,999 kW Non-Interval Metered Customer (100 kw consumption) and GS 50-4,999 kW Interval Metered Customer (100 kw consumption).

Customer Class:	General Service 50 to 4,999 kW Non-Interval Metered										
	Consumption	100 kW	○ May 1 - October 31			○ November 1 - April 30 (Select this radio button for applications filed after Oct 31)					
		40000 kWh									
		Current Board-Approved				Proposed				Impact	
	Charge Unit	Rate ($)	Volume	Charge ($)		Rate ($)	Volume	Charge ($)		$ Change	% Change
Monthly Service Charge	Monthly	$ 292.71	1	$ 292.71		$ 366.54	1	$ 366.54		$ 73.83	25.22%
	Monthly		1	$ -			1	$ -		$ -	
			1	$ -			1	$ -		$ -	
			1	$ -			1	$ -		$ -	
			1	$ -			1	$ -		$ -	
			1	$ -			1	$ -		$ -	
Distribution Volumetric Rate	per kW	$ 1.6223	100	$ 162.23		$ 2.2128	100	$ 221.28		$ 59.05	36.40%
Tax Change Rate Rider	per kW	-$ 0.0362	100	-$ 3.62			100	$ -		$ 3.62	-100.00%
LRAM Rate Rider	per kW	$ 0.00482	100	$ 0.48		$ -	100	$ -		-$ 0.48	-100.00%
			100	$ -			100	$ -		$ -	
			100	$ -			100	$ -		$ -	
			100	$ -			100	$ -		$ -	
			100	$ -			100	$ -		$ -	
			100	$ -			100	$ -		$ -	
			100	$ -			100	$ -		$ -	
			100	$ -			100	$ -		$ -	
Sub-Total A				$ 451.80				$ 587.82		**$ 136.02**	**30.11%**
Deferral/Variance Account Disposition Rate Rider (2012)	per kW	-$ 0.3641	100	-$ 36.41		-$ 0.3641	100	-$ 36.41		$ -	0.00%
Deferral/Variance Account Disposition Rate Rider (2013)	per kW	$ -	100	$ -		-$ 0.4453	100	-$ 44.53		-$ 44.53	
Global Adjustment Sub Account Disposition (2012)	per kW	-$ 0.1521	100	-$ 15.21		-$ 0.1521	100	-$ 15.21		$ -	0.00%
Global Adjustment Sub Account Disposition (2013)	per kW	$ -	100	$ -		$ -	100	$ -		$ -	
			100	$ -			100	$ -		$ -	
							100	$ -		$ -	
Sub-Total B - Distribution (includes Sub-Total A)				**$ 400.18**				**$ 491.67**		**$ 91.49**	**22.86%**
RTSR - Network	per kW	$ 2.2917	100	$ 229.17		$ 2.3133	100	$ 231.33		$ 2.16	0.94%
RTSR - Line and Transformation Connection	per kW	$ 1.7172	100	$ 171.72		$ 1.7761	100	$ 177.61		$ 5.89	3.43%
Sub-Total C - Delivery (including Sub-Total B)				**$ 801.07**				**$ 900.61**		**$ 99.53**	**12.43%**
Wholesale Market Service Charge (WMSC)	per kWh	$ 0.0052	41636	$ 216.51		$ 0.0052	41400	$ 215.28		-$ 1.23	-0.57%
Rural and Remote Rate Protection (RRRP)	per kWh	$ 0.0011	41636	$ 45.80		$ 0.0011	41400	$ 45.54		-$ 0.26	-0.57%
Standard Supply Service Charge	Monthly	$ 0.2500	1	$ 0.25		$ 0.2500	1	$ 0.25		$ -	0.00%
Debt Retirement Charge (DRC)	per kWh	$ 0.0070	40000	$ 280.00		$ 0.0070	40000	$ 280.00		$ -	0.00%
				$ -				$ -		$ -	
Cost of Power	per kWh	$ 0.0788	41636	$ 3,279.67		$ 0.0788	41400	$ 3,261.08		-$ 18.59	-0.57%
				$ -				$ -		$ -	
				$ -				$ -		$ -	
				$ -				$ -		$ -	
Total Bill on TOU (before Taxes)				**$ 4,623.30**				**$ 4,702.75**		**$ 79.46**	**1.72%**
HST		13%		$ 601.03		13%		$ 611.36		$ 10.33	1.72%
Total Bill (including HST)				$ 5,224.33				$ 5,314.11		$ 89.79	1.72%
Ontario Clean Energy Benefit [1]				$ -				$ -		$ -	
Total Bill on TOU (including OCEB)				**$ 5,224.33**				**$ 5,314.11**		**$ 89.79**	**1.72%**
Loss Factor		1.0409				1.0350					

Customer Class:	General Service 50 to 4,999 kW Interval Metered											
	Consumption	100 kW 40000 kWh	○ May 1 - October 31			○ November 1 - April 30 (Select this radio button for applications filed after Oct 31)						
		Current Board-Approved				Proposed				Impact		
	Charge Unit	Rate ($)	Volume	Charge ($)		Rate ($)	Volume	Charge ($)		$ Change	% Change
Monthly Service Charge	Monthly	$ 292.71	1	$ 292.71		$ 366.54	1	$ 366.54		$ 73.83	25.22%
			1	$ -			1	$ -		$ -	
			1	$ -			1	$ -		$ -	
			1	$ -			1	$ -		$ -	
			1	$ -			1	$ -		$ -	
			1	$ -			1	$ -		$ -	
Distribution Volumetric Rate	per kW	$ 1.6223	100	$ 162.23		$ 2.2128	100	$ 221.28		$ 59.05	36.40%
Tax Change Rate Rider	per kW	-$ 0.0362	100	-$ 3.62			100	$ -		$ 3.62	-100.00%
LRAM Rate Rider	per kW	$ 0.00482	100	$ 0.48		$ -	100	$ -		-$ 0.48	-100.00%
			100	$ -			100	$ -		$ -	
			100	$ -			100	$ -		$ -	
			100	$ -			100	$ -		$ -	
			100	$ -			100	$ -		$ -	
			100	$ -			100	$ -		$ -	
			100	$ -			100	$ -		$ -	
			100	$ -			100	$ -		$ -	
Sub-Total A				$ 451.80				$ 587.82		$ 136.02	30.11%
Deferral/Variance Account Disposition Rate Rider (2012)	per kW	-$ 0.3641	100	-$ 36.41		-$ 0.3641	100	-$ 36.41		$ -	0.00%
Deferral/Variance Account Disposition Rate Rider (2013)	per kW	$ -	100	$ -		-$ 0.4453	100	-$ 44.53		-$ 44.53	
Global Adjustment Sub Account Disposition (2012)	per kW	-$ 0.1521	100	-$ 15.21		-$ 0.1521	100	-$ 15.21		$ -	0.00%
Global Adjustment Sub Account Disposition (2013)	per kW	$ -	100	$ -		$ -	100	$ -		$ -	
			100	$ -			100	$ -		$ -	
							100	$ -		$ -	
Sub-Total B - Distribution (includes Sub-Total A)				**$ 400.18**				**$ 491.67**		**$ 91.49**	**22.86%**
RTSR - Network	per kW	$ 2.9388	104	$ 305.90		$ 2.9665	104	$ 307.03		$ 1.13	0.37%
RTSR - Line and Transformation Connection	per kW	$ 2.3929	104	$ 249.08		$ 2.4750	104	$ 256.16		$ 7.08	2.84%
Sub-Total C - Delivery (including Sub-Total B)				**$ 955.16**				**$ 1,054.86**		**$ 99.70**	**10.44%**
Wholesale Market Service Charge (WMSC)	per kWh	$ 0.0052	41636	$ 216.51		$ 0.0052	41400	$ 215.28		-$ 1.23	-0.57%
Rural and Remote Rate Protection (RRRP)	per kWh	$ 0.0011	41636	$ 45.80		$ 0.0011	41400	$ 45.54		-$ 0.26	-0.57%
Standard Supply Service Charge	Monthly	$ 0.2500	1	$ 0.25		$ 0.2500	1	$ 0.25		$ -	0.00%
Debt Retirement Charge (DRC)	per kWh	$ 0.0070	40000	$ 280.00		$ 0.0070	40000	$ 280.00		$ -	0.00%
				$ -				$ -		$ -	
Cost of Power	per kWh	$ 0.0788	41636	$ 3,279.67		$ 0.0788	41400	$ 3,261.08		-$ 18.59	-0.57%
				$ -				$ -		$ -	
				$ -				$ -		$ -	
				$ -				$ -		$ -	
Total Bill on TOU (before Taxes)				**$ 4,777.38**				**$ 4,857.01**		**$ 79.62**	**1.67%**
HST		13%		$ 621.06		13%		$ 631.41		$ 10.35	1.67%
Total Bill (including HST)				$ 5,398.44				$ 5,488.42		$ 89.97	1.67%
Ontario Clean Energy Benefit [1]				$ -				$ -		$ -	
Total Bill on TOU (including OCEB)				**$ 5,398.44**				**$ 5,488.42**		**$ 89.97**	**1.67%**
Loss Factor		1.0409				1.0350					

SEC – 5 [Exhibit 1, p. 39]

Please provide the last seven of the "monthly variance reports referred to, including all quarterly information included with the quarter-end reports".

Response SEC - 5

Please refer to Appendix 1B.

SEC – 6 [Ex. 1, RRWF p.7]

Please confirm that the weighted average rate increase proposed in the Application is 10.81% ($6,415,350/$59,355,022). Please confirm that, but for the reduction in revenue requirement of $6,061,377 [Ex. 1, p. 41], the weighted average rate increase proposed in the Application would be 21.02% ($12,476,727 /$59,355,022).

Response SEC #6:

London Hydro reflects a Revenue Deficiency of $6,415,350 in its Application and has a Distribution Revenue at Current Rates totalling $59,355,022. This represents that London Hydro to offset Revenue Deficiency is requesting for a $6,415,350 Distribution Revenue adjustment (an increase of 10.81%).

Referencing Ex1, p41 there is Table 1-4 – Summary of Revenue Requirement. Neither this table nor the narrative before and after indicates a revenue requirement amount of $6,061,377. London Hydro also tried to calculate this amount referencing the Table 1-4, without arriving at an amount of 6,061,377. The Applicant is unable to comment.

SEC – 7 [Ex. 1, Appendix 1A]

With respect to the Strategic Plan:

a) *Please provide the updated Strategic Plan for December 2012, or advise when it will be available.*

b) *P.6. Please provide a more detailed explanation of the "Business Process Review and re-design" referred to, and the status of that project.*

c) *P.6. Please provide the business case or other cost/benefit analysis relating to the migration of customers to Self-Service. Please provide all presentations to management or the Board of Directors dealing in whole or in part with the benefits of that strategy.*

d) *P. 6. Please provide the current status, budget and timing for the enterprise risk management reporting system project.*

e) *P. 7. Please provide Appendix A, and any updates to reflect more recent targets since this strategy was approved.*

f) *P. 11. Please provide the most recent versions of the "communication plans" referred to.*

g) *P. 13. Please quantify the targets for the statement "Operational cost reductions are a strategic system improvement priority in this area over 2012 and 2013".*

h) *P. 16. Please provide details, and a status update, on the item "Swap the shareholder note ($70M) for lesser coupon bearing debt".*

i) *P. 19. Please provide the "gap analysis" referred to.*

j) *P. 22. Please provide a copy of the first IT rolling strategic plan produced in 2010.*

Response SEC - 7

a) As requested, the "Strategic Plan; the 2013 – 2015" has been included in **Appendix 1C**. The Strategic plan is labeled Draft, as it has not received final approval for the Board of Directors; although we do not anticipate any changes to it.

b) Business Process review and re-design projects were completed specifically to streamline 1) Purchasing and 2) Customer contact centre processes. The two functional areas design documents have been included in **Appendix 1D**.

c) **Appendix 1E** is the most recent chart of Call Centre performance YTD December 2012 showing the downward trend in both accepted and abandoned calls. As a corollary to these statistics, the number of customers utilizing "MyAccount" has increased steadily to over 40,000 customers. This trend toward increasing MyAccount usage demonstrates that our customers are becoming increasingly inclined to "self-service" their London Hydro account. This move to increased self-service has enabled us to devote more front-line Customer Services staff time to other duties, including project work.

d) The Enterprise Risk Management (ERM) report has been approved by the Board of Directors, on-time and on budget. The total costs associated with creating the report was $20,000. The work commenced in the spring of 2012 and was completed in December, 2012. The report outlines the key risks facing London Hydro from both a gross (unmitigated) and a net (mitigated with current controls) perspective.

Each risk is broken into the following areas:

i. Risk Name

ii. Risk Description

iii. Risk Mitigation

iv. Whether any insurance is held to mitigate the economic impact.

London Hydro has entered the risks and risk mitigation strategies onto a portal that has been made available to London Hydro so that the information is available to London Hydro management.

e) Please refer to **Appendix 1F**

f) The project requiring communications during 2012 was regarding TOU. As this was a mandated program, the standard analysis comparing the need for the expenditure and the benefits provided

was not necessary and as such, the communications focused on explaining how by changing their habits they would save money. Attached is the Communications plan that was developed for 2012. Please refer to **Appendix 1G.**

g) The targets for operational cost reduction referenced in the TOU section (6.1.2.3) of the London Hydro Strategic Plan are the number of exceptions handled by automation and integration of meter to cash systems. This has enabled London Hydro to avoid operational costs associated with manually handling exceptions from over 3 million hourly meter reads per day. For 2012, the target was achieved for systems to fix 88% of the NVE (Needs Validation and/or Estimation) from the MDMR. In 2013, the plan is to fix 100% of exceptions that can be automated to ensure accurate TOU consumption for our customers.

h) London Hydro has no current opportunities to reduce the debt (without acceptance by the counterparty) until the debt expires in 2015. The City of London has the option to call the debt, at which time London Hydro would likely achieve alternative financing. At this point in time, we have received no direction from the City of London that they would like to alter the loan agreement prior to the expiry date.

i) Attached are two documents. The first found in **Appendix 1**H is the GAP analysis requested. The second document also found in **Appendix 1H** is an internal report of what steps are being taken to close the gap.

j) Please refer to **Appendix 1I**

Energy Probe (EP) Interrogatories Questions:

No Questions Submitted.

All Respectfully Submitted

ADMINISTRATIVE DOCUMENTS APPENDICES

1A	SEC #3	Shareholder Declaration
1B	SEC #5	Financial Reports from May 2012 to November 2012
1C	SEC #7	2013 Strategic Plan
1D	SEC #7	Business Process Redesign
1E	SEC #7	Call Centre Performance
1F	SEC #7	2012 Strategic Plan – Corporate Goals
1G	SEC #7	Time of Use Communication Plan
1H	SEC #7	Gap Analysis
1I	SEC #7	IT Strategy Document
1J	VECC #1	Watt's Lab Media Release

Bill No. 369
2007

By-law No. A.-6132-235

A by-law to authorize and approve By-law No. 2 and a Shareholder Declaration for London Hydro Inc. and to ratify the minutes of the meeting of the Board of Directors of London Hydro Inc.

WHEREAS London Hydro Inc. is a corporation incorporated under the *Business Corporations Act* R.S.O. 1990, c.B.16;

AND WHEREAS The Corporation of the City of London is the sole shareholder of London Hydro Inc.;

AND WHEREAS Subsection 9 of the *Municipal Act, 2001* provides that a municipality has the capacity, rights, powers and privileges of a natural person for the purpose of exercising its authority under this or any other Act;

AND WHEREAS Subsection 5(3) of the *Municipal Act, 2001* provides that a municipal power shall be exercised by by-law;

The Municipal Council of The Corporation of the City of London enacts as follows:

1. By-law No. 2 attached as Schedule "1", being a general operating By-law for London Hydro Inc., is authorized and approved.

2. The Shareholder Declaration attached as Schedule "2" is authorized and approved.

3. The minutes of the meeting of the Board of Directors of London Hydro Inc. attached as Schedule "3" authorizing the repeal of By-law No. 1, the passing of By-law No. 2, authorizing London Hydro Inc. to enter into the Shareholder Declaration and confirming the ratifying resolution attached to the said minutes as Schedule "B" are ratified and confirmed.

4. The Mayor and Clerk are authorized to execute By-Law No. 2 and the Shareholder Declaration authorized and approved under sections 1 and 2 respectively of this By-law and the minutes of the meeting of the Board of Directors of London Hydro Inc. ratified and confirmed under section 3 of this By-law.

5. This by-law comes into force on the day it is passed.

PASSED in Open Council on October 1, 2007.

AM DeCicco Best

Anne Marie DeCicco-Best
Mayor

Linda Rowe
Deputy Clerk

First reading - October 1, 2007
Second reading – October 1, 2007
Third reading - October 1, 2007

SCHEDULE "2"

LONDON HYDRO INC.

SHAREHOLDER DECLARATION

ARTICLE 1
INTERPRETATION

1.1 **Defined Terms.** For the purposes of this Declaration, unless the context otherwise requires, the following terms shall have the respective meanings set out below and grammatical variations of such terms shall have corresponding meanings:

"Affiliate" has the meaning ascribed thereto in the OBCA;

"Board" means the board of directors of the Corporation;

"CEO" means the chief executive officer of the Corporation;

"Chair" means the chair of the Board;

"Corporation" means London Hydro Inc.;

"Council" means the municipal council of the Shareholder;

"Electricity Act" means the *Electricity Act*, 1998 (Ontario) as amended by the *Electricity Restructuring Act*, 2004 (Ontario) and as otherwise amended from time to time;

"IESO" means the Independent Electricity System Operator;

"Laws" means laws, regulations, codes, rules and applicable decisions of courts and regulatory, administrative or other governmental or public agencies, boards, tribunals and other bodies;

"Municipal Act" means the *Municipal Act* (Ontario);

"OBCA" means the *Business Corporations Act* (Ontario);

"OEB" means the Ontario Energy Board;

"OEB Act" means the *Ontario Energy Board Act, 1998* (Ontario) as amended by the *Electricity Restructuring Act*, 2004 (Ontario) and as otherwise amended from time to time;

"Shareholder" means the Corporation of the City of London;

"Shareholder Declaration" means this shareholder declaration;

"Shareholder Representative" shall have the meaning set out in Section 6.1; and

"Subsidiary" has the meaning ascribed thereto in the OBCA.

1.2 Purpose. This Shareholder Declaration outlines the expectations of the Shareholder relating to the principles of governance and other fundamental principles and policies of the Corporation and any Subsidiaries. Except as and to the extent provided in Section 5.4 and Article 8, this Shareholder Declaration is not intended to constitute a unanimous shareholder agreement under the OBCA or to formally restrict the exercise of the powers of the Board.

ARTICLE 2
PERMITTED BUSINESS ACTIVITIES

2.1 General Authority. Subject to the restrictions in Article 8 of this Shareholder Declaration, the Corporation and the Subsidiaries may engage in the business activities which are permitted by any law applicable to the Corporation and its Subsidiaries from time to time, including without limitation the Electricity Act and the OEB Act, as the Board or the respective board of directors of a Subsidiary may authorize, including without limitation the business activities referred to in Section 2.2 as applicable to the Corporation and any Subsidiaries. In so doing, the Corporation and its Subsidiaries shall conform to Laws and, in particular, to all requirements of the OEB, the IESO and all other relevant regulatory or governmental authorities.

2.2 Enumerated Activities. The Corporation or one or more Subsidiaries may engage in any one or more of the following business activities and such other business activities as may be permitted by law and authorized by the Board or the respective board of directors of a Subsidiary from time to time:

(a) transmitting or distributing electricity;

(b) retailing electricity;

(c) business activities that enhance or develop the ability of the Corporation or its Subsidiaries to carry on any of the activities described in paragraphs (a) or (b) above;

(d) business activities the principal purpose of which is to use more effectively the assets of the Corporation or any Subsidiary;

(e) the provision of telecommunication services and the development, ownership, expansion, operation and maintenance of a telecommunications network, whether fibre-optic, wireless or otherwise, and the provision of services that make use of such network, including without limitation wireless connectivity, dark and lit fibre services, sale, lease or other disposal of telecommunications fibre, and related business activities, in support of the Corporation's regulated electricity distribution and transmission business;

(f) renting, selling or maintaining equipment and appliances such as water heaters;

(g) managing or operating, on behalf of the Shareholder, a public utility as defined in Section 1 of the *Public Utilities Act* or providing sewage services;

(h) providing services related to improving energy efficiency including, without limitation, conservation and demand management measures;

(i) providing meter reading, installation and repair services to other utilities and hydro customers; and

(j) entering into joint ventures, whether through investments in corporations or otherwise, partnerships, contracts or other arrangements to provide services to other utilities or the public sector in London, including, without limitation the municipality, universities, schools and hospitals;

2.3 Statutory Limitation. It is acknowledged that certain activities contemplated in Section 2.2 may be required to be carried on by one or more Subsidiaries or other Affiliates of the Corporation to be incorporated from time to time in order to comply with applicable laws, including the OEB Act, the Affiliate Relationships Code for Electricity Distributors and Transmitters, and the Corporation's electricity distribution license.

ARTICLE 3
STANDARDS OF GOVERNANCE

3.1 General Standard. As required by the OBCA, the Board shall supervise the management of the business and affairs of the Corporation and, in so doing, shall act honestly and in good faith with a view to the best interests of the Corporation and shall exercise the same degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

ARTICLE 4
BOARD OF DIRECTORS

4.1 Number of Directors. The Corporation shall be governed by the Board which shall consist of seven (7) directors.

4.2 Composition of Board. The Board shall be composed of one member of Council and six other "at-large" members.

4.3 Qualification of Directors. In addition to qualifications and requirements for directors as set out in the OBCA and the bylaws of the Corporation, and while it is not necessary that each director possess each of the following qualifications, the Board, as a whole, should possess most or all of the following:

(a) Financial and legal knowledge;

(b) A reasonable understanding of accounting and tax matters;

(c) Comprehensive understanding of the core business and objectives of the Corporation;

(d) Utility industry knowledge;

(e) Strategic planning, including human resource planning;

(f) Corporate stewardship and risk management;

(g) Regulatory knowledge;

(h) Experience in a competitive business environment;

(i) Awareness of the needs of electric utility customers;

(j) Awareness of municipal government and local issues;

(k) Leadership and integrity;

(l) Experience and knowledge of London industry; and

(m) Experience and expertise in economic development initiatives.

4.4 Election and Term. The Board shall be divided into four classes, each of the first three of which shall consist of two directors and the fourth of which shall consist of one director. The term of office for members of the first class shall expire at the annual meeting of shareholders every third year, commencing at the annual meeting to be held during 2007; the term for members of the second class shall expire at the annual meeting of shareholders every third year commencing at the annual meeting to be held during 2008; the term for members of the third class shall expire every third year, commencing at the annual meeting to be held during 2009; and the term for the member of the fourth class shall also expire every third year commencing at the annual meeting to be held during 2007. At the expiration of each succeeding term of each class, the directors of each class shall, subject to the re-election of any such director, be elected to serve for a three year term, provided that any member of the fourth class shall be entitled to serve as a director only so long as he or she remains a duly elected member of Council. A director shall hold office until the annual meeting of shareholders for the year in which his or her term expires and until his or her successor is elected and qualified. A director may be elected to two consecutive three-year terms but shall become ineligible to stand for re-election after having served two such consecutive terms, provided that a director may stand for re-election as a director after a period of three years has elapsed from the end of such director's second consecutive term. The election of directors shall be by resolution and shall take place at each annual meeting of shareholders and any directors who retire at such meeting shall, if qualified, be eligible for re-election. If an election of directors is not held at the proper time, the incumbent directors shall continue in office until their successors are elected.

4.5 Board Committees. The Board may establish committees of the Board in the Board's discretion. Such committees may include the following:

(a) Audit Committee: The Audit Committee reports to the Board and is responsible for the coordination and oversight of the Corporation's management and external audit to ensure the effective development and maintenance of adequate financial controls and reporting. The committee will review the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Corporation's process for monitoring compliance with laws and regulations and its own code of business conduct.

(b) Corporate Governance Committee: The Corporate Governance Committee will assist the Board in ensuring that the Corporation operates within a sound corporate governance framework through the development of an appropriate governance structure, including policies, processes and procedures that satisfy legal, health and safety and regulatory requirements in this regard, and reflect best practice in the industry. The Corporate Governance Committee shall also monitor the effectiveness of the Corporation's system of corporate governance

(c) Human Resources and Public Policy Committee: The Human Resources and Public Policy Committee is responsible for providing advice to the Board with respect to Human Resources policies and practices including the review of Employee Policy Manuals, Employee Handbooks, and Collective Agreements.

4.6 Directors' Compensation. The Shareholder shall establish compensation for directors of the Corporation, the Chair and any other officers who are directors of the Corporation in amounts sufficient, in the opinion of the Shareholder acting reasonably, to attract candidates with necessary qualifications and consistent with industry norms and standards for comparable Ontario electricity distribution utilities. A director that is a member of Council shall receive no additional compensation for acting as a director.

4.7 Compensation of Officers of the Corporation. The Board shall set the compensation for the officers of the Corporation, other than the Chair and any other officers that are directors.

4.8 Vacancies. The Board shall promptly provide notice to the Shareholder of a vacancy among the directors, other than a vacancy arising due to expiry of a term of a director. Subject to Section 4.4, the Shareholder shall appoint a director to fill such vacancy.

4.9 Place of Meetings. Meetings of the Board may be held at the registered office of the Corporation or at any other place within the City of London, Ontario.

4.10 Calling of Meetings. Meetings of the board shall be held from time to time at such place, on such day and at such time as the Board, the Chair, the CEO, the secretary or any two directors may determine.

4.11 Notice of Meetings. Notice of the time and place of each meeting of the Board shall be given to each director not less than 48 hours before the time when the meeting is to be held and need not be in writing.

4.12 First Meeting of New Board. Provided a quorum of directors is present, each newly elected Board may without notice hold its first meeting following the annual shareholder meeting at which such Board is elected.

4.13 Adjourned Meeting. Notice of an adjourned meeting of the directors is not required if the time and place of the adjourned meeting is announced at the original meeting.

4.14 Regular Meetings. The Board may appoint a day or days in any month or months for regular meetings at a place and hour to be named. A copy of any resolution by the Board fixing the time and place of regular meetings of the Board shall be sent to each director forthwith after being passed, but no other notice shall be required for any such regular meeting.

4.15 Votes to Govern. Any question at a meeting of the board shall be decided by a show of hands unless a ballot is required or demanded.

4.16 Chairman and Secretary. The Chair or, in the absence of the Chair, the Vice Chair, or in the absence of both the Chair and the Vice Chair, the CEO if a director or, in the absence of the CEO, a vice-president who is a director, shall be chairman of any meeting of the Board. If none of the said officers is present, the directors present shall choose one of their number to be chairman. The secretary of the Corporation shall act as secretary at any meeting of the Board and, if the secretary of the Corporation is absent, the chairman of the meeting shall appoint a person who need not be a director to act as secretary of the meeting.

ARTICLE 5
FINANCIAL POLICIES, RISK MANAGEMENT AND STRATEGIC PLANNING

5.1 Capital Structure. The Board shall develop and maintain a prudent financial and capitalization structure for the Corporation consistent with industry norms and sound financial principles and established on the basis that the Corporation is intended to be self-financing.

5.2 Distribution Rates. The Board shall establish just and reasonable rates for the regulated distribution business of the Corporation which are:

(a) consistent with similar utilities in comparable growth areas and as may be permitted by the OEB and applicable Laws;

(b) intended to enhance the value of the Corporation;

(c) consistent with the encouragement of economic development activity within the City of London, it being noted that under applicable Laws, classes of customers may not be subsidized through rates; and

(d) based on such other factors which the Board shall determine to be reasonable and not inconsistent with the foregoing considerations.

5.3 Returns. The Board shall provide the Shareholder with a competitive rate of return relative to other similar utilities.

5.4 Dividend Policy. The Board shall use its best efforts to declare and pay a regular dividend to the Shareholder. The payment of any dividend shall be subject to the following:

(a) As a target, annual dividend payment are expected to comprise 40% of annual net earnings of the Corporation;

(b) Where annual net earnings of the Corporation exceed normal net earnings, the Board shall consider declaring a special payment in an amount equal to such excess net earnings; and

(c) No payment is to be declared where to do so would, in the Board's reasonable opinion, impair the Corporation's ability to carry out necessary or appropriate improvements and maintenance of existing infrastructure.

5.5 Payment of Regular Dividend. A dividend, if any, will be declared by the Board at its meeting to approve the annual financial statements for the preceding year. Equal payments of the dividend will be made on a quarterly basis to the Shareholder.

5.6 Return to Shareholder. Any special payment may be declared by the Board after the review of the annual audited statements of the Corporation. The special payment, if any, will be made by April 30 of the year following the year in which it applies.

5.7 Unregulated Business. The Board shall seek to maximize profits and the return to the Shareholder on any unregulated, competitive business.

5.8 Risk Management. The Board shall manage all risks related to the business conducted by the Corporation and its subsidiaries, through the adoption of appropriate risk management strategies and internal controls consistent with industry norms.

5.9 Strategic Plan. The Board shall develop a long range strategic plan for the Corporation and its Subsidiaries which is consistent with the maintenance of a viable, competitive business and preserves the value of the business for the Shareholder.

ARTICLE 6
SHAREHOLDER APPROVALS AND COMMUNICATIONS

6.1 Communications. Approvals or decisions of the Shareholder required pursuant to this Shareholder Declaration or the OBCA shall require a by-law of the Shareholder passed at a meeting of Council and, in the case of resolutions under Section 104 of the OBCA, shall be communicated in writing and executed by the Shareholder.

6.2 Reports to Council re Mandatory Initiatives. The Board shall advise the Shareholder in the form of a written report containing appropriate details with respect to expenditures relating to smart meters or other government or regulatory mandated initiative where any such initiative could reasonably be expected to result in capital expenditures in any fiscal year in excess of $2,000,000 (two million dollars).

6.3 Right to Inspect. Upon an authorizing resolution of the Shareholder (but not otherwise), the auditors of the Shareholder shall have the right, on reasonable notice and during regular business hours, to inspect the accounts, books, records and documents of the Corporation, but such inspection shall not extend to procurements (e.g. RFPs, RFQs and RFIs) of any kind that are underway but not yet completed at the time of inspection.

ARTICLE 7
ANNUAL RESOLUTION AND MEETINGS

7.1 Annual Report to Shareholder. The Board shall, not less often than annually and within six months following the end of the fiscal year of the Corporation, report to the Shareholder on matters to be addressed at an annual general meeting of the Corporation as provided in subsection 154(1) of the OBCA.

7.2 Annual Meeting or Resolution in Lieu. Within six months after the end of each fiscal year of the Corporation the Shareholder shall, as appropriate pursuant to this Shareholder Declaration, the bylaws of the Corporation and the OBCA, at an annual meeting or by resolution in lieu of such annual meeting:

(a) elect or re-elect directors of the Corporation to fill any vacancy;

(b) appoint auditors of the Corporation;

(c) receive the audited financial statements of the Corporation for the last completed fiscal year; and

(d) complete such other business as would normally be completed at an annual meeting of shareholders under the OBCA.

ARTICLE 8
MATTERS REQUIRING SHAREHOLDER APPROVAL

Without Shareholder approval given in accordance with Sections 6.1 and 6.2 of this Shareholder Declaration, the Corporation or any Subsidiary respectively shall not:

Statutory Approval Rights.

8.1 change the name of the Corporation or a Subsidiary; add, change or remove any restriction on the business of the Corporation or a Subsidiary; create new classes of shares; or in any other manner amend its articles of incorporation or make, amend or repeal any by-law;

8.2 amalgamate with any other corporation(s) other than amalgamations which may, under the OBCA, be approved by a resolution of directors;

8.3 take or institute proceedings for any winding up, arrangement, or dissolution of the Corporation or its Subsidiaries;

8.4 apply to continue the Corporation or any Subsidiary under the laws of another jurisdiction;

Additional Approval Rights.

8.5 issue, or enter into any agreement to issue, any shares of any class, or any securities convertible into any shares of any class, of the Corporation or any Subsidiaries respectively;

8.6 redeem or purchase any of the Corporation's or its Subsidiaries' outstanding shares;

8.7 enter into any joint venture, partnership, strategic alliance or other venture, including without limitation ventures in respect of the generation or co-generation of electricity. In assessing such opportunity, the Shareholder shall follow the Corporate Combination and Disposition Guidelines set out in Schedule "A";

8.8 change, alter or amend the compensation of any member of the Board;

8.9 borrow money or give security on the assets of the Corporation other than in the ordinary course of business, or in connection with the purchase of assets;

8.10 enter into any agreement, transaction or other arrangement which would cause the municipality to be liable to pay transfer tax under section 94 of the Electricity Act, 1998;

8.11 sell any distribution assets other than in the ordinary course of business;

8.12 incur any expenditure in respect of an unregulated, competitive business, whether within the regulated distribution company or otherwise, in excess of $2,000,000 (two million dollars) and any Shareholder approval in respect thereof would follow receipt by the Shareholder of a business plan in respect of such expenditure;

8.13 assume any financial obligation that would increase the ratio of debt to equity of the Corporation, on a consolidated basis, above 70:30;

8.14 make any decision or take any action that could reasonably be expected to materially and adversely affect the regulatory or tax status of the Corporation; and

8.15 enter into any agreement or arrangement to dispose of, by way of sale, transfer, exchange or lease, any real property, except in the ordinary course of business.

ARTICLE 9
REVISIONS TO THIS DECLARATION

9.1 Required Consultation. The Shareholder acknowledges that this Shareholder Declaration may be revised from time to time as circumstances may require and that the Shareholder will consult with the Board and the CEO prior to completing any revisions and will promptly provide the Board and the CEO with copies of such revisions.

ARTICLE 10
CONFIDENTIALITY

10.1 Dealing with Information. Subject to applicable Laws, including without limitation the *Municipal Freedom of Information and Protection of Privacy Act* (Ontario) and the Municipal Act, the Shareholder shall keep confidential all confidential and/or proprietary information obtained by it relating to the business and affairs of the Corporation.

ARTICLE 11
NOTICES

11.1 Delivery. Any notice, designation, communication, request, demand or other document, required or permitted to be given or sent or delivered to the Shareholder by the Corporation or Board or to the Corporation or Board by the Shareholder shall be in writing and shall be sufficiently given or sent or delivered if it is

(a) delivered personally,

(b) sent to the party entitled to receive it by registered mail, postage prepaid, mailed in Canada, or

(c) sent by telecopy machine.

Notices shall be sent to the following addresses or telecopy numbers:

(i) in the case of the Corporation or Board,

c/o London Hydro Inc.
111 Horton Street
London, Ontario
N6A 4H

Attention: B.T. Watts,
Chief Executive Officer

Facsimile: (519) 661-5052

(ii) in the case of the Shareholder,

The Corporation of the City of London
300 Dufferin Avenue
London, Ontario
N6A 4L9

Attention: City Clerk

Facsimile: (519) 661-4892

or to such other address or telecopier number as the party entitled to or receiving such notice, designation, communication, request, demand or other document shall, by a notice given in accordance with this section, have communicated to the party giving or sending or delivering such notice, designation, communication, request, demand or other document.

Any notice, designation, communication, request, demand or other document given or sent or delivered as aforesaid shall

(a) if delivered as aforesaid, be deemed to have been given, sent, delivered and received on the date of delivery;

(b) if sent by mail as aforesaid, be deemed to have been given, sent, delivered and received (but not actually received) on the fourth Business Day following the date of mailing, unless at any time between the date of mailing and the fourth Business Day thereafter there is a discontinuance or interruption of regular postal service, whether due to strike or lockout or work slowdown, affecting postal service at the point of dispatch or delivery or any intermediate point, in which case the same shall be deemed to have been given, sent, delivered and received in the ordinary course of the mails, allowing for such discontinuance or interruption of regular postal service; and

(c) if sent by telecopy machine, be deemed to have been given, sent, delivered and received on the date the sender receives the telecopy answer back confirming receipt by the recipient.

IN WITNESS WHEREOF the undersigned has executed this declaration this 26 day of November, 2007.

THE CORPORATION OF THE CITY OF LONDON

By: A M DeCicco-Best

Name: Anne Marie DeCicco-Best, Mayor
Title:

Kevin Bain, City Clerk

ACKNOWLEDGED this 6th day of December 2007.

LONDON HYDRO INC.

By:

Name: Bernard T. Watts
Title: Chief Executive Officer

SCHEDULE "A"

to Shareholder Declaration of London Hydro Inc.

Corporate Combination and Dispositions Guidelines

The City of London has acknowledged that the Ontario Energy Board policies and approvals are encouraging a reduction in the number of electricity utilities in Ontario through mergers, acquisition or sale. It is recognized that London Hydro Inc. may have to combine with another utility based on the current policy and regulation environment.

The City of London is mindful of the significance of these matters and the amount of work and effort that is necessary to meet the requirements defined by these guidelines. In order to encourage the Board and Management of London Hydro Inc. to seek out appropriate opportunities and to ensure a full and proper consideration of such proposals by all parties including the City of London, as sole shareholder, any opportunities submitted in accordance with these guidelines will be presented to the full City Council.

The following guidelines should be considered in the evaluation of any corporate combination such as a proposal for merger, sale or acquisition:

1) In the case of a merger:

   (a) The newly combined entity should provide an opportunity for increased investment value to the City of London and/or lower electricity costs for Londoners;

   (b) The newly combined entity should have a strong local presence and preferably be headquartered or have a regional office in London;

   (c) The City of London should not be unduly constrained from disposing of its investment in the new entity, in a reasonable timeframe and manner;

   (d) The newly combined entity should have a governance structure that is commensurate with the City of London's investment in the new entity;

   (e) The proposed combination presents the best strategic objective to the City of London given the existing and expected future policy and regulation environment in Ontario over the next ten to fifteen years;

   (f) There should be established appropriate and fair arrangements to address London Hydro employees in the proposed merger arrangements;

2) In the case of an acquisition:

   (a) Any proposed acquisition will not require additional financing from the City of London;

   (b) The proposed acquisition presents the best strategic objective to the City of London given the existing and expected future policy and regulatory environment in Ontario over the next ten to fifteen years;

(c) There should be established appropriate and fair arrangements to address London Hydro employees in the proposed acquisition arrangements

3) In the case of any contemplated corporate disposition, including a transaction that results in the dilution of the City of London's wholly-owned investment in London Hydro Inc., or disposes or leases substantially all of the corporate assets other than in the normal course of business:

(a) The disposition should demonstrate that the new entity would lead to lower electricity costs to Londoners than otherwise would exist, without degradation of existing capital infrastructure or service levels;

(b) It should be demonstrated that the return on investment of reinvested disposition proceeds is greater than the return expected to be provided under the current investment in London Hydro Inc., or than contemplated under other proposed business combinations or alternatives;

(c) After disposition, the new entity would maintain a strong regional presence in London and ideally London would serve as a regional centre for the new entity;

(d) There should be established appropriate and fair arrangements to address London Hydro employees in the proposed disposition arrangements;

(e) The sale should not be subject to any transfer tax by the Ontario Government;

(f) The disposition presents the best strategic objective to the City of London given the existing and expected future policy and regulation environment in Ontario over the next ten to fifteen years.

Due Diligence Checklist

In addition to the consideration of the foregoing guidelines, the Navigant Due Diligence Checklist attached provides a summary of what the City will require London Hydro to evaluate as part of any due diligence relating to any proposal to merge, acquire or sell London Hydro.

NAVIGANT CONSULTING

Due Diligence Checklist

Issue	Issues Requiring Review	Observation
Governance	**Shareholder agreement** ⇒ How were ownership levels determined? ⇒ Are the voting rights strictly by ownership position or do some issues require a super majority? ⇒ Will founding members receive certain rights that future partners may not be eligible for? (e.g. minimum voting rights or board representation) ⇒ Does the agreement make allowances for one partner to sell their interest in a reasonable and timely manner? o Right of First Refusal (ROFR) for remaining partner(s) to acquire the shares of the partner seeking to divest. Transaction price is typically established one of three methods: 1) by valuation(s) performed by at least one independent third party at the time of transaction, (2) a predetermined price per share that is updated annually, (3) a predetermined formula to be used at the time of transaction. o "Shotgun Clause" - If the partnership is not working effectively, one partner can offer to buy the interest of the other. The other partner must accept the buyout or acquire the offering partner's interest at the same price. **Composition of proposed board of directors** ⇒ Proposed composition of Board (independent versus political or municipal appointees). ⇒ # of Representatives appointed by London	

Issue	Issues Requiring Review	Observation
Financial	**Financial Forecast** ⇒ Has a status quo and a Mergeco scenario been created? ⇒ What are the annual projected savings by source? e.g. staff reductions, avoided capex **Capital structure of the merged utility** ⇒ If the merged utility exceeds $250 million in ratebase, it can increase leverage to 60% (65% at $1 billion). What are the assumptions for timing, amount of money flowing to the shareholder, and when customer rates will be adjusted downward to reflect this difference? Any delay in adjusting rates could overstate the financial benefit to the shareholder. ⇒ What are the assumptions for financing the utility? Debt financing costs could be lower for a larger entity if there are no restrictions on refinancing the existing debt. When will customer rates be adjusted downward to reflect this difference? **Treatment of employees**	
	⇒ For an acquisition, will there be an employment guarantee and if so what is the duration of the guarantee? (Note: employees must still be subject to meeting minimum performance standards) Employee treatment typically ranges from: o No employment guarantee and layoffs commence at transaction close	

Issue	Issues Requiring Review	Observation
Financial	○ Employment guarantee of 2-3 years including severance period ○ Commitment to no layoffs and all efficiencies will be realized through normal attrition (usually limited to high growth utilities). ⇒ How will redundant employees be treated? - Contract staff reductions, severance packages for permanent employees, attrition or a combination of these approaches. Voluntary severance packages often result in high performing staff leaving the utility since they are confident that they will find employment elsewhere. Attrition assumptions need to be very conservative since employees that would normally leave the utility (early retirement, etc) often extend their service in the hope that they will be offered a financial incentive to retire. **Harmonized union wages** ⇒ It is usually best to use the conservative assumption that all union wages will migrate towards the highest wage rate per job classification. **Post-retirement benefits** ⇒ Important to quantify the existing liability for post-retirement benefits (should be in annual report) and the projected liability if these benefits are extended to all qualifying employees post merger.	

Issue	Issues Requiring Review	Observation
Financial	**Transaction and other integration costs** ⇒ Costs include the legal and other advisory fees associated with the analysis, negotiation and closing of the transaction and must be properly reflected in the financial analysis to accurately estimate the overall benefit to the shareholder. ⇒ Beyond staff related costs, there will likely be other integration costs associated with software licensing, data conversion, expansion of system monitoring, re-branding, customer information sessions, etc. ⇒ Outsourced services that are under long-term contract will need to be honored or termination penalties will need to be reflected in the analysis. **Treatment of existing assets** ⇒ Are there any redundant properties and/or offices that can be sold? What was used to determine the market value of these properties? ⇒ Combining utilities should also allow for an opportunity to reduce assets in inventory and vehicles in the fleet depending on proximity of service territories. An assumption that the cost of acquiring assets in the future will decrease, while possible, is more aggressive and difficult to quantify accurately. **Environmental issues** ⇒ With the exception of those utilities with former coal gasification sites, the greatest environmental issues faced by	

Issue	Issues Requiring Review	Observation
Financial	LDCs is the testing of transformers for PCBs (must not exceed 50ppm), and the removal, storage destruction of contaminated equipment. Most utilities will have tested all equipment and are in the process of replacing and destroying those pieces that are contaminated. If PCBs have not been properly addressed, the cost will need to be reflected in the transaction and any associated risks will need to be allocated appropriately in the transaction agreement. **Other potential liabilities** ⇒ Does the financial analysis properly capture the future liabilities of the other utility? E.g. o PILS tax position – Many utilities have been over-collecting in revenue o Development charges – Ensure that the utility has been properly compensating developers based on the economic model method.	
Operations & Administration	**Appropriate staffing levels** ⇒ An organization chart of the combined utility must be completed. Redundant employees should be identified with an explanation of how their employment situation will be resolved. ⇒ Note: in certain situations, system growth and relocation of staff may make it possible to avoid reducing staff and still realize the financial benefits from combining utilities.	

Issue	Issues Requiring Review	Observation
Operations & Administration	**Centralizing Administration** ⇒ Will back-office functions be centralized and if so where? ⇒ Can the main office accommodate increased staffing levels? ⇒ What are the costs associated with relocation and centralizing functions? **Customer Service** ⇒ Where will the customer service centre(s) be located and which information system will be used? How easily can the systems be integrated? ⇒ Will there be a need to identify customers from different utilities (or area codes) and can the system handle this? ⇒ What was the ratio of customers to customer service reps prior to the transaction and what will it be after the transaction?	
Corporate Culture	**Relationship with union** ⇒ Number of incidents of strikes, job actions or grievances that could be indicative of an acrimonious relationship between the union and management? **Union collective agreements** ⇒ Ability to outsource? The restrictions on outsourcing will vary between collective agreements. ⇒ What is policy on vacation and sick days? Will costs increase relative to London Hydro's policies?	

Issue	Issues Requiring Review	Observation
Physical Assets	**Distribution and Transformers** ⇒ How do the SAIDI, SAIFI and CAIDI statistics (measures of frequency and duration of service interruption) compare to the OEB standards and London Hydro. If performance is substandard, how will this be addressed and what will the cost be? ⇒ What is the ratio of overhead versus underground wire and rural versus urban in the distribution system and how does this compare to London Hydro? ⇒ What is the average age of the distribution assets (wires and transformers) and how does this compare to London Hydro? ⇒ What percentage of the system is under 12kv? Is there a plan to upgrade this system and has it been reflected in the financial forecasts?	
Ratepayers	**Impact on Customer Rates** ⇒ How will ratepayers benefit from the proposed transaction? This should be presented as an estimate (in percentage form) of how much lower rates could be when compared to the status quo. ⇒ This should reflect the benefit from reduced operating expenses and lower capital financing costs. **Impact on System Reliability** ⇒ Will the distribution systems be integrated?	

Issue	Issues Requiring Review	Observation
Ratepayers	⇒ Will system monitoring be extended to the partner utility? ⇒ Will the OEB performance measures (SAIDI, SAIFI, etc) be monitored separately or on a consolidated basis? System reliability in smaller legacy utilities may be undetected if reporting is done on a consolidated basis.	

Bill No. 409
2008

By-law No. A.-6254-290

A by-law to ratify and confirm the Annual Resolutions of the Shareholder of London Hydro Inc.

WHEREAS London Hydro Inc. is a corporation incorporated under the *Business Corporations Act* R.S.O. 1990, c.B.16 (the "BCA");

AND WHEREAS subsection 104(1)(b) of the BCA provides that a resolution in writing dealing with all matters required by the BCA to be dealt with at a meeting of shareholders, and signed by all the shareholders or their attorney authorized in writing entitled to vote at the meeting, satisfies all the requirements of the BCA relating to that meeting of shareholders;

AND WHEREAS the Corporation of the City of London is the sole shareholder of London Hydro Inc.;

AND WHEREAS Subsection 9 of the *Municipal Act, 2001* provides that a municipality has the capacity, rights, powers and privileges of a natural person for the purpose of exercising its authority under this or any other Act;

AND WHEREAS Subsection 5(3) of the *Municipal Act, 2001* provides that a municipal power shall be exercised by by-law;

The Municipal Council of The Corporation of the City of London enacts as follows:

1. The Annual Resolutions of the Shareholder of London Hydro Inc. for the fiscal year ended December 31, 2007, attached as Schedule "A" are ratified and confirmed.

2. The Mayor and Clerk are authorized to execute the Annual Resolutions of the Shareholder ratified and confirmed under section 1 of this by-law.

3. This by-law comes into force on the day it is passed.

PASSED in Open Council on August 18, 2008.

Anne Marie DeCicco-Best
Mayor

Kevin Bain
City Clerk

First reading - August 18, 2008
Second reading – August 18, 2008
Third reading - August 18, 2008

London
CANADA

CITY OF LONDON
BY-LAW CERTIFICATION RECORD

I, ***James C. Purser, Manager of Records and Information Services,*** of The Corporation of the City of London, hereby certify that the document hereunder is a true copy of By-law No A.-6254-290 passed by Municipal Council on August 18, 2008.

Dated at London, Ontario, this 4th day of September, 2008.

James C. Purser
Manager of Records and Information Services

Schedule "A"

LONDON HYDRO INC.
(the "Corporation")

WHEREAS subsection 104(1)(b) of the *Business Corporations Act* (Ontario) (the "Act") provides that a resolution in writing dealing with all matters required by the Act to be dealt with at a meeting of shareholders, and signed by all the shareholders or their attorney authorized in writing entitled to vote at the meeting, satisfies all the requirements of the Act relating to that meeting of shareholders;

The following resolutions, signed by the sole shareholder of the Corporation entitled to vote thereon, is hereby passed pursuant to the provisions of the Act:

FINANCIAL STATEMENTS

It is hereby acknowledged that the balance sheet of the Corporation as at December 31, 2007, and the other audited financial statements, together with Auditors' Report, of the Corporation for the financial year ended on such date have been received by the undersigned shareholder of the Corporation.

AMENDMENT OF SHAREHOLDER DECLARATION

BE IT RESOLVED THAT:

1. Article 4.4 of the Shareholder Declaration of the Corporation dated November 26, 2007 (the "Shareholder Declaration") is hereby amended by deleting the following sentence:

> "A director may be elected to two consecutive three-year terms but shall become ineligible to stand for re-election after having served two such consecutive terms, provided that a director may stand for re-election as a director after a period of three years has elapsed from the end of such director's second consecutive term."
>
> and substituting therefore:
>
> "Notwithstanding the foregoing, a director may be elected for a term of less than three years"

2. The amendment to the Shareholder Declaration shall be effective as of the date of these resolutions.

3. The Shareholder Declaration shall in all other respects remain in full force and effect.

ELECTION OF DIRECTORS

BE IT RESOLVED THAT:

1. Each of the following persons, being directors that are members of the second class pursuant to paragraph 4.4 of the Shareholder Declaration, is hereby elected as a director of the Corporation to hold office for a term with the expiry as set out below or, following the expiry of such term, until his successor is elected or appointed:

Name of Director	Expiry of Term
Rick Witherspoon	the close of the annual meeting of shareholders to be held in 2010 for the financial year ending December 31, 2009

Peter Johnson	the close of the annual meeting of shareholders to be held in 2010 for the financial year ending December 31, 2009

2. Each of the following persons, being directors that are members of the first class pursuant to paragraph 4.4 of the Shareholder Declaration, is hereby **confirmed** as a director of the Corporation for his elected term or, following the expiry of such term, until his successor is elected or appointed:

Name of Director	**Expiry of Term**
Bernard G. Borschke	the close of the annual meeting of shareholders to be held in 2010 for the financial year ending December 31, 2009
Gabriel Valente	the close of the annual meeting of shareholders to be held in 2010 for the financial year ending December 31, 2009

3. Each of the following persons, being directors that are members of the third class pursuant to paragraph 4.4 of the Shareholder Declaration, is hereby **confirmed** as director of the Corporation for his or her elected term or, following the expiry of such term, until his or her successor is elected or appointed:

Name of Director	**Expiry of Term**
Radhey Mohan Mathur	the close of the annual meeting of shareholders to be held in 2009 for the financial year ending December 31, 2008
Marilyn Sinclair	the close of the annual meeting of shareholders to be held in 2009 for the financial year ending December 31, 2008

4. The following person, being the director that is a member of the fourth class pursuant to paragraph 4.4 of the Shareholder Declaration, is hereby **confirmed** as director of the Corporation for his elected term, subject to his being a duly elected member of Council, or, following the expiry of such term, until his successor is elected or appointed:

Name of Director	**Expiry of Term**
Tom Gosnell	the close of the annual meeting of shareholders to be held in 2010 for the financial year ending December 31, 2009

APPOINTMENT OF AUDITORS

RESOLVED THAT:

KPMG LLP are hereby appointed auditors of the Corporation to hold office until the close of the next annual meeting of the shareholders or until a successor is appointed at such remuneration as may be fixed by the directors and the directors are hereby authorized to fix such remuneration.

DATED this 19th day of August, 2008.

The Corporation of the City of London

By: _____
Name: A.M. DeCicco-Best
Title: Mayor

By: _____
Name: Kevin Bain
Title: City Clerk

June 21, 2012

Key Performance Indicators and Discussion
For the five-month period ended May 31, 2012

Highlights of the results to May 31, 2012:

- **YTD DISTRIBUTION REVENUE** is $581k or 2.3% unfavourable.

  Overall, year to date energy quantities distributed are lower than budget by 4.7% and lower than the same time period in 2011 by 2.6%. These results are closely tied to the unusually warm weather throughout the winter and early spring. Billed demand is lower than budget by 1.3%, however, is higher than during May 2011 by 1.1%.

  Total customer numbers are tracking slightly below budget (-0.1%) at 148,840.

- Net **CONTROLLABLE COSTS** are $82k or 0.6% favourable to-date.

  - Year to date labour and benefits are $68k or 0.7% higher than budget. Although total base labour and benefits are favourable to budget due mainly to hiring delays ($452k), deployment of staff to capital and billable activities is unfavourable to budget ($569k). The net impact is an unfavourable variance of $117k. Year to date overtime costs are favourable to budget ($49k).
  - Professional service costs are favourable to budget by $164k or 8.6%. Year to date significant favourable variances are related to legal ($27k), contracted meter reading ($83k), security ($16k), and wholesale metering services ($22k). This is partially offset with unfavourable variances in contractor and consulting expense ($44k) and collection services ($15k).
  - Bad debt expense is tracking to budget.
  - The remaining variance year to date is mainly related to the timing of spending for facilities maintenance ($106k favourable) and newly negotiated contracts for software maintenance which is part of the costs related to office equipment service and maintenance ($64k favourable). Special bill inserts related to time of use rates is causing postage expense to be unfavourable to budget at this time ($63k).

- **OTHER REVENUE** is $162k or 9.8% favourable to budget due primarily to favourable variances in interest earned ($114k), the sale of scrap ($41k) and revenue from renewable generation ($14k), Year to date late payment charges are tracking below budget ($72k).

- **YTD EBIT** (year-to-date earnings before interest and taxes) of $4.1 million is $155k or 3.6% unfavourable due to favourable variances in controllables and other revenue as discussed above, a favourable variance in amortization ($181k), and unfavourable year to date variance in distribution revenue ($581k).

- **INCOME TAX EXPENSE** is $25k unfavourable and relates mainly to lower than anticipated EBIT as discussed above and impacts of capital cost allowance.

- Year-to-date **NET EARNINGS AFTER TAX** of $2.1 million is unfavourable to budget by $39k or 1.9%.

- Year-to-date gross **CAPITAL and regulatory** expenditures of $11.9 million are $1.8 mil or 13.0% favourable due primarily to spending delays in vehicle and equipment ($0.4 mil), substation rebuilds ($0.6 mil), overhead line works ($0.3 mil), and final smart meter related programs ($0.5 mil).

- The **CASH** balance of $11.2 mil is higher than forecast by $6.4 mil. Cash balances are favourably impacted by fluctuations in regulatory activities ($2.7 mil), lower net capital spending ($1.4 mil), higher levels of customer deposits ($1.4 mil), and lower accounts receivable ($1.1 mil). These favourable impacts are offset with fluctuations trade and IESO payables ($0.6 mil lower that forecast).

- **ACCOUNTS RECEIVABLE** at the end of May was $52.7 mil and has decreased from the prior month balance ($61.2 mil). Receivable balances are affected by seasonal/usage differences, OPA activities, and the timing of invoicing for developer works projects, among others.

  At the end of May outstanding OPA receivables totaled $3.7 mil and are lower than the prior month by $2.8 million. AR aging for both the greater than 60 and greater than 90 day categories have improved over the same time period in 2011.

  Bad debt expense is currently tracking to budget, although the risk related to Time of Use billing and new OEB regulations is being monitored closely.

  Management has accounted for and recorded an appropriate allowance for bad debts at this time, utilizing an appropriate risk assessment methodology consistent with prior years. The impact of new time of use rates on AR risk is not determinable at this time.

David Arnold
(519) 661-5800 ext. 5624

London Hydro Inc.
Key Performance Indicators
For the period ended May 31, 2012

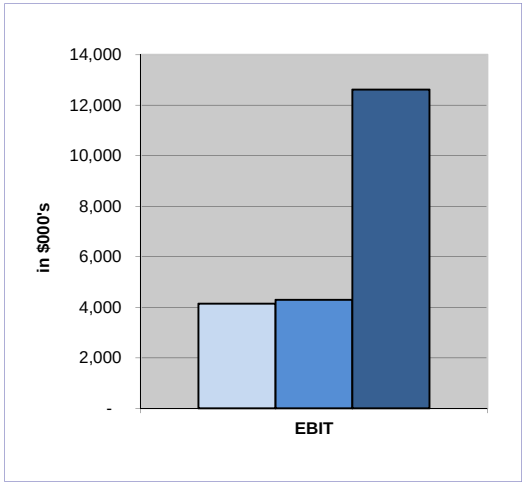
	Current Period	YTD Actual	YTD Budget	YTD Variance Fav(Unfav)	YTD Variance %	2012 Annual Budget	2011 Yearend Actual
Energy Sales and cost of sales	$25,858	$121,669	$123,864	($2,195)	-1.8%	$315,001	$298,003
Energy distribution quantities (GWh)	265	1,348	1,414	(67)	-4.7%	3,488	3,408
Operating results ($ in 000's)							
Distribution revenue	$4,909	$24,205	$24,786	($581)	-2.3%	$62,017	$58,761
EBIT	$770	$4,139	$4,294	($155)	-3.6%	$12,622	$14,966
Net earnings	$300	$2,054	$2,093	($39)	-1.9%	$6,739	$7,873
Capital/Regulatory expenditures ($ in 000's)							
Gross expenditures	$2,960	$11,910	$13,689	$1,779	13.0%	$33,142	$32,474
Liquidity ($ in 000's)							
Cash inflow (ouflow)	$11,131	$10,857	$4,480	$6,377	142.3%	($4,526)	($7,353)
Cash and equivalents	$11,170	$11,170	$4,793	$6,377	133.1%	($4,213)	$313
Accounts receivable	$52,717	$52,717	$53,777	$1,060	2.0%	$60,967	$61,031
Working capital ratio	1.30	1.30	1.18	0.12	10.2%	1.13	1.51
Profitibility and credit ratios							
Average annualized return on equity	2.9%	4.0%	4.1%	-0.1%	-1.9%	5.4%	9.8%
Operating ratios							
Customers served per employee	479	479	475	4	0.8%	476	495
Net controllable expense per customer	$19.48	$93.29	$93.81	$0.52	0.6%	$224.61	$212.63

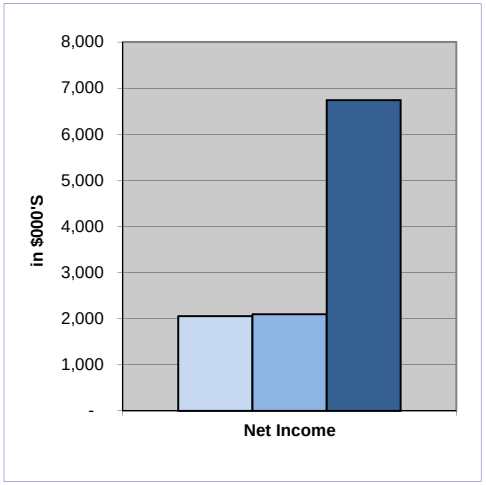
	YTD 2012	YTD 2011	Change $	Change %
Accounts receivable aging ($ in 000's)				
> 60 days	$1,963	$2,625	($662)	-25.2%
> 90 days	$1,691	$1,975	($284)	-14.4%

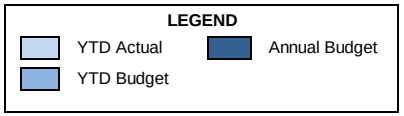
		Limitation	Actual	Covenant Met
Bank Covenants				
Funded Debt to Capitalization	Maximum	60%	43%	YES
Debt Service Coverage	Minimum	1.20	2.78	YES

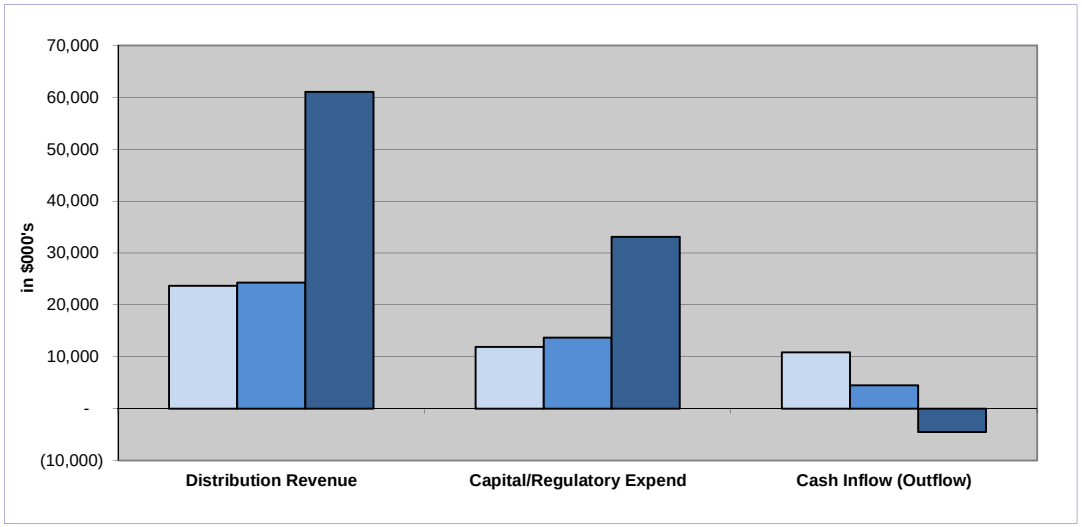
London Hydro Inc.

KEY PERFORMANCE INDICATORS
For the period ended May 31, 2012



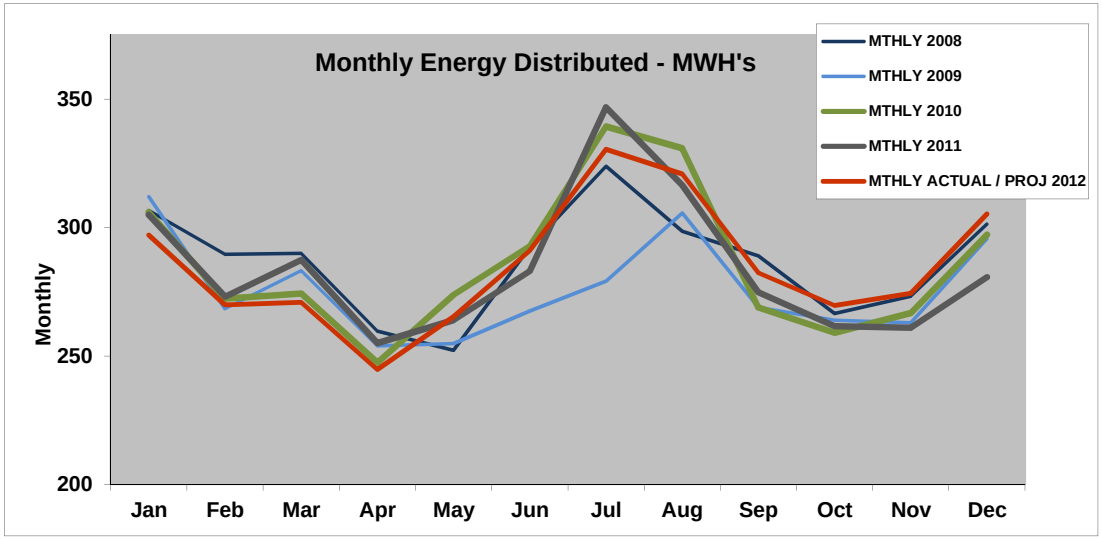


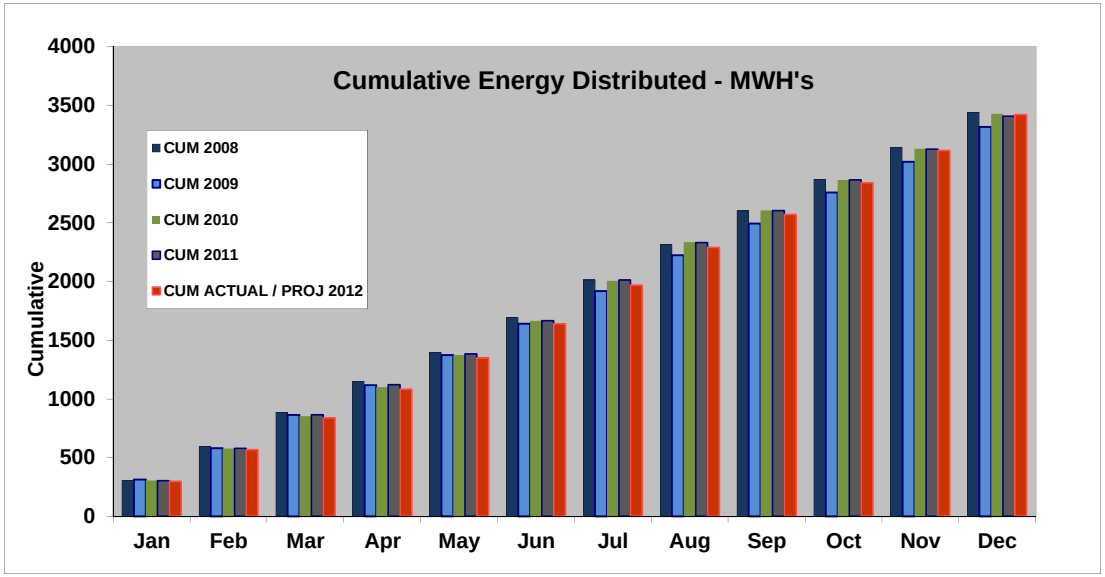




London Hydro Inc.

KEY PERFORMANCE INDICATORS
For the period ended May 31, 2012





London Hydro Inc.

Financial Statements

For the Six Months Ended June 30, 2012 and 2011

(Unaudited)

London Hydro Inc.
Table of Contents to the Financial Statements
For the Six Months Ended June 30, 2012 and 2011

London Hydro Inc.
Balance Sheet
(unaudited)
(in thousands of dollars)

	Note	June 30, 2012	December 31, 2011
ASSETS			
Current assets			
Cash and equivalents	5	$ 7,460	$ 313
Accounts receivable	6,16	60,690	61,031
Income tax receivable		658	254
Regulatory assets	12	811	2,905
Inventories	7	883	880
Prepaids		998	821
Total current assets		71,500	66,204
Regulatory assets	12	21,980	21,504
Property, plant and equipment	8	209,968	205,596
Future income tax assets		6,511	7,289
Total non-current assets		238,459	234,389
Total assets		$ 309,959	$ 300,593
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Accounts payable and accrued liabilities -			
Due to Independent Electricity System Operator		$ 25,008	$ 22,186
Other		14,160	11,477
Regulatory liabilities	12	3,959	2,580
Dividends payable	17	1,500	-
Current portion of long-term debt	11	2,304	2,304
Customer and other deposits	9	824	1,059
Due to shareholder	16	8,066	6,548
Total current liabilities		55,821	46,154
Long-term liabilities			
Unrealized loss on interest rate swap	11	570	548
Regulatory liabilities	12	20,548	19,709
Customer and other deposits	9	14,617	14,141
Long-term debt	11	14,194	15,346
Due to related party	16	70,000	70,000
Employee future benefits	18	10,903	10,640
Total long-term liabilities		130,832	130,384
Total liabilities		186,653	176,538
Shareholder's equity			
Share capital		96,116	96,116
Retained earnings		27,190	27,939
Total shareholder's equity		123,306	124,055
Total liabilities and shareholder's equity		$ 309,959	$ 300,593

The accompanying notes are an integral part of these financial statements.

London Hydro Inc.
Statement of Operations and Retained Earnings
(unaudited)
(in thousands of dollars)

	Note	For the three months ended		For the six months ended	
		June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenues					
Energy		$ 75,704	$ 70,806	$ 148,817	$ 143,836
Distribution		14,202	13,525	28,962	28,150
		89,906	84,331	177,779	171,986
Cost of Power		(75,704)	(70,806)	(148,817)	(143,836)
Distribution revenue		14,202	13,525	28,962	28,150
Operating expenses					
Plant operating and maintenance		2,889	2,819	5,692	5,377
General and administrative		5,848	5,720	12,042	11,585
Amortization of plant and equipment		5,116	4,354	10,125	8,645
		13,853	12,893	27,859	25,607
Less: Costs recovered	16	(848)	(827)	(1,687)	(1,659)
		13,005	12,066	26,172	23,948
Operating income		1,197	1,459	2,790	4,202
Other Income (expense)					
Interest and other revenue	14	1,115	1,259	2,150	2,264
Unrealized loss on interest rate swap	11	(163)	-	(22)	-
Interest expense	15	(1,343)	(1,326)	(2,659)	(2,659)
		(391)	(67)	(531)	(395)
Earnings before income taxes		806	1,392	2,259	3,807
Income tax expense (recovery)		(157)	197	8	685
Net earnings for the period		963	1,195	2,251	3,122
Retained earnings, beginning of period		26,227	21,993	27,939	22,566
Dividends	17	-	-	(3,000)	(2,500)
Retained earnings, end of period		$ 27,190	$ 23,188	$ 27,190	$ 23,188

The accompanying notes are an integral part of these financial statements.

London Hydro Inc.
Statement of Cash Flows
(unaudited)
(in thousands of dollars)

	Note	For the three months ended		For the six months ended	
		June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Cash flows from operating activities					
Net earnings for the period		$ 963	$ 1,195	$ 2,251	$ 3,122
Adjustments for:					
Amortization of plant and equipment		5,116	4,354	10,125	8,645
Gain on disposal of property, plant and equipment		(51)	(67)	(59)	(94)
Unrealized loss on interest rate swap		163	-	22	-
		6,191	5,482	12,339	11,673
Net change in non-cash working capital related to operations	13	3,917	(8,887)	6,780	(11,675)
Employee future benefits	18	131	112	263	225
Net cash provided (used in) operating activities		10,239	(3,293)	19,382	223
Cash flows from investing activities					
Acquisition of property, plant and equipment		(9,009)	(7,770)	(15,013)	(14,121)
Disposition of stranded meters and other plant and equipment		(568)	(22)	(1,155)	188
Regulatory assets and liabilities - future income taxes	4 g)	374	227	778	450
Other regulatory assets and liabilities, including smart meters		1,896	(517)	3,836	(1,628)
Net cash used in investing activities		(7,307)	(8,082)	(11,554)	(15,111)
Financing activities					
Increase in customer and other deposits		333	197	241	1,836
Contributions in aid of construction		710	995	1,730	1,422
Dividends paid		(750)	(1,250)	(1,500)	(1,250)
Short-term debt		-	9,366	-	9,366
Long-term debt repaid	11	(576)	(576)	(1,152)	(4,152)
Net cash provided by (used in) financing activities		(283)	8,732	(681)	7,222
Net increase (decrease) in cash and equivalents during the period		2,649	(2,643)	7,147	(7,666)
Cash and equivalents, beginning of the period		4,811	2,643	313	7,666
Cash and equivalents, end of the period		$ 7,460	$ -	$ 7,460	$ -

The accompanying notes are an integral part of these financial statements.

London Hydro Inc.
Table of Contents to the Notes to the Interim Financial Statements

For the Six Months Ended June 30, 2012 and 2011
(Unaudited)

1. Regulated Business Operations and Distribution Rates

London Hydro Inc. ("the Company") is a wholly owned subsidiary company of the Corporation of the City of London and provides regulated electrical distribution services to the inhabitants of the City of London.

The Company is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the Ontario Energy Board Act (1998). The OEB has responsibility to set just and reasonable distribution rates and thereby approves all of the Company's distribution and ancillary rates. The Company's distribution revenue is determined by applying those regulated rates to customers and their consumption of electricity in the Company's distribution territory, as established by its distribution license granted by the OEB.

2. Basis of Preparation

These interim financial statements do not include all of the disclosures normally required and found in the Company's annual financial statements, and they should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2011. These interim financial statements have been prepared in accordance with accounting principles generally accepted in Canada following the same accounting policies and methods as those used in preparing the most recent annual financial statements.

3. Financial Effects of Distribution Rate Regulation

The financial results presented are in accordance with generally accepted accounting principles and within that framework the Company accounts for the impact of regulatory actions in the following manner:

a) Regulatory decisions to adjust distribution rates

In the event that a regulatory decision is rendered, providing regulatory approval and certainty to the recognition of an asset, or creation of a liability, and culminating in an adjustment to the Company's distribution rates, such occurrences are immediately reflected in the Company's accounts.

b) Regulatory direction and practice

In the absence of a regulatory decision impacting rates, and where the Company is required by regulatory accounting practice or direction to accumulate balances for future rate recovery or create liabilities for future discharge, those amounts are recorded in accordance with that regulatory direction. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provisions for future uncertainty, are more fully described in Note 12 to the financial statements.

4. Summary of Significant Accounting Policies

a) Revenue recognition

The Company is licensed by the OEB to distribute electricity. As a licensed distributor, the Company is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties.

The Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers. The Company is acting as a principal for the electricity distribution and therefore has presented the electricity revenues on a gross basis.

Revenue attributable to the delivery and consumption of electricity is based upon rates approved by the OEB and the Independent Electricity Systems Operator ("IESO") and includes the cost of electricity supplied, distribution charges and any regulatory charges. Revenue is recognized as electricity is delivered and consumed by customers. Revenue is recorded on the basis of regular monthly meter readings and estimates of customer usage since the last meter reading date to the end of the period. Revenue is measured at the value of the consideration received or receivable, net of sales tax.

Amounts billed for Debt Retirement Charges are excluded from revenues, as the Company is acting as an agent for the collection of these amounts. The Company may file to recover uncollected debt retirement charges from the Ontario Electricity Financial Corporation ("OEFC").

b) Financial assets and liabilities

The standards require that as financial assets and liabilities are initially recognized that they be measured at fair value, except for certain related party transactions. After initial recognition, financial assets are categorized as assets held-for-trading, held-to-maturity investments, loans and receivables or, available-for-sale assets, and financial liabilities must be classified as held-for-trading, or other financial liabilities. All financial instruments are measured on the balance sheet at fair value except for loans and receivables held to maturity, investments and other liabilities, which are measured at amortized cost.

Subsequent measurement and changes in fair value depend on their initial classification as follows: held-for-trading are measured at fair value and changes in fair value are recognized in the statement of operations and retained earnings. The Company has classified its financial instruments as follows:

Cash and equivalents	Held-for-trading
Accounts receivable	Loans and Receivables
Income tax receivable	Loans and Receivables
Accounts payable and accrued liabilities	Other Liabilities
Dividends payable	Other Liabilities

4. Summary of Significant Accounting Policies, continued

b) Financial assets and liabilities, continued

Customer and other deposits	Other Liabilities
Due to shareholder	Other Liabilities
Long-term debt	Other Liabilities
Due to related party	Other Liabilities

c) Inventories

Inventories are required to be measured at the lower of average cost and net realizable value. Items considered to be major future components of property, plant and equipment are recorded as such in the financial statements.

d) Property, plant and equipment

Property, plant and equipment are amortized over their estimated useful lives using the straight-line method over the following periods:

Land rights and buildings	25 to 60 years
Distribution substation equipment	30 years
Other distribution equipment	15 to 40 years
Other fixed assets	5 to 15 years

When an item of property, plant and equipment is sold or otherwise disposed of, the related cost and accumulated amortization are removed from the respective accounts and any gain or loss on disposition is recognized in earnings.

Assets under construction are not subject to amortization until they are put into service.

Plant and equipment that by their nature are not readily identifiable as individual assets are grouped together. Under this method, the related cost and accumulated amortization are removed from their respective grouping account at the end of the asset's estimated useful life, regardless of actual service life. Any proceeds on disposition are recognized in earnings in the year of disposition.

e) Contributions to capital costs

Contributions are received from developers and contractors for capital costs incurred by the Company. These contributions are included as a reduction to the cost of the related plant and equipment when those assets are placed in service.

f) Cash and cash equivalents

Cash on hand and on deposit with banks, and short-term investments with maturity of three months or less, are considered cash and equivalents.

4. Summary of Significant Accounting Policies, continued

g) Future income taxes

CICA Handbook Section 3465 states that where future income taxes may be expected to be included in approved rates charged to customers in the future and to be recovered or returned to future customers, the recognition of a regulatory asset or liability for the increase or reduction in future revenue is required. Furthermore, the regulatory asset or liability established by this requirement is a temporary difference for which an additional future income tax asset or liability is recognized.

h) Employee future benefits

The Company has adopted the following policies for future benefits provided to both active and retired employees:

Pension benefits

The Company has a pension agreement with the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer contributory defined benefit plan. Company contributions to the plan are recognized as pension expense in the period that they are incurred. As this is a multi-employer plan, no pension liability for this type of plan is recorded in the Company's financial statements.

Other post-retirement and post-employment benefits

The Company provides other benefits to active and retired employees including group life insurance and health-care benefits. Recognition of these benefits are actuarially determined using the projected benefit method pro-rated on service using management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

i) Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the financial statements.

Certain estimates are also required as regulations, which will ultimately determine the actual results, have yet to be finalized and are dependent on the completion of regulatory proceedings or decisions. Due to these uncertainties, actual results might differ from those estimates and the impact will be recorded in the current period when the actual results are known.

5. Cash and equivalents

	June 30, 2012	December 31, 2011
Bank balances	$ 7,460	$ 313

6. Accounts receivable

Included in accounts receivable is approximately $6.8 million (2011 - $5.1 million) of customer receivables for water consumption that the Company bills and collects on behalf of the Corporation of the City of London. As the Company does not assume liability for collection of these amounts, any amount relating to water consumption that is determined to be uncollectible is charged to the Corporation of the City of London.

At June 30, 2012, approximately $0.4 million (2011 - $0.4 million) is included in the allowance for doubtful accounts for uncollectible amounts relating to water consumption.

Receivables are comprised of:

	June 30, 2012	December 31, 2011
Trade receivables	$ 27,971	$ 25,469
Allowance for doubtful accounts	(2,320)	(2,259)
Unbilled revenue	32,075	31,693
Other	2,964	6,128
	$ 60,690	$ 61,031

7. Inventories

Inventory, which consists of parts and supplies acquired for internal construction, consumption, or recoverable work, is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis. Net realizable value is determined by replacement cost.

The amount of inventories consumed by the Company and recognized as an expense during the three months ended June 30, 2012 was $0.2 million (2011 - $0.2 million).

8. Property, plant and equipment

Cost:

	Land and Buildings	Distribution Substation Equipment	Other Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
Balance at January 1, 2011	$ 23,257	$ 12,512	$ 290,816	$ 34,307	$ 12,756	$ 373,648
Additions	1,162	3,867	$ 16,850	$ 4,745	-	26,624
Transfers	-	-	-	-	(2,140)	(2,140)
Disposals / Retirements	(104)	-	$ (9,068)	$ (2,415)	-	(11,587)
Balance at Dec 31, 2011	$ 24,315	$ 16,379	$ 298,598	$ 36,637	$ 10,616	$ 386,545
Balance at January 1, 2012	$ 24,315	$ 16,379	$ 298,598	$ 36,637	$ 10,616	$ 386,545
Additions	263	438	7,053	4,542	-	12,296
Transfers	-	-	-	-	987	987
Disposals / Retirements	-	-	(71)	(251)	-	(322)
Balance at Jun 30, 2012	$ 24,578	$ 16,817	$ 305,580	$ 40,928	$ 11,603	$ 399,506

Accumulated amortization:

	Land and Buildings	Distribution Substation Equipment	Other Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
Balance at January 1, 2011	$ 10,126	$ 5,754	$ 141,573	$ 16,925	$ -	$ 174,378
Depreciation	649	380	11,734	4,532	-	17,295
Disposals / Retirements	(104)	-	(8,206)	(2,414)	-	(10,724)
Balance at December 31, 2011	$ 10,671	$ 6,134	$ 145,101	$ 19,043	$ -	$ 180,949
Balance at January 1, 2012	$ 10,671	$ 6,134	$ 145,101	$ 19,043	$ -	$ 180,949
Depreciation	335	226	5,828	2,503	-	8,892
Disposals / Retirements	-	-	(52)	(251)	-	(303)
Balance at Jun 30, 2012	$ 11,006	$ 6,360	$ 150,877	$ 21,295	$ -	$ 189,538

Net book value:

Balance at	Land and Buildings	Distribution Substation Equipment	Other Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
December 31, 2011	$ 13,644	$ 10,245	$ 153,497	$ 17,594	$ 10,616	$ 205,596
June 30, 2012	$ 13,572	$ 10,457	$ 154,703	$ 19,633	$ 11,603	$ 209,968

8. Property, plant and equipment, continued

At June 30, 2012, property, plant and equipment with a cost of $21.3 million (2011 - $5.6 million) had been fully amortized but were still in use.

9. Customer and other deposits

Customer and other deposits include security deposits for energy consumption bearing interest at a rate of prime less 2% per annum and developer deposits held in accordance with regulation.

Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, and dependent upon the final determination of the required capital contribution, these deposits are either refunded to the developer or transferred to contributions in aid of construction.

Customer deposits are comprised of:

		June 30, 2012		December 31, 2011
Customer deposits	$	7,314	$	7,120
Construction deposits		8,127		8,080
		15,441		15,200
Less: Current Portion		824		1,059
	$	14,617	$	14,141

10. Short-term credit facilities

At June 30, 2012, the Company had an uncommitted operating revolving line of credit facility of $20.0 million with the Toronto Dominion Bank. As at June 30, 2012, the amount drawn by the Company under this line of credit was $nil (2011 - $nil).

The line of credit is unsecured and interest is at bank prime rate on prime based borrowings minus 0.50%, or at Bankers Acceptances (“B/A”) rates plus a 0.75% stamping fee on B/A based borrowings.

11. Long-term debt

		June 30, 2012		December 31, 2011
Non-revolving term instalment loan bearing interest at the 7.75 year Banker's Acceptance rate of 2.43% plus a stamping fee of 0.9% payable in monthly instalments of $192,000 principal plus interest due on March 31, 2020	$	16,498	$	17,650
		16,498		17,650
Less: Current portion		2,304		2,304
Total long-term debt	$	14,194	$	15,346

At June 30, 2012, the Company had a committed 364 day extendable operating revolving loan facility of $15.0 million with the Toronto Dominion Bank and the amount drawn by the Company under this loan facility was $nil (2011 - $nil).

Under the terms of this agreement, the loan has a maturity date of March 31, 2014. The Company has a one year period from the loan maturity date to repay any outstanding balances in the event the lender elects not to extend the loan for an additional 364 day period. Interest is at bank prime rate on prime based borrowings minus 0.50%, or at B/A rates plus a 0.75% stamping fee on B/A based borrowings.

In addition to the long-term loan facility with the Toronto Dominion Bank, the Company has entered into an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan of $20.5 million to fund its Smart Meter capital expenditure program. Principal repayments on this loan commenced in October 2010 and were amortized over a 10 year period ending March 31, 2020. Effective June 29, 2012, this fixed rate swap agreement was amended changing the maturity date to March 31, 2020 and effectively converts variable interest rates on unsecured Bankers Acceptances to an effective interest rate of 2.43% (2011 - 2.73%) plus a stamping fee of 0.9% for an all-in rate of 3.33% (2011 - 3.63%).

The swap agreement entered into with Royal Bank of Canada does not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contract is marked to market at period end with the unrealized gain or loss recorded in the income statement. The unrealized loss for the three month period ended June 30, 2012 was $0.2 million (2011 - $nil).

At June 30, 2012, the Company would be required to pay $0.6 million if it wished to cancel the swap agreement.

Additionally, and as described in Note 16 to these financial statements, the Company has issued a promissory note to the Public Utility Commission of the City of London in the amount of $70.0 million bearing interest at 6% per annum. Interest is paid at the end of each quarter. The note is unsecured and payable on demand with 367 days notice, and matures on October 31, 2015.

12. Regulatory assets and liabilities

Regulatory assets

	June 30, 2012	December 31, 2011
Amounts approved for recovery in distribution rates	$ -	$ 194
Smart meter expenditures in excess of recoveries	22,239	23,237
Amounts submitted for future rate approval:		
Transitional cost recoveries	-	458
Other	552	520
	22,791	24,409
Less: Current portion	811	2,905
	$ 21,980	$ 21,504

Regulatory liabilities

	June 30, 2012	December 31, 2011
Amounts approved for disposition in distribution rates	$ 7,542	$ 287
Purchase power cost variances (non-commodity)	4,385	7,889
Purchase power cost variances (commodity)	5,657	6,676
Future income tax liability	6,369	7,152
Other	554	285
	24,507	22,289
Less: Current portion	3,959	2,580
	$ 20,548	$ 19,709

Regulatory assets

a) Smart meter expenditures in excess of recoveries

The Company has been authorized under Ontario Regulation 427/06 to undertake discretionary metering activities under the Provincial Smart Meter Program, and to recover through rates, the funding required for the implementation of this program. These balances represent the extent to which program costs to date have exceeded recoveries to date.

12. Regulatory assets and liabilities, continued

The Company submitted an application to recover the smart meter expenditures in excess of recoveries to the OEB on March 24, 2012. A Decision and Order from the OEB related to this submission was issued on July 26, 2012. In the Decision, the Board approved all application recoveries of costs for smart meter deployment and operations. The recoveries are for both actual expenditures up to December 31, 2011, and forecasted expenditures in 2012.

As per the Decision and Order, the rate riders applicable to these recoveries have an effective date of May 1, 2012, an implementation date of September 1, 2012, and a sunset date of April 30, 2013 or once a Decision has been made as to the Company's 2013 cost of service rate application.

The Company did not seek recoveries of stranded meter costs. As per OEB requirements, recovery of stranded meter amounts is only permitted to be applied for in a cost of service rate application. The stranded meter cost recoveries will be filed in the 2013 cost of service rate application.

b) Transitional and other cost recoveries

Transitional costs

The regulatory decision of December 9, 2004 affirmed the recovery of transitional costs in rates over a three-year period ending April 30, 2008. The remaining unrecovered balances were filed in the 2012 IRM rate application and have been approved by the OEB for recovery. The rate rider for recovery per the OEB IRM Decision is for a implementation date of May 1, 2012 with sunset date of April 30, 2014.

Other cost recoveries

Other costs consist of $0.5 million (2011 - $0.5 million) incurred to transition to International Financial Reporting Standards ("IFRS"). The OEB has authorized the establishment of a deferral account for expenditures to transition to IFRS. The Company intends to seek recovery of these costs in the 2013 cost of service rate application. Another amount of $0.1 million (2011- $0.1 million) originally recorded in the smart grid deferral account is being decided not to be filed to the OEB for consideration for provincially funded cost recovery.

Regulatory Liabilities

a) Purchased power cost variances

As a regulated distributor of electricity, the Company is obligated to provide default energy supply to those consumers who elect not to purchase their energy from an energy retailer. The regulatory framework requires that all default energy commodity and non-commodity costs be billed to the consumer at regulated rates.

12. Regulatory assets and liabilities, continued

Variances between purchase costs and amounts billed are required to be captured in Retail Settlement Variance Accounts ("RSVA") for disposition in future rates. The variance accounts have been further defined by the regulator into commodity related and non-commodity accounts. Those accounts defined as commodity accounts are eligible for regulatory review on a quarterly basis. All other accounts are defined as non-commodity and are currently eligible for review on an annual basis.

For all variance accounts, the review period does not in itself determine whether any adjustment will be permitted as the regulator will determine when the balances are material enough to warrant an adjustment to rates.

Included in the amounts approved for disposition in distribution rates are RSVA accounts, global adjustment, Deferred Payment in Lieu of Taxes ("PILS"), transition costs, and special purpose charge. In the OEB's Decision and Order of April 4, 2012, London Hydro received approval to disposition accumulated variances balances, for the period commencing January 1, 2009 to December 31, 2010, with carrying charges calculated to April 30, 2012. The total amount for disposition is to be refunded to our Customers in a rate rider commencing May 1, 2012 with sunset date of April 30, 2014.

Purchase power cost variance (commodity and non-commodity) accumulated after January 1, 2011 to December 31, 2011 and carrying charges up to April 30, 2012, will be filed for recovery/disposition in the 2013 cost of service rate application.

b) Other

As at June 30, 2012, and in accordance with accounting directives received from the Ontario Energy Board, the Company has recorded for future rate disposition, $0.3 million in savings (2011 - $0.2 million) due to the implementation of the Harmonized Sales Tax ("HST"). An amount of $0.3 million (2011 - $0.3 million) is associated with residual balance of the 2009 regulatory asset recovery account ("RARA"). Both the balances for savings from implementation of HST and the RARA (2009) will be applied for in the 2013 cost of service rate application.

13. Change in non-cash working capital related to operations

The net change in non-cash working capital related to operations is comprised of:

		June 30, 2012		December 31, 2011
Receivables	$	(63)	$	(5,349)
Inventories		(3)		49
Prepaid expenses		(177)		643
Accounts payable and accrued liabilities		5,505		(3,188)
Due to shareholder		1,518		(439)
	$	6,780	$	(8,284)

14. Interest and other revenue

Interest and other revenue is comprised of:

	June 30, 2012	June 30, 2011
Interest (Note 15)	$ 221	$ 213
Late payment charges	468	523
Sundry	726	720
Customer billing service fees	305	318
Pole and other rental income	198	192
Scrap and other income	111	182
Renewable generation revenue	62	22
Gain on disposal of property, plant and equipment	59	94
	$ 2,150	$ 2,264

15. Interest income and expense

Interest income and expense is comprised of:

	June 30, 2012	June 30, 2011
Interest income from:		
Bank deposits	$ 49	$ 46
Regulatory assets	172	167
Interest income	221	213
Interest expense on:		
Due to related party	2,100	2,100
Long-term debt	325	377
Short-term debt	17	37
Regulatory liabilities	164	102
Other	53	43
Interest expense	$ 2,659	$ 2,659

16. Related party balances and transactions

	June 30, 2012	December 31 2011
Non-interest bearing trade balance due to shareholder, without stated repayment terms	$ 8,066	$ 6,548
Unsecured promissory note, due to related party, bearing interest at 6% per annum, payable on demand with 367 days notice, maturing October 31, 2015	70,000	70,000
	78,066	76,548
Less: Current portion	8,066	6,548
	$ 70,000	$ 70,000

Included in the accounts receivable is $0.8 million (2011 - $1.1 million) of energy, water, and sundry receivables due from the Corporation of the City of London.

During the three-month period ended June 30, 2012 the Company billed customers for water service on behalf of the shareholder and remitted funds to the shareholder in the amount of $29.8 million (2011 – $25.9 million). The shareholder paid $0.8 mil (2011 - $0.8 mil) for this service.

17. Dividends payable

On March 21, 2012 the Board of Directors approved the payment of a dividend in the amount of $3.0 million to be paid in quarterly instalments of $0.75 million in fiscal 2012.

18. Employee future benefits

The Corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees through a defined benefit plan funded on a cash basis by contributions from the Company. The accrued benefit liability and the expense for the periods ended June 30, 2012 and December 31, 2011 were based on results and assumptions determined by actuarial valuation.

19. Financial Instruments and Risk Management

a) Financial instruments

As a rate-regulated entity, the nature of the Company's operations are defined and restricted by regulation. Financial operations and risks are also substantially influenced by regulation, limiting the necessity to engage in risk mitigation strategies involving the use of derivatives or hedges.

19. Financial Instruments and Risk Management, continued

As further defined in Note 11 to these financial statements the Company uses derivative financial instruments, primarily interest rate swaps, to manage its interest rate exposure.

The Company has adopted CICA Handbook Sections 3855 and 3861, Financial Instruments for disclosure purposes as the Company's financial instruments are not subject to the disclosure requirements under Sections 3862 or 3863 of the CICA Handbook.

b) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company primarily assesses credit risk exposure by customer segment. Concentrations of consumption by segment or individual customer, may impact risk due to varying energy consumption patterns and allowable security deposit requirements associated with each segment. The Company is not exposed to a significant concentration of credit risk within any customer segment or individual customer. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related provision for doubtful accounts is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for doubtful accounts at June 30, 2012 is $2.3 million (2011 - $2.3 million). Bad debt expense was $0.1 million during the three month period ended June 30, 2012 (2011 - $0.2 million). The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers.

b) Credit risk, continued

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at June 30, 2012, the Company holds security deposits in the amount of $7.3 million (2011 - $7.1 million). Additionally, if presented with substantial credit losses, the Company would make application to the regulator for recovery of those losses through distribution rate adjustments in future years.

By regulation, the Company is responsible for collecting both the distribution and energy portions of the electricity bill. On average, the Company earns 15% of amounts billed to customers with the remaining 85% being collected for other parties. The Company is therefore exposed to a credit risk substantially greater than the income that it regularly earns.

c) Market risk

Market risks primarily refer to the risk of loss that result from changes in commodity prices, foreign exchange rates, and interest rates. The Company currently does not have commodity or foreign exchange risk. The Company is exposed to fluctuations in interest rates as the regulated rate of return for the Company's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term

19. Financial Instruments and Risk Management, continued

Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

d) Liquidity risk

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company has access to a $20.0 million line of credit as well as a committed 364 day extendable operating revolving loan of $15.0 million and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The majority of accounts payable, as reported on the balance sheet, are due within 30 days.

20. Capital disclosures

The main objectives of the Company when managing capital are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Company's definition of capital includes shareholder's equity and long-term debt. As at June 30, 2012 capital amounts are as follows:

		June 30, 2012		December 31, 2011
Long-term debt	$	84,194	$	85,346
Shareholder's equity		123,306		124,055
	$	207,500	$	209,401

The OEB regulates the amount of interest on debt and rate of return that may be earned by the Company, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure for the Company may differ from the OEB deemed structure.

The Company has customary covenants typically associated with long-term debt. The Company is in compliance with all credit agreement covenants and limitations associated with its long-term debt.

21. International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board ("AcSB") has adopted a strategic plan that will have Canadian GAAP converge with IFRS, effective January 1, 2011 which will require entities to restate, for comparative purposes, their interim and annual financial statements and their opening financial position.

In October 2010, the AcSB approved the incorporation of a one year deferral of Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The amendment also requires entities that do not prepare their interim and annual financial statements in accordance with Part 1 of the Handbook during the annual periods beginning on or after January 1, 2011 to disclose that fact.

On July 28, 2009, the OEB issued its Report of the Board – Transition to IFRS, which contains recommendations on how regulatory reporting requirements should change in response to IFRS and on June 13, 2011 the OEB issued an addendum to that report which sets out additional regulatory policy changes with respect to cost of service and subsequent incentive rate-setting methods. The Company continues to monitor and provide for the impacts of the recommendations and policy revisions contained in these Reports of the Board on both the activities of the Company and its IFRS transition plan.

Although the impact of the adoption to IFRS on the Company's financial position and results of operations has yet to be fully determined, the Company does expect a significant increase in financial statement disclosure requirements resulting from the adoption of IFRS, and continues to design and implement the systems and related process changes, that are required in order to provide the additional information necessary to make these disclosures.

In March 2012, the AcSB extended the deferral of adoption of Part 1 of the CICA Handbook for qualifying entities with activities subject to rate regulation for an additional year to January 1, 2013. Due to the current uncertainty surrounding rate regulated accounting, the Company has elected to take the deferral and expects to adopt IFRS commencing January 1, 2013.

The Company continues to assess the impact of the conversion to IFRS on its results of operations.

London Hydro Inc.
Management's Discussion and Analysis

The following discussion and analysis of the financial position, results from operations, and cashflow for the period ending June 30, 2012 of London Hydro (the "Company") should be read in conjunction with the Interim Financial Statements for the six months ended June 30, 2012 (the "period") and the Financial Statements for the year ended December 31, 2011. The results reported herein have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are expressed in Canadian dollars.

This analysis contains forward-looking statements regarding management's future expectations of performance and liquidity. Such statements are subject to general risks and uncertainties, such as general economic conditions, regulatory and government decisions, and the successful development and operation of the electricity market. Forward-looking statements are not guarantees of performance and future results may differ materially from those expressed by these statements.

Fiscal 2012 Operations Overview

The Company's 2012 results in comparison to historical and planned performance are summarized in the following table:

	YTD results for the period ended June 30,			2012 Plan	% of plan
	2012	**2011**	**% Change**		
Energy Distributed - Gigawatt Hrs	1,639.2	1,667.3	-1.7%	1,705.5	-3.9%
Number of Customers	148,581	147,557	0.6%	148,696	-0.1%
(in thousands)					
Energy and distribution revenues	177,779	171,986	**3.4%**	179,522	-1.0%
Cost of Power	148,817	143,836	**3.5%**	150,689	-1.2%
Distribution revenue	28,962	28,150	**2.9%**	28,833	0.4%
Operating expenses	16,047	15,303	**4.9%**	16,237	-1.1%
Amortization	10,125	8,645	**17.1%**	10,326	-1.9%
Operating income	2,790	4,202	**-33.6%**	2,272	22.8%
Interest and other revenue	2,150	2,264	**-5.0%**	2,007	7.1%
Interest expense	2,659	2,659	**0.0%**	2,652	0.3%
Earnings before tax	2,259	3,807	**-40.7%**	1,625	39.0%
Income taxes	8	685	**-98.8%**	-194	104.1%
Net income	2,251	3,122	**-27.9%**	1,819	23.7%
Operating Expenses as a % of Distribution Revenue	55.4%	54.4%		56.4%	
Projected RoE	3.6%	5.3%		5.4%	

	YTD results for the period ended June 30,		
	2012	**2011**	**Change**
Energy Distributed - Gigawatt Hrs	1,639.2	1,667.3	-28.1
Number of Customers	148,581	147,654	927
(in thousands)			
Operating cash flow	19,382	223	**19,159**
Investing cash flow	-11,554	-15,111	**3,557**
Financing cash flow	-681	7,222	**-7,903**
Cash flow	7,147	-7,666	**14,813**
Cash and equivalents - end of Period	7,460	-	**7,460**

(Note – all comparisons are YTD results comparing Q2 2012 to Q2 2011 under GAAP reported amounts unless otherwise noted).

Energy Quantities Distributed

Total energy distributed on the system decreased by 1.7% to 1,639.2 gigawatt hrs. (2011 – 1,667.3 gigawatt hrs). Factors contributing to the decrease in energy consumption in 2012 were the impacts of the warmer weather conditions during the winter of 2012 versus 2011. The energy consumed during the second quarter of 2012 was higher than Q2 of 2011, but did not offset the reduction identified in Q1 as a result of the unusually mild winter. Reductions in customer energy consumption were partially offset by an overall increase in the customer base of 0.6% percent.

Revenues

Energy Revenue and Cost of Power

The cost of power increased during the year to $148.8 million (2011 - $143.8 million). The overall increase of $5.0 million or 3.4% is attributable to increases in commodity and non-commodity pricing, fluctuations in the spot market price and global adjustment rates determined by the Independent Electricity System Operator ("IESO"). In accordance with OEB regulations, purchased power costs are billed to customers on a flow-through cost recovery basis. All variances due to timing of customer billing or regulated pricing are recorded in retail settlement variance accounts which are recovered from (or returned to) customers in accordance with regulatory directives.

Distribution Revenues

The Company is compensated by a regulated distribution tariff based on the number of customers connected to the distribution system and customer energy consumption and demand levels. Approximately 54% of revenues are derived from a monthly fixed customer charge, with the remaining 46% being dependent upon the customer's energy consumption or system demand levels.

Total customers as at June 30, 2012 were 148,581 (2011 – 147,654) and distribution revenue composition remained relatively unchanged from the prior year with approximately 64% from residential customers, 31% from general service customers, and the remaining 5% from large use and other customers.

Total distribution revenues for the year increased by $0.8 million (2.9%) to $29.0 million during the period due primarily to an increase in rates as a result of the smart meter funding adder ($0.6 million) combined with a 0.6% increase in the customer base offset against a 1.7% decrease in demand.

Operating Expense and Amortization (Excluding Cost of Power)

Total operating expenses, excluding interest, amortization and cost recoveries, increased during the quarter to $16.0 million (2011 - $15.3 million). The overall increase of $0.7 million or 4.9% is attributable to increases in labour and benefits costs, information systems maintenance contracts, employee training and development and increased regulatory expense.

Amortization expense increased in 2012 to $10.1 million (2011 - $8.6 million) due to the significant IT expenditures which have occurred over the past couple of years. Many of these IT projects are now completed and in service and therefore are being amortized at their full rate compared to the prior year when the assets were only in service for part of the year.

Cost recoveries for billable services including City of London customer billing services remained consistant at $1.7 million.

Interest and Other Revenue

Interest and other revenue has remained relatively consistent by decreasing slightly to $2.2 million (2011 – $2.3 million).

Interest Expense

Interest expense remained consistent at $2.7 million. Interest expense is composed of interest payable on customer security and developer deposits, regulatory liabilities, smart meter financing and interest of $1.05 million payable each quarter to the Public Utility Commission of the City of London ("PUC") on the promissory note.

The Company recorded an unrealized loss on interest rate swap of $nil (2011 - $nil), on a 4 year interest rate swap agreement maturing on March 31, 2014, having an all-in rate of 3.63%. The unrealized loss of $0.6 million represents what the Company's cost would be to unwind this agreement as at June 30, 2012. In June, the Company renegotiated the swap to mature on March 31, 2020 having an all-in rate of 3.33%.

Regulatory Assets/Liabliities

At June 30, 2012, the Company had regulatory assets of $22.8 million (December 31, 2011 - $24.4 million) a decrease of $1.6 million from the year-end as a result of smart meter recoveries. In May 2012, per OEB requirements the recoveries temporarily ceased until the final smart meter costs had been approved by the OEB. After the smart meter application was successfully approved by the OEB, the Company will once again be recovering these costs over an eight month period beginning September 1, 2012.

The Company also had regulatory liabilities of $24.5 million compared to $22.3 million as of December 31, 2011. This increase is primarily the result of RSVA accounts continuing to accumulate. During the quarter, the Company was authorized by the OEB to repay $7.5 million of settlement RSVA balances back to consumers.

Income Tax Expense

The Company is required to make payments in lieu of tax to the Ontario Electricity Financial Corporation. The amount of payments in lieu of tax ("PILs") is approximately equivalent to the income taxes that would be paid if the Company was a taxable corporation under the Income Tax Act (Canada). Income tax expense for the period ended June 30, 2012 was $nil million (2011 - $.7 million).

Capital Resources

Capital Structure and Dividend Policy

The PUC holds a promissory note from the Company in the amount of $70.0 million, bearing interest at 6% per annum, payable on demand with 367 days' notice, and maturing on October 31, 2015. The note provides that upon reassignment to the Corporation of the City of London, the note will be converted to shareholder contributed capital on account of the Corporation of the City of London.

The Company's 2012 distribution rates are based on a regulatory deemed capital structure of 60% debt and 40% equity. To the extent that the Company's existing capital structure and debt rates do not reflect the deemed structure included in distribution rates, the economic performance of the Company will be suboptimal.

The Company's dividend policy provides for an annual dividend amount equivalent to 40% of the Company's prior year's net earnings, subject to satisfactory cashflow. In accordance with that policy, during the year the Board of Directors declared a dividend in the amount of $3.0 million payable in quarterly instalments during fiscal 2012.

External Credit Facilities and Credit Rating

The Company has an uncommitted operating revolving bank credit facility of $20.0 million, a committed 364 day extendable operating revolving bank loan facility of $15.0 million maturing on March 31, 2014 and $6.6 million in Standby Letters of Credit issued to the IESO as security. In the event that the maturity date of the committed extendable operating loan facility is not extended, the due date for repayment of this loan facility is one year from the date of maturity.

As at June 30, 2012, the Company has drawn down $nil on any of these facilities.

In addition to its operating line and committed facility, the Company has entered into an interest rate swap agreement for an unsecured loan to fund its Smart Meter capital expenditure program. The outstanding principal balance on this loan at June 30, 2012 was $16.5 million. Principal repayments on this loan commenced in October 2010 and are being amortized over a 10 year period ending March 31, 2020. The swap agreement matures on March 31, 2020 with an effective interest rate of 3.33%.

The Company's 'A/stable' long-term corporate credit rating was reaffirmed by Standard & Poor on March 29, 2012. This rating reflects the Company's low-risk as a distribution company with regulated cash flows. The Company's current credit rating provides for a reduction in the IESO prudential requirement by approximately $59.0 million.

Liquidity and Cashflow

Cash generated by operating activities increased to $19.4 million (2011 - $.2 million). Increased cash flows are primarily attributable to a change of $6.7 million (2011 – -$11.7 million) in working capital related to operations balances due to decreased accounts receivable balances and increased accounts payable balances.

Cash used in investing activities decreased to $11.6 million (2011 - $15.1 million) due to reduced expenditures for the year with respect to the smart meter and IT infrastructure spending.

Cash from (used in) financing activities decreased to ($.7) million (2010 – $7.2) due primarily to not requiring the $9.4 million short term debt borrowings as incurred in Q2 of 2011.

International Financial Reporting Standards ("IFRS")

On March 30, 2012, the AcSB announced another one year deferral for the adoption of IFRS making IFRS mandatory as of January 1, 2013 rather than January 1, 2012.

On April 30, 2012, the OEB announced that although the deferral was available for financial statement purposes, anyone filing financial statements for a 2013 Cost of Service would still be required to report under a modified IFRS format.

After evaluating the options the Company elected to defer adoption of IFRS until January 1, 2013.

August 22, 2012

Key Performance Indicators and Discussion
For the seven months ended July 31, 2012

Highlights of the results to July 31, 2012:

- Total **YTD DISTRIBUTION REVENUE** is currently on budget.

  Normal ongoing distribution revenue is favourable to budget by $0.4 mil or 1.1%, however, is currently offset with unfavourable variances related to the delay in implementing the anticipated smart meter incremental rate rider ($0.4 mil). As this time it is difficult to predict the timing of the OEB approval and the total impact to total revenue.

  Year to date energy quantities distributed are lower than budget by 2.7% and lower than the same time period in 2011 by 1.7%. The current year results are closely tied to the unusually warm weather throughout the winter and early spring offset with increased usage in June and July. Billed demand is lower than budget by 0.6%, however, is higher than during July 2011 by 1.2%.

  Total customer numbers are tracking slightly below budget (-0.1%) at 149,022.

- Net **CONTROLLABLE COSTS** are $360k or 1.8% favourable to-date.

  - Year to date labour and benefits are $212k or 1.6% higher than budget. Although total base labour and benefits are favourable to budget due mainly to hiring delays ($470k), deployment of staff to capital and billable activities is unfavourable to budget ($736k). The net impact is an unfavourable variance of $266k. Year to date overtime costs are favourable to budget ($54k).
  - Professional service costs are favourable to budget by $376k or 13.3%. Year to date significant favourable variances are related mainly to legal expense ($50k) contracted meter reading ($111k), consulting and contracted services ($81k), security services ($20k), and wholesale metering services ($36k).
  - Bad debt expense is $150k or 30.1% favourable to-date.
  - The remaining variance year to date is mainly related to the timing of spending for facilities maintenance ($149k favourable) and newly negotiated contracts for software maintenance which is part of the costs related to office equipment service and maintenance ($86k favourable). Special bill inserts related to time of use rates is causing postage expense to be unfavourable to budget at this time ($81k).

- **OTHER REVENUE** is $204k or 8.5% favourable to budget due primarily to favourable variances in interest earned ($165k), the sale of scrap ($83k) and revenue from renewable generation ($17k), Year to date late payment charges are tracking below budget ($79k).

- **YTD EBIT** (year-to-date earnings before interest and taxes) of $6.8 million is $733k or 12.2% favourable due to favourable variances in controllables and other revenue as discussed above, a favourable variance in amortization ($172k), and favourable year to date variance in distribution revenue ($374k).

- **INCOME TAX EXPENSE** is $585k unfavourable and relates mainly to the deferral of implementation of smart meter rates, since the reversal of corresponding taxes paid on net funding adders has been deferred as well.

- Year-to-date **NET EARNINGS AFTER TAX** of $3.3 million is favourable to budget by $131k or 4.1%.

- Year-to-date gross **CAPITAL and regulatory** expenditures of $17.7 million are $3.0 mil or 14.5% favourable due primarily to spending delays in subdivision rebuilds ($1.1 mil), overhead line works ($0.5 mil), city works projects ($0.5 mil) final smart meter related programs ($0.4 mil), and renewable generation equipment ($0.6 mil). These variances are offset with stronger than anticipated developer demand which is currently running over budget ($0.6 mil).

- The **CASH** balance of $6.6 mil is higher than forecast by $5.3 mil. Cash balances are favourably impacted by fluctuations in regulatory liabilities ($3.8 mil), lower net capital spending ($3.4 mil), and higher levels of customer deposits ($1.4 mil). These favourable impacts are offset with higher than anticipated accounts receivable balances ($6.2 mil).

- **ACCOUNTS RECEIVABLE** at the end of July was $69.5 mil. Receivable balances are affected by seasonal/usage differences, OPA activities, and the timing of invoicing for developer works projects, among others.

  At the end of July outstanding OPA receivables totaled $3.3 mil which is higher than at the end of June ($1.8 mil). AR aging for both the greater than 60 and greater than 90 day categories have improved over the same time period in 2011.

  Bad debt expense is currently tracking favourable to budget by $150k, although the risk related to Time of Use billing and new OEB regulations is being monitored closely.

  Management has accounted for and recorded an appropriate allowance for bad debts at this time, utilizing an appropriate risk assessment methodology consistent with prior years. The impact of new time of use rates on AR risk is not determinable at this time.

David Arnold
(519) 661-5800 ext. 5624

London Hydro Inc.
Key Performance Indicators
For the period ended July 31, 2012

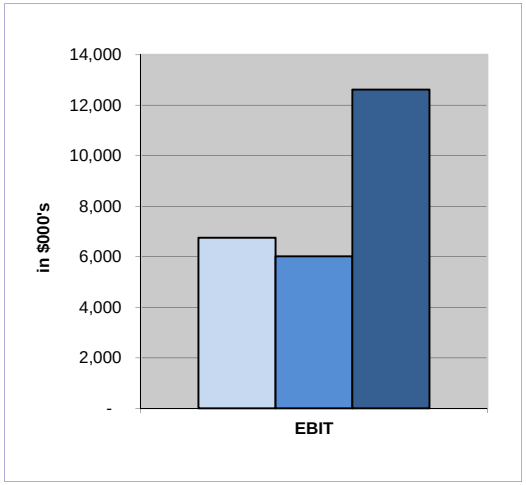
	Current Period	YTD Actual	YTD Budget	YTD Variance Fav (Unfav)	YTD Variance %	2012 Annual Budget	2011 Yearend Actual
Energy sales and cost of sales	$31,335	$180,152	$181,139	($987)	-0.5%	$315,001	$298,003
Energy distribution quantities (GWh)	342	1,981	2,036	(55)	-2.7%	3,488	3,408
Operating results ($ in 000's)							
Distribution revenue	$5,775	$34,737	$34,740	($3)	0.0%	$62,017	$58,761
EBIT	$1,816	$6,756	$6,023	$733	12.2%	$12,622	$14,966
Net earnings	$1,077	$3,328	$3,197	$131	4.1%	$6,739	$7,873
Capital/Regulatory expenditures ($ in 000's)							
Gross expenditures	$2,193	$17,747	$20,747	$3,000	14.5%	$33,142	$32,474
Liquidity ($ in 000's)							
Cash inflow (ouflow)	($882)	$6,265	$923	$5,342	578.8%	($4,527)	($7,353)
Cash and equivalents	$6,578	$6,578	$1,236	$5,342	432.2%	($4,214)	$313
Accounts receivable	$69,549	$69,549	$63,329	($6,220)	-9.8%	$60,967	$61,031
Working capital ratio	1.32	1.32	1.08	0.24	22.2%	1.13	1.51
Profitibility and credit ratios							
Average annualized return on equity	10.4%	4.6%	4.4%	0.2%	4.0%	5.4%	6.5%
Operating ratios							
Customers served per employee	487	487	476	11	2.3%	476	495
Net controllable expense per customer	$18.32	$129.21	$131.56	$2.35	1.8%	$224.61	$212.63

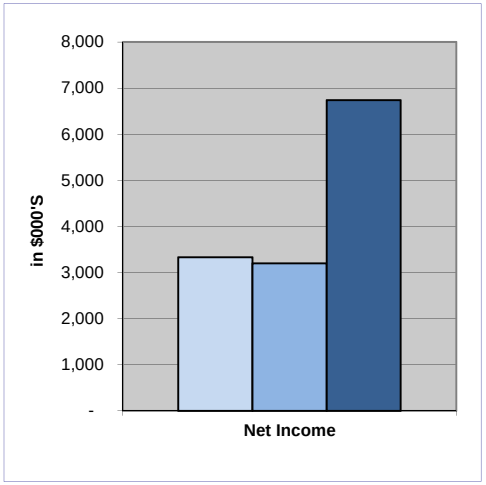
	YTD 2012	YTD 2011	Change $	Change %
Accounts receivable aging ($ in 000's)				
> 60 days	$2,144	$2,382	($238)	-10.0%
> 90 days	$1,601	$2,042	($441)	-21.6%

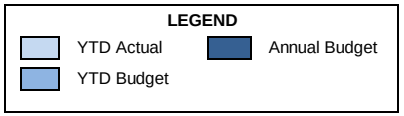
		Limitation	Actual	Covenant Met
Bank Covenants				
Funded Debt to Capitalization	Maximum	60%	43%	YES
Debt Service Coverage	Minimum	1.20	2.69	YES

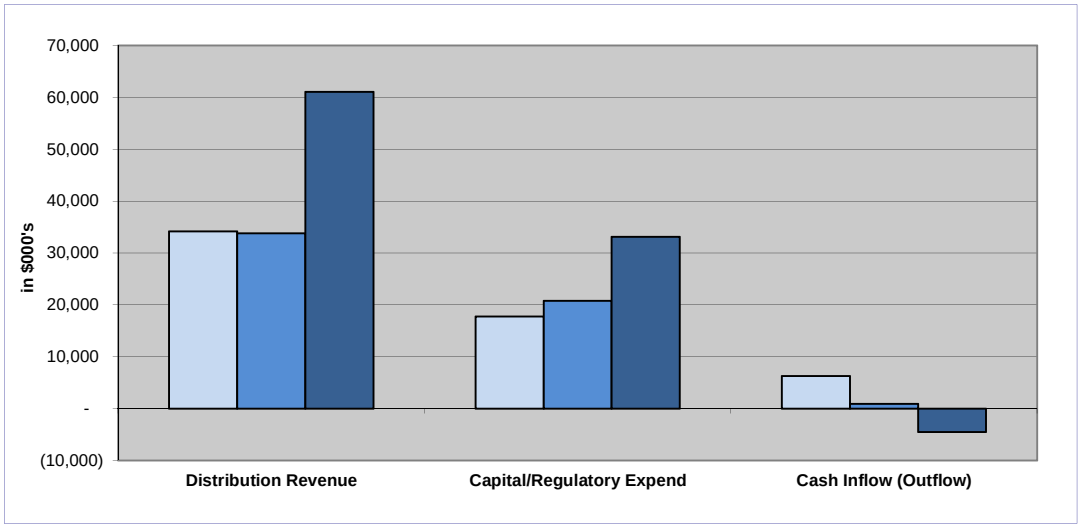
London Hydro Inc.

KEY PERFORMANCE INDICATORS
For the period ended July 31, 2012



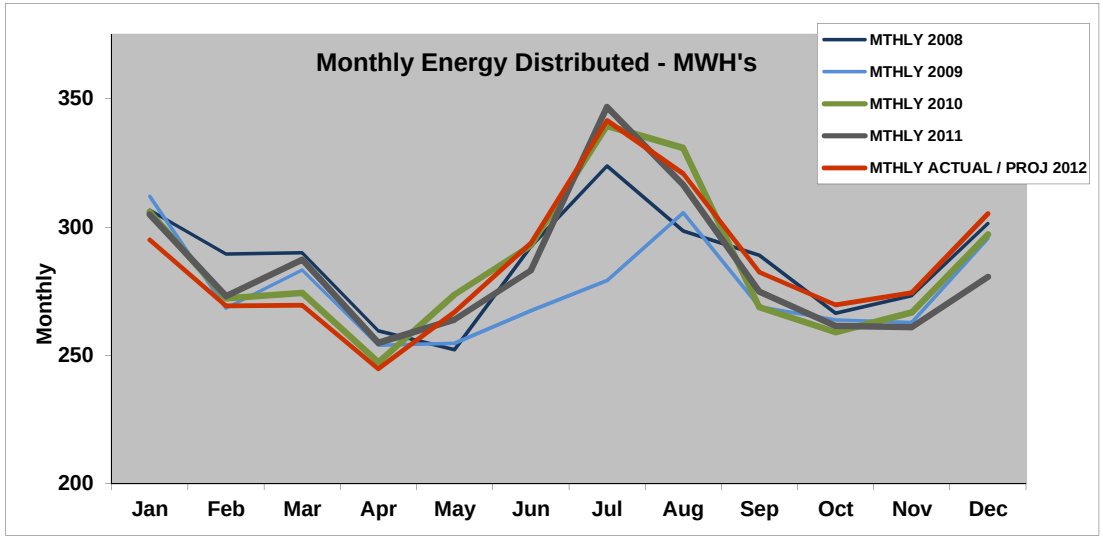


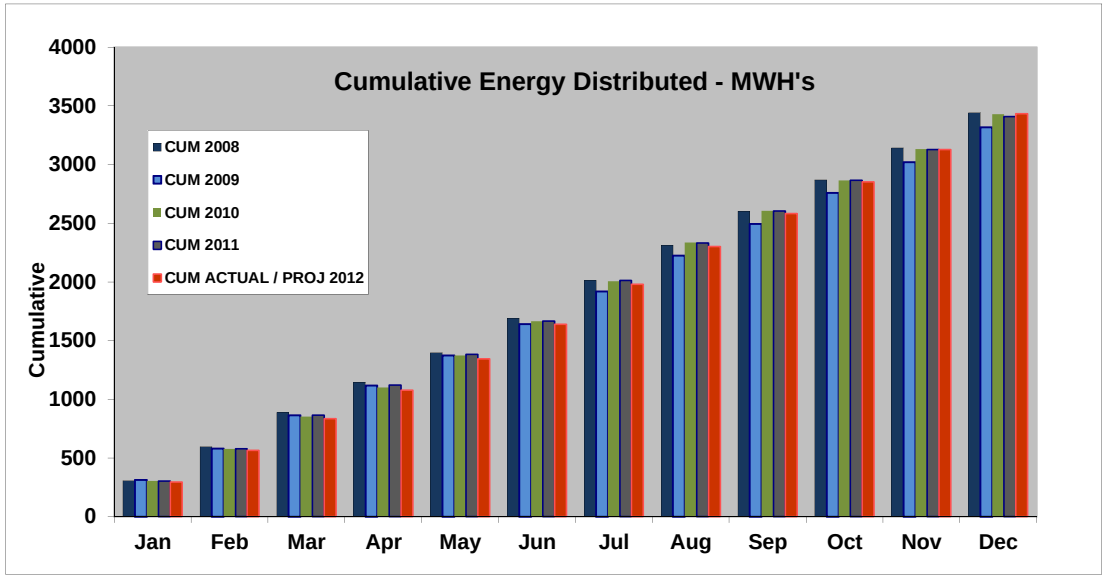




London Hydro Inc.

KEY PERFORMANCE INDICATORS
For the period ended July 31, 2012





October 12, 2012

Key Performance Indicators and Discussion
For the eight months ended August 31, 2012

Highlights of the results to August 31, 2012:

- Total **YTD DISTRIBUTION REVENUE** is unfavourable to budget by $0.8 mil or 1.9%.

  The normal ongoing distribution revenue is unfavourable to budget by $0.4 mil or 1.0%, due mainly to the delay in implementing the anticipated smart meter incremental rate rider which has now been approved by the OEB with a September 1st effective date. Although the total amount to be recovered has not changed, the effective date will result in lower revenue in 2012 offset with higher than forecasted recovery in 2013.

  Other regulatory adjustments are $0.4 mil unfavourable mainly as a result of the recent unfavourable IRM decision related to the recovery of deferred PILS.

  Year to date energy quantities distributed are lower than budget by 3.0% and lower than the same time period in 2011 by 1.9%. The current year results are closely tied to the unusually warm weather throughout the winter and early spring offset with increased usage in June and July. Billed demand is lower than budget by 0.7%, however, is higher than during August 2011 by 0.8%.

  Total customer numbers are tracking slightly below budget (-0.5%) at 148,576.

- Net **CONTROLLABLE COSTS** are $590k or 2.6% favourable to-date.

  - Year to date labour and benefits are $176k or 1.1% higher than budget. Although total base labour and benefits are favourable to budget due mainly to hiring delays ($622k), deployment of staff to capital and billable activities is unfavourable to budget ($850k). The net impact is an unfavourable variance of $228k. Year to date overtime and premium pay costs are favourable to budget ($52k).
  - Professional service costs are favourable to budget by $442k or 13.6%. Year to date significant favourable variances are related mainly to legal expense ($63k) contracted meter reading ($125k), consulting and contracted services ($86k), security services ($24k), and wholesale metering services ($31k). New communication license fees related to time of use billing is favourable ($63k).
  - Bad debt expense is $150k or 24.2% favourable to-date.
  - The remaining variance year to date is mainly related to the timing of spending for facilities maintenance ($154k favourable) and the cost of service application

preparation and legal review ($64k favourable). Newly negotiated contracts for software maintenance which is part of the costs related to office equipment service and maintenance ($135k favourable). Special bill inserts related to time of use rates is causing postage expense to be unfavourable to budget at this time ($80k).

- **OTHER REVENUE** is $153k or 5.6% favourable to budget due primarily to favourable variances in interest earned ($186k), collection charges ($55k) the sale of scrap ($78k) and revenue from renewable generation ($14k), Year to date late payment charges are tracking below budget ($88k).

- **YTD EBIT** (year-to-date earnings before interest and taxes) of $7.6 million is $132k or 1.8% favourable due to favourable variances in controllables and other revenue as discussed above, a favourable variance in amortization ($168k), offset with unfavourable year to date variance in distribution revenue and regulatory adjustments ($779k).

- **INCOME TAX EXPENSE** is $446k unfavourable and relates mainly to the deferral of implementation of smart meter rates, since the reversal of corresponding taxes paid on net funding adders has been deferred as well.

- Year-to-date **NET EARNINGS AFTER TAX** of $3.7 million is unfavourable to budget by $335k or 8.3%.

- Year-to-date gross **CAPITAL and regulatory** expenditures of $20.8 million are $2.8 mil or 12.0% favourable due primarily to spending delays in subdivision rebuilds ($1.0 mil), overhead line works ($0.2 mil), city works projects ($0.7 mil) final smart meter related programs ($0.7 mil), and renewable generation equipment ($0.3 mil). These variances are offset with stronger than anticipated developer demand which is currently running over budget ($0.6 mil). Information systems projects (hardware and software, and application development) are tracking below budget by $549k.

- The **CASH** balance of $10.7 mil is higher than forecast by $9.6 mil. Cash balances are favourably impacted by fluctuations in regulatory liabilities, trade liabilities, and amounts due to related parties, ($6.3 mil), lower net capital spending ($3.4 mil), and higher levels of customer deposits ($1.6 mil). These favourable impacts are offset with higher than anticipated accounts receivable balances ($4.3 mil).

- **ACCOUNTS RECEIVABLE** at the end of August was $64.1 mil. Receivable balances are affected by seasonal/usage differences, OPA activities, and the timing of invoicing for developer works' projects, among others.

  At the end of August outstanding OPA receivables totaled $1.9 mil which is lower than at the end of July ($3.3 mil). AR aging for both the greater than 60 and greater than 90 day categories have improved over the same time period in 2011.

  Bad debt expense is currently tracking favourable to budget by $150k, although the risk related to Time of Use billing and new OEB regulations is being monitored closely.

  Management has accounted for and recorded an appropriate allowance for bad debts at this time, utilizing an appropriate risk assessment methodology consistent with prior years. The impact of new time of use rates on AR risk is not determinable at this time.

David Arnold
(519) 661-5800 ext. 5624

London Hydro Inc.

SUMMARY FINANCIAL REPORT

FOR THE PERIOD ENDED

AUGUST 2012

Printed: 10/12/2012 at 3:58 PM

London Hydro Inc.
Key Performance Indicators
For the period ended August 31, 2012

	Current Period	YTD Actual	YTD Budget	YTD Variance Fav (Unfav)	YTD Variance %	2012 Annual Budget	2011 Yearend Actual
Energy sales and cost of sales	$31,161	$211,314	$210,703	$611	0.3%	$315,001	$298,003
Energy distribution quantities (GWh)	307	2,287	2,357	(70)	-3.0%	3,488	3,408
Operating results ($ in 000's)							
Distribution revenue	$4,929	$39,666	$40,445	($779)	-1.9%	$62,017	$58,761
EBIT	$890	$7,646	$7,514	$132	1.8%	$12,622	$14,966
Net earnings	$369	$3,697	$4,032	($335)	-8.3%	$6,739	$7,873
Capital/Regulatory expenditures ($ in 000's)							
Gross expenditures	$3,015	$20,762	$23,593	$2,831	12.0%	$33,142	$32,474
Liquidity ($ in 000's)							
Cash inflow (ouflow)	$4,121	$10,386	$738	$9,648	1307.3%	($4,526)	($7,353)
Cash and equivalents	$10,699	$10,699	$1,051	$9,648	918.0%	($4,213)	$313
Accounts receivable	$64,132	$64,132	$59,788	($4,344)	-7.3%	$60,967	$61,031
Working capital ratio	1.28	1.28	1.09	0.19	17.4%	1.13	1.51
Profitibility and credit ratios							
Average annualized return on equity	3.6%	4.5%	4.9%	-0.4%	-8.2%	5.4%	6.5%
Operating ratios							
Customers served per employee	489	489	476	13	2.7%	476	495
Net controllable expense per customer	$18.02	$147.43	$151.04	$3.61	2.4%	$224.60	$212.63

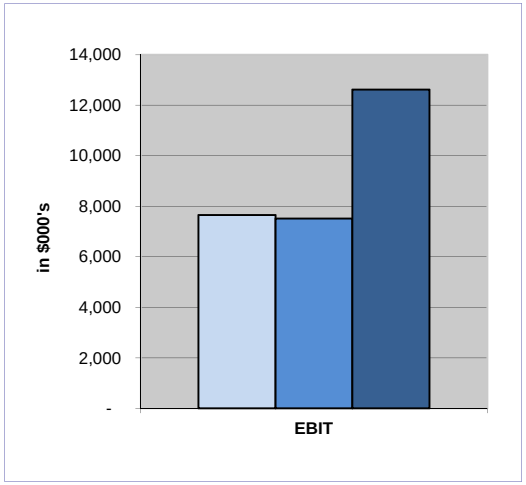
	YTD 2012	YTD 2011	Change $	Change %
Accounts receivable aging ($ in 000's)				
> 60 days	$2,142	$2,328	($186)	-8.0%
> 90 days	$1,903	$2,104	($201)	-9.6%

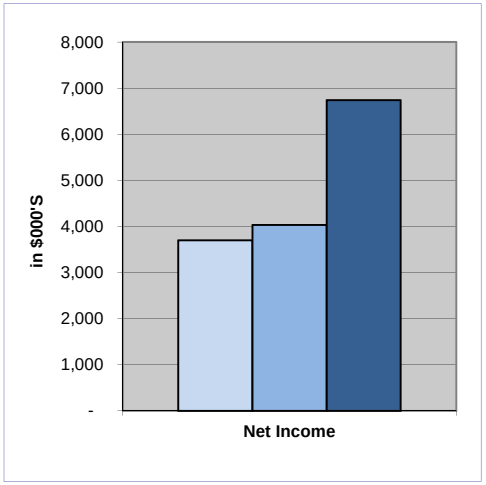
		Limitation	Actual	Covenant Met
Bank Covenants				
Funded Debt to Capitalization	Maximum	60%	43%	YES
Debt Service Coverage	Minimum	1.20	2.63	YES

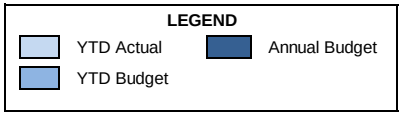
London Hydro Inc.

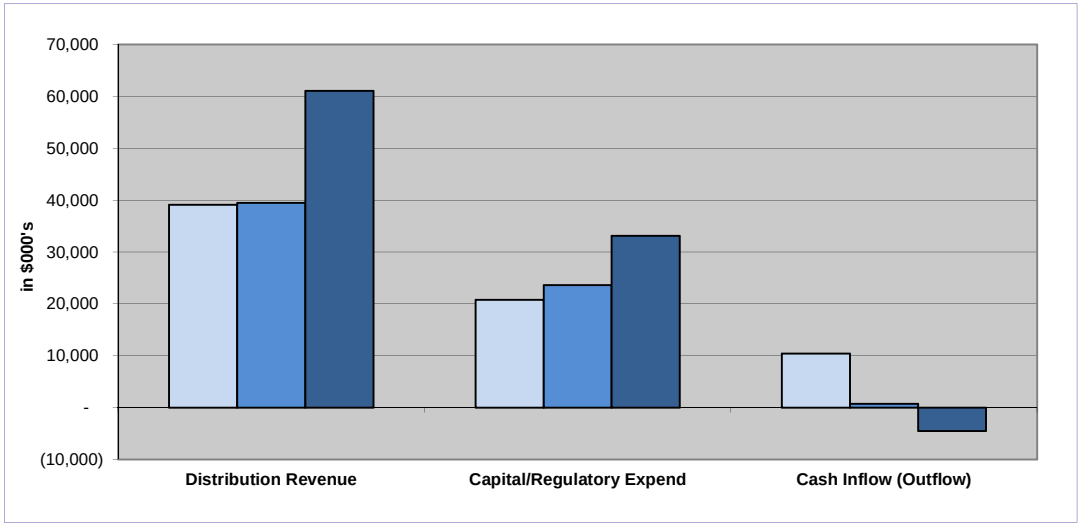
KEY PERFORMANCE INDICATORS

For the period ended August 31, 2012



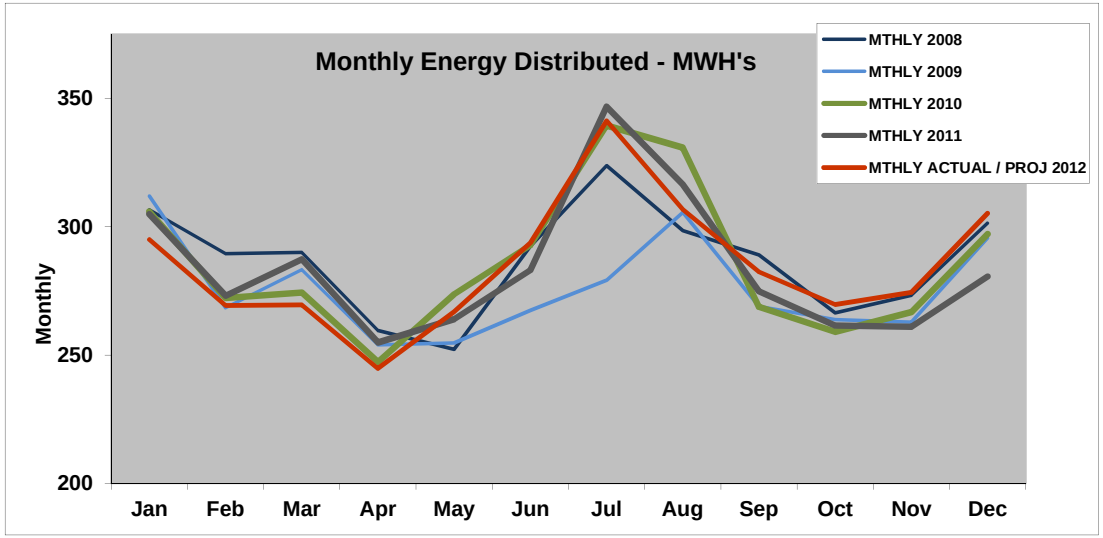


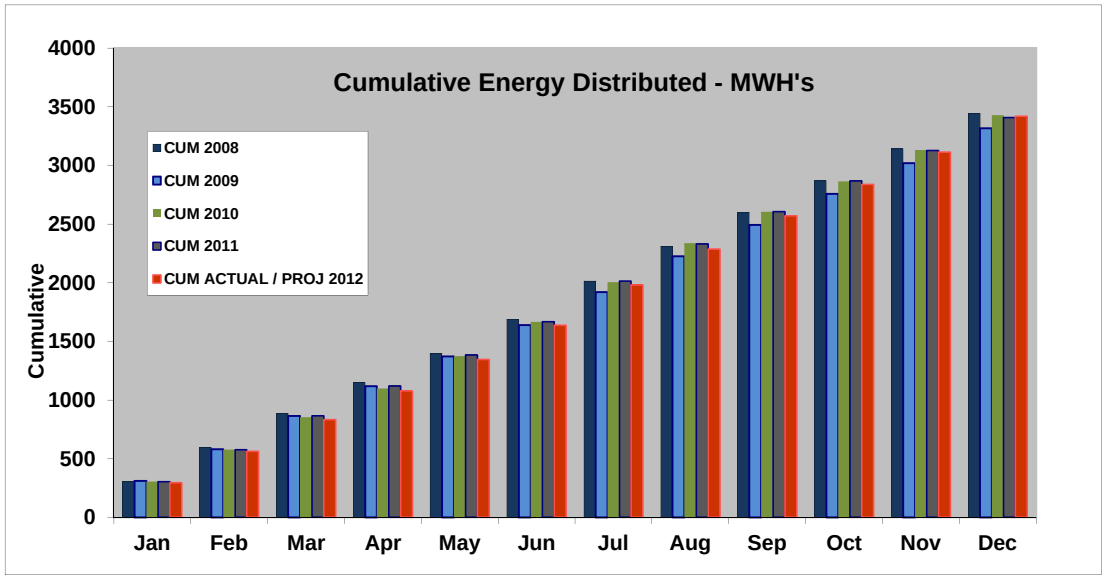




London Hydro Inc.

KEY PERFORMANCE INDICATORS
For the period ended August 31, 2012





London Hydro Inc.

Financial Statements

For the Nine Months Ended September 30, 2012 and 2011

(Unaudited)

London Hydro Inc.
Table of Contents to the Financial Statements
For the Nine Months Ended September 30, 2012 and 2011

London Hydro Inc.
Balance Sheet
(unaudited)
(in thousands of dollars)

	Note	September 30, 2012	December 31, 2011
ASSETS			
Current assets			
Cash and equivalents	5	$ 4,683	$ 313
Accounts receivable	6,16	62,058	61,031
Income tax receivable		547	254
Regulatory assets	12	1,404	2,905
Inventories	7	859	880
Prepaids		868	821
Total current assets		70,419	66,204
Regulatory assets	12	2,408	21,504
Property, plant and equipment	8	231,903	205,596
Future income tax assets		6,210	7,289
Total non-current assets		240,521	234,389
Total assets		$ 310,940	$ 300,593
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Accounts payable and accrued liabilities -			
Due to Independent Electricity System Operator		$ 24,062	$ 22,186
Other		13,492	11,477
Regulatory liabilities	12	5,948	2,580
Dividends payable	17	750	-
Current portion of long-term debt	11	2,304	2,304
Customer and other deposits	9	837	1,059
Due to shareholder	16	9,357	6,548
Total current liabilities		56,750	46,154
Long-term liabilities			
Unrealized loss on interest rate swap	11	518	548
Regulatory liabilities	12	17,947	19,709
Customer and other deposits	9	14,903	14,141
Long-term debt	11	13,618	15,346
Due to related party	16	70,000	70,000
Employee future benefits	18	11,034	10,640
Total long-term liabilities		128,020	130,384
Total liabilities		184,770	176,538
Shareholder's equity			
Share capital		96,116	96,116
Retained earnings		30,054	27,939
Total shareholder's equity		126,170	124,055
Total liabilities and shareholder's equity		$ 310,940	$ 300,593

The accompanying notes are an integral part of these financial statements.

London Hydro Inc.
Statement of Operations and Retained Earnings
(unaudited)
(in thousands of dollars)

	Note	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Revenues					
Energy		$ 89,029	$ 85,034	$ 237,846	$ 228,870
Distribution		15,641	15,781	44,603	43,931
		104,670	100,815	282,449	272,801
Cost of Power		(89,029)	(85,034)	(237,846)	(228,870)
Distribution revenue		15,641	15,781	44,603	43,931
Operating expenses					
Plant operating and maintenance		2,802	2,656	8,494	8,033
General and administrative		5,234	5,466	17,276	17,051
Amortization of plant and equipment		5,366	4,405	15,491	13,050
		13,402	12,527	41,261	38,134
Less: Costs recovered	16	(855)	(853)	(2,542)	(2,512)
		12,547	11,674	38,719	35,622
Operating income		3,094	4,107	5,884	8,309
Other Income (expense)					
Interest and other revenue	14	1,196	1,151	3,346	3,415
Unrealized gain on interest rate swap	11	52	-	30	(28)
Interest expense	15	(1,304)	(1,389)	(3,963)	(4,020)
		(56)	(238)	(587)	(633)
Earnings before income taxes		3,038	3,869	5,297	7,676
Income tax expense		174	1,004	182	1,689
Net earnings for the period		2,864	2,865	5,115	5,987
Retained earnings, beginning of period		27,190	23,188	27,939	22,566
Dividends	17	-	-	(3,000)	(2,500)
Retained earnings, end of period		$ 30,054	$ 26,053	$ 30,054	$ 26,053

The accompanying notes are an integral part of these financial statements.

London Hydro Inc.
Statement of Cash Flows
(unaudited)
(in thousands of dollars)

	Note	For the three months ended September 30,		For the nine months ended September 30,	
		2012	2011	2012	2011
Cash flows from operating activities					
Net earnings for the period		$ 2,864	$ 2,865	$ 5,115	$ 5,987
Adjustments for:					
Amortization of plant and equipment		5,366	4,405	15,491	13,050
Gain on disposal of property, plant and equipment	14	(14)	(30)	(73)	(124)
Unrealized loss (gain) on interest rate swap		(52)	28	(30)	28
		8,164	7,268	20,503	18,941
Net change in non-cash working capital related to operations	13	(1,426)	6,848	5,354	(4,827)
Employee future benefits	18	131	113	394	338
Net cash provided by operating activities		6,869	14,229	26,251	14,452
Cash flows from investing activities					
Acquisition of property, plant and equipment		(6,800)	(7,132)	(21,813)	(21,253)
Smart meter deferral reclassified to capital		(22,048)	-	(22,048)	-
Disposition of stranded meters and other plant and equipment		942	522	(213)	710
Regulatory assets and liabilities - future income taxes	4 g)	301	167	1,079	617
Other regulatory assets and liabilities, including smart meters		18,367	(1,454)	22,203	(3,082)
Net cash used in investing activities		(9,238)	(7,897)	(20,792)	(23,008)
Financing activities					
Increase in customer and other deposits		299	5	540	1,841
Contributions in aid of construction		619	365	2,349	1,787
Dividends paid		(750)	(625)	(2,250)	(1,875)
Short-term debt repaid		-	(9,366)	-	-
Long-term debt acquired	11	-	10,000	-	10,000
Long-term debt repaid	11	(576)	(576)	(1,728)	(4,728)
Net cash provided by (used in) financing activities		(408)	(197)	(1,089)	7,025
Net increase (decrease) in cash and equivalents during the period		(2,777)	6,135	4,370	(1,531)
Cash and equivalents, beginning of the period		7,460	-	313	7,666
Cash and equivalents, end of the period		$ 4,683	$ 6,135	$ 4,683	$ 6,135

The accompanying notes are an integral part of these financial statements.

London Hydro Inc.
Table of Contents to the Notes to the Interim Financial Statements

For the Nine Months Ended September 30, 2012 and 2011
(Unaudited)

1. Regulated Business Operations and Distribution Rates

London Hydro Inc. ("the Company") is a wholly owned subsidiary company of the Corporation of the City of London and provides regulated electrical distribution services to the inhabitants of the City of London.

The Company is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the Ontario Energy Board Act (1998). The OEB has responsibility to set just and reasonable distribution rates and thereby approves all of the Company's distribution and ancillary rates. The Company's distribution revenue is determined by applying those regulated rates to customers and their consumption of electricity in the Company's distribution territory, as established by its distribution license granted by the OEB.

2. Basis of Preparation

These interim financial statements do not include all of the disclosures normally required and found in the Company's annual financial statements, and they should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2011. These interim financial statements have been prepared in accordance with accounting principles generally accepted in Canada following the same accounting policies and methods as those used in preparing the most recent annual financial statements.

3. Financial Effects of Distribution Rate Regulation

The financial results presented are in accordance with generally accepted accounting principles and within that framework the Company accounts for the impact of regulatory actions in the following manner:

a) Regulatory decisions to adjust distribution rates

In the event that a regulatory decision is rendered, providing regulatory approval and certainty to the recognition of an asset, or creation of a liability, and culminating in an adjustment to the Company's distribution rates, such occurrences are immediately reflected in the Company's accounts.

b) Regulatory direction and practice

In the absence of a regulatory decision impacting rates, and where the Company is required by regulatory accounting practice or direction to accumulate balances for future rate recovery or create liabilities for future discharge, those amounts are recorded in accordance with that regulatory direction. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provisions for future uncertainty, are more fully described in Note 12 to the financial statements.

4. Summary of Significant Accounting Policies

a) Revenue recognition

The Company is licensed by the OEB to distribute electricity. As a licensed distributor, the Company is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties.

The Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers. The Company is acting as a principal for the electricity distribution and therefore has presented the electricity revenues on a gross basis.

Revenue attributable to the delivery and consumption of electricity is based upon rates approved by the OEB and the Independent Electricity Systems Operator ("IESO") and includes the cost of electricity supplied, distribution charges and any regulatory charges. Revenue is recognized as electricity is delivered and consumed by customers. Revenue is recorded on the basis of regular monthly meter readings and estimates of customer usage since the last meter reading date to the end of the period. Revenue is measured at the value of the consideration received or receivable, net of sales tax.

Amounts billed for Debt Retirement Charges are excluded from revenues, as the Company is acting as an agent for the collection of these amounts. The Company may file to recover uncollected debt retirement charges from the Ontario Electricity Financial Corporation ("OEFC").

b) Financial assets and liabilities

The standards require that as financial assets and liabilities are initially recognized that they be measured at fair value, except for certain related party transactions. After initial recognition, financial assets are categorized as assets held-for-trading, held-to-maturity investments, loans and receivables or, available-for-sale assets, and financial liabilities must be classified as held-for-trading, or other financial liabilities. All financial instruments are measured on the balance sheet at fair value except for loans and receivables held to maturity, investments and other liabilities, which are measured at amortized cost.

Subsequent measurement and changes in fair value depend on their initial classification as follows: held-for-trading are measured at fair value and changes in fair value are recognized in the statement of operations and retained earnings. The Company has classified its financial instruments as follows:

Cash and equivalents	Held-for-trading
Accounts receivable	Loans and Receivables
Income tax receivable	Loans and Receivables
Accounts payable and accrued liabilities	Other Liabilities
Dividends payable	Other Liabilities

4. Summary of Significant Accounting Policies, continued

b) Financial assets and liabilities, continued

Customer and other deposits	Other Liabilities
Due to shareholder	Other Liabilities
Long-term debt	Other Liabilities
Due to related party	Other Liabilities

c) Inventories

Inventories are required to be measured at the lower of average cost and net realizable value. Items considered to be major future components of property, plant and equipment are recorded as such in the financial statements.

d) Property, plant and equipment

Property, plant and equipment are amortized over their estimated useful lives using the straight-line method over the following periods:

Land rights and buildings	25 to 60 years
Distribution substation equipment	30 years
Other distribution equipment	15 to 40 years
Other fixed assets	5 to 15 years

When an item of property, plant and equipment is sold or otherwise disposed of, the related cost and accumulated amortization are removed from the respective accounts and any gain or loss on disposition is recognized in earnings.

Assets under construction are not subject to amortization until they are put into service.

Plant and equipment that by their nature are not readily identifiable as individual assets are grouped together. Under this method, the related cost and accumulated amortization are removed from their respective grouping account at the end of the asset's estimated useful life, regardless of actual service life. Any proceeds on disposition are recognized in earnings in the year of disposition.

e) Contributions to capital costs

Contributions are received from developers and contractors for capital costs incurred by the Company. These contributions are included as a reduction to the cost of the related plant and equipment when those assets are placed in service.

f) Cash and cash equivalents

Cash on hand and on deposit with banks, and short-term investments with maturity of three months or less, are considered cash and equivalents.

4. Summary of Significant Accounting Policies, continued

g) Future income taxes

CICA Handbook Section 3465 states that where future income taxes may be expected to be included in approved rates charged to customers in the future and to be recovered or returned to future customers, the recognition of a regulatory asset or liability for the increase or reduction in future revenue is required. Furthermore, the regulatory asset or liability established by this requirement is a temporary difference for which an additional future income tax asset or liability is recognized.

h) Employee future benefits

The Company has adopted the following policies for future benefits provided to both active and retired employees:

Pension benefits

The Company has a pension agreement with the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer contributory defined benefit plan. Company contributions to the plan are recognized as pension expense in the period that they are incurred. As this is a multi-employer plan, no pension liability for this type of plan is recorded in the Company's financial statements.

Other post-retirement and post-employment benefits

The Company provides other benefits to active and retired employees including group life insurance and health-care benefits. Recognition of these benefits are actuarially determined using the projected benefit method pro-rated on service using management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

i) Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the financial statements.

Certain estimates are also required as regulations, which will ultimately determine the actual results, have yet to be finalized and are dependent on the completion of regulatory proceedings or decisions. Due to these uncertainties, actual results might differ from those estimates and the impact will be recorded in the current period when the actual results are known.

5. Cash and equivalents

	September 30, 2012	December 31, 2011
Bank balances	$ 4,683	$ 313

6. Accounts receivable

Included in accounts receivable is approximately $7.4 million (2011 - $5.1 million) of customer receivables for water consumption that the Company bills and collects on behalf of the Corporation of the City of London. As the Company does not assume liability for collection of these amounts, any amount relating to water consumption that is determined to be uncollectible is charged to the Corporation of the City of London.

At September 30, 2012, approximately $0.4 million (2011 - $0.4 million) is included in the allowance for doubtful accounts for uncollectible amounts relating to water consumption.

Receivables are comprised of:

	September 30, 2012	December 31, 2011
Trade receivables	$ 32,575	$ 25,469
Allowance for doubtful accounts	(2,307)	(2,259)
Unbilled revenue	28,810	31,693
Other	2,980	6,128
	$ 62,058	$ 61,031

7. Inventories

Inventory, which consists of parts and supplies acquired for internal construction, consumption, or recoverable work, is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis. Net realizable value is determined by replacement cost.

The amount of inventories consumed by the Company and recognized as an expense during the three months ended September 30, 2012 was $0.2 million (2011 - $0.2 million).

8. Property, plant and equipment

Cost:

	Land and Buildings	Distribution Substation Equipment	Other Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
Balance at January 1, 2011	$ 23,257	$ 12,512	$ 290,816	$ 34,307	$ 12,756	$ 373,648
Additions	1,162	3,867	$ 16,850	$ 4,745	(2,140)	24,484
Disposals / Retirements	(104)	-	$ (9,068)	$ (2,415)	-	(11,587)
Balance at Dec 31, 2011	$ 24,315	$ 16,379	$ 298,598	$ 36,637	$ 10,616	$ 386,545
Balance at January 1, 2012	$ 24,315	$ 16,379	$ 298,598	$ 36,637	$ 10,616	$ 386,545
Additions	1,227	438	11,808	5,533	458	19,464
Regulatory Asset Transfer	-	-	20,027	4,615		24,642
Disposals / Retirements	-	-	(71)	(418)	-	(489)
Balance at Sep 30, 2012	$ 25,542	$ 16,817	$ 330,362	$ 46,367	$ 11,074	$ 430,162

Accumulated amortization:

	Land and Buildings	Distribution Substation Equipment	Other Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
Balance at January 1, 2011	$ 10,126	$ 5,754	$ 141,573	$ 16,925	$ -	$ 174,378
Depreciation	649	380	11,734	4,532	-	17,295
Disposals / Retirements	(104)	-	(8,206)	(2,414)	-	(10,724)
Balance at December 31, 2011	$ 10,671	$ 6,134	$ 145,101	$ 19,043	$ -	$ 180,949
Balance at January 1, 2012	$ 10,671	$ 6,134	$ 145,101	$ 19,043	$ -	$ 180,949
Depreciation	508	340	10,281	4,057	-	15,186
Regulatory Asset Transfer			1,853	741		2,594
Disposals / Retirements	-	-	(52)	(418)	-	(470)
Balance at Sep 30, 2012	$ 11,179	$ 6,474	$ 157,183	$ 23,423	$ -	$ 198,259

Net book value:

Balance at	Land and Buildings	Distribution Substation Equipment	Other Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
December 31, 2011	$ 13,644	$ 10,245	$ 153,497	$ 17,594	$ 10,616	$ 205,596
September 30, 2012	$ 14,363	$ 10,343	$ 173,179	$ 22,944	$ 11,074	$ 231,903

8. Property, plant and equipment, continued

At September 30, 2012, property, plant and equipment with a cost of $21.7 million (2011 - $5.6 million) had been fully amortized but were still in use.

9. Customer and other deposits

Customer and other deposits include security deposits for energy consumption bearing interest at a rate of prime less 2% per annum and developer deposits held in accordance with regulation.

Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, and dependent upon the final determination of the required capital contribution, these deposits are either refunded to the developer or transferred to contributions in aid of construction.

Customer deposits are comprised of:

		September 30, 2012		December 31, 2011
Customer deposits	$	7,507	$	7,120
Construction deposits		8,233		8,080
		15,740		15,200
Less: Current Portion		837		1,059
	$	14,903	$	14,141

10. Short-term credit facilities

At September 30, 2012, the Company had an uncommitted operating revolving line of credit facility of $20.0 million with the Toronto Dominion Bank. As at September 30, 2012, the amount drawn by the Company under this line of credit was $nil (2011 - $nil).

The line of credit is unsecured and interest is at bank prime rate on prime based borrowings minus 0.50%, or at Bankers Acceptances (“B/A”) rates plus a 0.75% stamping fee on B/A based borrowings.

11. Long-term debt

		September 30, 2012		December 31, 2011
Non-revolving term instalment loan bearing interest at the 7.75 year Banker's Acceptance rate of 2.43% plus a stamping fee of 0.9% payable in monthly instalments of $192,000 principal plus interest due on March 31, 2020	$	15,922	$	17,650
		15,922		17,650
Less: Current portion		2,304		2,304
Total long-term debt	$	13,618	$	15,346

At September 30, 2012, the Company had a committed 364 day extendable operating revolving loan facility of $15.0 million with the Toronto Dominion Bank and the amount drawn by the Company under this loan facility was $nil (2011 - $nil).

Under the terms of this agreement, the loan has a maturity date of March 31, 2014. The Company has a one year period from the loan maturity date to repay any outstanding balances in the event the lender elects not to extend the loan for an additional 364 day period. Interest is at bank prime rate on prime based borrowings minus 0.50%, or at B/A rates plus a 0.75% stamping fee on B/A based borrowings.

In addition to the long-term loan facility with the Toronto Dominion Bank, the Company has entered into an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan of $20.5 million to fund its Smart Meter capital expenditure program. Principal repayments on this loan commenced in October 2010 and were amortized over a 10 year period ending March 31, 2020. Effective June 29, 2012, this fixed rate swap agreement was amended changing the maturity date to March 31, 2020 and effectively converts variable interest rates on unsecured Bankers Acceptances to an effective interest rate of 2.43% (2011 - 2.73%) plus a stamping fee of 0.9% for an all-in rate of 3.33% (2011 - 3.63%).

The swap agreement entered into with Royal Bank of Canada does not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contract is marked to market at period end with the unrealized gain or loss recorded in the income statement. The unrealized loss for the nine month period ended September 30, 2012 was $0.1 million (2011 - $0.1 million).

At September 30, 2012, the Company would be required to pay $0.5 million (2011 - $0.6 million) if it wished to cancel the swap agreement.

Additionally, and as described in Note 16 to these financial statements, the Company has issued a promissory note to the Public Utility Commission of the City of London in the amount of $70.0 million bearing interest at 6% per annum. Interest is paid at the end of each quarter. The note is unsecured and payable on demand with 367 days notice, and matures on October 31, 2015.

12. Regulatory assets and liabilities

Regulatory assets

	September 30, 2012	December 31, 2011
Amounts approved for recovery in distribution rates	$ -	$ 194
Smart meter expenditures in excess of recoveries	3,256	23,237
Amounts submitted for future rate approval:		
Transitional cost recoveries	-	458
Other	556	520
	3,812	24,409
Less: Current portion	1,404	2,905
	$ 2,408	$ 21,504

Regulatory liabilities

	September 30, 2012	December 31, 2011
Amounts approved for disposition in distribution rates	$ 8,297	$ 287
Purchase power cost variances (non-commodity)	4,074	7,889
Purchase power cost variances (commodity)	4,850	6,676
Future income tax liability	6,081	7,152
Other	593	285
	23,895	22,289
Less: Current portion	5,948	2,580
	$ 17,947	$ 19,709

Regulatory assets

a) Smart meter expenditures in excess of recoveries

The Company has been authorized under Ontario Regulation 427/06 to undertake discretionary metering activities under the Provincial Smart Meter Program, and to recover through rates, the funding required for the implementation of this program. These balances represent the extent to which program costs to date have exceeded recoveries to date.

12. Regulatory assets and liabilities, continued

a) Smart meter expenditures in excess of recoveries, continued

The Company submitted an application to recover the smart meter expenditures in excess of recoveries to the OEB on March 24, 2012. A Decision and Order from the OEB related to this submission was issued on July 26, 2012. In the Decision, the Board approved all application recoveries of costs for smart meter deployment and operations. The recoveries are for both actual expenditures up to December 31, 2011, and forecasted expenditures in 2012.

As per the Decision and Order, the rate riders applicable to these recoveries have an effective date of May 1, 2012, an implementation date of September 1, 2012, and a sunset date of April 30, 2013 or once a Decision has been made as to the Company's 2013 cost of service rate application.

The Company did not seek recoveries of stranded meter costs. As per OEB requirements, recovery of stranded meter amounts is only permitted to be applied for in a cost of service rate application. The stranded meter cost recoveries were filed in the 2013 cost of service rate application submitted to the OEB on September 28, 2012.

b) Other cost recoveries

Other costs recoveries of $0.6 million (2011 - $0.5 million) include both $0.4 million (2011 - $0.4 million) costs incurred to transition to International Financial Reporting ("IFRS") and $0.2 million (2011 - $0.1 million) associated with smart grid deferral accounts.

The OEB has authorized the establishment of a deferral account for expenditures related to transition to IFRS. The Company is seeking recovery of these costs in the 2013 cost of service rate application.

The OEB has authorized the establishment of deferral accounts for expenditures related to green energy and smart grid projects. Due to the green energy and smart grid projects being in the infancy stage of development, the Company has requested to the OEB in 2013 cost of service rate application to permit delay of recoveries till the projects are in a more advanced or completed position .

Regulatory Liabilities

a) Purchased power cost variances

As a regulated distributor of electricity, the Company is obligated to provide default energy supply to those consumers who elect not to purchase their energy from an energy retailer. The regulatory framework requires that all default energy commodity and non-commodity costs be billed to the consumer at regulated rates.

Variances between purchase costs and amounts billed are required to be captured in Retail Settlement Variance Accounts ("RSVA") for disposition in future rates. The variance accounts have been further defined by the regulator into commodity related and non-commodity accounts.

12. Regulatory assets and liabilities, continued

Those accounts defined as commodity accounts are eligible for regulatory review on a quarterly basis. All other accounts are defined as non-commodity and are currently eligible for review on an annual basis.

For all variance accounts, the review period does not in itself determine whether any adjustment will be permitted as the regulator will determine when the balances are material enough to warrant an adjustment to rates.

Included in the amounts approved for disposition in distribution rates are RSVA accounts, global adjustment, Deferred Payment in Lieu of Taxes ("PILS"), transition costs, and special purpose charge. In the OEB's Decision and Order of April 4, 2012, London Hydro received approval to disposition accumulated variances balances, for the period commencing January 1, 2009 to December 31, 2010, with carrying charges calculated to April 30, 2012. The total amount for disposition is to be refunded to our Customers in a rate rider commencing May 1, 2012 with sunset date of April 30, 2014.

Purchase power cost variance (commodity and non-commodity) accumulated after January 1, 2011 to December 31, 2011 and carrying charges up to April 30, 2012 were filed for recovery/disposition in the 2013 cost of service rate application.

b) Other

As at September 30, 2012, and in accordance with accounting directives received from the Ontario Energy Board, the Company has recorded for future rate disposition, $0.3 million in savings (2011 - $0.2 million) due to the implementation of the Harmonized Sales Tax ("HST"). An amount of $0.3 million (2011 - $0.3 million) is associated with residual balance of the 2009 regulatory asset recovery account ("RARA"). Both the balances for savings from implementation of HST and the RARA (2009) have been applied for in the 2013 cost of service rate application.

13. Change in non-cash working capital related to operations

The net change in non-cash working capital related to operations is comprised of:

		September 30, 2012		December 31, 2011
Receivables	$	(1,320)	$	(5,349)
Inventories		21		49
Prepaid expenses		(47)		643
Accounts payable and accrued liabilities		3,891		(3,188)
Due to shareholder		2,809		(439)
	$	5,354	$	(8,284)

14. Interest and other revenue

Interest and other revenue are comprised of:

	September 30, 2012	September 30, 2011
Interest (Note 15)	$ 315	$ 315
Late payment charges	740	809
Collection and occupancy charges	1,045	1,014
Customer billing service fees	454	480
Pole and other rental income	292	285
Scrap sales	216	229
Renewable generation revenue	107	72
Gain on disposal of property, plant and equipment	73	124
Other	104	87
	$ 3,346	$ 3,415

15. Interest income and expense

Interest income and expense is comprised of:

	September 30, 2012	September 30, 2011
Interest income from:		
Bank deposits	$ 78	$ 72
Regulatory assets	237	243
Interest income	315	315
Interest expense on:		
Due to related party	3,150	3,150
Long-term debt	454	598
Short-term debt	23	54
Regulatory liabilities	249	146
Other	87	72
Interest expense	$ 3,963	$ 4,020

16. Related party balances and transactions

		September 30, 2012		December 31 2011
Non-interest bearing trade balance due to shareholder, without stated repayment terms	$	9,357	$	6,548
Unsecured promissory note, due to related party, bearing interest at 6% per annum, payable on demand with 367 days notice, maturing October 31, 2015		70,000		70,000
		79,357		76,548
Less: Current portion		9,357		6,548
	$	70,000	$	70,000

Included in the accounts receivable is $0.6 million (2011 - $1.1 million) of energy, water, and sundry receivables due from the Corporation of the City of London.

During the three-month period ended September 30, 2012 the Company billed customers for water service on behalf of the shareholder and remitted funds to the shareholder in the amount of $34.5 million (2011 – $32.6 million). The shareholder paid $0.9 mil (2011 - $0.9 mil) for this service.

17. Dividends payable

On March 21, 2012 the Board of Directors approved the payment of a dividend in the amount of $3.0 million to be paid in quarterly instalments of $0.75 million in fiscal 2012.

18. Employee future benefits

The Corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees through a defined benefit plan funded on a cash basis by contributions from the Company. The accrued benefit liability and the expense for the periods ended September 30, 2012 and December 31, 2011 were based on results and assumptions determined by actuarial valuation.

19. Financial Instruments and Risk Management

a) Financial instruments

As a rate-regulated entity, the nature of the Company's operations are defined and restricted by regulation. Financial operations and risks are also substantially influenced by regulation, limiting the necessity to engage in risk mitigation strategies involving the use of derivatives or hedges.

19. Financial Instruments and Risk Management, continued

As further defined in Note 11 to these financial statements the Company uses derivative financial instruments, primarily interest rate swaps, to manage its interest rate exposure.

The Company has adopted CICA Handbook Sections 3855 and 3861, Financial Instruments for disclosure purposes as the Company's financial instruments are not subject to the disclosure requirements under Sections 3862 or 3863 of the CICA Handbook.

b) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company primarily assesses credit risk exposure by customer segment. Concentrations of consumption by segment or individual customer, may impact risk due to varying energy consumption patterns and allowable security deposit requirements associated with each segment. The Company is not exposed to a significant concentration of credit risk within any customer segment or individual customer. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related provision for doubtful accounts is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for doubtful accounts at September 30, 2012 is $2.3 million (2011 - $2.3 million). Bad debt expense was $0.3 million during the three month period ended September 30, 2012 (2011 - $0.3 million).

The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers.

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at September 30, 2012, the Company holds security deposits in the amount of $7.5 million (2011 - $7.1 million). Additionally, if presented with substantial credit losses, the Company would make application to the regulator for recovery of those losses through distribution rate adjustments in future years.

By regulation, the Company is responsible for collecting both the distribution and energy portions of the electricity bill. On average, the Company earns 15% of amounts billed to customers with the remaining 85% being collected for other parties. The Company is therefore exposed to a credit risk substantially greater than the income that it regularly earns.

19. Financial Instruments and Risk Management, continued

c) Market risk

Market risks primarily refer to the risk of loss that result from changes in commodity prices, foreign exchange rates, and interest rates. The Company currently does not have commodity or foreign exchange risk. The Company is exposed to fluctuations in interest rates as the regulated rate of return for the Company's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

d) Liquidity risk

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company has access to a $20.0 million line of credit as well as a committed 364 day extendable operating revolving loan of $15.0 million and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The majority of accounts payable, as reported on the balance sheet, are due within 30 days.

20. Capital Disclosures

The main objectives of the Company when managing capital are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Company's definition of capital includes shareholder's equity and long-term debt. As at September 30, 2012 capital amounts are as follows:

		September 30, 2012		December 31, 2011
Long-term debt	$	83,618	$	85,346
Shareholder's equity		126,170		124,055
	$	209,788	$	209,401

The OEB regulates the amount of interest on debt and rate of return that may be earned by the Company, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure for the Company may differ from the OEB deemed structure.

20. Capital Disclosures, continued

The Company has customary covenants typically associated with long-term debt. The Company is in compliance with all credit agreement covenants and limitations associated with its long-term debt.

21. International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") has adopted a strategic plan that will have Canadian GAAP converge with IFRS, effective January 1, 2011 which will require entities to restate, for comparative purposes, their interim and annual financial statements and their opening financial position.

In October 2010, the AcSB approved the incorporation of the first of many single year deferrals of Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The amendment also requires entities that do not prepare their interim and annual financial statements in accordance with Part 1 of the Handbook during the annual periods beginning on or after January 1, 2011 to disclose that fact.

On July 28, 2009, the OEB issued its Report of the Board – Transition to IFRS, which contains recommendations on how regulatory reporting requirements should change in response to IFRS and on June 13, 2011 the OEB issued an addendum to that report which sets out additional regulatory policy changes with respect to cost of service and subsequent incentive rate-setting methods.

The Company continues to monitor and provide for the impacts of the recommendations and policy revisions contained in these Reports of the Board on both the activities of the Company and its IFRS transition plan.

Although the impact of the adoption to IFRS on the Company's financial position and results of operations has yet to be fully determined, the Company does expect a significant increase in financial statement disclosure requirements resulting from the adoption of IFRS, and continues to design and implement the systems and related process changes, that are required in order to provide the additional information necessary to make these disclosures.

In September 2012, the AcSB extended the most recent deferral of adoption of Part 1 of the CICA Handbook for qualifying entities with activities subject to rate regulation for an additional year to January 1, 2014. Due to the current uncertainty surrounding rate regulated accounting, the Company has elected to take the deferral and expects to adopt IFRS commencing January 1, 2014.

The Company continues to assess the impact of the conversion to IFRS on its results of operations.

London Hydro Inc.
Management's Discussion and Analysis

The following discussion and analysis of the financial position, results from operations, and cashflow for the period ending September 30, 2012 of London Hydro (the "Company") should be read in conjunction with the Interim Financial Statements for the nine months ended September 30, 2012 (the "period") and the Financial Statements for the year ended December 31, 2011. The results reported herein have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are expressed in Canadian dollars.

This analysis contains forward-looking statements regarding management's future expectations of performance and liquidity. Such statements are subject to general risks and uncertainties, such as general economic conditions, regulatory and government decisions, and the successful development and operation of the electricity market. Forward-looking statements are not guarantees of performance and future results may differ materially from those expressed by these statements.

Fiscal 2012 Operations Overview

The Company's 2012 results in comparison to historical and planned performance are summarized in the following table:

	YTD results for the period ended September 30,			2012 YTD Plan	% of plan
	2012	**2011**	**% Change**		
Energy Distributed - Gigawatt Hrs	2,554.1	2,605.5	-2.0%	2,639.0	-3.2%
Number of Customers	149,239	147,916	0.9%	148,877	0.2%
(in thousands)					
Energy and distribution revenues	282,449	272,801	**3.5%**	282,368	0.0%
Cost of Power	237,846	228,870	**3.9%**	236,725	0.5%
Distribution revenue	44,603	43,931	**1.5%**	45,643	-2.3%
Operating expenses	23,228	22,572	**2.9%**	23,935	-3.0%
Amortization	15,491	13,050	**18.7%**	15,551	-0.4%
Operating income	5,884	8,309	**-29.2%**	6,157	-4.4%
Interest and other revenue	3,346	3,415	**-2.0%**	3,088	8.4%
Interest expense	3,933	4,048	**-2.8%**	3,983	-1.3%
Earnings before tax	5,297	7,676	**-31.0%**	5,262	0.7%
Income taxes	182	1,689	**-89.2%**	220	-17.3%
Net income	5,115	5,987	**-14.6%**	5,042	1.4%
Operating Expenses as a % of Distribution Revenue	52.1%	51.4%		52.4%	
Projected RoE	5.5%	6.4%		5.4%	

	YTD results for the period ended September 30,		
	2012	**2011**	**Change**
Energy Distributed - Gigawatt Hrs	2,554.1	2,605.5	-2.0%
Number of Customers	149,239	147,916	0.9%
(in thousands)			
Operating cash flow	26,251	14,452	**19,159**
Investing cash flow	-20792	-23,008	**3,557**
Financing cash flow	-1,089	7,025	**-7,903**
Cash flow	4,370	-1,531	**14,813**
Cash and equivalents - end of Period	4,683	6,135	**7,460**

(Note – all comparisons are YTD results comparing Q3 2012 to Q3 2011 under GAAP reported amounts unless otherwise noted).

Energy Quantities Distributed

Total energy distributed on the system decreased by 2.0% to 2,554.1 gigawatt hrs. (2011 – 2,605.5 gigawatt hrs). The biggest factor contributing to the decrease in energy consumption in 2012 is the result of customers striving to conserve electricity. Although 2012 was one of the warmest summers in recent history, the actual energy distribution for 2012 was less that that compared to 2011. In addition to the reduced summer consumption, in the first quarter there was a signicant reduction of usage due to the warmer weather conditions during the winter of 2012 versus 2011. Reductions in customer energy consumption were partially offset by an overall increase in the customer base of 0.9% percent.

Revenues

Energy Revenue and Cost of Power

The cost of power increased during the year to $237.8 million (2011 - $228.9 million). The overall increase of $8.9 million or 3.9% is attributable to increases in commodity and non-commodity pricing, fluctuations in the spot market price and global adjustment rates determined by the Independent Electricity System Operator ("IESO"). In accordance with OEB regulations, purchased power costs are billed to customers on a flow-through cost recovery basis. All variances due to timing of customer billing or regulated pricing are recorded in retail settlement variance accounts which are recovered from (or returned to) customers in accordance with regulatory directives.

Distribution Revenues

The Company is compensated by a regulated distribution tariff based on the number of customers connected to the distribution system and customer energy consumption and demand levels. Approximately 54% of revenues are derived from a monthly fixed customer charge, with the remaining 46% being dependent upon the customer's energy consumption or system demand levels.

Total customers as at September 30, 2012 were 149,329 (2011 – 147,916) and distribution revenue composition remained relatively unchanged from the prior year with approximately 64% from residential customers, 31% from general service customers, and the remaining 5% from large use and other customers.

Total distribution revenues for the year increased by $0.7 million (1.5%) to $44.6 million during the period due primarily to an increase in rates as a result of the smart meter funding adder combined with a 0.6% increase in the customer base offset against a 2.0% decrease in demand. Distribution revenue is behind budget primarily as a result of the delay in the implementation of the funding adder. The budget had expected the rate rider to be collected from May 1, 2012 until April 30, 2013 while actually the rate rider was not approved for collection until September 2012 until April 30, 2013. The actual SMIRR (Smart Meter Funding rate rider) recorded in revenue is $0.6 million, while the budgeted YTD amount is $1.5 million. Due to the acceleration collection period, the YTD difference will shrink each month, but the variance will not be $0 until April 2013.

Operating Expense and Amortization (Excluding Cost of Power)

Total operating expenses, excluding interest, amortization and cost recoveries, increased during the quarter to $23.2 million (2011 - $22.6 million). The overall increase of $0.6 million or 2.9% is attributable to increases in labour and benefits costs, information systems maintenance contracts, employee training and development and increased regulatory expense.

Amortization expense increased in 2012 to $15.5 million (2011 - $13.1 million) due to the significant IT expenditures which have occurred over the past couple of years. Many of these IT projects are now completed and in service and therefore are being amortized at their full rate compared to the prior year when the assets were only in service for part of the year.

Cost recoveries for billable services including City of London customer billing services remained consistant at $2.5 million.

Interest and Other Revenue

Interest and other revenue has remained relatively consistent by decreasing slightly to $3.3 million (2011 – $3.4 million).

Interest Expense

Interest expense decreased slightly to $3.9 million (2011 – $4.0 million) as a result of the reduced balance on the smart meter loan. Interest expense is composed of interest payable on customer security and developer deposits, regulatory liabilities, smart meter financing and interest of $1.05 million payable each quarter to the Public Utility Commission of the City of London ("PUC") on the promissory note.

The Company recorded an unrealized loss on interest rate swap of $0.1 million (2011 - $0.1 million), on an interest rate swap agreement maturing on March 31, 2020, having an all-in rate of 3.33% (2011 – 3.63%). The unrealized loss of $0.5 million represents what the Company's cost would be to unwind this agreement as at September 30, 2012.

Regulatory Assets/Liabliities

At September 30, 2012, the Company had regulatory assets of $3.8 million (December 31, 2011 - $24.4 million) a decrease of $20.6 million from the year-end. The majority of this decrease is the transfer of the smart meter balances ($22.0 million) from regulatory assets to property plant and equipment.

The Company also had regulatory liabilities of $23.8 million compared to $22.3 million as of December 31, 2011. This increase is primarily the result of RSVA accounts continuing to accumulate. During the year, the Company was authorized by the OEB to repay $7.5 million of settlement RSVA balances back to consumers.

Income Tax Expense

The Company is required to make payments in lieu of tax to the Ontario Electricity Financial Corporation. The amount of payments in lieu of tax ("PILs") is approximately equivalent to the income taxes that would be paid if the Company was a taxable corporation under the Income Tax Act (Canada). Income tax expense for the period ended September 30, 2012 was $0.2 million (2011 - $1.7 million).

Capital Resources

Capital Structure and Dividend Policy

The PUC holds a promissory note from the Company in the amount of $70.0 million, bearing interest at 6% per annum, payable on demand with 367 days' notice, and maturing on October 31, 2015. The note provides that upon reassignment to the Corporation of the City of London, the note will be converted to shareholder contributed capital on account of the Corporation of the City of London.

The Company's 2012 distribution rates are based on a regulatory deemed capital structure of 60% debt and 40% equity. To the extent that the Company's existing capital structure and debt rates do not reflect the deemed structure included in distribution rates, the economic performance of the Company will be suboptimal.

The Company's dividend policy provides for an annual dividend amount equivalent to 40% of the Company's prior year's net earnings, subject to satisfactory cashflow. In accordance with that policy, during the year the Board of Directors declared a dividend in the amount of $3.0 million payable in quarterly instalments during fiscal 2012.

External Credit Facilities and Credit Rating

The Company has an uncommitted operating revolving bank credit facility of $20.0 million, a committed 364 day extendable operating revolving bank loan facility of $15.0 million maturing on March 31, 2014 and $6.6 million in Standby Letters of Credit issued to the IESO as security. In the event that the maturity date of the committed extendable operating loan facility is not extended, the due date for repayment of this loan facility is one year from the date of maturity.

As at September 30, 2012, the Company has drawn down $nil on any of these facilities.

In addition to its operating line and committed facility, the Company has entered into an interest rate swap agreement for an unsecured loan to fund its Smart Meter capital expenditure program. The outstanding principal balance on this loan at September 30, 2012 was $15.9 million. Principal repayments on this loan commenced in October 2010 and are being amortized over a 10 year period ending March 31, 2020. The swap agreement matures on March 31, 2020 with an effective interest rate of 3.33%.

The Company's 'A/stable' long-term corporate credit rating was reaffirmed by Standard & Poor in September 2012. This rating reflects the Company's low-risk as a distribution company with regulated cash flows. The Company's current credit rating provides for a reduction in the IESO prudential requirement by approximately $59.0 million.

Liquidity and Cashflow

Cash generated by operating activities increased to $26.3 million (2011 - $14.5 million). Increased cash flows are primarily attributable to a change of $5.4 million (2011 – -$4.9 million) in working capital related to operations balances due to decreased accounts receivable balances and increased accounts payable balances.

Cash used in investing activities decreased to $20.8 million (2011 - $23.0 million) due to reduced expenditures for the year with respect to the smart meter and IT infrastructure spending.

Cash from (used in) financing activities decreased to ($1.0) million (2010 – $7.0) due primarily to not requiring the $10.0 million short term debt borrowings as incurred in Q2 of 2011.

International Financial Reporting Standards ("IFRS")

In September, 2012, the AcSB announced another one year deferral for the adoption of IFRS making IFRS mandatory as of January 1, 2014.

In April, 2012, the OEB announced that although deferral may be available for financial statement purposes, anyone filing financial statements for a 2013 Cost of Service would still be required to report under a modified IFRS format.

After evaluating the options the Company elected to defer adoption of IFRS until January 1, 2014.

November 21, 2012

Key Performance Indicators and Discussion
For the ten months ended October 31, 2012

Highlights of the results to October 31, 2012:

- Total **YTD DISTRIBUTION REVENUE** is unfavourable to budget by $0.9 mil or 1.8%.

  The normal ongoing distribution revenue is unfavourable to budget by $0.7 mil or 1.3%, due mainly to the delay in implementing the anticipated smart meter incremental rate rider ("SMIRR") which was approved by the OEB with a September 1st effective date. The 2012 revised operating plan forecasted that the SMIRR would be effective August 1st. Although the total amount to be recovered has not changed, the effective date will result in lower revenue in 2012 offset with higher than forecasted recovery in 2013.

  Other regulatory adjustments remain unfavourable by $0.2 mil as previously reported and is mainly a result of the recent unfavourable IRM decision related to the recovery of deferred PILS.

  Year to-date energy quantities distributed continue to be lower than anticipated and are 3.3% below budget. Energy quantities are also lower than the same time period in 2011 by 1.9%. The current year results are closely tied to the unusually warm weather throughout the winter and early spring offset with increased usage in June and July, and followed by lower usage this fall. Usage for the month of October was 5.3% below budget.

  Year to-date billed demand is lower than budget by 1.2%. Total customer numbers are tracking to budget at 149,540.

- Net **CONTROLLABLE COSTS** are $863k or 3.1% favourable year to-date.

  - Year to-date labour and benefits are $247k or 1.3% higher than budget. Although total base labour and benefits are favourable to budget due mainly to hiring delays ($761k), deployment of staff to capital and billable activities is unfavourable to budget ($1,040k). The net impact is an unfavourable variance of $279k. Year to date overtime and premium pay costs are favourable to budget ($32k).
  - Professional service costs are favourable to budget by $613k or 14.8%. Year to date significant favourable variances are related mainly to legal expense ($67k) contracted meter reading ($153k), consulting and contracted services ($207k), and wholesale metering services ($34k). New communication license fees related to time of use billing is also favourable ($79k).

- Bad debt expense is $225k or 27.5% favourable to-date as a result of better than predicted aging within accounts receivable.
- The remaining variance year to-date is mainly related to the timing of spending for facilities maintenance ($217k favourable) and the cost of service application preparation and legal review ($31k favourable). Newly negotiated contracts for software maintenance are the primary cause of favourable variances for office equipment service and maintenance ($190k). Special bill inserts related to time of use rates is causing postage expense to be unfavourable to budget at this time ($80k).

- **OTHER REVENUE** is $207k or 5.9% favourable to budget due primarily to favourable variances in interest earned ($199k), collection charges ($87k), and the sale of scrap ($123k). Favourable variances are partially offset with late payment charges and occupancy charges, both tracking below budget ($111k and $42k respectively).

- **YTD EBIT** (year-to-date earnings before interest and taxes) of $10.6 million is $216k or 2.1% favourable due to favourable variances in controllables and other revenue as discussed above, a favourable variance in amortization ($53k), offset with unfavourable year to-date variance in distribution revenue and regulatory adjustments ($908k).

- **INCOME TAX EXPENSE** is $22k unfavourable to budget.

- Year-to-date **NET EARNINGS AFTER TAX** of $5.8 million is favourable to budget by $251k or 4.5%. This represents an annualized return on equity of 5.6%.

- Year-to-date **gross CAPITAL and regulatory** expenditures of $26.2 million are $3.3 mil or 11.1% favourable due primarily to spending delays in subdivision rebuilds ($1.3 mil), city works projects ($0.7 mil), network infrastructure ($0.4 mil), and final smart meter related programs and renewable generation equipment ($0.8 mil). These variances are offset with stronger than anticipated developer demand which is currently running over budget ($0.9 mil). Information systems projects (hardware and software, and application development) are tracking below the year to-date budget ($0.8 mil).

- The **CASH** balance of $7.3 million is higher than forecast by $5.2 million. Cash balances are mainly impacted by favourable fluctuations in regulatory liabilities ($2.6 million), higher than anticipated developer and customer deposits ($1.1 million), and lower net capital spending ($5.0 million). These favourable impacts to cash are offset with higher than anticipated accounts receivable balances ($3.0 million).

- **ACCOUNTS RECEIVABLE** at the end of October was $56.2 million. Receivable balances are affected by seasonal/usage differences, OPA activities, and the timing of invoicing for developer works' projects, among others.

  At the end of the current period outstanding OPA receivables totaled $1.8 million which is not significantly different than at the period ended September 30, 2012. AR aging for both the greater than 60 and greater than 90 day categories have improved over the same time period in 2011 as shown in the KPI table attached to this commentary.

  Bad debt expense is currently tracking favourable to budget by $225k. The forecasted risk of increased bad debt due to the implementation of Time of Use billing and new OEB regulations has yet to materialize. Forecasts of bad debt based on the current aging of

the accounts receivable show marked improvement over prior years impacted by the down turn in the economy.

Management continues to utilize a consistent risk assessment methodology in the determination of the allowance for bad debts and will continue to monitor events impacting risk and allowance requirements.

David Arnold
(519) 661-5800 ext. 5624

London Hydro Inc.
Key Performance Indicators
For the period ended October 31, 2012

	Current Period	YTD Actual	YTD Budget	YTD Variance Fav (Unfav)	YTD Variance %	2012 Annual Budget	2011 Yearend Actual
Energy sales and cost of sales	$22,472	$260,318	$261,578	($1,260)	-0.5%	$315,001	$298,003
Energy distribution quantities (GWh)	256	2,811	2,909	(97)	-3.3%	3,488	3,408
Operating results ($ in 000's)							
Distribution revenue	$5,333	$49,936	$50,844	($908)	-1.8%	$62,017	$58,761
EBIT	$1,339	$10,569	$10,354	$215	2.1%	$12,622	$14,966
Net earnings	$732	$5,847	$5,596	$251	4.5%	$6,739	$7,873
Capital/Regulatory expenditures ($ in 000's)							
Gross expenditures	$2,654	$26,159	$29,417	$3,258	11.1%	$33,142	$32,474
Liquidity ($ in 000's)							
Cash inflow (ouflow)	$2,614	$6,984	$1,765	$5,219	295.7%	($4,526)	($7,353)
Cash and equivalents	$7,297	$7,297	$2,078	$5,219	251.2%	($4,213)	$313
Accounts receivable	$56,152	$56,152	$53,144	($3,008)	-5.7%	$60,967	$61,031
Working capital ratio	1.31	1.31	1.09	0.22	20.2%	1.13	1.51
Profitibility and credit ratios							
Average annualized return on equity	7.0%	5.6%	5.4%	0.2%	4.4%	5.4%	6.5%
Operating ratios							
Customers served per employee	490	490	476	14	2.9%	476	495
Net controllable expense per customer	$17.75	$178.23	$184.02	$5.79	3.1%	$224.60	$212.63

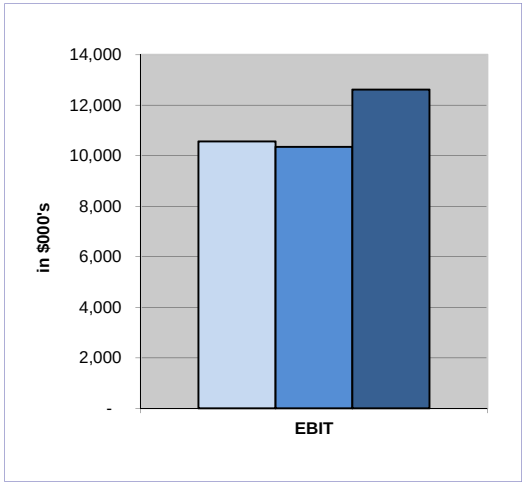
	YTD 2012	YTD 2011	Change $	Change %
Accounts receivable aging ($ in 000's)				
> 60 days	$2,193	$2,302	($109)	-4.7%
> 90 days	$1,914	$2,062	($148)	-7.2%

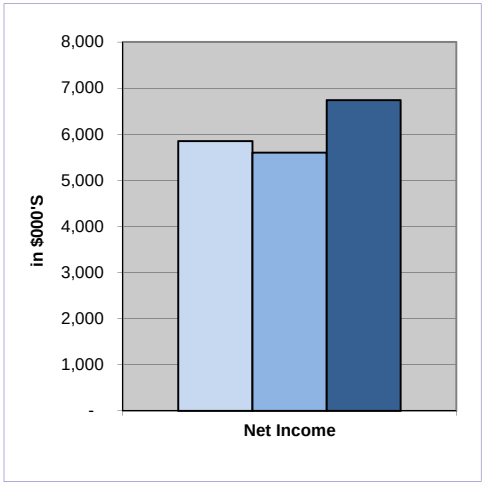
		Limitation	Actual	Covenant Met
Bank Covenants				
Funded Debt to Capitalization	Maximum	60%	42%	YES
Debt Service Coverage	Minimum	1.20	2.97	YES

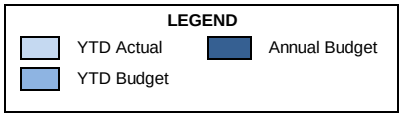
London Hydro Inc.

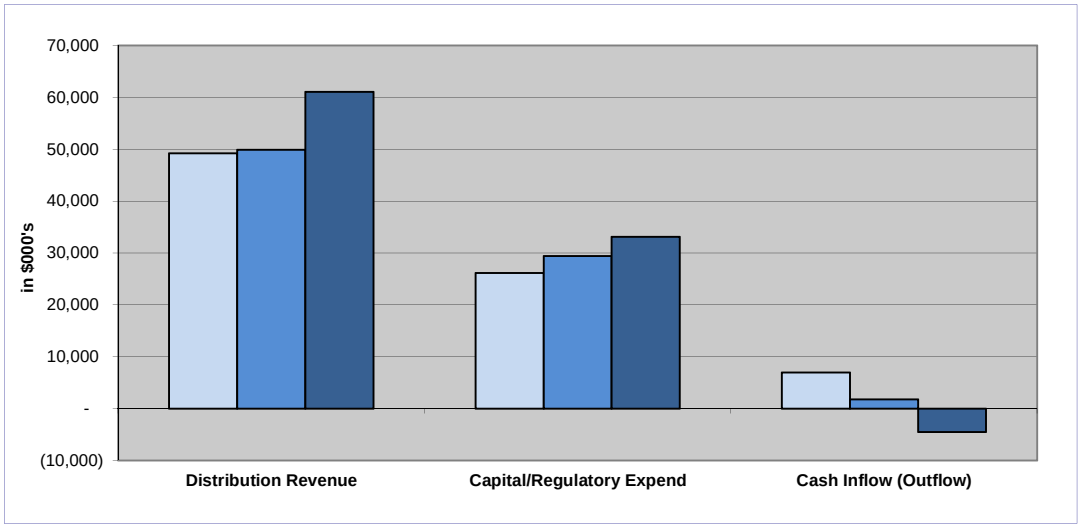
KEY PERFORMANCE INDICATORS

For the period ended October 31, 2012



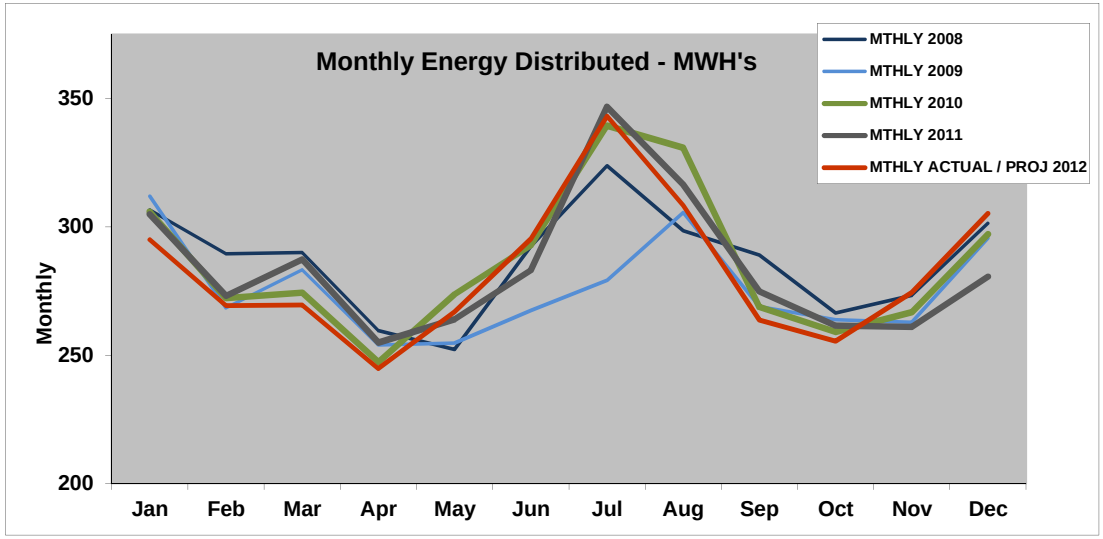


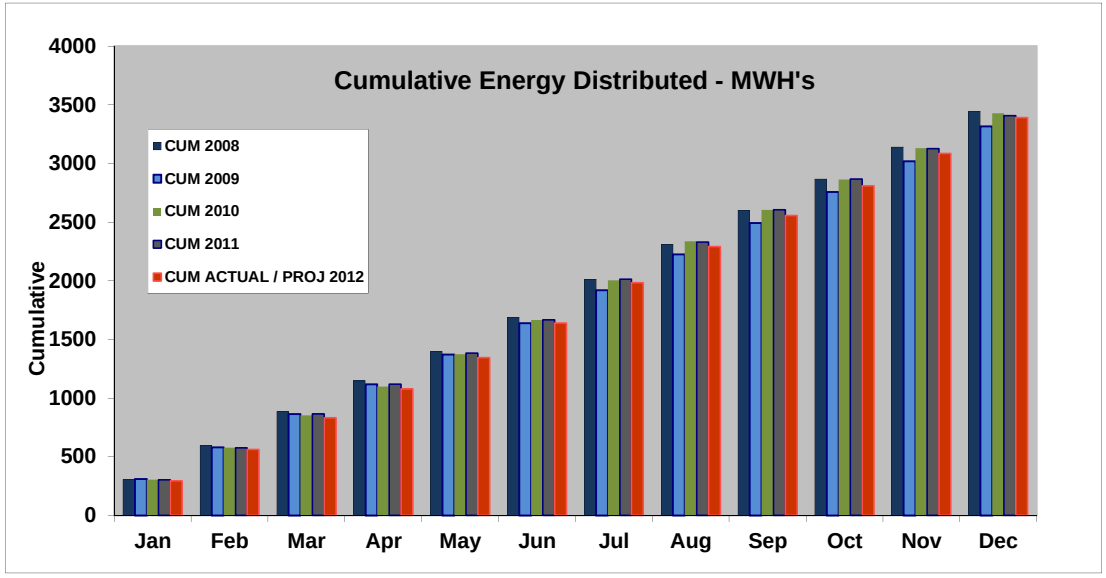




London Hydro Inc.

KEY PERFORMANCE INDICATORS
For the period ended October 31, 2012





December 19, 2012

Key Performance Indicators and Discussion
For the eleven months ended November 30, 2012

As directed by the Board of Directors at their meeting dated October 30, 2012, year to-date operating and capital results for 2012 have been restated to recognize the adoption of new life spans for Property, Plant and Equipment ("PPE") as well as the revised overhead allocation policy related to material handling and vehicles and equipment.

Both of these changes have been made retroactively, with monthly adjustments dating back to January 1, 2012. Continuity between the prior month's reported results and this report has been impacted due to these adjustments.

These accounting changes are consistent with the 2013 Cost of Service Application currently before the Ontario Energy Board, and impacts distribution revenue, controllable cost, depreciation expense, capital expenditures, and both capital asset and regulatory asset balances. This is simply a reallocation of costs as a result of implementing these changes. Net income remains the same under both scenarios.

The following reported year to-date highlights reflect these changes. Budgets have not been revised for 2012.

Highlights of the results to November 30, 2012:

- Total **YTD DISTRIBUTION REVENUE** is favourable to budget by $0.1 million or 0.1%.

  Distribution revenue (before the impact of new service lives) is unfavourable to budget by $0.5 million or 0.9%, due mainly to the delay in implementing the anticipated smart meter incremental rate rider ("SMIRR") which was approved by the OEB with a September 1st effective date. The 2012 operating plan forecasted that the SMIRR would be effective August 1st. Although the total amount to be recovered has not changed, the effective date will result in lower revenue in 2012 offset with higher than forecasted recovery in 2013.

  The new service lives and new allocation policy are impacting year to-date distribution revenue by $0.8 million. This favourable variance will decline to $0.5 million by the end of 2012 and represents a one-time rate adjustment related to the transition. There is an offsetting increase in controllable and amortization expenses also related to this change.

  Other regulatory adjustments remain unfavourable by $0.2 mil as previously reported and is mainly a result of the recent unfavourable IRM decision related to the recovery of deferred PILS.

Year to-date energy quantities distributed continue to be lower than anticipated and are currently 3.4% below budget. Energy quantities are virtually unchanged in November 2012 over the same time period in 2011; however, usage for the month of November was 4.8% below forecast. The current year results are closely tied to the unusually warm weather throughout the winter and early spring offset with increased usage in June and July, and followed by lower than anticipated usage this fall.

Year to-date billed demand is lower than budget by 1.6%.

Total customer numbers are tracking to budget at 149,661.

- Net **CONTROLLABLE COSTS** are $937k or 3.1% favourable year to-date.
    - Year to-date labour and benefits are $265k or 1.3% higher than budget. Although total base labour and benefits are favourable to budget due mainly to hiring delays ($765k), deployment of staff to capital and billable activities is unfavourable to budget ($1,020k). The net impact is an unfavourable variance of $255k. Year to-date overtime and premium pay costs are unfavourable to budget ($10k).
    - Professional service costs are favourable to budget by $760k or 16.4%. Year to-date significant favourable variances are related mainly to legal expense ($77k) contracted meter reading ($170k), consulting and contracted services ($222k), wholesale metering services ($41k), and advertising ($84k). New communication license fees related to time of use billing is also favourable ($87k).
    - Bad debt expense is $425k or 46.4% favourable to-date as a result of better than predicted aging within accounts receivable and the write-off of a backlog of customer accounts with credit balances dating primarily from 2010 and prior.
    - The remaining variance year to-date is mainly related to favourable spending for facilities maintenance ($252k), and corporate training and employee expenses ($110k). Newly negotiated contracts for software maintenance are the primary cause of favourable variances for office equipment service and maintenance ($215k). Special bill inserts related to time of use rates is causing postage expense to be unfavourable to budget ($92k)..
    - The net impact of the revised overhead allocation, related to material handling and vehicle and equipment, increased controllable cost by $250k as these costs are no longer capitalized. This change in allocation was not budgeted.

- **YTD AMORTIZATION EXPENSE** is $489k or 2.7% unfavourable to budget. This variance is primarily related to the transition to new services lives ($569k unfavourable) offset by lower than forecasted amortization expense resulting from lower capital spending to date ($80k favourable).

- **OTHER REVENUE** is $232k or 6.1% favourable to budget due primarily to favourable variances in interest earned ($208k), collection charges ($102k), and the sale of scrap ($137k). Favourable variances are partially offset with late payment charges and occupancy charges, both tracking below budget ($117k and $45k respectively).

- **YTD EBIT** (year to-date earnings before interest and taxes) of $12.3 million is $738k or 6.4% favourable due to overall favourable variances in controllables and other revenue as discussed above, an unfavourable variance in amortization, and the favourable year to-date variance in distribution revenue and regulatory adjustments.

- **INCOME TAX EXPENSE** is $210k unfavourable to budget.

- Year-to-date **NET EARNINGS AFTER TAX** of $6.8 million is favourable to budget by $589k or 9.4%. This represents an annualized return on equity of 5.9%.

- Year to-date **gross CAPITAL and regulatory** expenditures of $29.1 million are $2.6 million or 8.3% favourable due primarily to spending delays in subdivision rebuilds ($0.8 mil), city works projects ($0.5 mil), network infrastructure ($0.2 mil), and final smart meter related programs and renewable generation equipment ($0.9 mil). These variances are offset with stronger than anticipated developer demand which is currently running over budget ($1.1 mil). Information systems projects (hardware and software, and application development) are tracking below the year to-date budget ($0.6 mil).

  The overhead allocation adjustment reduces the total capital expenditures by $520k as these costs are no longer capitalized. This change in allocation was not budgeted.

- The **CASH** balance of $9.8 million is higher than forecast by $8.4 million. Cash balances are mainly impacted by favourable fluctuations in trade payables and amounts due to related parties ($1.6 mil), regulatory liabilities ($1.6 mil), higher than anticipated developer and customer deposits ($1.3 mil), and lower net capital spending ($5.1 mil). The budget called for an increase in long term debt ($1.0 mil) which was not utilized. These favourable impacts to cash are offset with higher than anticipated accounts receivable balances ($1.4 mil).

- **ACCOUNTS RECEIVABLE** at the end of November was $55.5 million a decline of $0.7 million from the October results. Receivable balances are affected by seasonal/usage differences, OPA activities, and the timing of invoicing for developer works' projects, among others.

  At the end of the current period outstanding OPA receivables totaled $1.8 million (unchanged from October). AR aging for both the greater than 60 and greater than 90 day categories have improved over the same time period in 2011 as shown in the KPI table attached to this commentary.

  Bad debt expense is currently tracking favourable to budget by $425k. The forecasted risk of increased bad debt due to the implementation of Time of Use billing and new OEB regulations has yet to materialize. Write-offs of a backlog of credit balances in 2012 were higher than previously estimated reducing current year bad debt expense although primarily related to final accounts from 2010 and prior. Forecasts of bad debt based on the current aging of the accounts receivable show marked improvement over prior years impacted by the down turn in the economy.

  Management continues to utilize a consistent risk assessment methodology in the determination of the allowance for bad debts and will continue to monitor events impacting risk and allowance requirements.

David Arnold
(519) 661-5800 ext. 5624

London Hydro Inc.
Key Performance Indicators
For the period ended November 30, 2012

	Current Period	YTD Actual	YTD Budget	YTD Variance Fav (Unfav)	YTD Variance %	2012 Annual Budget	2011 Yearend Actual
Energy sales and cost of sales	$25,874	$286,192	$286,866	($674)	-0.2%	$315,001	$298,003
Energy distribution quantities (GWh)	261	3,074	3,183	(109)	-3.4%	3,488	3,408
Operating results ($ in 000's)							
Distribution revenue	$5,083	$56,192	$56,133	$59	0.1%	$62,017	$58,761
EBIT	$1,776	$12,345	$11,607	$738	6.4%	$12,622	$14,966
Net earnings	$1,000	$6,847	$6,258	$589	9.4%	$6,739	$7,873
Capital/Regulatory expenditures ($ in 000's)							
Gross expenditures	$3,502	$29,141	$31,786	$2,645	8.3%	$33,142	$32,474
Liquidity ($ in 000's)							
Cash inflow (ouflow)	$2,463	$9,447	$1,060	$8,387	791.2%	($4,526)	($7,353)
Cash and equivalents	$9,760	$9,760	$1,373	$8,387	610.8%	($4,213)	$313
Accounts receivable	$55,503	$55,503	$54,034	($1,469)	-2.7%	$60,967	$61,031
Working capital ratio	1.27	1.27	1.11	0.16	14.4%	1.13	1.51
Profitibility and credit ratios							
Average annualized return on equity	9.5%	5.9%	5.4%	0.5%	9.2%	5.4%	6.5%
Operating ratios							
Customers served per employee	493	493	476	17	3.6%	476	495
Net controllable expense per customer	$15.92	$195.69	$201.84	$6.15	3.0%	$224.60	$212.63

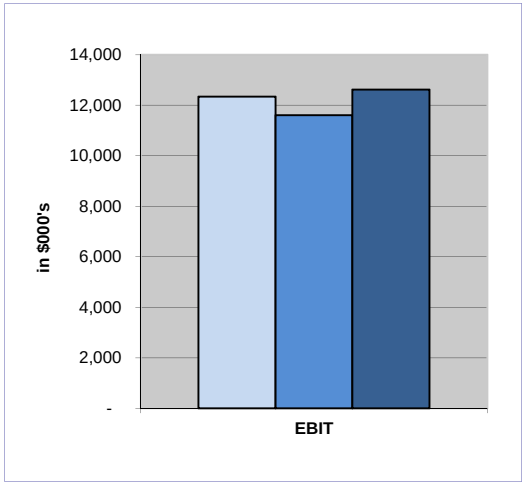
	YTD 2012	YTD 2011	Change $	Change %
Accounts receivable aging ($ in 000's)				
> 60 days	$2,050	$2,294	($244)	-10.6%
> 90 days	$1,834	$2,034	($200)	-9.8%

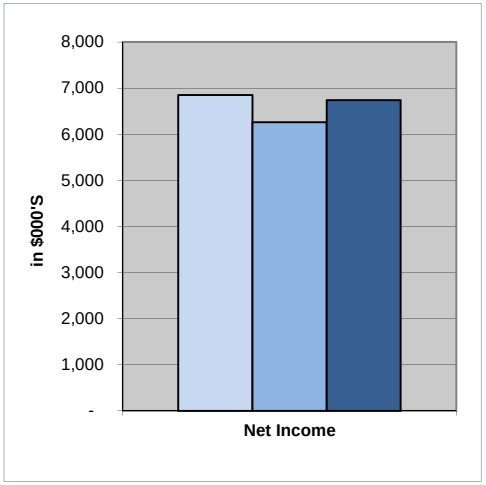
		Limitation	Actual	Covenant Met
Bank Covenants				
Funded Debt to Capitalization	Maximum	60%	42%	YES
Debt Service Coverage	Minimum	1.20	3.07	YES

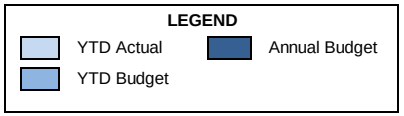
London Hydro Inc.

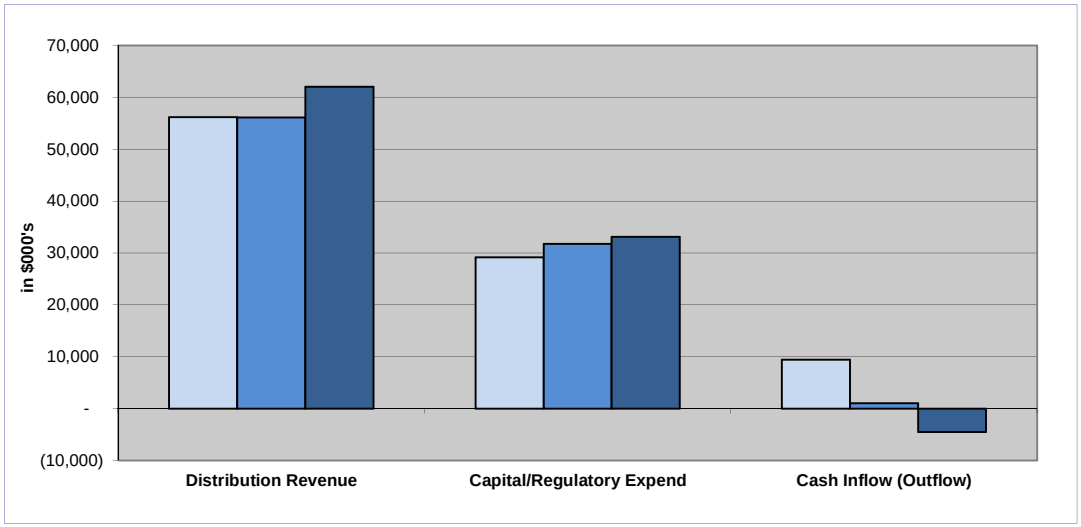
KEY PERFORMANCE INDICATORS

For the period ended November 30, 2012



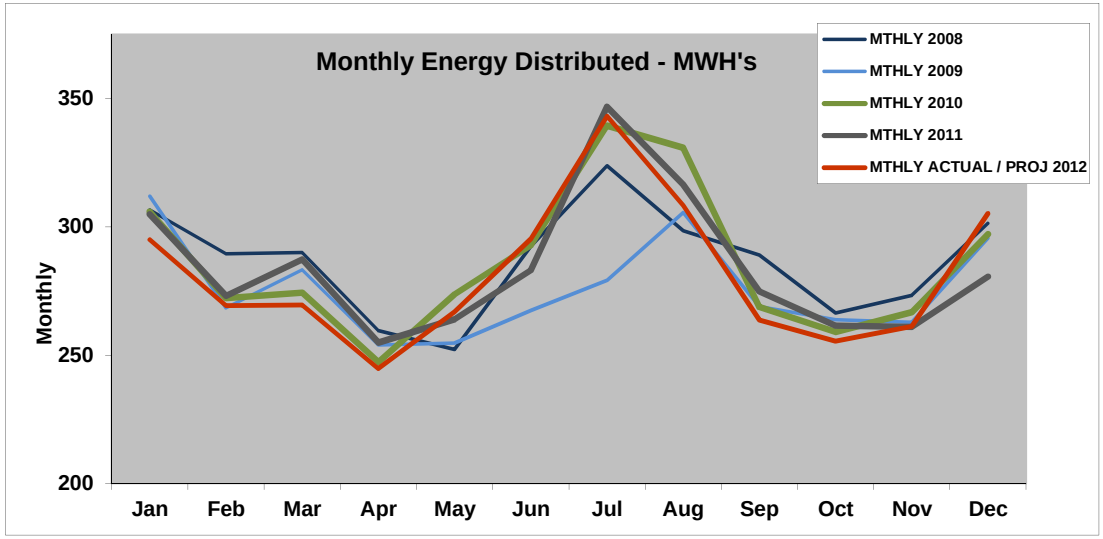


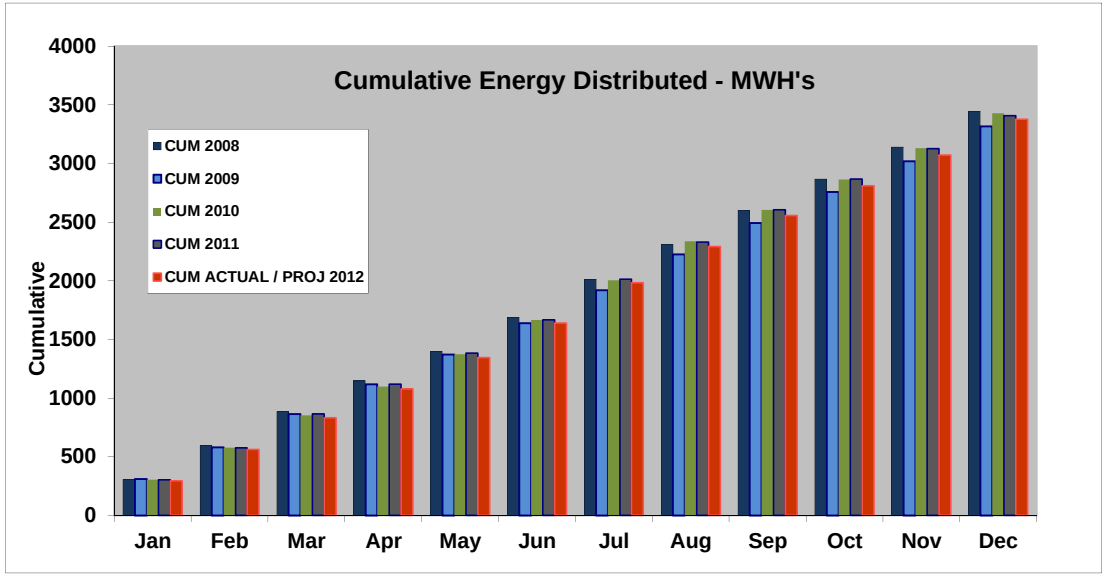




London Hydro Inc.

KEY PERFORMANCE INDICATORS
For the period ended November 30, 2012





DRAFT

STRATEGIC PLAN

2013 to 2015

DECEMBER 2012

TABLE OF CONTENTS

PURPOSE

The London Hydro Strategic Plan 2013 to 2015 is intended as a guide to enable the corporation to meet the challenges of an emerging energy business in Ontario. The plan offers, within a historical context, an analysis of London Hydro in relation to the changing market place for electricity, the regulatory environment, current and future business challenges, and internal capabilities.

The purpose of this plan is to update the previously established three year corporate strategy, and establish new goals in concert with ever changing customer demands, regulatory and legislative requirements and technological advancements. This strategy shall enable the corporation to fulfill its mission, realize its vision and meet its corporate objectives more effectively.

When adopted and implemented, this plan will position London Hydro as a leading energy services corporation in Ontario. The metrics of success in becoming a leading energy services corporation will be determined by our progress along the strategic priorities established as part of this plan.

SCOPE

London Hydro's strategic planning process is an ongoing discussion of our business, focus, opportunities and market place involving our executive, staff and representatives of organizations within the electric industry in Ontario, including the Ontario Energy Board (OEB), Ministry of Energy and the Ontario Power Authority (OPA).

The scope of this strategic plan covers the changing market place for electricity, the regulating agencies and our relationship with them and our business challenges and opportunities such as the launch of time-of-use billing, renewable generation, smart-grid, infrastructure renewal, delivery of services, resource planning, procurement, settlements and green energy initiatives, as well as our internal capabilities and skill set.

The Mission, Vision and Values from the 2011 strategic plan have not changed; however, the corporate goals in this plan have been revised appropriately.

Because of the cost of service rate filing in 2012, we already prepared a two year budget for 2012 and 2013, which was previously approved by the Board of Directors and submitted to the Ontario Energy Board. However, the final outcome of this plan, if significantly different than the previous budget, might cause us to adjust the 2013 budget in an incremental manner.

1. CORPORATE PROFILE

London Hydro Incorporated is a wholly owned subsidiary company of the Corporation of the City of London.

London Hydro distributes electricity to its approximate 148,000 customers within its franchise service territory; its distribution network spans some 420 square kilometers within the City of London. London Hydro distributes electrical power at primary voltages of 16/27.6, 8/13.8 (Star), 13.8 (delta), 4.8/8.32 and 2.4/4.16 kV. We are a summer peaking LDC with an average summer peak load of 670 MW. The annual energy consumption is approximately 3400 GWh. London Hydro has approximately 53.6 MW's of existing embedded distributed generation, through 4 large scale co-generators (48.6 MW), 1 hydroelectric (0.67 MW), one RESOP biogas (2.85 MW), 106 microFIT (0.84 MW) and 3 FIT (0.54 MW) connections.

As per our Mission and Vision, London Hydro subscribes to the principles of safety, reliability of supply, customer care, and public trust.

Safety is a hallmark of London Hydro. As an organization, we demand and deliver the highest standard of safety in our operations; reliable distribution of electricity to our customers; monitoring and maintenance of our distribution system, that will ensure the safety of our crews; constant vigilance for a safe work place through rigorous health and safety training for our employees; and, public education and communication programs that encourage the safe use of electricity in London's homes and businesses.

2. MISSION STATEMENT

London Hydro is dedicated to the pursuit of excellence in safety, reliability, and efficiently distributing electricity to its customers at competitive rates.[1]

3. VISION

London Hydro will be a leading energy services company through the aggressive and innovative pursuit of customer focus, social and environmental responsibility, and financial health, which will add value for our corporation. We will achieve this vision by implementing viable and economical technology and renewable generation projects that are valued by our customers, and be the champion for the expanded application of green technologies in the community.[2]

[1] London Hydro Strategic Planning Session, June 2009
[2] Board approved Business Strategy, February 12, 2002

4. VALUES

London Hydro operates within a set of core values[3] established and practiced by our team:

- To exhibit the highest standard in all relationships by acting openly and honestly in all matters and by treating people fairly and respectfully.
- To foster a working environment that inspires employee motivation and innovation.
- To be truly accountable to our customers, to our shareholder and to our community.
- "Interests of the Corporation as a whole, before those of a Stakeholder."

5. STRATEGIC PRIORITIES

London Hydro's Board of Directors will review and approve the proposed Strategic Plan, on December 13, 2012. This Strategic Plan establishes London Hydro's strategic priorities for 2013. The strategic plan also identifies areas that are of paramount importance for London Hydro over the next 3 years. For the current plan the order of priority (to be confirmed by the Board) is: technology, human resources, customer services, financial/regulatory, green energy (CDM, smart grid, renewable, etc.) and others.

The 2013 to 2015 Strategic Plan identifies the impending and recently implemented business changes due to smart meters, time-of-use (TOU) billing, green energy, and smart grid as placing significant requirements on London Hydro to make strategic investments in new technology. These investments will continue to be paramount over the next 3 year period. Furthermore, with London Hydro being an engineering and technology driven corporation, we wish to bring much more focus on deploying increased automation in the areas of distribution system and energy management. Examples of such technology investment are: 27.6kV supply to the downtown core, replacement of depreciated 4.16kV and 13.8kV systems, underground cable refurbishment, automation to improve reliability/contingency, customer care, retailer engagement and settlements. London Hydro will continue to focus its management on these investments as a key priority over the next three years. In order to succeed in our strategic achievement, along with technology, London Hydro should invest in employees, for they will be the key to success. We must do so by attending to customer needs with due regards to financial and regulatory constraints.

Keeping in mind the above priorities, we have defined a set of multi-year corporate goals. These goals are not necessarily to be completed in one year; however, our focus on managing the accomplishment of those goals, even when they are multi-year, is of importance. The corporate goals are briefly described below.

[3] Board approved Strategic Plan, December 2009

5.1.0 Corporate Goals

London Hydro to pursue the following corporate goals (briefly described below) and allocate resources accordingly. The corporate goals' relative weighting is yet to be determined.

- Technology
  - Replacement and refurbishment of aging infrastructure
  - Security of Supply – downtown upgrade, new TS and subdivision redevelopment
  - GIS enhancements and OMS integration
  - AMI and analytics
  - Customer engagement: enhance customer self-service, mobile application

- Human Resources
  - Union negotiations
  - Continued focus on safety
  - Continued focus on health and wellness program
  - Continued corporate culture development - Employee engagement
  - Continued development of capacity and capabilities
  - Employee training and development

- Customer Service
  - Support customers with managing CDM, spot price volatility, low income customer support and A/R issues
  - Concerted effort to migrate customers to Self-service (MyAccount) and paperless billing
  - Increase customer engagement: enhance self-service applications
  - Community outreach programs to educate customers
  - Maintain positive scorecard from our customer satisfaction surveys

- Financial & Regulatory
  - Achieve an annual target return on deemed equity of ≥6%
  - S&P credit rating of A$^-$/Stable
  - Effective/Optimal cash flow management
  - Regulatory filings – OEB, IESO, OPA and ESA
  - Meet OEB defined SQIs
  - Enterprise risk management reporting and enhancement

- Smart Grid
  - Distribution automation
  - Energy storage and load management systems
  - Continue to support and meet the requirements of the Green Energy Act (facilitation of renewable distributed generation programs)
  - Continued success in delivering the OEB mandated CDM programs

  - Home area network systems
  - Community outreach programs to educate customers
  - Moderate investment in renewable generation for demonstrative purposes
  - Strategic investment in electric vehicle charging stations

- Community Relations
  - Uphold and enhance London Hydro brand reputation
  - Community involvement through participation with other stakeholders such as LEDC, Chamber of Commerce, Western University, Fanshawe and MSEC
  - Enhance community involvement
    - Food bank/THAW
    - Promotion events
    - Support of industry tradeshows

In the attached Appendix A, these goals will be converted into a set of annual targets. These targets are set for the corporation and therefore are the responsibility of each and every employee. Many of these targets may seem like a highlight of normal job functions; however, by stating them as annual targets, they act as proxy measure for the overall accomplishments of the corporation in all aspects of its licensed/regulated business. Equally meaningful is to convey that other day-to-day activities, which may not be specifically defined here, shall not be compromised.

BACKGROUND AND ANALYSIS TO SUPPORT THE ABOVE MISSION, VISION, VALUES & GOALS

6. SITUATION ANALYSIS

Due to the advent of emerging technologies, changing customer needs and constrained energy resources, the government and regulator in Ontario are redefining the roadmap for the electric industry. In this dynamic environment of constant change, London Hydro finds itself confronted with both new challenges and opportunities. Furthermore, the government has established an LDC Sector Panel whose findings would have significant implications for our strategy.

Change is constant. Changes in the external environment within which London Hydro operates can present new opportunities and new ways to reach London Hydro's corporate goals. By adapting to frequent changes by improving internal policy, practices and procedures, London Hydro will be well positioned to respond to the changes in the industry. The situation analysis comprises two areas: the External Environment and the Internal Environment. An analysis of the external environment within which London Hydro operates reveals opportunities, threats and business challenges for the organization; while an analysis of the internal strengths and

weaknesses of the organization, will enable London Hydro to make the necessary improvements required to meet the threats head on while seizing the opportunities that are out there.

6.1.0 External Environment

6.1.1 LDC Sector Panel Assessment & Discussion

TODD WILLIAMS TO COMPLETE

6.1.2 External Environmental Considerations

City of London – the population of the City of London has been projected to grow at a rate of approximately 1% per year, reaching approximately 480,900 at the end of the City growth planning period in the year 2041. London Hydro's forecast of customer growth and consumption growth is based upon the following housing market information.

The population projections are as follows:

	Census	Projections				
Year	2011	2016*	2021*	2026*	2031*	2036*	2041*
Population	366,140	385,100	404,600	424,800	443,500	462,100	480,900

Annual Housing Completions, City of London 2006 – 2041:

Census Periods	Single & Semis	Row	Apartments/Other	Total
		Occupied Dwelling Units		
2006-2011	1,115	226	793	2,134
2011-2016*	1,001	340	716	2,057
2016-2021*	1,170	379	705	2,254
2021-2026*	1,151	354	644	2,149
2026-2031*	1,096	318	604	2,018
2031-2036*	1,049	288	511	1,848
2036-2041*	1,006	293	596	1,895

2011-2041				
Avg. Annual	1,080	330	630	2,035
Total	32,400	9,900	18,900	61,050

(Totals may not add up due to rounding)

Source: Employment, Population, Housing and Non-Residential Construction Projections, City of London, Ontario 2011 Update (Draft), Altus Group Economic Consulting
*forecasts by Altus Economics

6.1.3 Regulatory Environment

Initially, London Hydro developed its Business Strategy 2002-2003 in response to the new regulatory environment, and its primary strategic business goal was to "complete a market readiness schedule". Since then the mandates of the regulators and legislators have changed, the market has changed and London Hydro has changed:

- Consuming electricity within a competitive industry has changed to conserving electricity to meet the Provincial objective of eliminating coal generation
- The cost of diminishing supplies of energy continues to escalate while environmental concerns intensify
- Investment in infrastructure renewal and computer system applications
- Introduction of 4th Generation Incentive Regulatory Mechanism (4GIRM)
- Smart-meter (AMI) / TOU billing initiatives
- Green Energy & Green Economy Act, 2009
- Low-Income Energy Assistance Program (LEAP) regulations
- Ontario Clean Energy Benefit (OCEB) Act 2010
- Class A and Class B Global Adjustment Consumers
- Regional Planning and Distribution Standards

In the OEB's attempt to drive for the need to balance costs of regulation with the benefits to customers, amongst other considerations, the OEB on October 18, 2012 issued a Report on the Renewed Regulatory Framework for Electricity Distributors (RRFE) outlining proposed major policy direction on network planning, rate setting, and network utility performances. London Hydro, like many other electricity distributions, will be participating over the next four months in the OEB's consultation process addressing these RRFE recommendations and how to best implement these recommendations.

The RRFE consultation process will be grouped into the following categories:

- Asset redefinition and regional infrastructure planning process
- Distribution network investment planning
- Smart grid
- Performance, benchmarking, and rate adjustment indices

The impact on electricity distributions and London Hydro from these OEB policy changes will be significant as to planning, strategies, future financial performances, and how we operate. Some recommendations contained in the OEB RRFE Report include: revision of the rate application processes (multi-year capital reviews, changes to productivity, stretch, and inflation

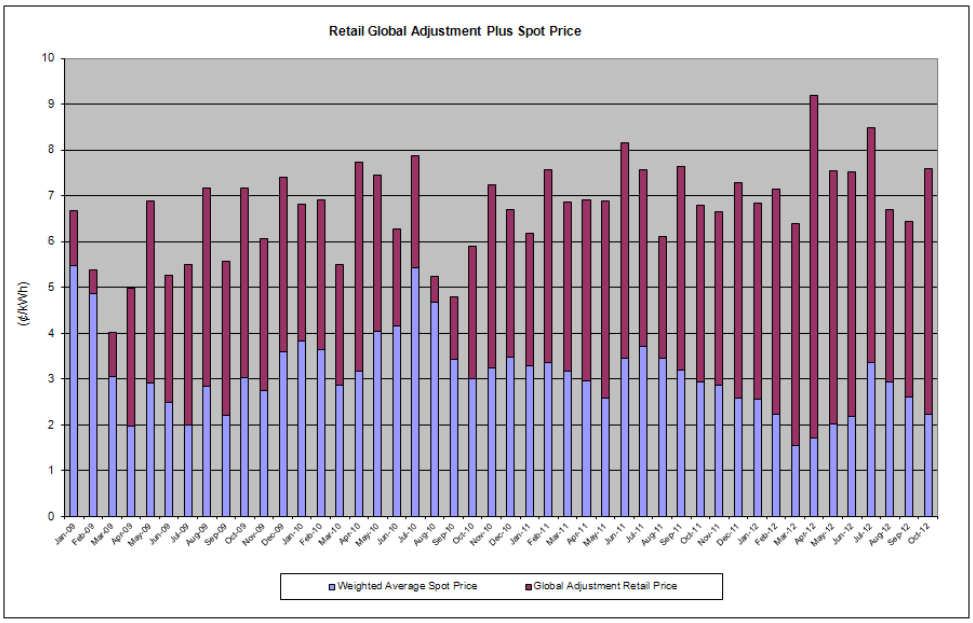
factors, changes in intervenor process, and three alternative rate-setting methods), the requirement to provide regional planning in our infrastructure investments, and regional pooling of infrastructure investment such line connection costs associated with transmission. Other recommendations are: possible sharing of resulting variances in approved to actual capital expenditures, a mechanism for development of incentives that reward superior performance, encourage innovation, encourage asset optimization, and potential consequences for inferior performance, and a scorecard developed to ensure the focus remains on the core objectives of customer focus, operation effectiveness, public policy responsiveness, and sustained financial performance.

6.1.3.1 The Current Wholesale Market Structure

After the Government put the brakes on retail deregulation in November 2002, Ontario implemented a hybrid wholesale market system consisting of both a deregulated open market and a closed regulated market. Ontario's commodity market is made up of both regulated (revenue guaranteed and price capped) and deregulated (competitive priced) supply. However, whether the generators are regulated or deregulated most all generation still bids into the market competitively, if they wish to be dispatched. The wholesale energy market is still designed to operate competitively, and not restricted to a peak-price and -supply market. Consumers pay a mixture of regulated and deregulated market prices depending on their eligibility. The Ontario Power Authority (OPA) manages the settlements of variances between regulated and deregulated prices and the System Operator, the IESO, manages market operations.

Although the market is designed to operate competitively, the regulated component of the commodity charges paid by consumers is growing in importance. In addition, the dispatchable component of available supply is declining as thermal generation capacity is reduced and at the same time, there is an increase in wind and solar capacity. Regulated supply is managed through the global adjustment (GA) charge, which is made up of legacy Ontario Hydro NUG contract costs, price variances for OPG prescribed assets and to cover OPA CDM program and generation contract costs on the non-regulated customers' invoice. The GA charged to regulated customers, who purchase energy through the OEB Regulated Price Plan (RPP), is included in the regulated fixed price. The RPP plan is reviewed and updated every six months to clear the true cost of power variances.

The following Graph No 1 identifies the growing influence of global adjustments and embedded environmental initiatives on supply costs in the market:



Graph No. 1

The top of the stacked bar chart depicts the monthly retail global adjustment prices and the bottom weighted average spot prices since January 2009. This graph clearly identifies the impact of the hybrid market on prices with the erosion of competitive supply.

6.1.3.2 Consumer Rate Implications

As a result of the increased regulatory and legislative directions, the price of electricity has increased and will continue to do so over the next several years. Through government statements, media coverage and articles, and interviews by opinion leaders, customers are gradually being conditioned to the fact that electricity prices will continue to rise. This situation presents both challenges and opportunities to London Hydro. The challenge lies in educating our customers on the pricing structure and the ability to differentiate the regulatory charges from the costs associated with London Hydro's operation. London Hydro's expenditures will be closely scrutinized and could become the target of criticism.

In order to manage the expectations of our customers, London Hydro will prepare and execute comprehensive communication plans for each major project explaining the need for the expenditure and the service it will provide; one such initiative in 2012 is the launch of TOU. Our objective in this approach is to ensure that customers understand and gain an appreciation for the value London Hydro provides to them.

Low Income Customer Services

In order to protect low income consumers from increase energy costs (HST, RPP, GA, etc.) the OEB has made Code amendments to create province-wide standards for customer service. The majority of the amendments took effect on January 1, 2011. The changes create rules specific to disconnection for non-payment, security deposits, arrears management programs, equal payment plans, bill issuance and payment, correcting billing errors, allocating partial payments between electricity and non-electricity costs, and managing customer accounts. Amendments clarify various business rules within customer services, many of which may require modifications e.g. defined when a bill is paid and when late payment charge can be applied, processes to be followed before (and when) a customer is disconnected, application and use of security deposits, defined requirements for arrears management programs, etc. We will have to manage our accounts receivables more proactively, for the new rules pertaining to the refunding of security deposits and mandated time lapses between collection activities would adversely impact the A/R aging. Additionally, the new rules mandate us to collect only on the net of the outstanding amount owing (less the security deposit on hand), as well as provide customers with extended Arrears Payment option up to 16 months.

Another area covered in the amendments relates to how payment allocations for billing charges are to be managed, which may impact our third party billing and collecting arrangements with the City of London. In addition, the OEB has implemented a requirement for distributors to participate in third party support (e.g. THAW) program called *"Low-Income Energy Assistance Program (LEAP)"* for low income consumers and to recover costs through the distribution rates.

6.1.3.3 The Green Energy and Green Economy Act

Bill 150, *The Green Energy and Green Economy Act, 2009* was omnibus legislation that introduced new legislation and repealed and amended a number of existing legislations (i.e. the Energy Conservation Leadership Act, the Energy Efficiency Act, the Electricity Act and the Ontario Energy Board Act). The primary focus of the Green Energy and Green Economy Act (GEGEA) was promoting renewable energy, energy conservation and demand management, and smart grid.

The Government is using the Act to assist in ensuring Ontario's green economic future. The intent is that by investing into a greener economy there will inevitably be new job creation through economic growth, environmental protection, and climate change management, which means that we are creating a healthier future for the province. The Act redefined existing objectives and establishes new objectives for the OEB, the OPA and LDCs, including London Hydro, in these respective areas. The Government is strongly encouraging and in some circumstances even mandating LDC participation through changes to their licence conditions.

From an LDC's perspective, the GEGEA was directly or indirectly responsible for a number of changes to every LDC's business environment; specifically:

i. Aggressive CDM targets for both demand reduction and energy savings to be achieved over the 2011 to 2014 timeframe are now a condition of each LDC's license. In London Hydro's case, the established targets are given in Ontario Energy Board Decision and Order EB-2010-0215 / EB-2010-0216 as 41.44 MW of demand reduction and 156.64 GWh of accumulated net energy savings. These targets will be achieved by deploying Tier 1, Tier 2 or Tier 3 CDM programs, where Tier 1 programs are OPA designed and marketed (or co-marketed), Tier 2 programs are regionally designed by a group of LDCs and Tier 3 programs are solely designed and marketed by a LDC. Although Tier 1 programs are one year late, London Hydro would be deploying a combination of Tier 1, Tier 2 and Tier 3 programs to achieve the mandated CDM targets.

   Majority of the Tier 1 programs are up and marketable starting mid-2012 and London Hydro is also investigating enhancements to the Tier 1 programs to leverage few customer opportunities in London. These programs together will assist us in meeting our 2013 targets.

ii. It enabled the Ontario Power Authority to develop a Feed-In Tariff (FIT) program to encourage the proliferation of small-scale renewable energy projects, e.g. solar photovoltaic energy systems, wind energy systems, bio-gas generation systems, etc. to be connected to medium-voltage distribution systems. The following table gives a list of all distributed generation connected to date in London. This table includes the conventional cogeneration projects as well.

iii. It permits LDC's to invest in renewable energy projects up to a threshold of 10 MW per generation site. As such London Hydro has invested approximately $3.8M to date in various µFit and FIT projects:

iv. It narrowly defines "*smart grid*" as the advanced information exchange systems and equipment that when utilized together improve the flexibility, security, reliability, efficiency and safety of the integrated power system and distribution systems, particularly for the purposes of:

   (a) Enabling the increased use of renewable energy sources and technology, including generation facilities connected to the distribution system;

   (b) Expanding opportunities to provide demand response, price information and load control to electricity customers;

   (c) Accommodating the use of emerging, innovative and energy-saving technologies and system control applications; or,

   (d) Supporting other objectives that may be prescribed by regulation.

Furthermore, LDC's filing a cost of service rate application must include a Green Energy Act Plan (i.e. a plan detailing the expansion or reinforcement of the licensee's transmission system or distribution system to accommodate the connection of renewable energy generation facilities,

and the development and implementation of the smart grid in relation to the licensee's transmission system or distribution system).

Finally, in cases whereby expansions are required to connect renewable generation to an LDC's distribution system, Section 3.2, *Expansions*, of the *Distribution System Code* now requires that the LDC bears the initial $90K per nameplate MW output of investment cost, with the balance borne by the generation customer.

6.2.0 Internal Environment

In light of the external environment and the challenges that it creates, London Hydro's internal strength should be realigned so as to successfully deliver on the requirements of the future. Just as there are constant changes in the external environment, the internal environment within which London Hydro operates is also in constant flux. The organization, like all LDCs in Ontario, is a lighthouse in the midst of an ongoing storm of change; however, our one job is to keep that light on and to make it even brighter. In order to withstand the tempest, London Hydro requires strong leadership and a skilled workforce.

In this section we highlight various strengths and weaknesses of London Hydro. The reckoning of these strengths and weaknesses is manifested through examples of our past successes and/or failures.

6.2.1 Strengths

a) Regulatory Compliance

London Hydro has demonstrated that it has highly skilled and qualified staff to meet the demanding and ongoing requirements of the new regulatory environment within which it operates. It has demonstrated its ability as an organization to adapt quickly to the ever-changing external operating environment by implementing effective internal operating policies, practices and procedures.

- London Hydro (LH) was one of the top five LDCs in Ontario ready on time for market opening.
- LH was the first LDC to implement the fixed rate and the ensuing complex rebate program for all customers following Bill 210.
- LH was the only large LDC to obtain rate approval via the cost of service model without requiring an oral hearing or settlement conference.
- LH was the only leading LDC that HUB operator SPi found to have the most reliable and error free electronic transactions (EBT) back and forth with the retailers.

- LH was the lead LDC in the 2nd round RFP for smart-metering – some 67 LDCs selected AMI systems via the London Hydro RFP process.
- OEB commended LH's cost recovery rate application for smart meter/AMI investment for its quality and leadership; as such, LH was awarded 99.9% of our recoveries.
- LH is the only utility to have twice been awarded the ENERGY STAR Utility of the Year award for the effectiveness of its CDM programs.
- Leader in delivery of OPA defined CDM programs and consistently exceeding OPA targets.

b) Customer Focus

In the midst of the ongoing restructuring of the electricity industry in Ontario and the highly regulated environment within which LDCs must now operate, London Hydro's customers remain the primary focus for the organization through:

- Competitive electricity rates.
- Continuous improvement to customer services.
- Adoption of new technologies to enhance customer experience.
    - Property Manager app
    - On-line Account Inquiry
    - Paperless Billing
- Ongoing monitoring of customer satisfaction.
- Management of increasingly higher customer expectations.
- Continued improvements in reliability performance of the distribution system

c) Employee Satisfaction

London Hydro is a good employer:

- Positive working environment.
- Competitive wages and benefits package.
- Strong corporate commitment to safety and training.
- Safe working environment.
- Health and Wellness Program
- On-going cultural transformation initiatives

d) Commitment to Shareholder

- Annual interest payment of $4.2M.
- Regular dividend payments were increased by 20% in 2012.
- Business-oriented Board of Directors.
- A factor of local economic driver, reliability of service and competitive rates.

e) Credit Rating: London Hydro enjoys an A⁻/positive credit rating

f) Safety and Wellness Achievements
- ZeroQuest Awards
- Presidents Awards
- Employee Wellness Program Recognition

6.2.2 Weaknesses

- Aging infrastructure.
- Lack of growth.
- Limited financial flexibility.
- Employee resource constrained – capacity and capability.
- Corporate culture challenges persist
- Lack of technology tools and applications.
- Ability to attract and retain specific skills, IT in particular
- Demographics; age and retirement eligibility of current staff.
- Ongoing need for enhanced communication.

While we possess a number of strengths, we are challenged to meet with certainty the increasing regulatory burden primarily due to the limited resources. London Hydro has a shortfall in its capabilities and capacity to meet the oncoming challenges and needs to plan and invest in this area. The above weaknesses are not insurmountable; we are already beginning the process of addressing many of them. Nevertheless, the weakness of limited resources will never be fully addressed given the challenges of meeting our financial return on investment.

6.2.3 Opportunities

- Swap the shareholder note ($70M) for lesser coupon rate bearing debt.
- AMI and analytics
- Leverage the mandated smart-grid investments to improve internal efficiencies.
- Leverage enabling technologies (e.g. 5.8 GHz microwave wireless) investments.
- Customer re-engagement and education.
- Leverage cooperative efforts among LDCs.
    - Co-development with Hydro One
    - Colocation of Data Centre with the City of London for business continuity
- Shared services model.
- Leadership in regional planning.
- MAAD opportunities arising out of LDC Sector Panel's review.

6.2.4 Threats

- Union negotiations (current agreement expires December 31, 2012)
- Regulatory uncertainties/complications e.g. LEAP, RRFI and A/R.
- Economic recovery is gradual.
- Medium-term limited financial resources.
- Additional demand by the Shareholder for replacement of the promissory note ($70M) or added dividend impacting cash flow.
- Increased CDM initiatives.
- Unpredictable weather, which again impacts our revenue.
- Age demographics (macro threat).
- Attracting and retaining skilled human resources; retirements and external competition.
- Climate concerns (Green House Gas e.g. CO_2).
- Investment implications for electric vehicles.
- Operating flexibility due to proliferation of FIT/µFIT.
- Provincial Surplus Base Load Generation: The µFIT and FIT renewable energy generation projects non-dispatchable in nature (i.e. predominantly wind generation), which in combination with the continued fallout from the global economic crisis and the phase-out of coal-fired generation (and its inherent operating flexibility) has resulted in a situation referred to as "*surplus base load generation*" – there are times when too much base load electricity is generated across the province and abutting provinces and states are paid to accept the surplus power. This surplus base load generation situation has an associated side effect of greatly diminishing the need (and value) for contractual demand response programs wherein customers receive monetary incentives for curtailing load or activating standby generation in response to an activation notification. In the spring of 2011, southwestern Ontario (and other parts of the province) was declared "discount zones" and as a consequence the monetary incentives were halved. Starting in January 2013, the incentives will be further reduced by one-third. Although London Hydro is performing better than most LDC's on the demand response front, there is evidence that customer enrollments in contractual demand response programs have stalled in early 2012 and the future prospect is dim. This condition will pose a threat to London Hydro and most other LDCs in meeting their regulated demand response targets.

7. CREATING A HIGH PERFORMANCE ORGANIZATION

It is amply evident from the preceding sections that the future predicate of an energy utility is going to be technology. With the advent of a mixed electricity market – a mix of competitive and regulated – complicated regulations, advances in the technology, and changing customer demands, there has been a gradual shift in the business scope of utilities. The 2009 Green Energy and Green Economy Act (GEGEA) together with the emphasis on renewal of electricity infrastructure have introduced rapid transformation in the utility business processes. London Hydro has successfully met all it was called upon to do and is positioned well to take up the

challenges of the current environment. The 2012 Strategic Plan provided London Hydro opportunity to deploy more technology as well as moderate investment in green energy FIT/µFIT projects. As such, London Hydro has managed to successfully make SAP a robust billing system and began the renewal of distribution system supplying the downtown core of the city and established green energy projects. As well, London Hydro demonstrated its continued leadership in delivering conservation and demand management (CDM) projects to Londoners. The successful CDM programs provide greater economic and environmental returns vis-à-vis the investment in all other forms of supply side energy management including the renewable generation. Our experience in 2012, therefore, has led us to the conclusion of reducing our direct investment in renewable generations while increasing our emphasis on CDM initiatives.

Furthermore, the government established an LDC Sector Review Panel whose primary mandate is to propose amalgamations and mergers of 73 LDCs in Ontario to achieve efficiency and savings. There is a separate section where we discuss the implications of this Panel, though the final report is still awaited. Nevertheless, the implications of the LDC Sector Review Panel's findings on London Hydro and other LDCs will be serious and significant. Suffice to say that in our strategy we will have to choose either to participate in achieving the recommended goals of the Panel or, given our size, we could, at least in the short run, remain disconnected from the amalgamation process. In the long run however, that would be a failing strategy. For now, we will await the findings of the Panel and ensuing government initiatives and make changes mid-stream, if necessary, to adopt a different strategy.

The SWOT analysis of London Hydro, as well as the current focus of the regulatory and legislative directions, leads us to focus solely on our core services i.e. living out our mission and vision of distributing electricity safely, efficiently and economically while helping our customers achieve greater success in conservation and demand management. In essence, London Hydro should continue to reinvent itself in promoting and affecting the wise, responsible and efficient use of electricity. In order to accomplish it, London Hydro will continue with its focus of building capacity and capabilities, as well as progress along the journey of transforming our corporate culture into a high performing organization.

By virtue of being a community based organization with strong ties to the customer, the residents of London can expect and demand a high level of service. They also feel somehow empowered by us being local and accountable to them. The goodwill we have created with our customers in the past should be strengthened by prudently investing in tools, employees' skills and competencies so as to enable London Hydro to exceed the future asks by our customers, regulators, legislators and other stakeholders. Through analysis and discussions among employees, London Hydro recognizes the following specific opportunities to pursue during the tenure of this plan: (i) Invest in advanced technology; (ii) Invest in the renewal of employees and the infrastructure; (iii) Enhance the CDM program delivery; (iv) Green Energy including facilitation of customer investment in renewable generation; (v) Continued community involvement including a moderate investment in the renewable generation; and, (vi) Involvement in MAAD, subject to the outcome of the LDC Sector Review Panel. In each category there could be a number of potential business opportunities for London Hydro to evaluate.
MAAD

7.1.0 Corporate Culture

The fundamental key to achieving greater success in completing our goals, year upon year, is the transformation of our corporate culture to a high performing organization aligned to meet the annual goals. In 2011 we measured the reference culture of the organization, which we shared with the Board. In the survey, our corporate culture came out to be more heavily weighted towards the passive/defensive. In tandem we undertook the first step of providing training to our management/supervisory staff; and in 2012, we would be designing and implementing next steps to transform the corporation culture to a high performing one. While it is a long term goal, we will however measure our progress by evaluating: the increasing employee engagement; increasing productivity (efficiency); and, increasing employee effectiveness, all reflected in the relative accomplishment of annual targets/objectives.

The corporate culture exerts a powerful influence that must be shaped to ensure that it is aligned with the mission, vision and values of London Hydro. When strategic initiatives and culture are inconsistent, the culture wins. A Harvard Business Review study showed that culture influences leadership style more than any other factor. Among many factors such as rewards, benefits and executive leadership, the corporate culture is voted by the employees as high in importance and high in value impacting the corporation's performance. The business literature abundantly demonstrates that excellent corporate performance is closely related to the satisfaction of higher-order needs – needs to variety, learning, development, mastery, belonging and generating (ideas).

Corporate culture might be seen differently by the employees; however, a primary definition is that the corporate culture is "a pattern of basic assumption – invented, discovered or developed by a given group as it learns to cope with its problems of external adaptation and internal integration to be taught to new members as the correct way to perceive, think and feel in relations to those problems." Apparently, it is highly influenced by the corporate values (see Section 4).

Our ideal culture, as envisioned by our employees in the second companion survey, should be high performing comprising self-actualization, achievements, encouraging, and affiliative characteristics. The current passive/defensive culture supports behaviour that pushes decisions upward, takes few chances and shifts responsibilities to others. Although the findings are not atypical of similar organizations and indicate a number of opportunities for the cultural transformation, we have already taken some initial steps in 2011 and would further plan additional initiatives for the term of this strategic plan (2012-2014). Changing these entrenched behaviours is a difficult process that requires an understanding of where we are, where we want to go, and what it will take to get there. It also requires a commitment and resolve to stay the course for the long-term.

Change will not occur without a concerted effort on our part to create a collective understanding of the culture we are striving for; and to educate, teach, support and hold employees accountable for their decisions and behaviours.

7.1.1 Reinventing London Hydro

The path to Cultural Transformation to the realization of London Hydro as a high performing organization is a relatively long and uneven one. The Gap Analysis has been vetted and prioritized while considering internal factors including staff workload, safety procedures, quality and quantity of work, collective agreements, and external factors including regulatory and stakeholder interests. Moving the culture along the path will be somewhat of an iterative process, with increased communication, the ongoing building of "Capabilities and Capacities" through technology acquisition and talent development, and a positive work environment as cornerstones.

7.1.2. Action Plan

Narrowing the gaps identified in the survey should provide the optimal payback of the investment and have a noticeable positive impact on the culture. Action plans include implementation of the techniques learned through the management/supervisory training, increased communication from the CEO to the employees (monthly updates), Executive coaching, continued staff development, and strategic application of technology. Our efforts will be focused on strengthening the Constructive behaviours which include:

- Achievement – Employees set challenging, yet realistic goals, establish plans to reach these goals, and pursue them with enthusiasm.
- Humanistic-Encouraging – Employees are expected to be supportive, helpful, and open to influence in dealings with one another. Employees are managed in a participative and person-centred way.
- Self-Actualizing – Employees are encouraged to gain enjoyment from their work, develop themselves, and take on new and interesting activities.
- Affiliative – Employees are expected to be friendly, open, and sensitive to the satisfaction for their work group. They are loyal to their work groups and feel they "fit in" comfortably.

7.2.0 Capacities and Capabilities Continuum

In concert with the corporate culture transformation, we will continue to progress along the capacities-capabilities continuum, which began in 2011. London Hydro is relatively a medium sized corporation; however, we face the challenge that requires the same automated systems and business structures as the larger LDCs. London Hydro is above the threshold where manual business processes are cost effective and process automation wherever possible, is required to achieve that cost-effectiveness. In addition, as our customer base becomes more tech-savvy, they

are demanding more and more electronic access, similar to what they enjoy from their financial institutions and other providers.

The industry has become very competitive, even in the economic downturn, for skilled resources. Our experience has been that when we go to the market for qualified applicants, the pool of acceptable candidates is quite small. In addition, when the best candidate is found, it is occasionally difficult to compete within the marketplace to acquire and retain them. Exit interviews have shown that retention problems are not specific to London Hydro, but rather have as much to do with issues external to London Hydro. Certainly professional and skilled staff retention challenges are not unique to London Hydro. The new generation of professionals is more mobile and willing to move around even when given an opportunity for greater job security and stability, and these opportunities do exist elsewhere.

Compounding the challenge is the fact that London Hydro is on the cusp of a period where increased retirements and the loss of experienced candidates will be inevitable. In addition, outside vendors and distributors are identifying our staff as a pool of potential resources for their own operations. London Hydro has built one of the best teams in the industry and is consistently meeting, maintaining and exceeding regulated timelines and compliance; however, we have to plan to meet the future challenge of employee demographics.

London Hydro will need to continually review how we manage current resources to mitigate the threat of losing skilled productive resources. Although we have a dedicated and committed staff of professionals, we are entering a period when recruitment and retention could be challenging. Nevertheless, going forward we should select only those opportunities that we can manage successfully by leveraging our existing skill set, while addressing in tandem the requirements of enhancing capacities and capabilities of the organization.

7.3.0 Distribution Rate Regulation

Until recently, cost-of-service or rate-of-return regulation was the most commonly used form of utility regulation in Canada and had been relied upon to control the power of natural monopolies for decades. Cost-of-service regulation allows utilities to include operating costs in their rates, which are deemed appropriate by the regulator to ensure that an adequate level of service is provided to ratepayers. These costs also include capital expenditures that are deemed appropriate by the regulator and are then added to the asset base (rate base) of the utility. The regulator then decides what an appropriate return should be on this capital investment or rate base (both debt and equity) and this return is also included in customer rates. This review by the regulator of the costs and capital expenditures of a utility would occur typically on an annual basis.

The full cost of service ratemaking model is used every four years; and with recent proposed changes by the OEB, would be filed every five years. London Hydro has successfully completed its first cost of service rate setting exercise in 2009 and on September 28, 2012, filed its cost of service rate application for 2013 rates. In the intervening periods of a cost of service filing,

London Hydro like other LDCs will be subject to 4GIRM which is a mechanistic process to allow LDCs to recover inflationary increases moderated by productivity factors. In all our initiatives, we should keep in perspective our rate making cycle when deciding allocation of resources to various initiatives arising out of the Strategic Plan.

7.4.0 Distribution System Infrastructure Renewal

London Hydro remains committed to continuously enhance and refurbish its distribution infrastructure to meet increasing customer demand, to ensure continued reliability of supply, and to meet the requirements of the GEGEA. London Hydro has invested $18M to $20M on average annually for infrastructure improvements, new development and customer growth; and, expects to maintain that level of investment into the future. In 2012 we began executing plans identified in the 15 year Asset Management Plan including multiyear programs such as 4kV Conversion and Silicon Injection. These programs will continue to be key elements of Distribution System Infrastructure Renewal. The Asset Management Plan addresses the requirements of our capital infrastructure investment in concert with our needs to meet the organic growth, to replace and refurbish the distribution assets, and to enhance the system reliability as briefly explained below.

Growth - The growth in the City of London is expected to continue at approximately 1% per year over the next five years. London Hydro will continue to invest in the distribution system to ensure capacity is available to serve the new load and to ensure the system grows with the City. This investment includes new feeders to service new customers at the edge of the city, as well as strategically rebuilding the existing infrastructure to support the new feeders. City and Developer related projects will also drive a large part of the capital works program.

Asset Management – The City of London has many older areas where the distribution system is reaching the end of its life and consequently the infrastructure will have to be rebuilt or replaced. Ongoing condition assessments and engineering analysis identify areas of the system that will be a priority. The downtown core, underground cables, stations and aging 4.16kV/13.8kV systems will continue to require significant investment. As older areas of the City are rebuilt and as modern loads are connected, an up to date electrical system will need to be in place to meet customer expectations and to supply the changing load.

Reliability – New technologies are assessed to determine the benefit to London Hydro. Significant improvements in reliability have been realized over the past decade due to the strategic use of new distribution equipment, improved materials, and advances is distribution automation technology. Distributed Generation is being connected to the system at an increasing rate. The distribution infrastructure and the technology that is used to safely and reliably operate the system will continue to require investment to meet the new demands of the Smart Grid and Distributed Generation.

Joint Planning – The Ontario Power Authority (OPA) has been responsible for supply planning since its inception in 2004. London Hydro and the OPA met in 2012 to discuss joint Regional

Infrastructure Planning and shortly after this meeting a proposal to merge OPA's responsibilities with the Independent Electricity System Operator (IESO) was put before the Provincial Government. The outcome of this legislation has been delayed due to Ontario government prorogation. The Ontario Energy Board (OEB) released a document in October 2012 titled "Renewed Regulatory Framework for Electricity Distributors: A Performance Based Approach". This document devoted a section to Regional Infrastructure Planning. At the November 2012 Hydro One Customer Conference, Hydro One reviewed this document and indicated that system and regional planning will be the responsibility of Hydro One. Although details of responsibilities have not yet been finalized, the Ontario Energy Board will expect evidence that regional planning issues have been considered in future rate cases. Working groups are currently working with the OEB to develop guidance with respect to implementation of this report. The outcome of regulatory changes and provincial legislation will need to be reviewed when finalized. In terms of regional planning, London Hydro is supplied by Hydro One transmission and only interfaces with Hydro One distribution. London Hydro will participate with Hydro One as required and will ensure the requirements of the OEB with respect to Joint Planning are met for future rate cases.

7.5.0 IT Infrastructure and Application Renewal

London Hydro is in year 2 of its 3 year Technology Innovation and Leadership Strategy and has delivered on the plan. Key milestone dates have been met, e.g. the OEB March 2012 deadline for TOU, while managing to successfully overcome the inevitable issues associated with developing and commissioning new, leading edge technologies. SAP CIS and AMI infrastructure continue to be stabilized and enrichment of web offerings continues to provide a platform for increasing customer engagement and empowerment.

London Hydro is continuing to build internal staffing capabilities and depth through prudent hiring and limited use of external resources, in its goal of providing increasingly value to the customer through technological leadership and leverage.

7.5.1 IT Investment Drivers

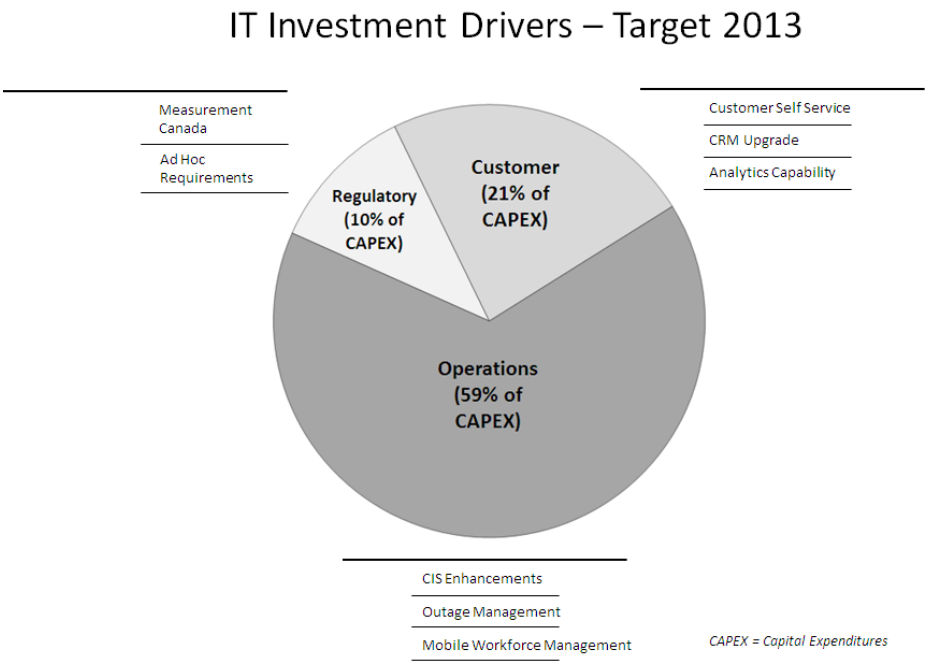
The IT strategy is driven by three major stakeholders: the Customer, Regulators and internal / operations infrastructure requirements and associated costs. These form the drivers for any demand on work performed by London Hydro IT whether to maintain or enhance offerings. The strategic plan to address these is depicted in summary pictorial below in Figure 7.5.1.

Key technology focus:

- Continued focus on increased and qualitative customer interaction

- Continue building Outage Management system that enhances response agility and information availability
- Start building foundation for full ERP implementation by focusing on most important and high priority area of asset management
- Start building analytics capability to realize value out of implantation of top tier CIS solution
- Optimize current solution through standard software upgrades that provide enhanced functionality

Figure 7.5.1 Investment Drivers



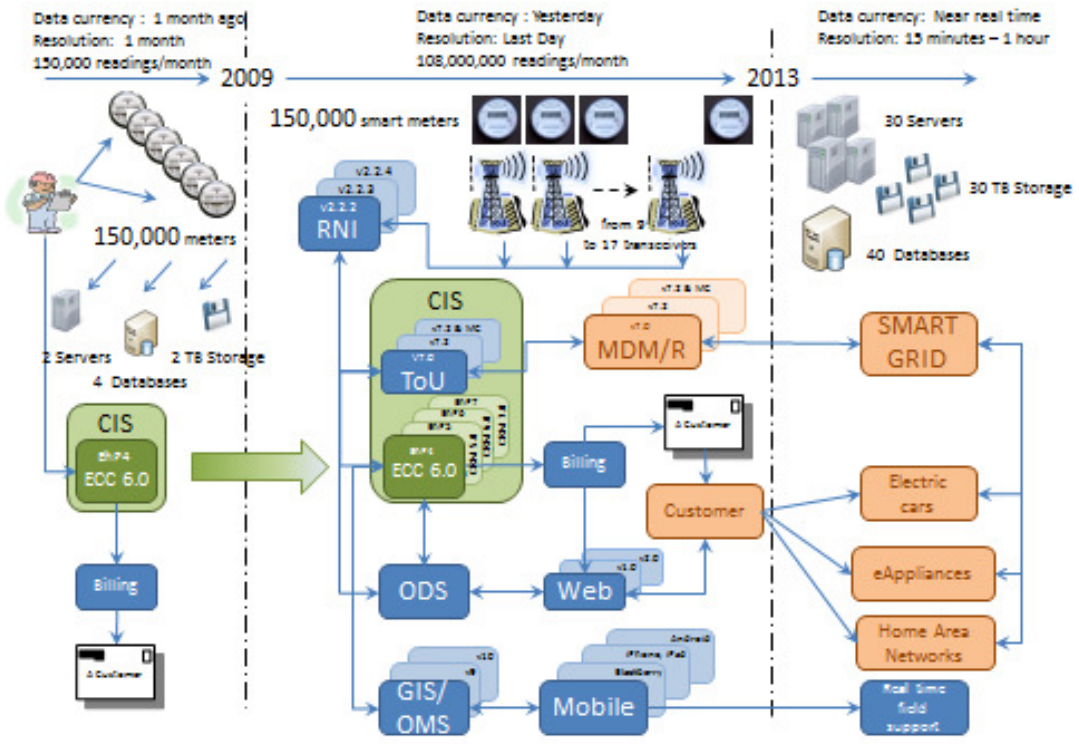
7.5.2 IT Staffing

In conjunction with the creation of an IT Program Management Office, London Hydro has made a concerted effort to ensure the quality of software systems with greater emphasis on testing of not only system functionality but also the end to end business processes in which these systems are used. The goal of this approach is to minimize the operational impact of changes and ongoing burden of maintenance, despite the significant increases in complexity of IT systems required to support smart metering.

Implementation of major projects over the last several years has stretched both the capability and capacity in the IT space, creating a reliance on external consultants for some of the operations. The nature of enterprise systems being implemented to support the rapidly increasing complexities in the utility industry necessitates use of external consultants for project and support resourcing since it would not be practical to maintain an internal team of sufficient breadth and depth of knowledge to cover all possible requirements given the scale and scope of enterprise systems such as SAP. The key objectives with regards to external consultants over the next few years will be to obtain an effective balance of utilization and manage contract costs.

Work continues on developing the internal IT staff skills in the core systems and technologies. In conjunction with improved project management processes and documentation standards, there will be an increased focus on assimilation of knowledge from external resources into the support organization to improve knowledge retention and provide skill broadening for internal staff. This will ensure that operational needs (such as general break fix work, minor enhancements and reporting) can be fully managed internally and thereby reduce the reliance on external consultants. The result of these efforts will be to ensure that jobs are retained in the London area, help lower IT labour costs and provide greater flexibility to accommodate changes and the increasing complexity of the IT landscape.

Figure 7.5.2 Increasing Complexity of IT



7.5.3 Customer Engagement

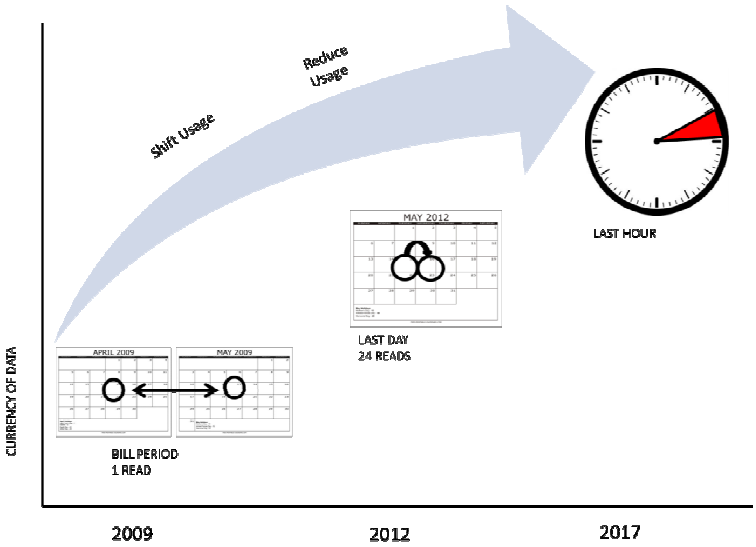
Customer engagement is one of the biggest opportunities for LDCs to develop over the next few years and strategic focus areas for London Hydro. The implementation of smart metering and time of use pricing has provided pricing incentive for customers to understand more about their usage and utilities can take advantage of this to provide customer self-service solutions that can show the customer how they can better manage energy usage. The key focus for customer engagement is the provision of information and knowledge to the customer regarding their energy usage.

Basic customer self-service solutions provide data presentment, showing customers their hourly meter data and basic bill information. This is a necessary first step in building up infrastructure to support advanced self-service functions, but will never drive significant adoption or influence customer energy usage at any large volume since most consumers are simply not interested in spending time analyzing energy data.

The Smart Meter Initiative has brought customers from a once per month total of their energy usage, to the ability to see hourly consumption of the previous day, allowing customers to monitor their usage and take advantage of time of use rates to control their bill. Over the next few years as illustrated in

Figure 7.5.3 from Monthly to Last Hour the plan is to explore how to utilize the existing infrastructure that has been built for the smart meter initiative to provide customers with even more timely data, aiming to make the previous hour of usage available. This availability of near real-time data would further support the customer's ability to manage their energy use and participate in demand response programs by quickly seeing the impact of changing their usage during the day.

Figure 7.5.3 from Monthly to Last Hour



7.5.4 Cost Control through Partnerships

In an effort to reduce ongoing maintenance costs associated the new SAP-based CIS, LH has started to explore the idea of a shared services model, working directly with other utilities and other organizations interested in collaboration or shared services for the mutual benefit of the customer. While for the most part, these discussions have been at a very early conceptual stage they could provide a good opportunity to realize the LH vision of a shared solution approach to Total Cost of Ownership (TCO) reduction.

In accordance with that objective, LH has been investing in infrastructure to meet commitments to the OEB, implement tactical costs saving initiatives, and evolve into an agile service organization. As a direct result of these efforts, London Hydro has achieved two agreements for collaborative services underway. The first is with Hydro One, whereby they are using London Hydro expertise and resources to assist in their CIS implementation. The second is with the City of London for IT infrastructure co-location for disaster recovery.

7.6.0 The Green Energy: Positioning London Hydro for the Future

London Hydro has already adjusted its organizational structure to fulfill its regulated CDM targets and to support connections of renewable energy generation (primarily solar photovoltaic energy generation) to its electrical distribution system. Pursuant to the provisions of the Green Energy Act, London Hydro has already made various investments in solar photovoltaic energy systems, and is prepared to make future investments in renewable energy generation projects if and when opportunities arise.

To support the proliferation of renewable energy generation, London Hydro will continue its financial and in-kind support of relevant R&D work in association with Western University, Fanshawe College, and Ontario Centres of Excellence. These endeavors are intended to find technical solutions to overcoming the known challenges associated with the interconnection of renewable energy sources to the electricity distribution system.

The term "*smart grid*" generally refers to the deployment of remote sensing, distributed computer processing, and high-speed two-way communications infrastructure to revolutionize the entire electricity delivery system (from the power generation sources all the way to the consumers of electricity in homes and businesses) and thereby provide big improvements in energy efficiency and environmental sustainability.

No single LDC can tackle the breadth of smart grid initiative. Nonetheless, London Hydro will focus its energies in a limited subset of the overall smart grid concept, namely:

- London Hydro has been instrumental as part of the EDA CDM caucus in significantly re-designing and enhancing the OPA´s Tier 1 programs.

- London Hydro has been innovative in developing computer application programs to automate much of the administrative work for delivering the programs to its customers.
- Actively pursuing opportunities for energy storage opportunities (that are referred to by the IESO as "regulation services") within its franchise service territory;
- Continuing to advance the state-of-the-art with respect to distributed charging stations for electric vehicles; and
- Assessing opportunities to leverage its existing advanced metering infrastructure (AMI) to provide greater functionality.

7.7.0 Corporate Communications

Through increased communication we've experienced a noticeable difference in employee engagement through our transformation of corporate culture. We are committed to continuing our efforts to provide clear and consistent information to our employees and providing more opportunities for two-way communication. On the customer front, the transition to Time-of-Use billing has been quite smooth as a result of our approach to customer education. The results of our customer satisfaction survey indicate that customers rely on London Hydro to provide timely information on changes that have an impact on their bills and services and are pleased with our approach. Through the development of new tools, (such as online self-service features), programs and opportunities to help customers manage their energy consumption and ultimately their electricity charges we will continue to empower our customers through effective communication.

London Hydro is considered to be a cornerstone of the community and takes pride in its partnerships and support of a number of local organizations. These partnerships help to create brand awareness, build on London Hydro's existing corporate image and provide a sense of pride for our employees.

In 2012, we launched the Time-of-Use billing for Residential and Small Commercial customers which required a strategic long-term communication plan. The execution of our first several months of the plan was very successful and we will continue to provide education and promote the wise use of electricity.

As part of our 2012-2014 plans, we will increase our corporate communication and corporate brand enhancement by pursuing the following:

- Increase in frequency and elements of employee communication.
- Increase corporate communication to our customers on TOU throughout 2012.
- Increase corporate brand enhancement initiatives through the promotion of our CDM successes.

- Increase corporate brand enhancement initiatives through the promotion of our community partnership initiatives including Watts Laboratories.
- Increase corporate brand enhancement initiatives through the promotion of our Lighting Up London commitment.

7.8.0 Community Leadership

London Hydro continues to be a strong community partner; this is notable for exceptional reasons. Through our strong partnership with Western University, we have built a unique model of successful collaboration between a university and a local power distribution utility by embedding academics in the utility's organization at various levels. This collaboration encompasses faculty members, Post-Doctoral Fellows, graduate students, and undergraduate students from Western University to spend time in different capacities within London Hydro to pursue teaching research and development activities for mutual benefit. We have also set up a Western University-London Hydro state-of-the-art laboratory on "Smart Grids and Innovative Distributed Generator Controls" in the main utility office to forge a greater collaboration between the university and the utility. Establishing such a university lab in utility premises is very distinctive. The joint collaboration between Western University and London Hydro has also led to significant manpower training in the sector of power and energy systems. This new concept of embedding academics in utilities as implemented by London Hydro can serve as an outstanding model for academia-utility collaboration.

London Hydro has been and will continue to be a strong community corporation, demonstrating its commitment to the community as follows:

- $13 million annual payroll contributes to municipal tax base.
- $25M to $30M capital investment annually.
- $500K (including in-kind) contribution to Western University (over five years).
- $100K contribution to Fanshawe College (over five years).
- $150K to Light up London (World Figure Skating Championship).
- Wi-Fi Pilot Project in Victoria Park (one time contribution of $100K).
- Participates and contributes to THAW, approx. $100,000 annually, to ensure the continuing flow of electricity to the most vulnerable and to meet newly introduced OEB LEAP requirements.
- Partnering with Community Living London for various conservation endeavors and resource assistance.
- Elimination of all askerals and PCB's from the distribution system, and corporate installation of insulating oil containment system.
- Delivery of safety and conservation programs in local schools.
- Water fixture retrofits to reduce water usage within our facility.
- Continued contribution to Mayor's Sustainable Energy Council.

- Corporate participation in the ECCO fund through employee program.
- Procurement of corporate hybrid vehicles and electrical vehicles, where practical.
- Implementation of conservation measures and building energy management system to reduce our environmental footprint.
- Continue partnership with Upper Thames River Conservation Authority through annual tree program.

The community expects London Hydro to demonstrate leadership in corporate stewardship of energy and environment. There are several opportunities for London Hydro to pursue to optimize its internal operations to minimize energy consumption and environmental impact. As stated above, we have just begun to purchase hybrid vehicles, where practical, and completed the installation of a building energy management system. Going forward, we will build on these initiatives to reduce our fuel consumption and HVAC needs. We have already upgraded the building lighting systems over the past two years, but there remain a few small opportunities for further upgrades.

To measure our environmental footprint, in 2010 we undertook an initial plan for the assessment of London Hydro's emissions, management of hazardous materials, waste management & recycling systems, supply of environmentally friendly products, energy and fuel usage, and water usage. This is a starting point and London Hydro will strive to become a leading CSR corporation. Considering the 2011 and 2012 budget however, we have decided to postpone the detailed study until 2013.

DISCUSSION AND CONCLUSION

The preceding strategic plan reflects a continuation of a balanced approach of managing risks, challenges and opportunities reflecting a constancy of the purpose; it is not overly-aggressive, while it is slightly beyond the mandated requirements. It is predicated on London Hydro taking a balanced approach to green initiatives (renewable energy) and being a champion of corporate value, which mandates that London Hydro be customer focused, financially viable, has key public trust, and remains a competitive organization.

Corporately we have the skill set and experience for planning and managing the opportunities described herein. However, the pool of resources is limited which will remain a challenge moving forward. Although resources can be acquired on an as need basis to meet the work and tasks for various initiatives, the success nevertheless is more easily achieved if these resources are part of a common corporate culture.

Some of the activities proposed in this strategy will require new investment, and London Hydro will carefully have to make such investment decisions by considering the regulatory and business risks. The non-utility activities will introduce a financial risk, and given that 2012 is an IRM year, we may have limited capabilities in adding FTE's due to limited revenue growth to

undertake the increased activities. As such, cost management shall remain a central focus of the corporation in 2012 and efficiencies through automation should be achieved wherever possible. Nevertheless, our customers expect London Hydro to continue to provide leadership on the energy and environmental fronts, and we will strive to fulfill the customers' needs.

Also, equally important are our employees and their continued involvement and engagement in an appropriate manner in all corporate plans including the above Strategic Plan. The final Board approved plan will be distributed to all employees. Furthermore, London Hydro will continue to endeavour to increase the frequency and scope of communication to customers and employees.

♦ - ♦ - ♦

London Hydro

Business Process Redesign: First Call Resolution & Purchasing Function

2012 Year End Report

W. Kunz
12/27/2012

Introduction

In an effort to continually improve our Customer Service, in 2012 we targeted 2 business areas for process re-design and enhancement. The re-design of business processes proceeds in lock step with technological advancement and enables us to continually improve efficiency and productivity.

First Call Resolution – Customer Services

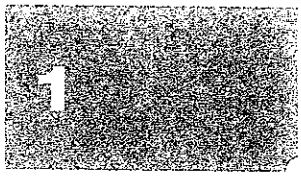
Objective: To enable front line Customer Services Staff to respond more effectively to first contact calls through the application of well-designed business processes supported by CIS enhancements.

To capitalize on CIS enhancements and maximize first call resolution, we have re-designed several Customer Services. A representative sample of the process re-design document is attached.

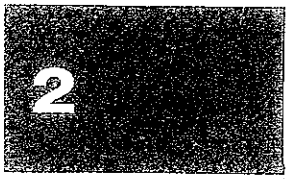
Purchasing – Engineering and Operations

Objective: To streamline and add value to the Purchasing Function through the application of standardized processes which allow for the procurement of goods and services cost-effectively and in compliance with established policy.

The updated Purchasing Manual is attached.



Customer Service - General



LEAP/THAW/Pay Direct

Customer Service - Account Processes

Credit & Collections

Back Office

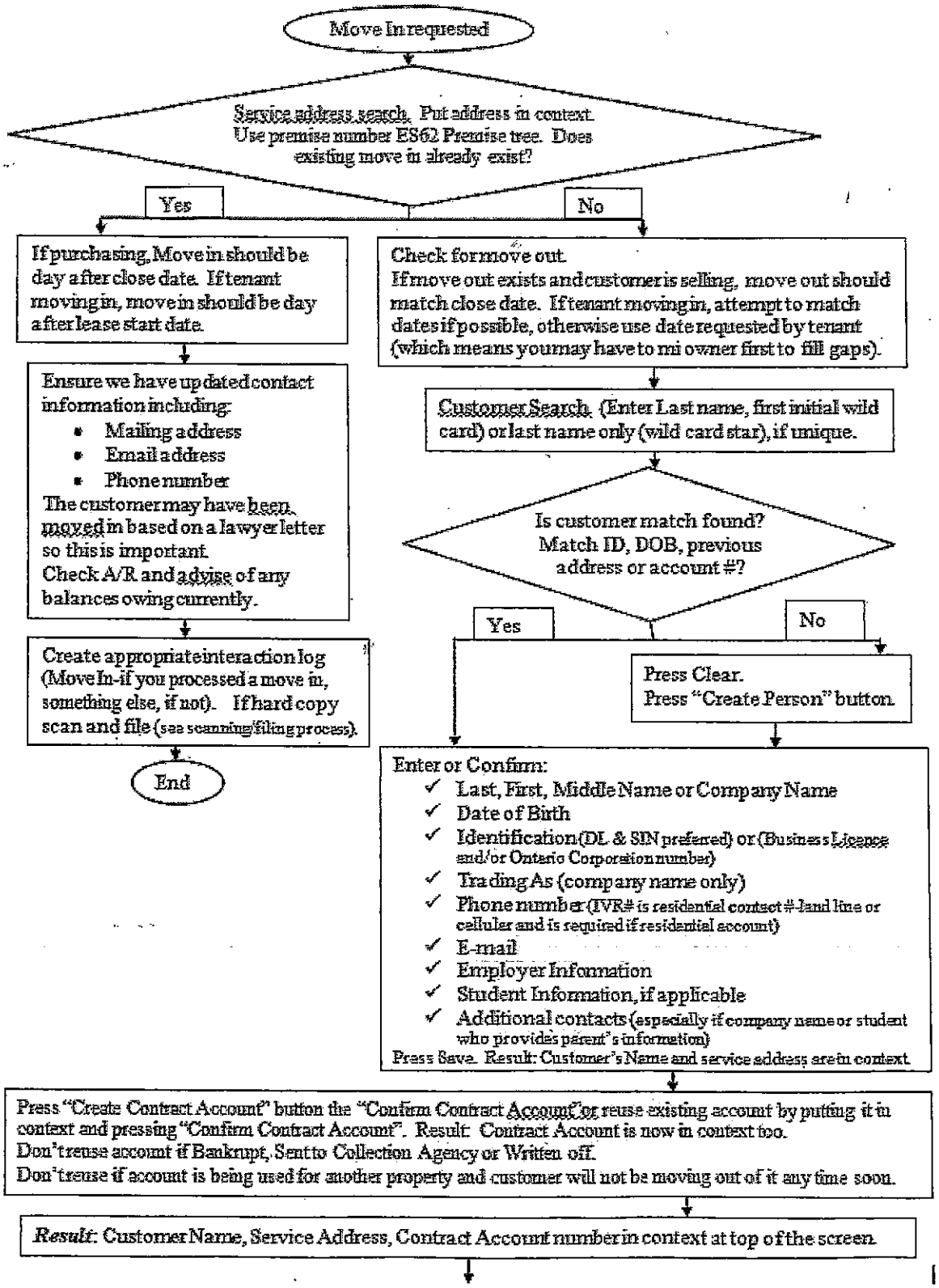
Retailer Settlement

Web Services - My Account/Property Management

Microfit

General
(Call before you dig/Scanning)

Move In Process



Select Move In/Move Out>Move In.
- Populate Move in date. Note: Move in date=day after lease close date or lease start date.
- Press Enter. Result: Accelerated Entry Move In screen appears

Confirm service address and customer name at top of document.
Data for Business Partner (mailing address)
- Select "Transfer Address of Premise" if mailing address is service address and you are reusing customer. Overtype existing address, if mailing address is elsewhere.
- Move in check boxes for service address should autopopulate for all services (can uncheck any in rare case where you want to move in customer from one specific type of service)
- You may need to force off the previous occupant (if no move outs ordered yet). Check "Pr Cnt Mv Ot" for all services, if applicable.

"Req. Amt." is the Deposit amount-appears by default on the Distribution and Water services. To waive deposit, delete amount(s), "Reason" field and select appropriate reason from "ESec" field. 0001-GPH, 0002-N/R or 0004-Automatic Owner MI

Contact Type
- Select appropriate choice: Email, fax, Lawyer's letter, phone, mail…

User Def Text Move-Out:
- Per signed application, tenant John Doe MI 817 William St June 22/2012-billed dep.-no history
- Per phone call, owner John Doe buying 817 William St June 22/2012-GPH (Highlight and copy for interaction log)

Additional Move In Information:
- Exempt from the move in set up fee (check if applicable-owners between tenants or builder on new building-dispatch/engineering only)
- Customer is purchasing the premise-(is the legal owner)- (check if applicable)
- Lawyer name (if known and if applicable)
- Application Made by (name of who is requesting move in)- i.e. "signed app from John Doe"
- Processing status: "Signed", "Unsigned" or "Not Applicable". Note: "Unsigned will automatically mail out welcome letter and application on move in day.

Press "Check"

If errors fix, otherwise- Press "SAVE". Result: Parked document #

Create appropriate interaction log (Move In-if you processed a move in, "data scrub" or "administrative", if not). If hard copy scan and file (see scanning/filing process).

If other accounts with balances owing (sent to Collection Agency) create a Miscellaneous Collections queue to indicate the customer is back online. Collections will act on the account by advising the collection agency of new phone/address and if unpaid, collections will disconnect service at new address.

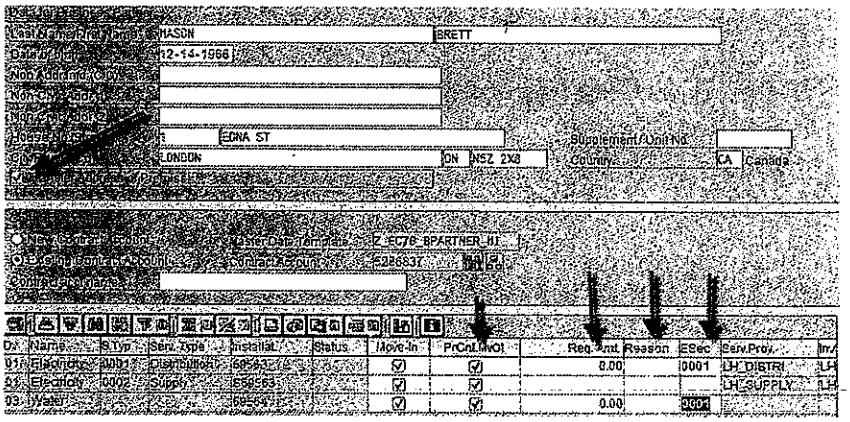
End

Move In—(EC70 in ISU)

- CRM-Search for address and copy premise number
- ISU-Premise Tree ES62- Check to see if move in done. If so, ensure dates are correct. Control Y contract account number to put it in context in CRM and update interaction log.
- If move in does not appear on premise tree:
- CRM-Search Business Partner. Last name* or Last name* first initial*
- If Business partner for customer does not exist create one. If one does exist, scrub/update it. Ensure existing one is same person by matching DOB, ID, mailing address etc.
- If you created a Business Partner, you will need to create a contract account and put it in context. If a customer already exists, you will only need to create a contract account if there isn't one available that you can use. If you are reusing an existing contract account, ensure it has not been declared "bankrupt" or sent to a collection agency. These accounts cannot be reused. T-code CAA3

If Name, account number and move in service address in context.

- From the menu select Move in. Result: All info. populated except move in date.
- Input move in date. Move out must give 2 business days notice and move in next day at the earliest.
- Press enter
- Update forwarding mailing address (if incorrect). Use "Transfer address of premise" if reusing existing Business Partner and service address=mailing address.
- Service grid shows types of meters 01 electric 03 water. If move out not already done, you will need to check all services to force a move out. Check grid as shown below. If move out done, these services should be checked by system already.
- Rec Amt., Reason, E. Sec. (Exempt Security). If the customer has GPH, delete amounts in Requested amount field, delete reason fields and pick reason from E security as 0001-GPH.

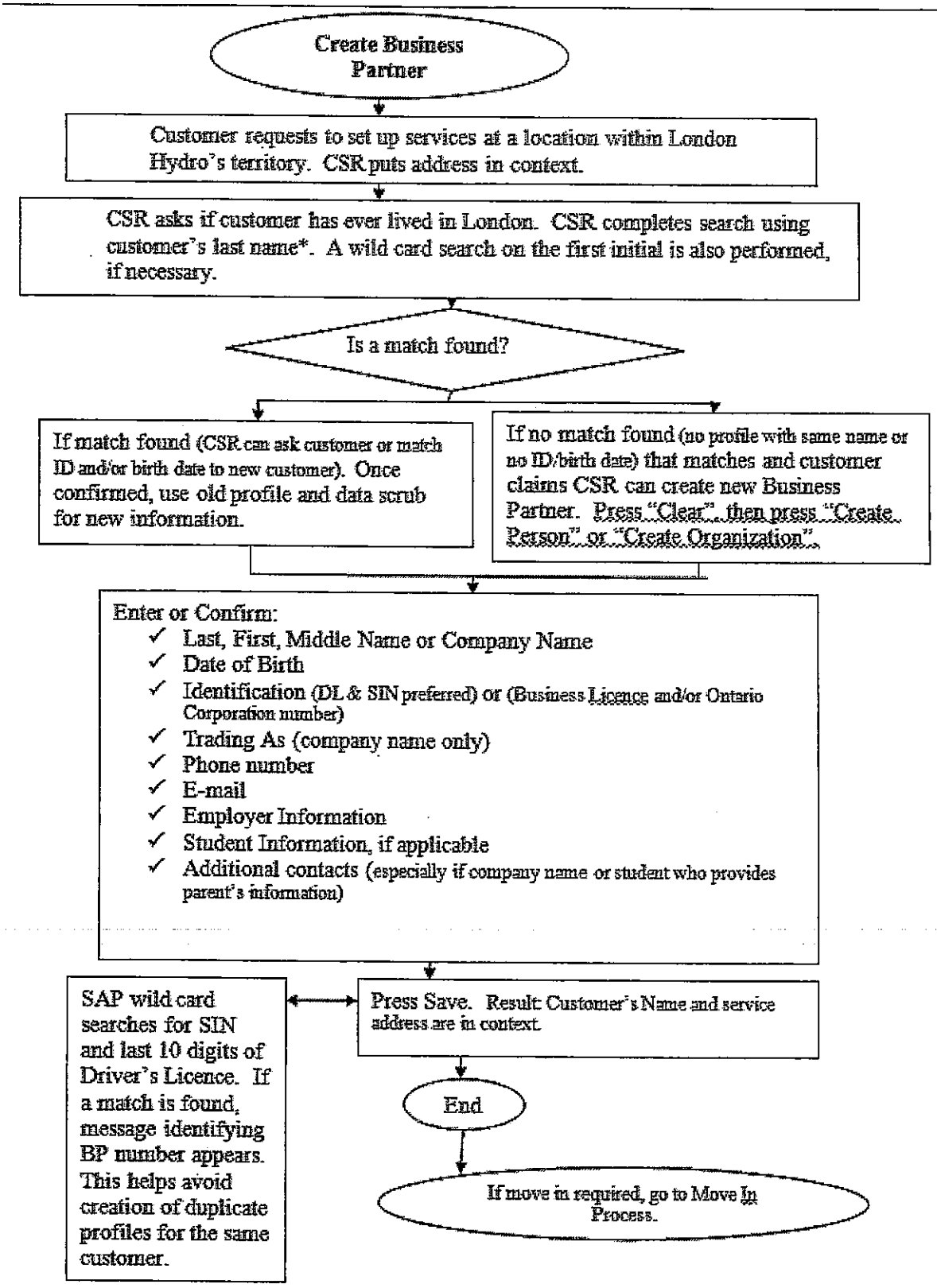


- Select contact type (phone, email, fax, mail)
- Text Move In -put details of move in.

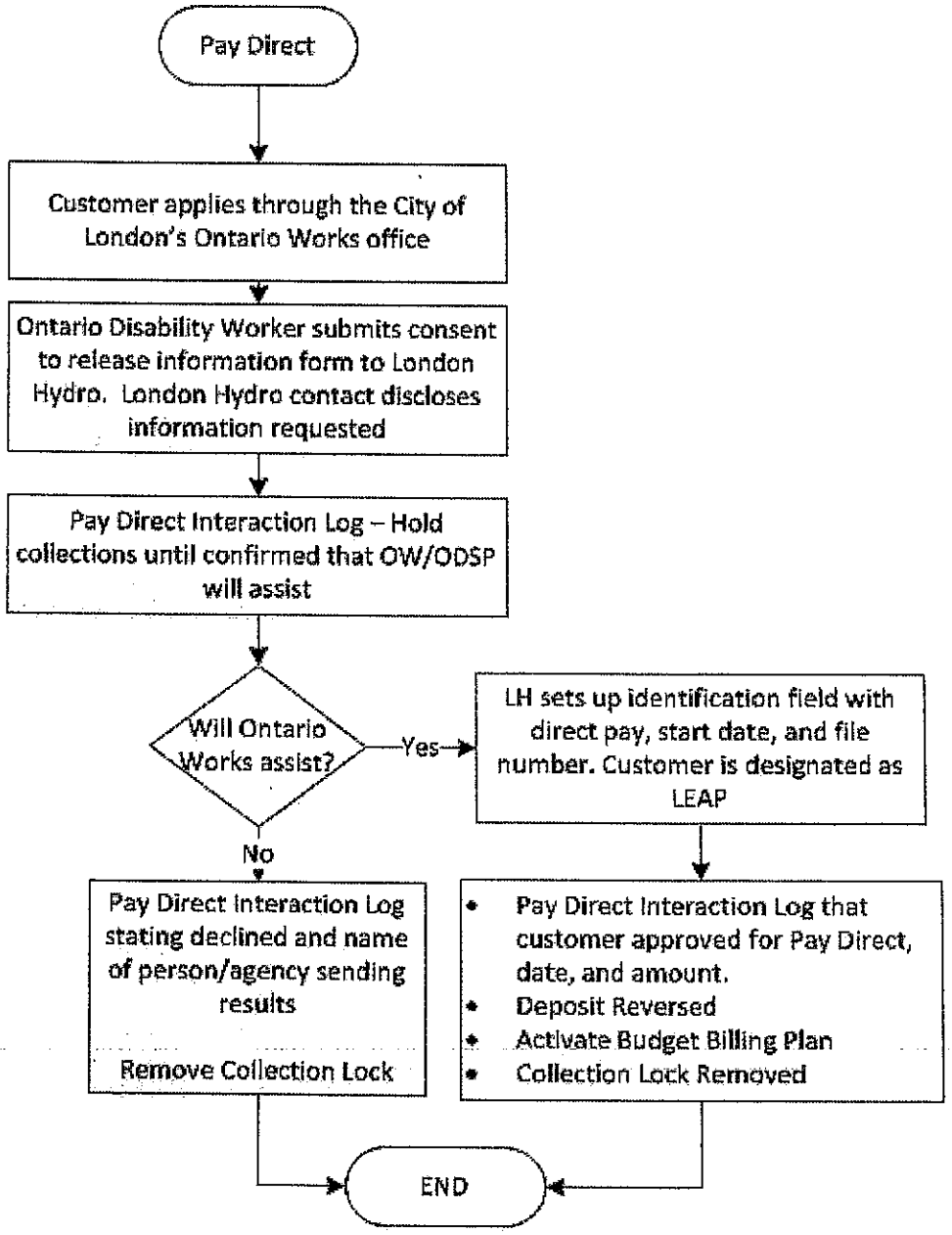
  For owner moving in: PER MARIA MENDES PURCHASER's LAWYER SALLY BOUGHT 1909 KYLE CRT CLOSE AUG 3-MI AUG 4-VENDR LWR LYTTLE- PD 56935

  For tenant moving in: PER APP JOHN DOE TENANT MI UNIT 201 625 KIPPS LANE JULY 31- PD 12345
- Copy text
- **Check "Customer is purchasing the premise(is the legal owner)" if an owner moving in**
- "Exempt from mi account set up fee"- never check it unless you are manually moving in the owner between tenants.
- Lawyer name-leave blank if tenant move in-if owner move in ask for lwyr name
- Application made by: name of lawyer or customer's name example: LWR MARIA MENDES or SALLY DARRAGH
- Processing Status – select "Unsigned" if speaking to them over the phone or lawyer letter received (sends out application for service on move in date) or "Signed" if they sent in application
- Press "Check" button at top. Result: No errors found should appear.
- Press save
- Gives parked document number (write down). Put on document if working from paper move in request.
- Press "Display" button then enter and look for the green light that says it is completed
- ISU- Refresh premise tree to make sure tree is showing mi
- From menu go to Interaction history
- Interaction record: Reason "Move In Customer", "Category"-phone, fax, mail, email, "Description" account number Paste note from Parked document
- Save
- Press end to start new task.
- Write Service Address in top right (if working from document).
- Sign with initials, mark as done.

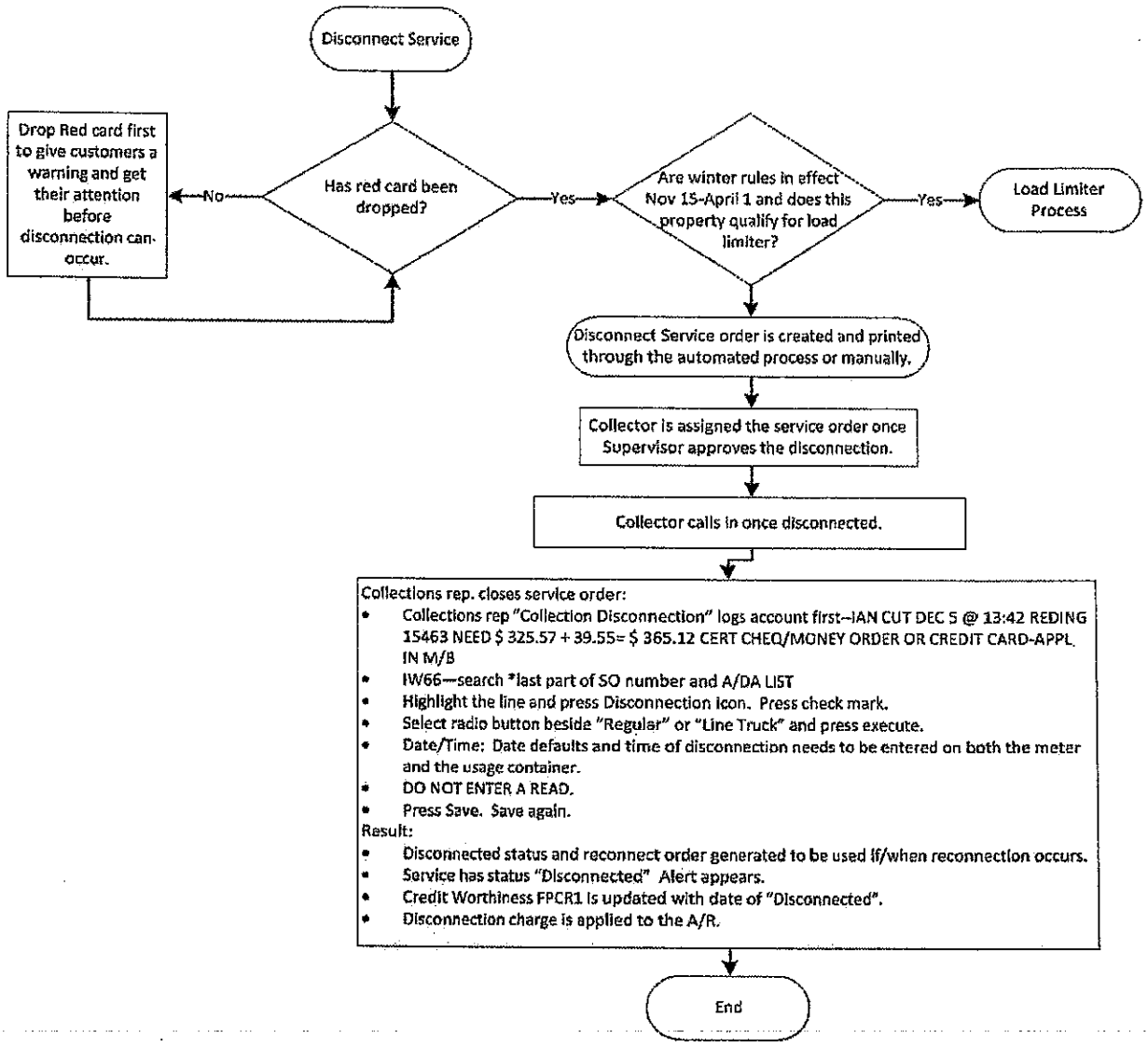
Create new or reuse existing Business Partner Process



Pay Direct Process



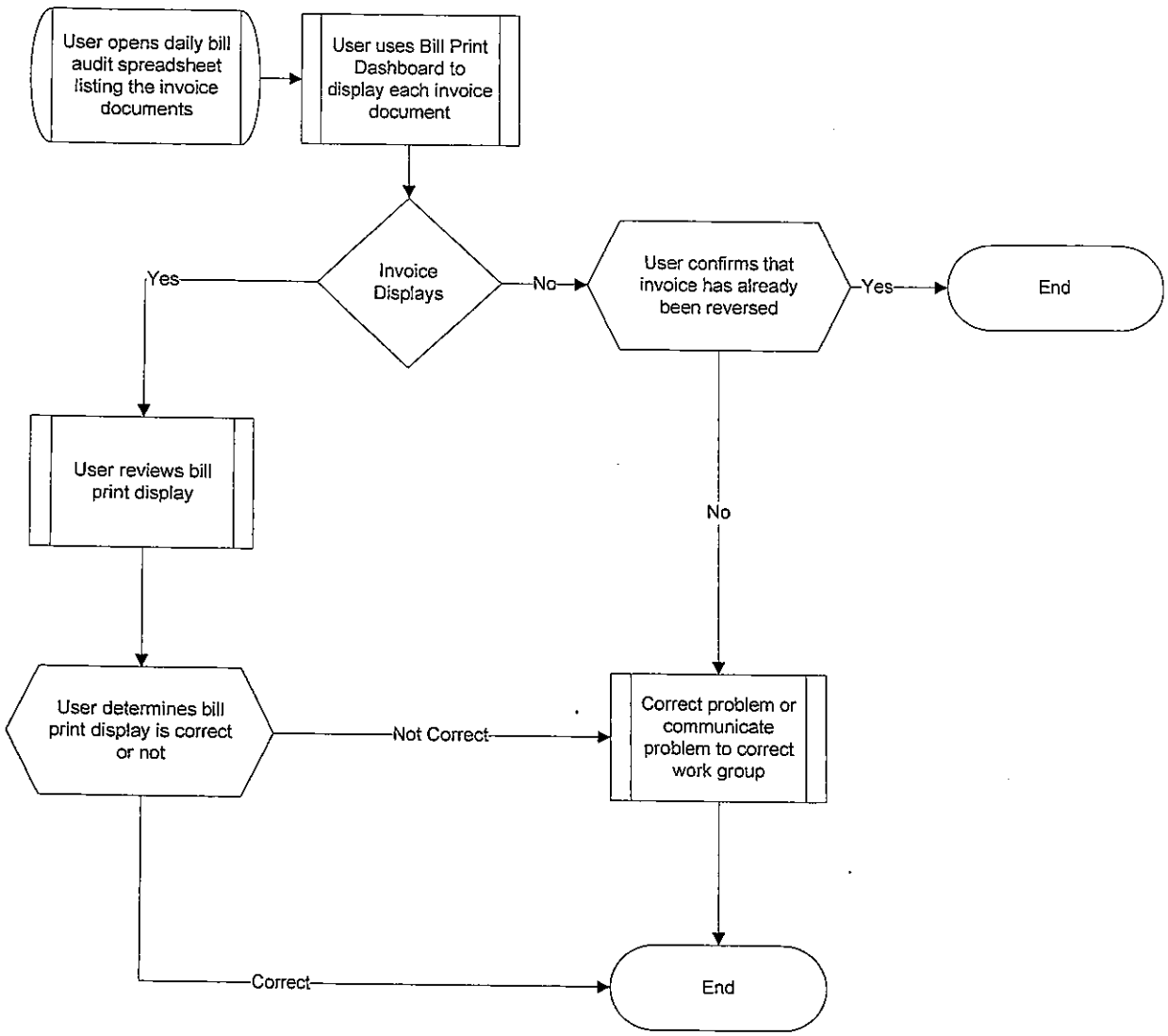
Disconnect Process



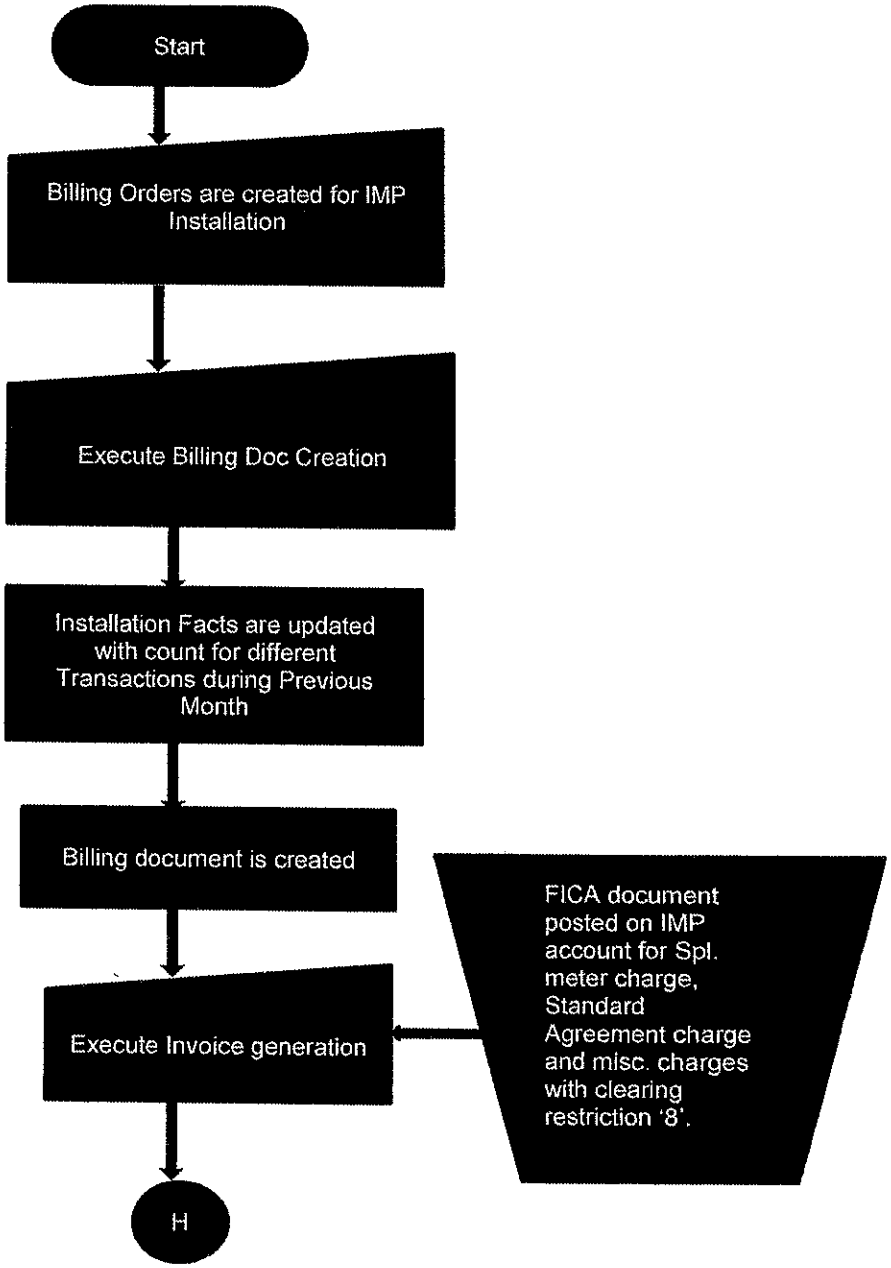
111 Horton St., P.O. Box 2700
London, Ont. N6A 4H6

London Hydro

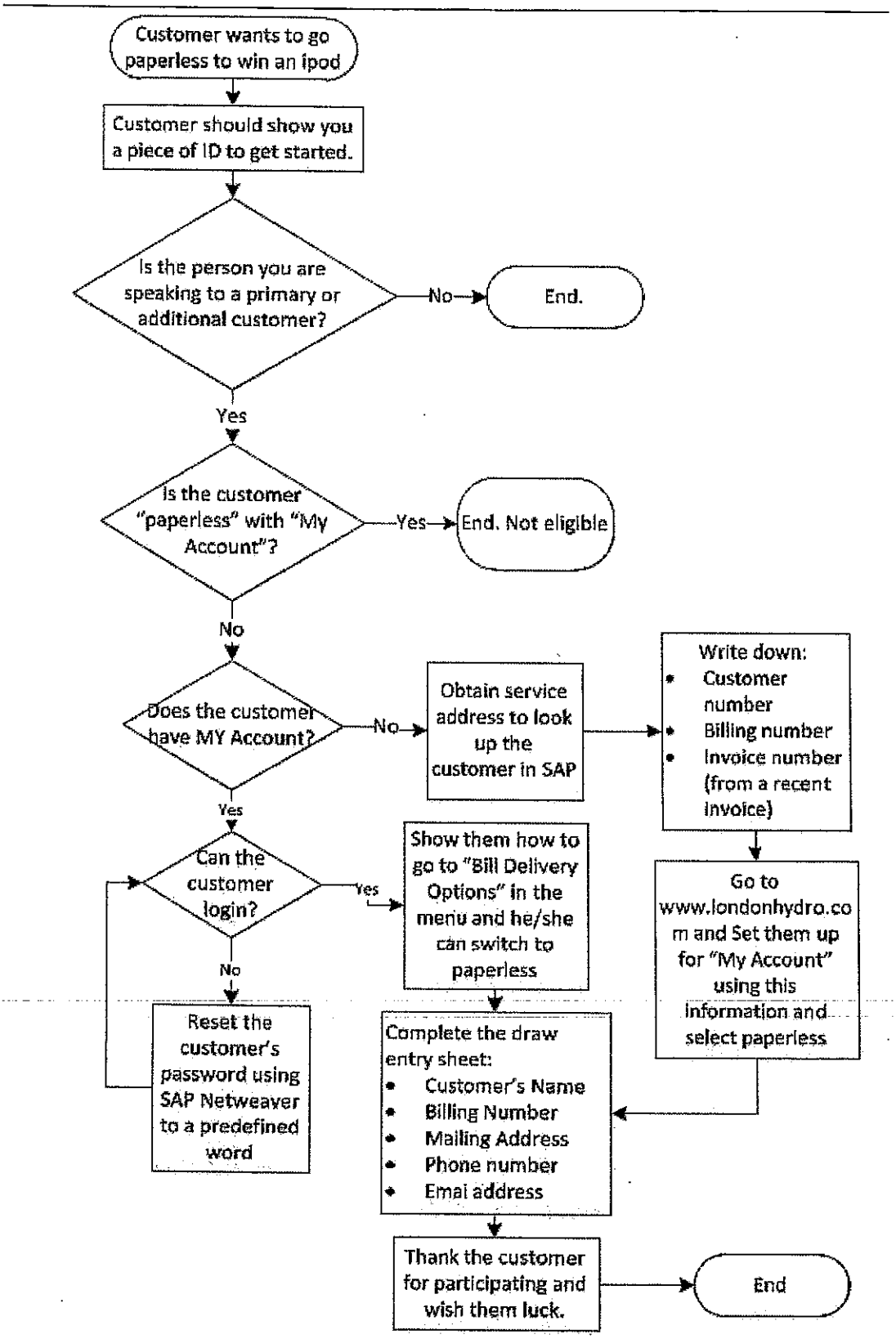
Bill Audit – Process Flow



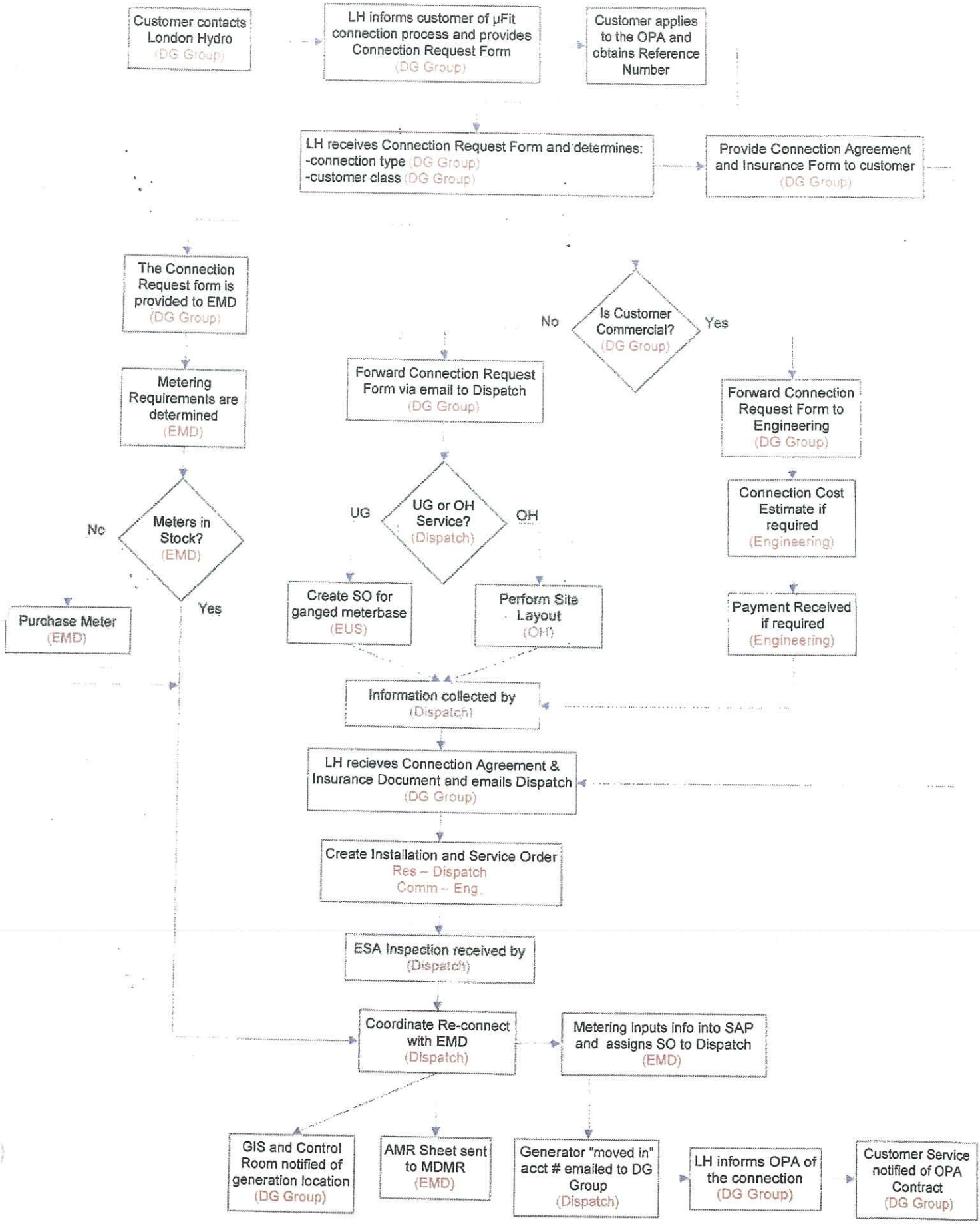
1.8 IMP Process for Retailer



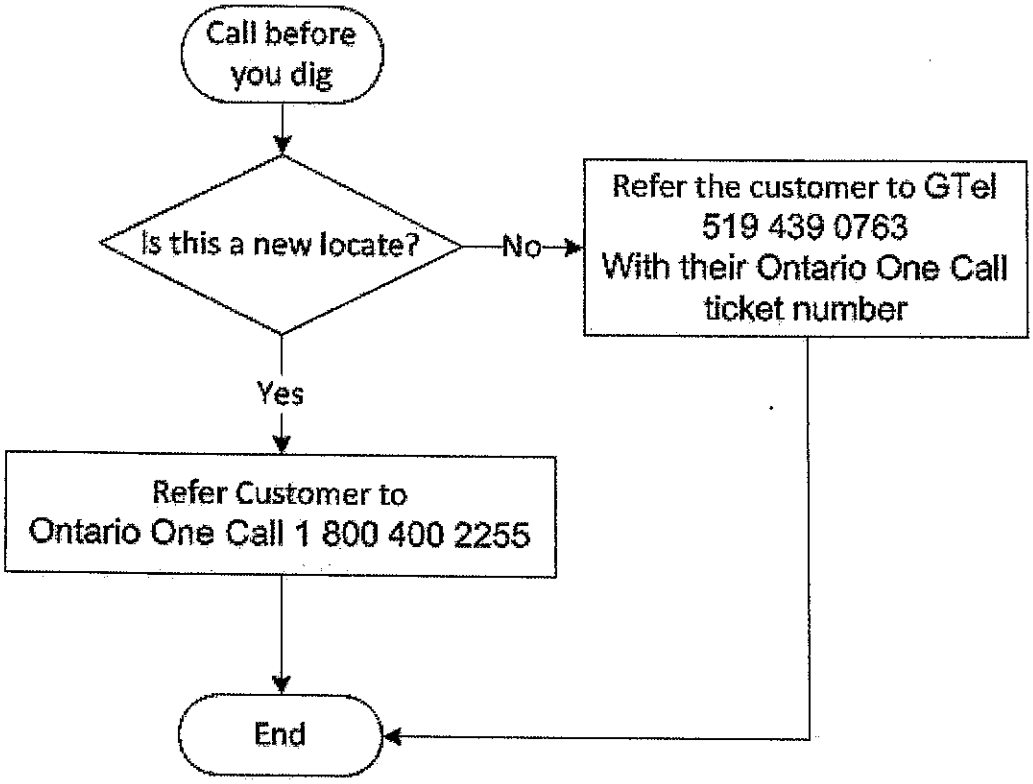
My Account & Paperless Process



MicroFIT – Internal Connection Process Flow Chart



Call Before You Dig Process



PURCHASING MANUAL

11/28/2012

London Hydro

TABLE OF CONTENTS

1.0 INTRODUCTION

1.1 PURCHASING PROCEDURES

PURPOSE

To ensure that the best prices for acceptable products and services are obtained from suppliers in a fair, consistent and unbiased manner which promotes participation from eligible suppliers. To ensure that purchase transactions are properly initiated and assessed in accordance with the authorization levels detailed in the approved signing authority register.

SCOPE

Currently, London Hydro has a stepped approach for procurement of goods and services. A summary is provided below:

Up to $15,000	***Low dollar value procurement*** – prices may be solicited via phone, email, etc. Multiple bids may be solicited, however are not required.
$15,000 to $25,000	A ***Request for Quotation*** is a request for suppliers to submit an unsealed bid for the supply of certain goods or services at a particular price.
$25,000 to $50,000	A ***Formal Request for Quotation*** is a request for suppliers to submit a sealed bid for the supply of certain goods or services at a particular price.
Over $50,000	A ***Tender*** is a request for suppliers to submit a formal sealed bid which contains a written offer made in a specified format for the supply of certain goods or services at a particular price. A ***Request for Proposal (RFP)*** is a form of tender document used to purchase complex services where various criteria will be used to evaluate the bids. OR Exception: For the acquisition of 'Engineered Products' and the replacement of inventory, the ***Formal Request for Quotation*** process will be used.

In certain circumstances, the selection of suppliers may be achieved by other acceptable procedures. The following supplier selection procedures are considered acceptable and may be utilized in place of the summary above:

1. ***Co-Operative Purchasing***
   Supplier selection is performed by established organizations or buying groups who ensure adherence to supplier selection criteria similar to and compatible with the principles and policies of London Hydro. Such organizations can be utilized on the authorization of the Executive Committee.

2. ***Engineered Products***
   Certain products requiring a high degree of technical specification, such as primary cable, transformers and other distribution equipment, require the supplier to demonstrate technical capabilities and/or performance or quality standards prior to being included as an approved product/vendor. All such purchases greater than $15,000 will be subject to either a ***Request for Quotation*** or a ***Formal Request for Quotation*** from approved and/or known suppliers of the product or service.

3. ***Inventory Replenishment***

Inventory is replenished regularly, mostly though Supplier Alliances (SA). These suppliers are selected using the RFP Process. For most distribution system products, the SA contracts are for five years. For cleaning, miscellaneous and safety type product, the SA contracts are for three years. For any requirements not available through one of the SA agreements, all such purchases greater than $15,000 will be subject to either a ***Request for Quotation*** or a ***Formal Request for Quotation*** from approved and/or known suppliers of the product or service.

4. ***Sole Source***

The requirement to obtain competitive bids over $15,000 will be waived in unique situations such as the examples listed below:

- The specifications of a product/service are so specific that the purchase is limited to only one source of supply;
- Where competition is prevented due to an Act or legislation, or because of existing patent rights, copyrights, technical secrets or controls of raw materials;
- Where there is an absence of competition for technical or other reasons and no alternative exists;
- Where there is a scarcity of supply in the market;
- Where only one source of supply would be acceptable and cost effective;
- Where a monopoly exists;
- Where the nature of the requirement is such that it would not be in the best interest of London Hydro to solicit competitive bids such as regarding confidential matters.

In most cases, a quote will still be obtained, however the recommendation to purchase must provide the reasons for not obtaining multiple bids. The appropriate approval process must be followed which includes concurrence from the CFO.

5. ***Emergency Purchases***

Emergency situations are constituted by circumstances where the immediate purchase of goods or services is essential to prevent serious delays, further damage, imminent or actual threat to life, health and or safety or to restore at least minimum service until the situation can be corrected.

Purchases deemed as 'emergency' will proceed with product/service availability as a priority. Authorization of purchases will still be based on the Signing Authority Register and will include an emergency explanation.

2.0 NON-STOCK & SERVICE PURCHASING

2.1 INTRODUCTION

For the purchase of non-stock product or services, the flow chart in *Addendum 2.3* should be followed.

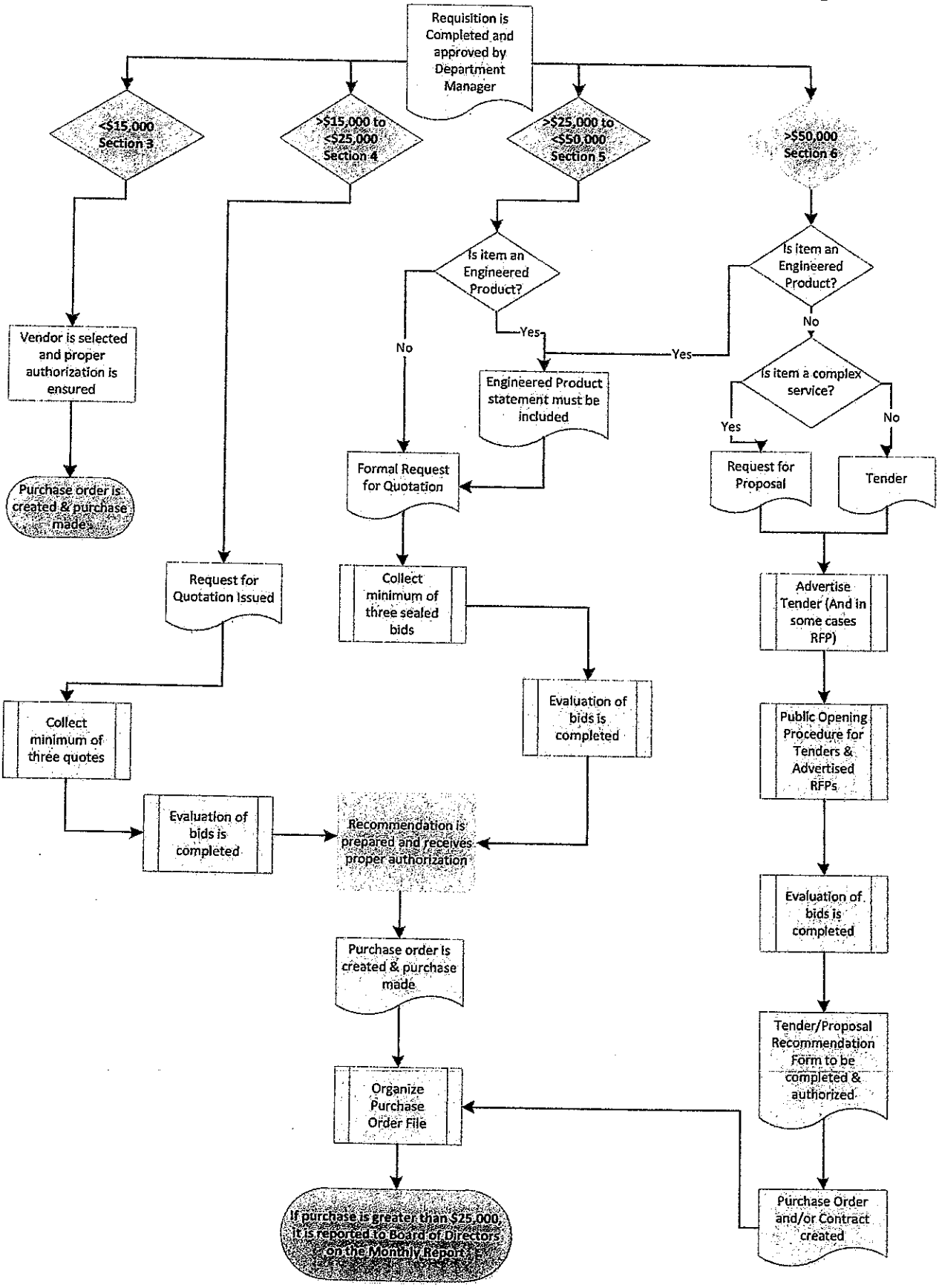
Items considered non-stock are those products that have not been assigned a SKU (stock keeping unit) number. Typically, the items would not be ordered on a regular basis and/or are quite unique in that the specifications may change frequently and new information would need to be provided each time. Services are the request for contract assistance typically for a specified timeframe or defined job.

In both of these purchasing activities, the method used to initiate the requested quote or submission, is primarily determined by the complexity of the request and the anticipated dollar value.

2.1 INITIATION OF REQUEST

Once it has been determined that a purchase is required, Purchasing should be contacted by either using a Material Requisition Form *(Addendum 12.4)* or other acceptable document (memo, email etc.). Once the initial requirements are reviewed, Purchasing will make the determination on an appropriate method to request bid submissions. Further clarifications may be required from the requestor.
The chosen process is then continued to completion (see flow chart *Addendum 2.3)* where the purchase recommendation is appropriately approved and some type of commercial document is provided to confirm the transaction.

ADDENDUM 2.3- Non-Stock and Services Purchasing



7.0 STOCK PURCHASING

7.1 SUPPLIER ALLIANCES

London Hydro Materials Management Department has contracts with the nine suppliers for strategic alliance contracts to supply the majority of its material requirements. The alliance agreements for distribution equipment provides for the purchase of materials on an "as required basis" for a period of five (5) years. The alliance agreements for miscellaneous, safety and cleaning equipment provides for the purchase of materials on an "as required basis" for a period of three (3) years. No minimum quantities or values are guaranteed or implied. These agreements help to move London Hydro's inventory process closer to a 'just-in-time' environment.

Some of the objectives and benefits achieved include:

- Reduction in London Hydro's total inventory level and carrying costs
- Reduced administrative costs in the procurement process
- Reduced accounts payable transactions
- Lower material costs and improved material quality
- Improved ability to meet material delivery time schedule requirements
- Improved security of supply for critical materials
- Improved level of customer service (internal and external)
- Improved communications between London Hydro and our suppliers

Process:

In advance of the expiration of the current contracts, a detailed RFP is prepared. It is sent to known suppliers as well as advertised through appropriate media. It includes the traditional RFP information as well as the appropriate Stock Keeping Units (SKUs), usually two year SKU usage, safety stock information, approved material descriptions & specifications and specific bid evaluation criteria.

The evaluation can be quite extensive, as potential suppliers may include information to request new product approvals. This product approval process must be completed before other evaluation can really begin. As these are multi-year contracts of significant value, the recommendation must be sent to the Board of Directors for approval.

The majority of inventory replenishment is accomplished through the supplier alliances, which covers the following material groupings:

1. Overhead Transformers
2. Single and Three Phase Pad Transformers
3. Cable and Wire
4. Utility Electric Material Group 1
5. Utility Electric Material Group 2
6. Miscellaneous Electric Material
7. Concrete Product
8. Safety Equipment
9. Miscellaneous and Cleaning Supplies

During the term of the existing contracts, annual reviews and addendums must take place. Prior to the contract anniversary date, the supplier will provide updated pricing for each of the items, detailing reasons for the change and provide appropriate supporting rationale and/or documentation.. London Hydro reviews the request and evaluates the weighted average cost change based on the previous year's usage. If the overall changes are over a certain percentage and the rationale is acceptable to London Hydro, the new prices will be accepted. If the weighted average change is under a certain percentage, as agreed by both the vendor and London Hydro, the prices will remain the same. Each contract is different, and as such, for exact percentages, refer to the respective contract agreement.

As London Hydro has established long-term agreements for most inventory items through the RFP process, should one supplier not be able to supply an item in their agreement, London Hydro can first request quotes from other Supplier Alliances to provide said product. If unsuccessful, quotes can then be obtained from other known vendors.

7.2 INVENTORY REPLENISHMENT

The majority of ***inventory replenishment*** will be processed through the low stock report. E-mails and other communications may also generate stock replenishment.

Each day the Low Stock Report is reviewed to identify inventory items that require replenishing. The Low Stock Report takes into consideration variables such as:

- Inventory on hand
- Lot quantity (box/case/minimum order quantity)
- Items already on order
- Units committed to capital projects
- Reorder point: The on hand quantity level of a SKU which will trigger inclusion on the SLR to bring the SKU to assigned levels
- Re-order quantity: The amount that should be ordered if the stock breaches the ROP and there are no commitments that would deplete the stock above normal levels. The ROQ should balance the cost of processing orders and deliveries with the cost of carrying inventory. This would factor in the EOQ (Economic Order Quantity) formula.
- Safety Stock: In the MRP world, safety stock is technically the amount of stock you decided to keep on hand to protect against unexpected fluctuations in demand or supply. In our business, we define it as the minimum amount of stock you need on hand at all times to meet emergencies.
- Lead time: This is the length of time a supplier would normally require to deliver an item to London Hydro. Each item is assigned a value according to the lead time and is factored into the ROP.

The Materials Management Assistant attends bi-weekly project scheduling meetings to assist in ensuring that the Low Stock Report is adjusted for projects delays and their corresponding commitments.

Adjustments are made for temporary services and operational product requirements where commitments are not made.

The Low Stock Report is then forwarded to one of the following for review and approval to initiate purchases: Director of Logistics Support, Project & Materials Manager or Purchasing Coordinator.

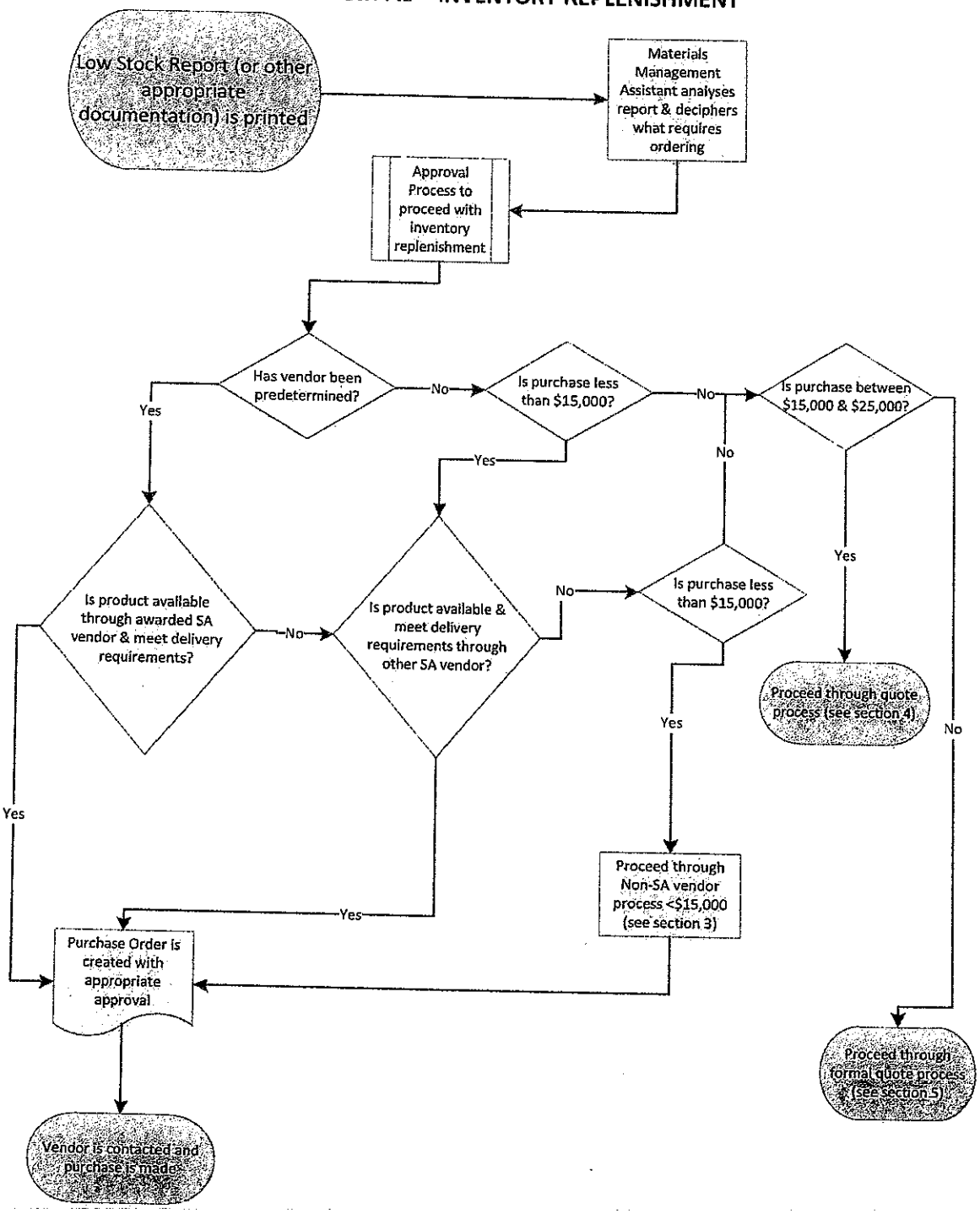
If the product is available and meets the delivery requirements through the assigned SA (Supplier Alliance) vendor, a purchase order is created. In cases where a product is not available through such vendor, other SA vendors able to supply the item are quoted. Subsequently, if the product is not readily available through an alternate SA vendor, an alternate non-SA vendor can be used via the appropriate process.

Purchases between $15,000 and $25,000 must go through the quote process *(Section 4).* Inventory Replenishment over $25,000 must follow the formal quote process *(Section 5).*

Purchase orders for inventory replenishment must be approved online by (one of) the Purchasing Coordinator, Project & Materials Manager or the Director of Logistics Support. This approval should be different than the signing authority when possible.

The purchase of ***new*** inventory items that have not been previously inventoried on a regular basis, and where the total initial order is in excess of $25,000, will require the approval of the CEO

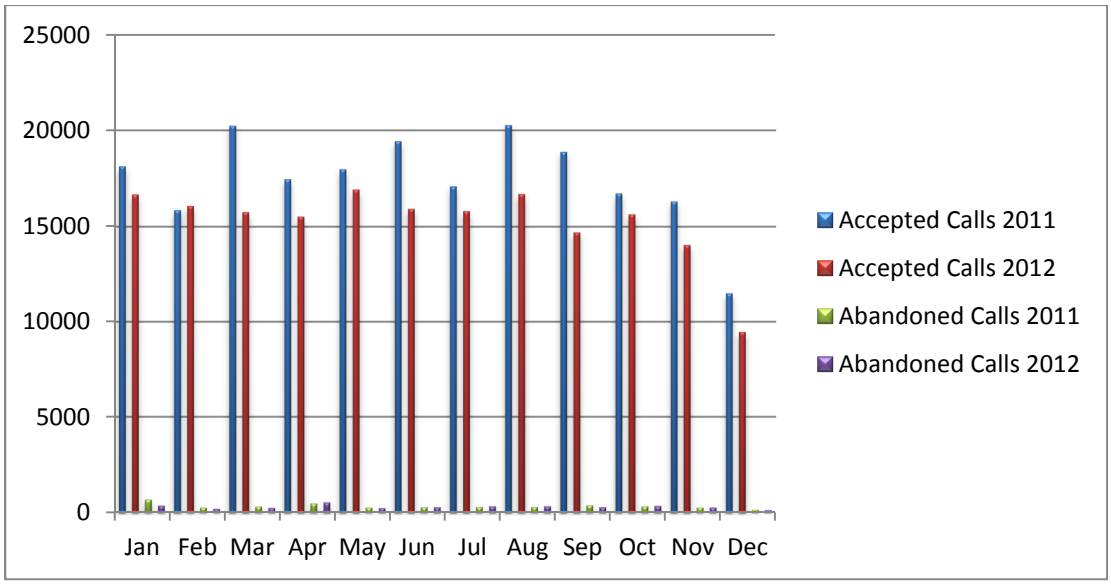
ADDENDUM 7.3 – INVENTORY REPLENISHMENT



Call Centre Performance

The Customer Service call volume for the month of December was 9,461 calls. The average call handling time continues to be approximately 7.4 minutes. The actual number of calls shows a downward trend (December 2011 – 11,480 vs. December 2012 – 9,461). We continue to see an increase in the number of on line inquiries through MyAccount and email correspondence.

This positive trend toward online inquiry is one of the driving forces for our new projects IVR (Interactive Voice Response) and MyAccount upgrades which is being launched in 2013.



2012-2014 Strategic Plan

Corporate Goals and Expectations For 2012

Appendix A

Strategies

- Distribution Systems & Technology (30%)
- Financial & Regulatory (20%)
- Human Resources (20%)
- Customer Service (15%)
- Green Energy (10%)
- Community Relations (5%)

Strategy Framework

Strategy Element	London Hydro Strategy	Comment
Business Definition/Mandate	Service Mandate as per OEB issued license	Regulated Business
Risk	Others	Budget mgmt, Enterprise risk mgmt, relationship with our community
Growth	Organic growth and increased business scope: Green Energy	CDM and Renewable
Financial Management	Financial and Regulatory	RoE: 5% to 8%; S&P CR: A$^-$
Technology	Technology	Distribution Network, CIS, SM/AMI, MDMR/ODS
Organization Management	Human Resources	Focus on capacity/capabilities
Marketing	Customer Services	Communication, web presence
Service Delivery	Safe, Reliable, and Efficient distribution of electricity	Corporate Mission

Stakeholders

Stakeholder Category	Actual Stakeholders
Authority Group: who approve and authorize the plan	•OEB (Rules) •MOE (Regulations) •ESA •Board of Directors
The Involve Group: who are part of the planning and implementing the plan	•Board of Directors •Executive •Division Directors •Managers/Supervisors
The Inform Group: who are required to take actions that are consistent with implementation	•Executive •Division Directors •Managers/Supervisors •Employees
The Consider Group: who could have a response to implementation	•Customers •THAW •LPMA •UWO/Fanshawe College •LCoC/LEDC •City of London

Expectations for Measuring the Strategy Success

- Distribution Systems & Technology Strategy
  - 46 km of underground cable refurbishment
  - New TS: Property selection and detailed design
  - Engineering design to facilitate capital works
  - Planning for reinforcement of 27.6 kV supply to downtown
  - TOU billing and web presentment
  - GIS enhancements
  - EBT Redesign
  - ODS enhancements
  - OMS foundation
  - Integrate RPP TOU and RESOP into the wholesale settlement process

Expectations – cont'd

- Financial & Regulatory Strategy
  - Return on deemed equity of 5% to 8%
  - Maintain S&P credit rating of A^-
  - Complete and file 2013 Cost of Service Rate Application
  - Implement an Enterprise Risk Management (ERM) framework
  - Monthly and quarterly reporting/Variance analysis

Expectations – cont'd

- Human Resource Strategy
  - Business process review and change management
  - Corporate culture development and employee engagement
  - Annual Health & Safety + Employee Wellness program
  - Complete 1,200 person days of employee training
  - Refinement of the Employee Orientation Program
  - Enhance Internal Employee Communication

Expectations – cont'd

- Customer Service Strategy
  - Meet OEB customer service SQI
  - Maintain 90% or greater overall satisfaction rating from the customer service surveys
  - Enhance London Hydro's brand (see quarterly actions)
  - Web Presence:
    - Increase enrollment by 5,000 customers
    - Increase paperless billing by 2,500 customers
  - Tenancy Management + On-line customer sign-up process

Expectations – cont'd

- Green Energy Strategy
  - Conservation & Demand Management:
    - Overall 2014 Goals:
      - 41.440 MW Net Peak Demand Savings
      - 156.640 GWh Net Cumulative Energy Savings
    - 2012 Goals:
      - Redesign of SaveONenergy for Home
      - Redesign of SaveONenergy Retrofit
      - Net Demand: 10.0 MW
      - Net Energy: 50.0 GWh (accumulated since year one)
  - Renewable
    - Facilitation of customer initiated projects

Expectations – cont'd

- Community Relations
  - UWO-Watts Lab Agreement/Launch
  - Develop Skate Canada partnership
  - Business case for Electric Vehicle (EV) charging stations

Guidelines

- The above corporate goals and expectations, reviewed and revised annually by the Board, are proxy measure of the corporate performance
- The performance expectations are divided up on a quarterly basis only for tracking purposes; however, the evaluation of these expectations will be annually, as most of these are for the year
- The targets listed here are highlights of normal job functions; however, by stating them as targets we provide the executives and management with a priority and our strategic focus
- Failure to meet quarterly targets due to lack of effort is not acceptable

2012 Corporate Targets Quarter 1

- **Distribution Systems & Technology**
  - 3 km of underground cable refurbishment
  - New TS: criteria for site selection
  - EBT system integration testing
  - TOU billing
  - OMS demo system set up
- **Financial & Regulatory**
  - Quarterly financial reports (final reports one month following the end of quarter)
  - S&P presentation and review
  - 2013 Cost of Service Rate Application: lead-lag and water billing report
  - Quarterly OEB filing + Quarterly Budget Variance Analysis

2012 Corporate Targets Quarter 1 - cont'd

- **Human Resources**
  - Business process and change management: selection of a consultant
  - Culture development: conduct employees focus groups
  - Lead Committee + Healthy Weights seminars
  - Quarterly reporting of Training & Development (T&D) efforts
  - New employee orientation program: planning report
  - Monthly CEO communication to employees + Presentation on Strategic Plan /2012 targets
- **Customer Service**
  - Monthly OEB SQI objectives
  - Customer satisfaction survey (external agency)
  - TOU promotion

2012 Corporate Targets Quarter 1 - cont'd

- **Green Energy**
  - Completion of redesign of low-income assistance program
  - Demand reduction of 2.0 MW
  - Energy reduction (cumulative) of 14 GWh
  - Quarterly Review/Connection
- **Community Relations**
  - Financial assistance to THAW
  - Financial assistance to Skate Canada's lighting program

2012 Corporate Targets Quarter 2

- **Distribution Systems & Technology**
  - Cumulative 10 km of underground cable refurbishment
  - New TS: progress report on site selection
  - Engineering design for 60% of the capital works
  - GIS enhancement – land base import and .Net conversion
  - EBT user acceptance testing
  - ODS enhancement – settlement capability
  - OMS: production, fail over and interface servers set up
  - Completion of integration of RPP TOU/RESOP
- **Financial & Regulatory**
  - Quarterly financial reports
  - 2013 Cost of Service Rate Application: load forecast report
  - Phase 1: ERM framework design
  - Quarterly OEB filing + Budget Variance Analysis

2012 Corporate Targets Quarter 2 - cont'd

- **Human Resources**
  - Corporate culture: report of the focus group
  - Lead Hand Training Session #1
  - Health & Safety (H&S): Report on Lead processing + 12 crew visits
  - Quarterly reporting of T&D dollars spent
  - Employee orientation program: multimedia creative element
  - Internal Communication: CEO monthly reports + 2nd Quarter employee publication
- **Customer Service**
  - Monthly SQI reported and tracked
  - Final report from customer satisfaction survey
  - Watts Lab promotion
  - Sign-up for MyAccount: acquire 3,000 new customers
  - Tenancy management process: complete design + Market Research

2012 Corporate Targets Quarter 2 - cont'd

- **Green Energy**
  - Program execution plan and launch
  - Cumulative demand reduction of 4.5 MW
  - Cumulative energy reduction of 26.5 GWh
  - Quarterly report on interconnection
- **Community Relations**
  - Signed agreement with UWO
  - Electric Vehicle (EV) charging stations: conceptual report

2012 Corporate Targets Quarter 3

- **Distribution Systems & Technology**
  - 25 km of underground cable refurbishment
  - TS: property selection
  - 27 kV supply to downtown: draft planning report
  - GIS: Dot Net conversion
  - EBT put in production
  - ODS enhancement – CYME/SAP integration
  - OMS: middleware, client work station set up
  - Monthly reconciliation process launch of RPP TOU/RESOP
- **Financial & Regulatory**
  - Quarterly Financial reports
  - Decision of S&P credit rating (A- minimum)
  - 2013 Cost of Service Rate Application filing
  - ERM framework in place
  - Quarterly OEB filings+Quartelry budget variance

2012 Corporate Targets Quarter 3 - cont'd

- **Human Resources**
  - Corporate culture: design employee development program (based on focus group findings)
  - Pole-top rescue training + H&S proficiency training
  - Quarterly reporting of T&D efforts
  - Employer Orientation: Second report on new template
  - Internal Communication: Profile + publish stories on various department + CEO monthly communication
- **Customer Service**
  - Monthly SQI reports
  - Survey results presentation to the Board
  - Report on the success of Renewable Exhibit at the Children's Museum
  - Sign-up for MyAccount: achieve 5,000 (cumulative) new customers
  - Tenancy management process: Business Requirements + testing

2012 Corporate Targets Quarter 3 - cont'd

- **Green Energy**
  - Elevator retrofit program
  - Demand reduction (including Q1 & Q2) of 7.0 MW
  - Cumulative energy reduction of 38 GWh
  - Quarterly update on interconnection of µFIT/FIT projects
- **Community Relations**
  - Promotion Plan for Skate Canada event
  - EV charging stations: first draft of business plan

2012 Corporate Targets Quarter 4

- **Distribution Systems & Technology**
  - 46 km of underground cable refurbishment
  - TS: design completed
  - Engineering design for 100% of the capital works
  - Planning Report for reinforcement of 27 kV supply to downtown
  - ToU Billing – Enhancements to the Web Presentment tool
  - OMS foundation in service
- **Financial & Regulatory**
  - Annual return on deemed equity of 5% to 8%
  - Annual ERM report
  - Quarterly OEB filing + Budget Variance

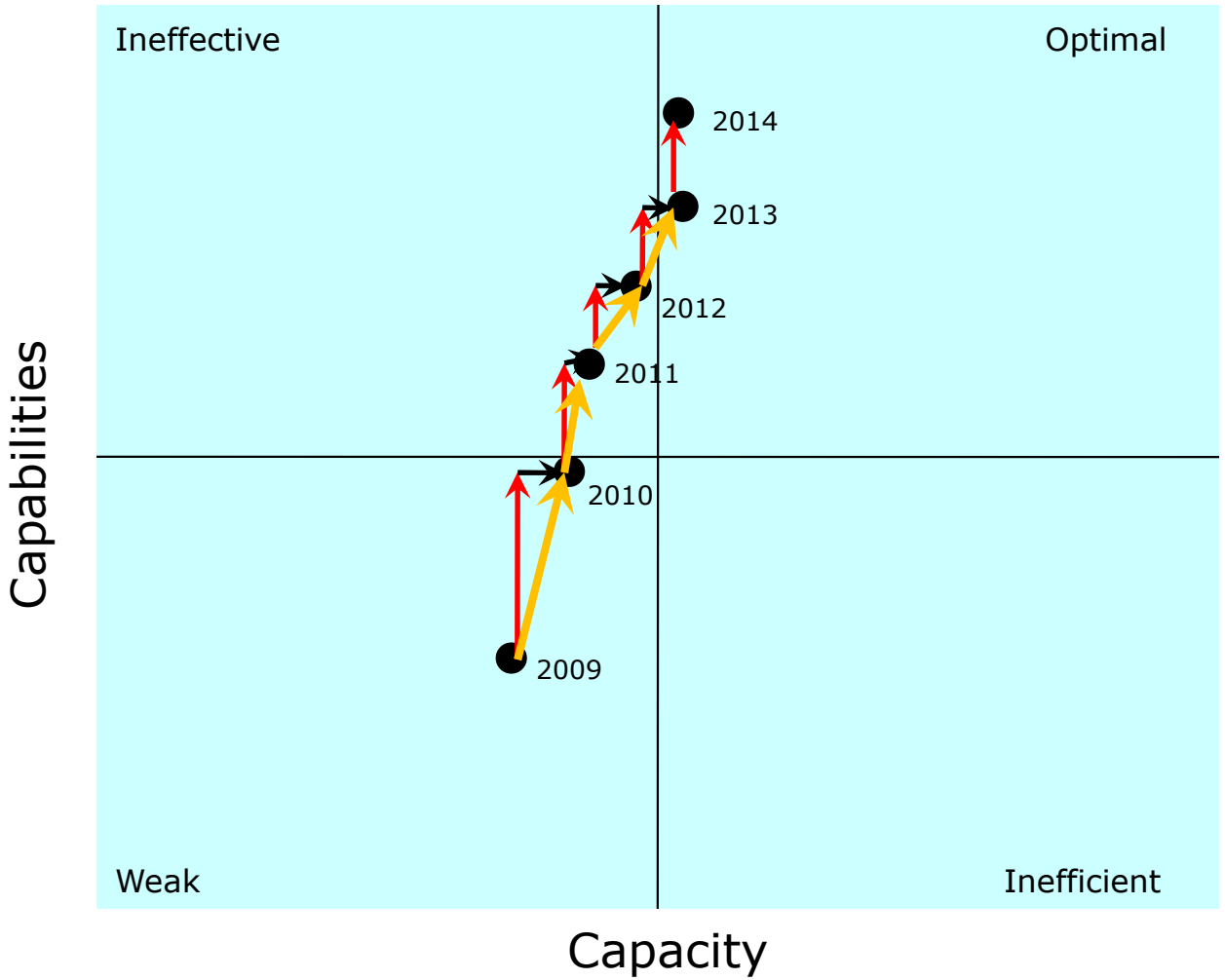
2012 Corporate Targets Quarter 4 - cont'd

- **Human Resources**
  - Business process review: reports on two business processes i.e. purchasing and first call resolution
  - Culture development: annual report + Lead Hand Training #2
  - Complete annual health & safety report + Final report on lead processing + 12 field visits
  - Final report on employee training and development
  - Orientation: launch a new program
  - Internal communication: Annual employee publications
- **Customer Service**
  - Monthly SQI reporting
  - Customer Satisfaction Survey presentation to all employees
  - London Hydro brand – Promotion of My Account
  - Acquire 7,500 new My Account users including 3,700 new paperless billing users (cumulative)
  - Tenancy management tool: launch of the new process

2012 Corporate Targets Quarter 4 - cont'd

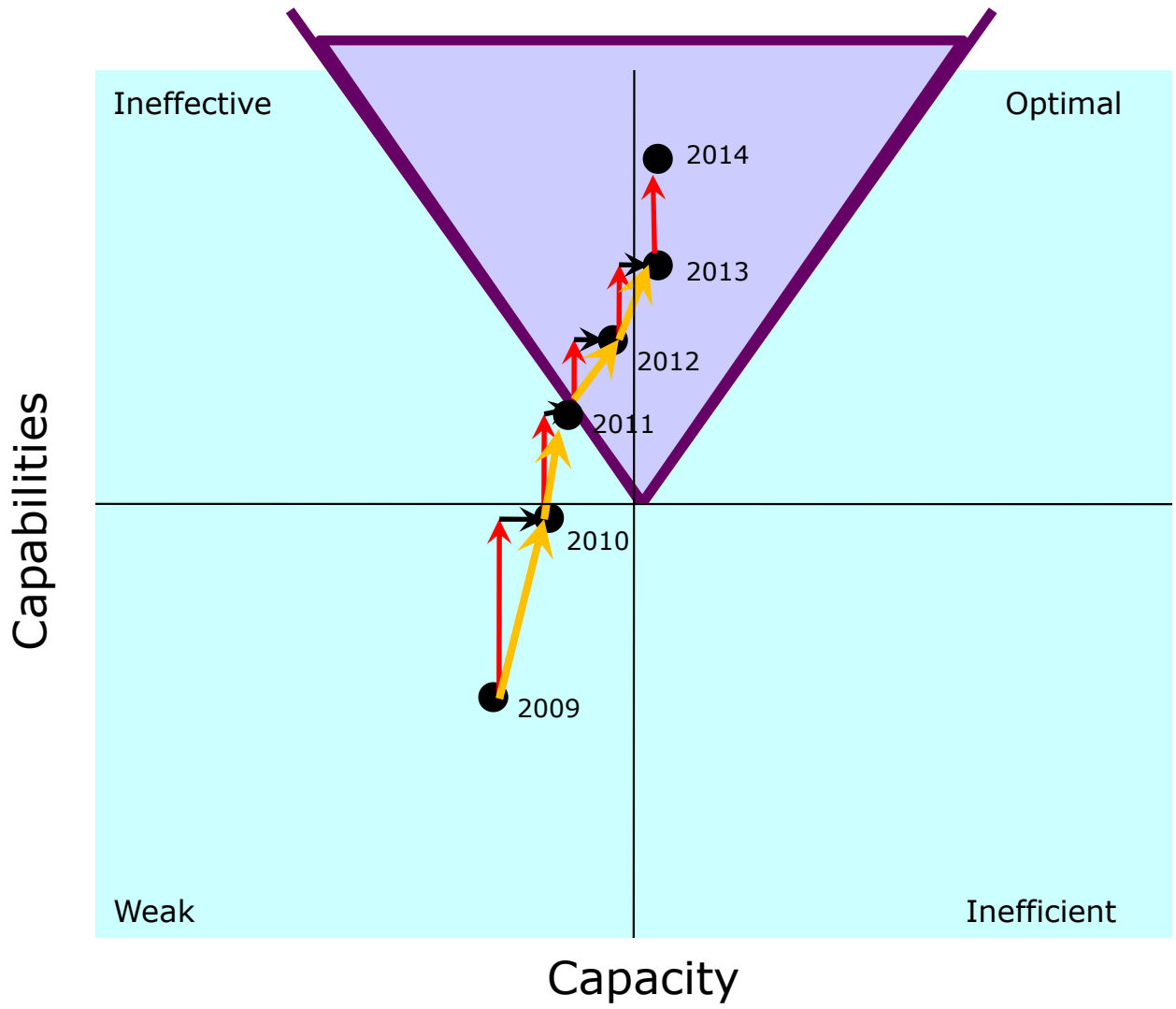
- **Green Energy**
  - Total demand reduction of 10.0 MW
  - Cumulative energy reduction of 50.0 GWh
  - Report on interconnection of µFIT/FIT projects
- **Community Relations**
  - Annual report on Lab related development work
  - EV charging stations: final business plan
  - Skate Canada promotion program: creative element design

End Objective of 2012-2014 Strategic Plan: Enhanced Capacity/Capabilities



Completion of goals and targets determine the path of progress along the capacity-capabilities continuum.

Long Term Strategic Capacity/Capabilities Continuum



Time-of-Use Rates
Communications Plan
2012

Background

As part of the province's plan to create a conservation culture in Ontario, Smart Meters will be installed throughout Ontario by May 2012.
The new smart meter will read the amount of electricity customers use as well as the time of day and day of the week it is consumed. When combined with Time-of-Use (TOU) rates, where rates are lower during the off-peak periods of the day and week when demand for power and cost of power is lower, customers will be able to more effectively manage their own electricity usage by moving or shifting some of their usage to the off-peak, or less expensive period of the day.

Situation Analysis

Smart Meters have been installed throughout London and it is our intent to begin billing customers using TOU rates in November 2011. The OEB traditionally introduces new priced for RPP and TOU rates the firs of May and November each year. For that reason and to simply things for customers the billing on ToU pricing will be phased in and will communications will occur one month prior to the billing. As this new method of billing is quite complex, customers will need to be educated on the use of smart meters and how TOU will impact their monthly invoice. More importantly, education on the wise use of electricity and methods to help customers manage their electricity usage is critical during and after the implementation of TOU rates.

Communications

The communication to customers will be conducted throughout 2011 beginning with clear consistent messaging to condition customers to expect a change in how their electricity costs will be calculated. It is imperative that customers understand that the time of day and amount of electricity usage will be reflected in the pricing structure and it is to their advantage to understand how they use electricity in their home or small business and what they may be able to do to better manage their usage and costs.

The communications will be directed to both residential customers and small businesses with separate tools and information available for each sector.

The following outlines the communication steps and timeline for each tactic. Some elements are still under development with the IT Department; however, it is our intent to include these elements barring any delays or issues in the development stage.

Residential Customers

1. Introduction to Time-of-Use
2. Managing Your Electricity Bill
3. Tools to monitor and calculate electricity usage (i.e. 10 Smart Meter Lane)
4. TOU Rates – what they mean
    i. What they mean
    ii. How to read your bill
    iii. Access to meter date – checking data before waiting for the next bill
5. Pricing Alerts – PSA type messages to indicate high price periods and off-peak periods – indicating best time to operate major appliances etc.
6. Conservation Tips
    a. Summer cooling – AC –how to make it run more efficiently
    b. Outdoor Timers
    c. Programmable Thermostats

Small Business Customers

1. Introduction to TOU
2. Managing Your Electricity Bill
3. Tools to Monitor Your Electricity Usage
4. Suggestions to Improve Efficiencies – ieso web-based interactive tool
5. Time-of-Use Rates
6. Pricing Alerts

Call Centre Staff & Employee Communications

All call centre staff & will be provided with the various elements of the communications plan prior to general distribution. All employees will also receive frequent updates.

Outreach Communications – City Councilors

City Councilors will receive a copy of a special edition newsletter during each phase of the communications plan prior to general distribution to allow them to manage concerns from their constituents.

2012 TOU Communications Rollout

Key Message
"Use Energy Wisely"

January 2012
Introduction to Time of Use

- Billing Insert
- Website
- "e" Newsletter
- Potential LFP Story- CTV – T.V and/or reporter participate in monitoring ToU usage before converting to ToU rates – then follow up with changes made in their homes – positive results?
- Update website (move smart meter button up) Smart Meter/TOU
- Website --- promote 10 smart meter lane and small business usage calculator
- Outreach Communications – Special Newsletter for City Councillors
- Employee Communication – Corporate Communications Bulletin – update & quick facts

February 2012
Managing Your Electricity Usage

- Preparing for Time of Use Billing – tips on actions to start preparing for Time Of Use
- ToU Web Presentment
- Billing Insert
- Radio Ads --- TOU coming soon – watch for billing insert or visit website
- Website – FAQs – interactive tools – 10 SML and Business Calculator
- Earned Media – A Channel tips/actions – Rogers Cable TV and LFPress Outreach Communications – Special Newsletter for City Councillors

March 2012
TOU Rates and What They Mean to You

- How to read your bill
- Billing Insert
- Sample bills on website
- ToU web presentment
- Message on Envelope
- Radio
- Earned Media – A Channel tips/actions – Rogers Cable TV and LFPress
- Outreach Communications – Special Newsletter for City Councillors

April 2012
Time of Use Rates Arrive in London

- Message on Envelope
- Billing insert – how to read your bill --- where to find smart meter data
- Sample bill
- ToU Web Presentment
- Radio message – visit 10 smart meter lane
- Earned Media – A Channel tips/actions – Rogers Cable TV and LFPress
  Outreach Communications – Special Newsletter for City Councillors

May 2012
Time of Use Rates
Start changing usage patterns to save on summer consumption
Getting ready for the heat

- Message on Envelope
- Billing Insert
- Sample Bill
- ToU Web presentment
- 10 Smart Meter Lane
- Earned Media – A Channel tips/actions – Rogers Cable TV and LFPress
- Outreach Communications – Special Newsletter for City Councillors

June 2012
The Heat is On!

- Tips and advice for reducing consumption during hot summer days
- Timers on outdoor lights
- Timer on pool pump
- ToU Web Presentment
- Weather stripping and caulking to seal up air leaks
- 10 Smart Meter Lane
- Programmable thermostats
- Service your AC - ensure it's working as efficiently as possible
- Use ceiling fans instead of AC
- Earned Media – A Channel tips/actions – Rogers Cable TV and LFPress
- Outreach Communications – Special Newsletter for City Councillors

July 2012
Managing Your Electricity Usage

- Tips for reducing consumption during hot summer days
- Monitoring your electricity consumption data before waiting for the next bill (drive to My Account)
- Tips and advice for reducing consumption during hot summer days
- Timers on outdoor lights
- Timer on pool pump
- 10 Smart Meter Lane
- Weather stripping and caulking to seal up air leaks

- Programmable thermostats
- Service your AC - ensure it's working as efficiently as possible
- Use ceiling fans instead of AC
- Earned Media – A Channel tips/actions – Rogers Cable TV and LFPress
- Outreach Communications – Special Newsletter for City Councillors

August 2012
Managing Your Electricity Usage

- Tips for reducing consumption during hot summer days
- Monitoring your electricity consumption data before waiting for the next bill (drive to My Account)
- Tips and advice for reducing consumption during hot summer days
- Timers on outdoor lights
- Timer on pool pump
- Weather stripping and caulking to seal up air leaks
- 10 Smart Meter Lane
- Programmable thermostats
- Service your AC - ensure it's working as efficiently as possible
- Use ceiling fans instead of AC
- Earned Media – A Channel tips/actions – Rogers Cable TV and LFPress
- Outreach Communications – Special Newsletter for City Councillors

September 2012
Preparing for the Fall & Winter Season

- Replace Furnace Filters
- Service furnace to ensure it's working as efficiently as possible
- Weatherproof your home or business
- Monitoring your electricity consumption data before waiting for the next bill (drive to My Account
- Programmable thermostat
- 10 Smart Meter Lane
- Use ceiling fan to help circulate the heat
- Timers on outdoor lights
- Earned Media – A Channel tips/actions – Rogers Cable TV and LFPress
- Outreach Communications – Special Newsletter for City Councillors

October 2012
Managing Your Electricity Usage – Use Energy Wisely

- Monitoring your electricity consumption data before waiting for the next bill (drive to My Account)
- 10 Smart Meter Lane
- Small Business Usage Calculator
- Weatherproofing

- Programmable Thermostats

November 2012
Managing Your Electricity Usage – Use Energy Wisely

- Programmable Thermostat
- Monitoring your electricity consumption data before waiting for the next bill (drive to My Account
- 10 Smart Meter Lane
- Use ceiling fan to help circulate heat
- Timers on outdoor lights
- Programmable Thermostats
- Earned Media CTV news tips/actions – Rogers Cable TV and LFPress
- Outreach Communications – Special Newsletter for City Councillors

December 2012
Home for the Holidays – Use Energy Wisely

- Timers on seasonal and outdoor lighting
- Monitoring your electricity consumption data before waiting for the next bill (drive to My Account)
- Energy efficient seasonal lighting – consider LED when replacing existing or old seasonal lighting
- Programmable Thermostat
- 10 Smart Meter Lane

Total Group Analysis

INTERPRETING YOUR ORGANIZATION'S OCI RESULTS

Your organization's OCI results are organized into three subsections:

OCI Current Profile

This subsection provides you with a picture of your organization's current culture based on the responses of all members within your organization who completed the OCI. The results are presented on the OCI circumplex as well as in tabular form.

The OCI circumplex allows you to compare your organization's percentile scores along each of the 12 cultural norms. When reading the OCI profile, you want to look for the "spikes," or those cultural norms that are most extended from the center of the circumplex. These are the cultural norms that describe how members within your organization are currently expected and encouraged to think and behave (i.e., the direction of the culture).

The most extended cultural norm in your organization's profile is called the primary style. This describes the way in which members are predominantly encouraged to think and behave. The second most extended cultural norm is called the secondary style. This cultural norm typically works with the primary style or is expected when the behaviors included under the primary style cannot be enacted. Sometimes primary and secondary styles are included in the same cluster (Constructive, Passive/Defensive, or Aggressive/Defensive); other times they are contained within different clusters. The cluster that best describes your organization's culture is the one that has the highest percentile score when the percentile scores of the four cultural norms included in the cluster are averaged together.

The corresponding table includes your organization's percentile scores as well as your organization's unadjusted (or "raw") scores for each of the 12 cultural norms measured by the OCI. In addition, the table presents the standard deviations of the responses around the raw scores. The standard deviations are important because they provide you with an indication of the intensity or the amount of agreement among respondents regarding the extent to which particular cultural norms are predominant within your organization. If you add the standard deviation for a particular cultural norm to its raw score and subtract the standard deviation from its raw score, you will have the range in which approximately 67% of members scored along a particular cultural norm. For example, if the raw score on Humanistic is 37.00 and the standard deviation is 5.20, approximately 67% of the respondents had raw scores between 31.80 and 42.20 along the Humanistic-Encouraging cultural norm. Converting these results to percentile scores, the range falls below the 50th percentile to above the 75th percentile – and that's only accounting for 67% of the respondents!

The smaller the standard deviation, the greater the intensity of the culture and agreement among organizational members regarding a particular cultural norm. Conversely, the larger the standard deviation, the lower the intensity and

agreement among organizational members. The interpretive comments regarding your organization's intensity (e.g., strong, average, weak) are based on comparisons to the distribution of standard deviations reported by over 700 other organizational units in which the OCI was administered. In interpreting the current culture of your organization, you want to consider both direction and intensity. Direction tells you what is (and is not) expected; intensity tells you how widely shared these expectations are. Cultures with clear direction and high intensity are usually the result of a high degree of consistency between the organization's mission, structure, human resource practices, managerial behaviors and styles, goal setting, job design, and other systems, practices, and processes. Cultures that lack a clear direction or have low intensity are typically the result of inconsistency between the organization's mission, structure, human resource practices, managerial behaviors and styles, goal setting, job design, and/or other systems, practices, and processes.

Having a culture with clear direction and high intensity is not necessarily a good or bad thing. For example, a culture with weak direction and/or weak intensity is easier to change than one with strong direction and strong intensity. Thus, whether having a culture with clear direction and high intensity is a good thing really depends on whether the "right" behaviors are currently expected and encouraged. The ideal profile defines for you what the "right" behaviors are for your organization.

OCI Ideal Profile

The OCI ideal profile is your organization's cultural benchmark. This profile provides you with a picture of where people within your organization believe the culture needs to be in order for your organization to be successful. The OCI ideal culture results are based on the average responses of all members within your organization who completed the OCI in terms of what should be expected for your organization to be successful. As with your organization's current culture results, you should identify the direction and intensity of the ideal culture.

OCI Item and Gap Analysis

These analyses provide you with the information you need to identify discrepancies between the current and ideal culture and to more specifically define the behavioral norms that need to be increased or decreased within your organization.

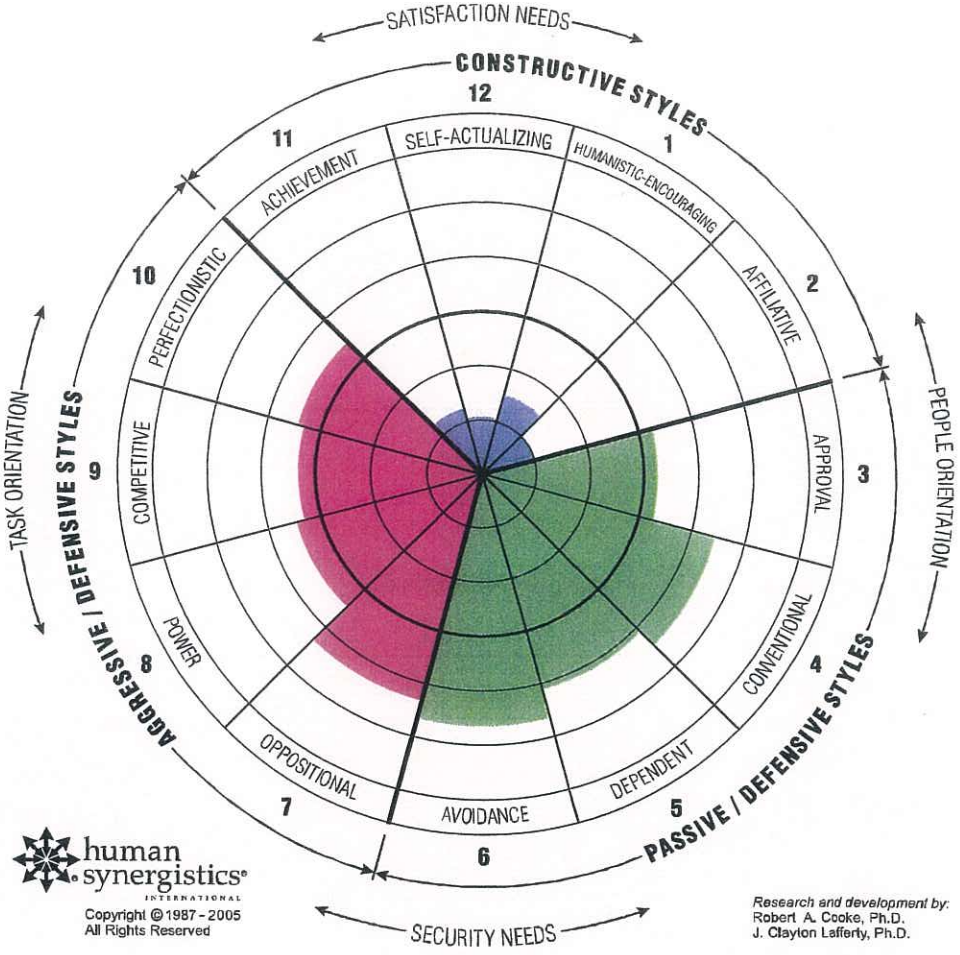
In reviewing these results, you'll want to:

- identify those cultural norms along which there are the greatest gaps between current and ideal;
- mark or identify the pages that include the item-level results for those cultural norms; and
- note the specific items (behaviors) along which there are the greatest gaps between current and ideal.

TOTAL GROUP ANALYSIS

CURRENT PROFILE

All Respondents (N=254)



Overall, the strongest extensions are in the **Passive/Defensive** cluster.

	Primary Style: *Avoidance*	Secondary Style: *Conventional*
Behaviors most strongly expected:	• push decisions upward • take few chances • shift responsibilities to others	• always follow policies and practices • make a "good impression?" • conform

TOTAL GROUP ANALYSIS

CURRENT DATA

All Respondents (N=254)

Constructive

Style	Raw Score	Strength (level)	Intensity (agreement)
Humanistic-Encouraging	30.8	18% Low	8.3 Weak
Affiliative	32.2	10% Low	8.5 Very Weak
Achievement	32.0	14% Low	7.3 Weak
Self-Actualizing	29.0	11% Low	7.0 Weak

Passive/Defensive

Style	Raw Score	Strength (level)	Intensity (agreement)
Approval	28.2	57% Average	7.1 Weak
Conventional	31.6	82% High	7.3 Weak
Dependent	32.8	77% Above Average	7.4 Very Weak
Avoidance	24.3	85% High	8.5 Very Weak

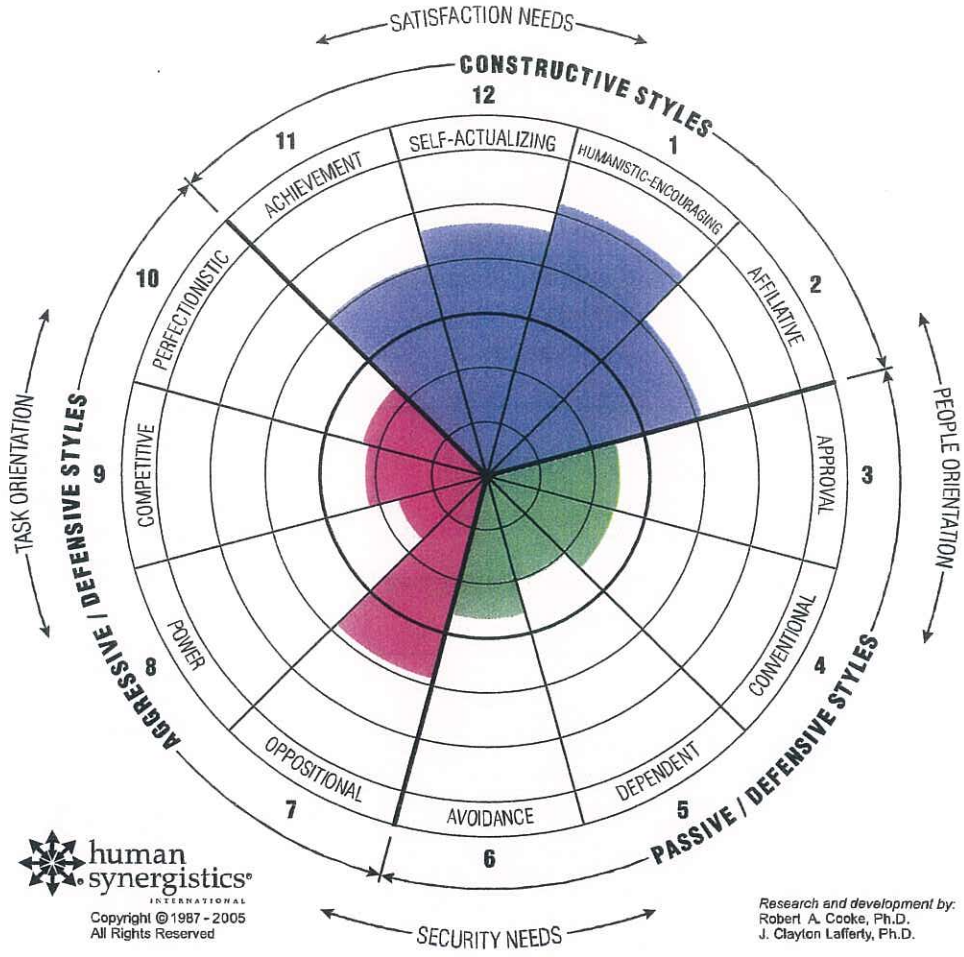
Aggressive/Defensive

Style	Raw Score	Strength (level)	Intensity (agreement)
Oppositional	24.5	80% High	6.1 Weak
Power	25.6	62% Above Average	8.6 Very Weak
Competitive	22.9	58% Average	8.1 Weak
Perfectionistic	30.4	61% Above Average	7.2 Weak

TOTAL GROUP ANALYSIS

IDEAL PROFILE

All Respondents (N=253)



Overall, the strongest extensions are in the **Constructive** cluster.

	Primary Style: ***Humanistic-Encouraging***	Secondary Style: ***Self-Actualizing***
Behaviors most strongly desired:	• resolve conflicts constructively • be supportive of others • be a good listener	• maintain their personal integrity • communicate ideas • do even simple tasks well

TOTAL GROUP ANALYSIS

IDEAL DATA

All Respondents (N=253)

Constructive

Style	Raw Score	Strength (level)	Intensity (agreement)
Humanistic-Encouraging	41.3	92% Very High	6.4 Weak
Affiliative	40.9	77% Above Average	6.3 Weak
Achievement	39.0	76% Above Average	5.8 Average
Self-Actualizing	37.1	85% High	5.3 Average

Passive/Defensive

Style	Raw Score	Strength (level)	Intensity (agreement)
Approval	26.1	37% Below Average	6.6 Weak
Conventional	26.2	36% Below Average	5.5 Average
Dependent	28.0	26% Below Average	5.7 Weak
Avoidance	19.5	41% Average	6.5 Weak

Aggressive/Defensive

Style	Raw Score	Strength (level)	Intensity (agreement)
Oppositional	23.7	72% Above Average	5.7 Weak
Power	21.1	20% Below Average	6.6 Weak
Competitive	19.9	30% Below Average	7.0 Weak
Perfectionistic	27.4	33% Below Average	6.4 Weak

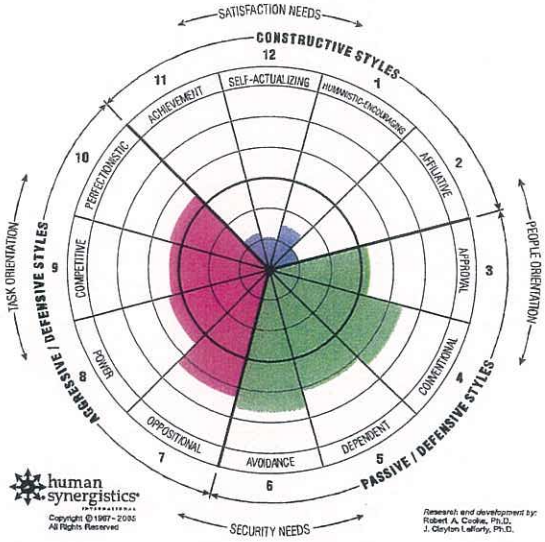
TOTAL GROUP ANALYSIS

CULTURE GAP PROFILES

All Respondents

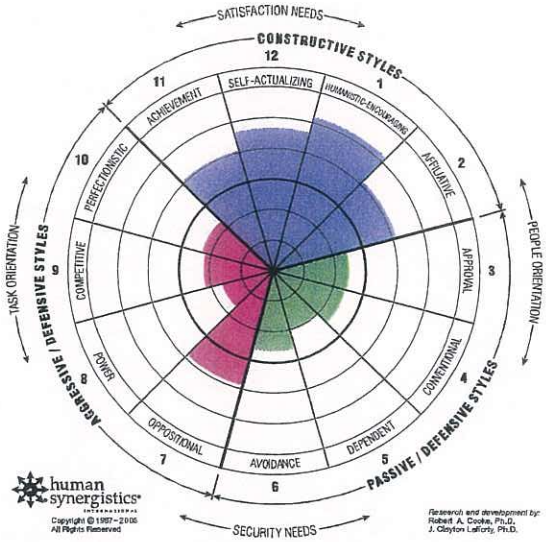
Current Culture

(N=254)



Ideal Culture

(N=253)



Overall, the largest gaps between the Current and Ideal Cultures are in the **Constructive** cluster.

	Primary Gap: ***Self-Actualizing***	**Secondary Gap:** ***Humanistic-Encouraging***
Behaviors with the greatest gap:	• maintain their personal integrity • communicate ideas • think in unique and independent ways • enjoy their work • emphasize quality over quantity	• give positive rewards to others • encourage others • resolve conflicts constructively • help others to grow and develop • involve others in decisions affecting them

TOTAL GROUP ANALYSIS

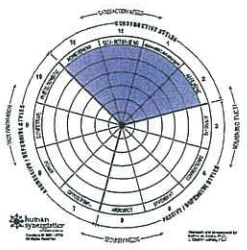
CULTURE GAP DATA

All Respondents

The difference between the ideal culture and the current culture represents the culture gap. This score is a raw score (it is not transformed in any way), and is computed by subtracting the ideal percentile from the current percentile. For Constructive cultural norms, positive gap scores indicate that the organization exceeds the ideal expectations (this is relatively rare), while negative gap scores indicate that the organization would benefit by *increasing* the behaviors represented by the specific cultural norm. For Defensive styles, positive gap scores indicate that the organization would benefit by *decreasing* the behaviors associated with the specific cultural norm, while negative gap scores indicate that the organization already exceeds the ideal expectations for that cultural norm.

Constructive

Style	Strength		Gap
	Current	Ideal	
Humanistic-Encouraging	18%	92%	-74%
Affiliative	10%	77%	-67%
Achievement	14%	76%	-62%
Self-Actualizing	11%	85%	-74%

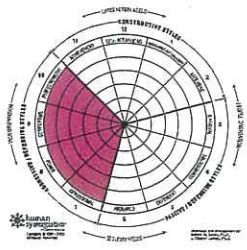


Passive/Defensive

Style	Strength		Gap
	Current	Ideal	
Approval	57%	37%	20%
Conventional	82%	36%	46%
Dependent	77%	26%	51%
Avoidance	85%	41%	44%

Aggressive/Defensive

Style	Strength		Gap
	Current	Ideal	
Oppositional	80%	72%	8%
Power	62%	20%	42%
Competitive	58%	30%	28%
Perfectionistic	61%	33%	28%



TOTAL GROUP ANALYSIS

ITEM ANALYSIS

All Respondents

The item analyses of the responses to the OCI are presented in the following pages. It is useful to initially focus on the items that make up the organization's Primary, Secondary, or major Gap styles. However, it is also important to review the item-level information for all 12 styles in order to fully understand the basis for making change decisions. Behavioral information, such as delivered by the item-level feedback, is often the most important diagnostic tool available in an organizational assessment. The more concrete and tangible the goals and steps of a cultural change program, the more likely the organization members will adopt the program as their own, and the more likely the program will be a success.

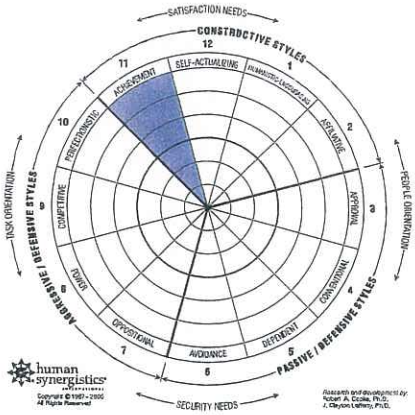
TOTAL GROUP ANALYSIS

Constructive Culture

ACHIEVEMENT

All Respondents

Management and organizations that value goal-setting and accomplishment; relationships are based on establishing reasonably challenging goals and plans, and working toward their achievement



Current	Ideal	Culture Gap
14%	76%	-62%

Item	Current	Ideal	Gap
think ahead and plan	3.40	4.34	-0.94
work for the sense of accomplishment	3.36	4.29	-0.93
explore alternatives before acting	3.05	3.88	-0.83
work to achieve self-set goals	3.02	3.84	-0.82
openly show enthusiasm	3.06	3.80	-0.74
pursue a standard of excellence	3.70	4.33	-0.63
take on challenging tasks	3.27	3.88	-0.61
know the business	3.85	4.44	-0.59
set moderately difficult goals	2.76	3.26	-0.50
take moderate risks	2.57	3.03	-0.46

Item Scale
1 = Not at all
2 = To a slight extent
3 = To a moderate extent
4 = To a great extent
5 = To a very great extent

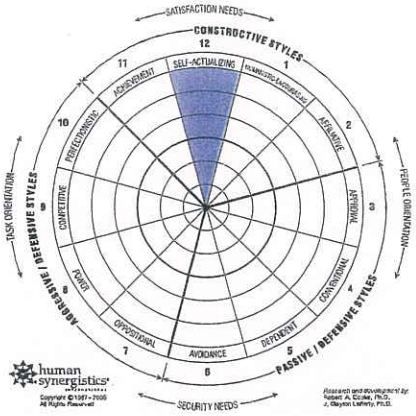
TOTAL GROUP ANALYSIS

Constructive Culture

SELF-ACTUALIZING

All Respondents

Management and organizations that value creativity, personal autonomy, and individual growth; relationships are characterized by enjoyment of work, professional development, and interest in taking on new challenges



Current	Ideal	Culture Gap
11%	85%	-74%

Item	Current	Ideal	Gap
maintain their personal integrity	3.22	4.43	-1.21
communicate ideas	3.13	4.26	-1.13
think in unique and independent ways	2.82	3.93	-1.11
enjoy their work	3.10	4.20	-1.10
emphasize quality over quantity	2.94	3.85	-0.91
be open about self	2.42	3.24	-0.82
be spontaneous	2.37	2.97	-0.60
be concerned about their own growth	2.92	3.49	-0.57
do even simple tasks well	3.83	4.23	-0.40
resist conformity	2.14	2.51	-0.37

Item Scale
1 = Not at all
2 = To a slight extent
3 = To a moderate extent
4 = To a great extent
5 = To a very great extent

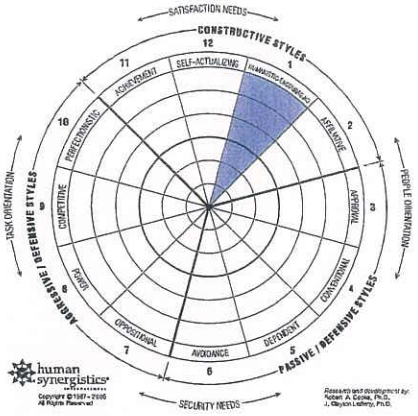
TOTAL GROUP ANALYSIS

Constructive Culture

HUMANISTIC-ENCOURAGING

All Respondents

Participative and person-centered management and organizations; supportive constructive and mentoring relationships



Current	Ideal	Culture Gap
18%	92%	-74%

Item	Current	Ideal	Gap
give positive rewards to others	2.65	3.99	-1.34
encourage others	3.03	4.26	-1.23
resolve conflicts constructively	3.28	4.38	-1.10
help others to grow and develop	3.10	4.19	-1.09
involve others in decisions affecting them	2.92	4.00	-1.08
take time with people	3.02	4.00	-0.98
be supportive of others	3.32	4.29	-0.97
help others think for themselves	2.79	3.75	-0.96
show concern for the needs of others	3.29	4.19	-0.90
be a good listener	3.42	4.28	-0.86

Item Scale
1 = Not at all
2 = To a slight extent
3 = To a moderate extent
4 = To a great extent
5 = To a very great extent

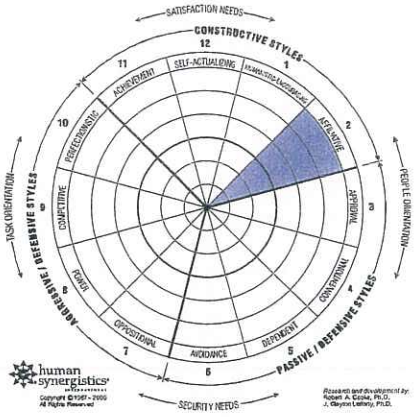
TOTAL GROUP ANALYSIS

Constructive Culture

AFFILIATIVE

All Respondents

Management and organizations that value interpersonal relationships; friendly and sensitive relationships



Current	Ideal	Culture Gap
10%	77%	-67%

Item	Current	Ideal	Gap
treat people as more important than things	3.20	4.42	-1.22
share feelings and thoughts	2.37	3.40	-1.03
show concern for people	3.24	4.21	-0.97
use good human relations skills	3.42	4.38	-0.96
be open, warm	3.00	3.96	-0.96
motivate others with friendliness	2.96	3.88	-0.92
be tactful	3.32	4.08	-0.76
think in terms of the group's satisfaction	3.13	3.86	-0.73
deal with others in a friendly, pleasant way	3.79	4.43	-0.64
cooperate with others	3.79	4.27	-0.48

Item Scale
1 = Not at all
2 = To a slight extent
3 = To a moderate extent
4 = To a great extent
5 = To a very great extent

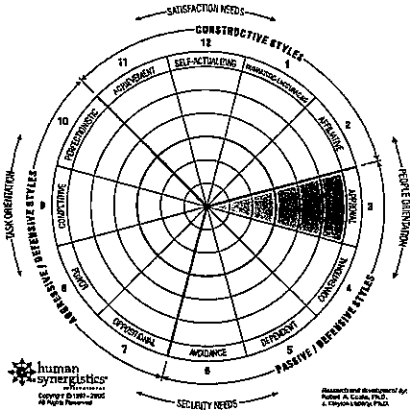
TOTAL GROUP ANALYSIS

Passive/Defensive Culture

APPROVAL

All Respondents

Management and organizations that minimize conflict and have superficially pleasant styles; relationships are characterized by agreement and approval



Current	Ideal	Culture Gap
57%	37%	20%

Item	Current	Ideal	Gap
switch priorities to please others	3.00	2.11	0.89
back up those with the most authority	3.26	2.76	0.50
go along with others	3.00	2.52	0.48
do things for the approval of others	2.94	2.46	0.48
agree with everyone	2.51	2.10	0.41
stay on the good side of superiors	3.20	3.20	0.00
make sure they are accepted by others	2.64	2.64	0.00
be liked by everyone	2.63	2.68	-0.05
be a "nice guy"	3.03	3.22	-0.19
stay conscious of fashion	1.97	2.33	-0.36

Item Scale
1 = Not at all
2 = To a slight extent
3 = To a moderate extent
4 = To a great extent
5 = To a very great extent

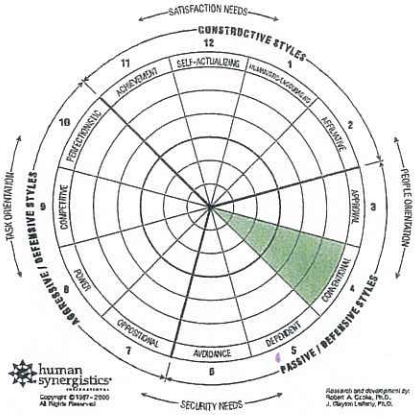
TOTAL GROUP ANALYSIS

Passive/Defensive Culture

CONVENTIONAL

All Respondents

Conservative, traditional, and bureaucratically controlled management and organizations; following rules, conformity and making a good impression characterize relationships



Current	Ideal	Culture Gap
82%	36%	46%

Item	Current	Ideal	Gap
accept the status quo	2.97	1.97	1.00
not "rock the boat"	3.22	2.27	0.95
tell people different things to avoid conflict	2.44	1.66	0.78
fit into the "mold"	3.15	2.43	0.72
treat rules as more important than ideas	3.17	2.53	0.64
avoid confrontations	3.21	2.57	0.64
conform	3.33	2.76	0.57
cast aside solutions that seem different or risky	2.77	2.46	0.31
always follow policies and practices	3.93	3.89	0.04
make a "good impression?"	3.40	3.66	-0.26

Item Scale
1 = Not at all
2 = To a slight extent
3 = To a moderate extent
4 = To a great extent
5 = To a very great extent

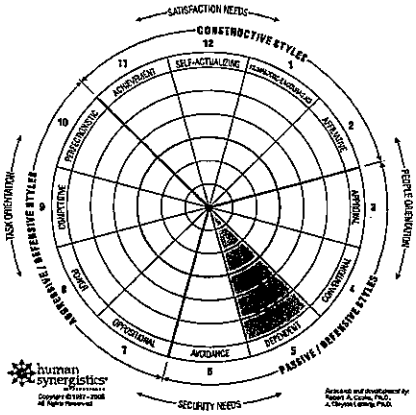
TOTAL GROUP ANALYSIS

Passive/Defensive Culture

DEPENDENT

All Respondents

Hierarchically controlled and non-participative management and organizations; centralized decision making, decisions cleared by superiors, and delayed actions characterize relationships



Current	Ideal	Culture Gap
77%	26%	51%

Item	Current	Ideal	Gap
follow orders... even when they're wrong	2.84	1.76	1.08
never challenge superiors	3.26	2.32	0.94
accept goals without questioning them	3.16	2.31	0.85
please those in positions of authority	3.61	2.94	0.67
be a good follower	3.24	2.78	0.46
willingly obey orders	3.69	3.40	0.29
do what is expected	4.08	3.81	0.27
be predictable	3.04	2.80	0.24
check decisions with superiors	3.33	3.12	0.21
ask everybody what they think before acting	2.52	2.77	-0.25

Item Scale
1 = Not at all
2 = To a slight extent
3 = To a moderate extent
4 = To a great extent
5 = To a very great extent

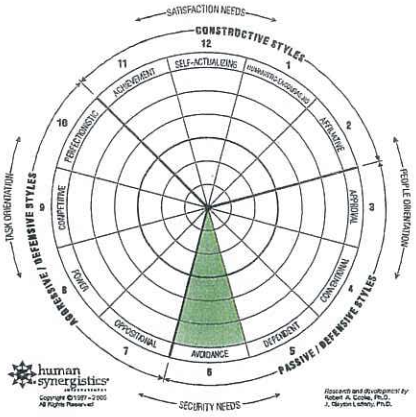
TOTAL GROUP ANALYSIS

Passive/Defensive Culture

AVOIDANCE

All Respondents

Management and organizations that fail to reward success and punish mistakes; relationships are characterized by shifting responsibilities to others and avoidance of blame for mistakes



Current	Ideal	Culture Gap
85%	41%	44%

Item	Current	Ideal	Gap
lay low when things get tough	2.37	1.61	0.76
make "popular" rather than necessary decisions	2.39	1.68	0.71
put things off	2.22	1.55	0.67
never be the one blamed for problems	2.50	1.88	0.62
wait for others to act first	2.29	1.77	0.52
shift responsibilities to others	2.52	2.00	0.52
not get involved	2.24	1.79	0.45
be non-committal	2.14	1.94	0.20
take few chances	2.62	2.46	0.16
push decisions upward	2.86	2.76	0.10

Item Scale
1 = Not at all
2 = To a slight extent
3 = To a moderate extent
4 = To a great extent
5 = To a very great extent

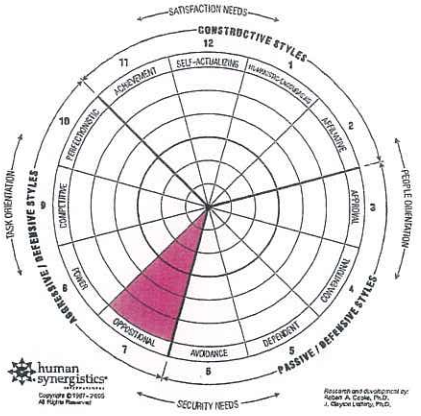
TOTAL GROUP ANALYSIS

Aggressive/Defensive Culture

OPPOSITIONAL

All Respondents

Management and organizations that value confrontation and negativism; relationships are characterized by highly critical questioning, opposition of others' ideas and "watered-down" decisions



Current	Ideal	Culture Gap
80%	72%	8%

Item	Current	Ideal	Gap
refuse to accept criticism	1.98	1.64	0.34
remain aloof from the situation	2.32	2.00	0.32
oppose things indirectly	2.25	2.00	0.25
look for mistakes	2.94	2.80	0.14
oppose new ideas	2.08	1.96	0.12
be hard to impress	2.22	2.14	0.08
stay detached and perfectly objective	3.11	3.06	0.05
play the role of the "loyal opposition"	2.19	2.15	0.04
point out flaws	2.82	3.12	-0.30
question decisions made by others	2.47	2.78	-0.31

Item Scale
1 = Not at all
2 = To a slight extent
3 = To a moderate extent
4 = To a great extent
5 = To a very great extent

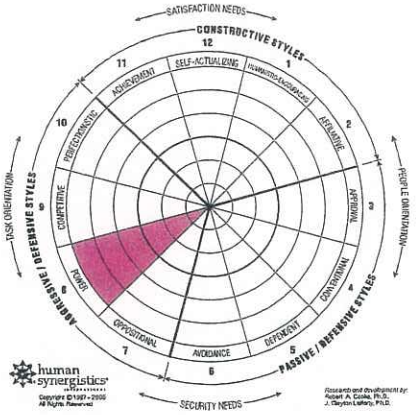
TOTAL GROUP ANALYSIS

Aggressive/Defensive Culture

POWER

All Respondents

Non-participative management and organizations that value strong control, hierarchy and authority; relationships are characterized by a take-charge attitude and controlling subordinates



Current	Ideal	Culture Gap
62%	20%	42%

Item	Current	Ideal	Gap
play "politics" to gain influence	2.54	1.60	0.94
maintain unquestioned authority	2.66	1.93	0.73
personally run everything	2.32	1.73	0.59
use the authority of their position	3.00	2.48	0.52
build up their power base	2.48	2.04	0.44
be hard, tough	2.40	1.99	0.41
stay on the offensive	2.45	2.12	0.33
never relinquish control	2.51	2.21	0.30
act forceful	2.40	2.16	0.24
demand loyalty	2.70	2.71	-0.01

Item Scale
1 = Not at all
2 = To a slight extent
3 = To a moderate extent
4 = To a great extent
5 = To a very great extent

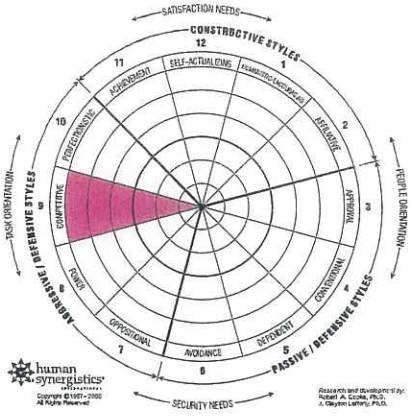
TOTAL GROUP ANALYSIS

Aggressive/Defensive Culture

COMPETITIVE

All Respondents

Management and organizations that reward winning and out-performing others; relationships are couched in "win-lose" framework



Current	Ideal	Culture Gap
58%	30%	28%

Item	Current	Ideal	Gap
compete rather than cooperate	2.17	1.60	0.57
win against others	2.20	1.64	0.56
never appear to lose	2.24	1.72	0.52
be the center of attention	1.82	1.45	0.37
turn the job into a contest	1.85	1.52	0.33
maintain an image of superiority	2.30	1.98	0.32
always try to be right	2.75	2.48	0.27
out-perform their peers	2.49	2.26	0.23
be seen and noticed	2.38	2.37	0.01
be a "winner"	2.67	2.81	-0.14

Item Scale
1 = Not at all
2 = To a slight extent
3 = To a moderate extent
4 = To a great extent
5 = To a very great extent

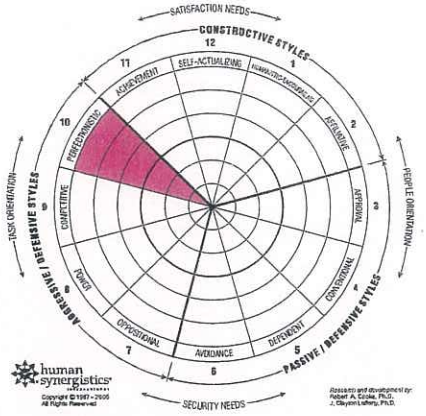
TOTAL GROUP ANALYSIS

Aggressive/Defensive Culture

PERFECTIONISTIC

All Respondents

Management and organizations that value perfectionism, persistence, and hard work; relationships are characterized by zero-defects, personal control over all details, long hours, and narrowly-defined objectives



Current	Ideal	Culture Gap
61%	33%	28%

Item	Current	Ideal	Gap
view work as more important than anything else	3.02	2.07	0.95
set unrealistically high goals	2.30	1.67	0.63
never make a mistake	2.80	2.24	0.56
appear to work long hours	2.87	2.53	0.34
do things perfectly	3.18	2.86	0.32
personally take care of every detail	2.85	2.63	0.22
keep on top of everything	3.45	3.27	0.18
be precise... even when it's unnecessary	2.83	2.75	0.08
persist, endure	3.53	3.56	-0.03
appear competent and independent	3.56	3.78	-0.22

Item Scale
1 = Not at all
2 = To a slight extent
3 = To a moderate extent
4 = To a great extent
5 = To a very great extent

OUTCOMES OF CULTURE

All Respondents

The Organizational Culture Inventory (OCI) includes items that assess some of the outcomes of an organization's culture. Data generated by these items provide initial insights as to whether culture change should be considered and in what direction such change should take place.

Cultural Outcomes Assessed by the OCI

The cultural items assess four outcome areas:

- Role Clarity: The extent to which people receive clear messages regarding what is expected of them.
- Role Consistency: The extent to which members receive consistent expectations from the organization and are expected to do things that are aligned with their own preferences.
- Employee Satisfaction: The extent to which members report positive appraisals of their work situation.
- Commitment to Customer Service: The extent to which the organization has achieved service excellence with respect to both internal and external clients/customers.

Interpreting Your Organization's Cultural Outcomes

Your organization's results along the cultural outcome items are organized into three subsections, with additional information shown in Appendix C.

Cultural Outcomes Gap Analysis

This subsection allows you to see, at a glance, how well your organization scored along each of the cultural outcome items as compared to our Historical Averages for these measures.

Specifically, we compared your organization's score along each of the cultural outcome items (as derived by averaging the responses of all members within your organization) to our "Historical Averages." The Historical Averages represent the mean item-level scores of members of over 700 organizational units. We calculated the numerical difference between your organization's outcome item scores and our Historical Averages. The Gap Barchart presents these differences ranked from most positive (i.e., areas in which your organization is doing better than the average organization) to most negative (i.e., areas in which your organization is not doing as well as the average organization).

When reviewing this section, you'll want to:

- consider whether your organization's results tend to be above average, below average, at average, or fairly evenly split relative to the Historical Averages;
- make a list of those results that are of concern to you;
- and refer to the next subsection for an interpretation of these results.

If your organization does not fall below average along any of the outcomes measured by the OCI, you should look ahead to the "Outcomes of Culture" section. Specifically, examine these charts and tables in terms of whether your

organization is scoring lower than it should along any of the items. Then refer to the "Implications of High and Low Scores on the Cultural Outcomes" (in the Appendix) for some initial ideas for facilitating positive change.

Cultural Outcomes

This subsection allows you to take a more detailed look at your organization's cultural outcome results as compared to our Historical Averages and Constructive Benchmarks. Barchart comparisons between your organization, the Historical Averages, and the Constructive Benchmarks are presented for each of the cultural outcome items. The item-level results for your organization, the Historical Averages, and the Constructive Benchmarks are also provided in tabular form.

Your organization's results are based on the average responses of all members who completed the OCI within your organization. The Historical Averages are based on the average responses of members from over 700 different organizational units. From this sample of over 700, approximately 120 organizational units were identified as having predominantly Constructive cultures based on their OCI results. Specifically, the cultures of these 120 units were all relatively strong in terms of Constructive cultural norms (above the 60th percentile) and were all relatively weak in terms of Passive/Defensive and Aggressive/Defensive cultural norms (below the 50th percentile). The average responses to the OCI cultural outcome items by members of these units were then computed to establish our "Constructive Benchmarks" for these items.

Reviewing this subsection will provide you with a deeper understanding of your organization's results along the outcome items. Based on the item results, you will be able to pinpoint where your organization is falling short (or, conversely, doing quite well) as compared to other organizations.

Organizational Readiness for Change

In any type of change effort, it is important to anticipate the sources of resistance to and support for change initiatives. The Ideal OCI tapped members' perceptions regarding the organization's readiness for changing the culture to be more consistent with ideal. This subsection summarizes those results in terms of the:

- perceived support for change by members at different levels of the organization;
- anticipated effects of change on individual members; and
- anticipated effects of change on the organization.

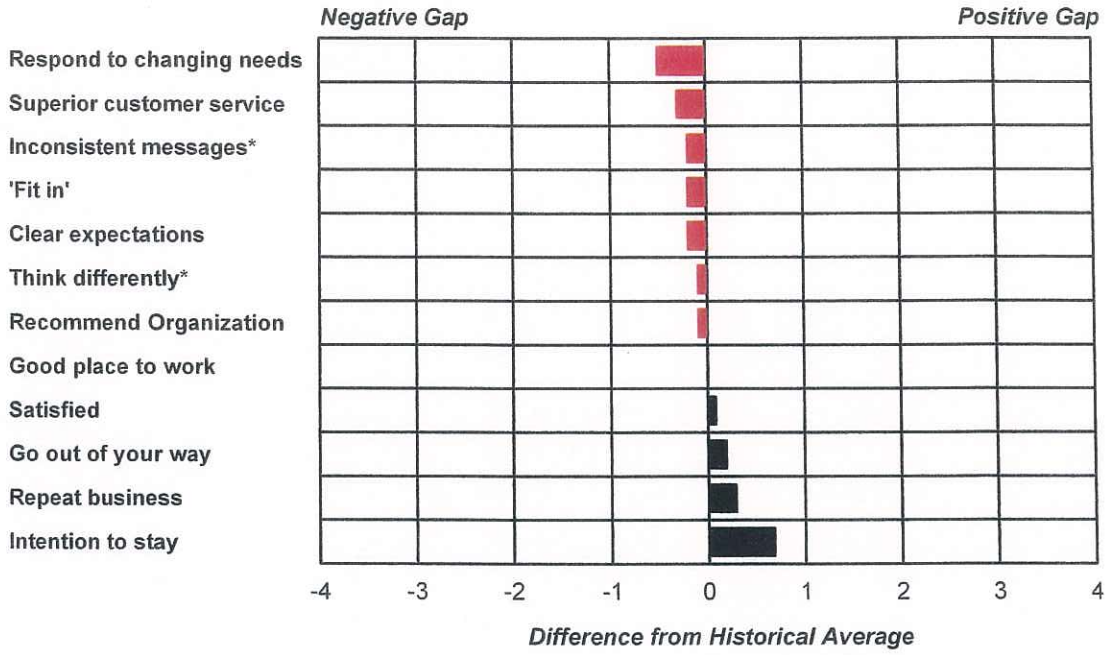
In reviewing these results you will want to:

- make a list of where resistance to cultural change is most likely to occur within your organization;
- identify the fears most likely to be associated with that resistance;
- develop a plan for overcoming the resistance to cultural change, in part by directly addressing the fears upon which such resistance is based;
- develop a list of where support for culture change is most likely to be found in your organization;
- and identify ways in which these sources can be used to facilitate the change effort.

TOTAL GROUP ANALYSIS

Cultural Outcomes Gap Analysis

All Respondents



**These items are negatively worded in the OCI, and the scores are reversed for presentation purposes, in order to be consistent with the response format of the other items.*

TOTAL GROUP ANALYSIS

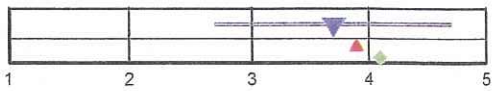
Cultural Outcomes

All Respondents (N=254)

Role Clarity

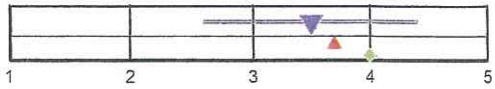
do you clearly know what is expected of you as a member of this organization?

Avg	S.D.
3.7	1.0



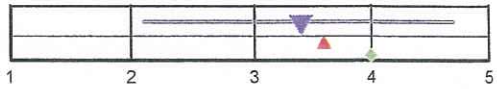
Role Consistency

Avg	S.D.
3.5	0.9



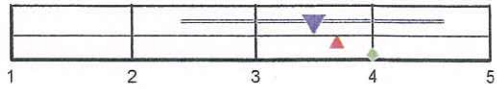
do you receive inconsistent messages regarding what is expected?*

Avg	S.D.
3.4	1.3



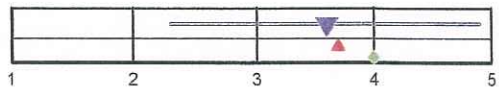
do you feel you comfortably "fit in" as a member of this organization?

Avg	S.D.
3.5	1.1



does your job require you to think and behave differently than would otherwise be the case?*

Avg	S.D.
3.6	1.3



Key

- Average — Standard Deviation
- Historical Average
- Constructive Benchmark

Item Scale

1 = Not at all
2 = To a slight extent
3 = To a moderate extent
4 = To a great extent
5 = To a very great extent

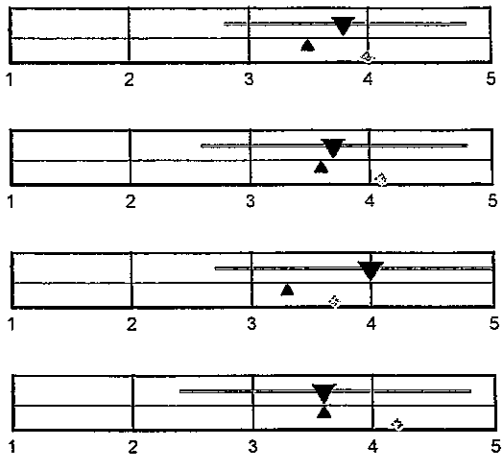
** these items are negatively worded in the OCI, and the scores presented are reversed for presentation purposes, in order to be consistent with the response format of the other items.*

TOTAL GROUP ANALYSIS

Cultural Outcomes

All Respondents (N=254)

	Avg	S.D.
Satisfaction	3.8	1.0
are you satisfied being a member of this organization?	3.7	1.1
do you expect to be with this organization two years from now?	4.0	1.3
would you recommend this organization to someone like yourself as a good place to work?	3.6	1.2



Key

- Average
- Standard Deviation
- Historical Average
- Constructive Benchmark

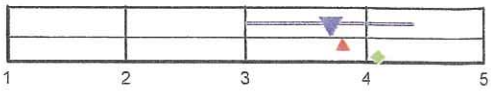
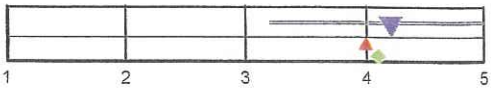
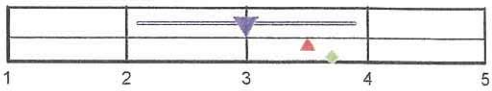
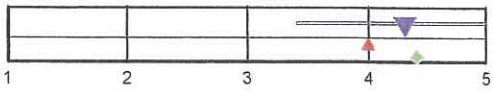
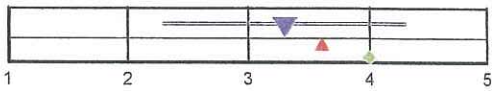
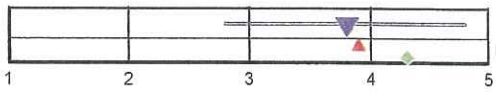
Item Scale

1 = Not at all
2 = To a slight extent
3 = To a moderate extent
4 = To a great extent
5 = To a very great extent

TOTAL GROUP ANALYSIS

Cultural Outcomes

All Respondents (N=254)

	Avg	S.D.	
Commitment to Customer Service	3.7	0.7	
would you personally go out of your way to make sure that a customer/client feels good about the service you've provided?	4.2	1.0	
does the organization respond effectively to the changing needs of its customers/clients?	3.0	0.9	
do you believe the organization will get repeat business from its present customers/clients?	4.3	0.9	
does your organization have a reputation for superior customer service?	3.3	1.0	
would you recommend this organization to potential customers/clients seeking the products or services it offers?	3.8	1.0	

Key

- Average
- Historical Average
- Constructive Benchmark
- Standard Deviation

Item Scale

1 = Not at all
2 = To a slight extent
3 = To a moderate extent
4 = To a great extent
5 = To a very great extent

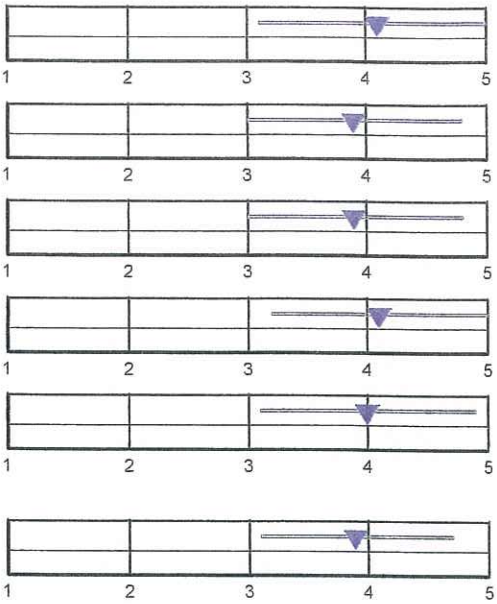
TOTAL GROUP ANALYSIS

Readiness for Change

All Respondents (N=253)

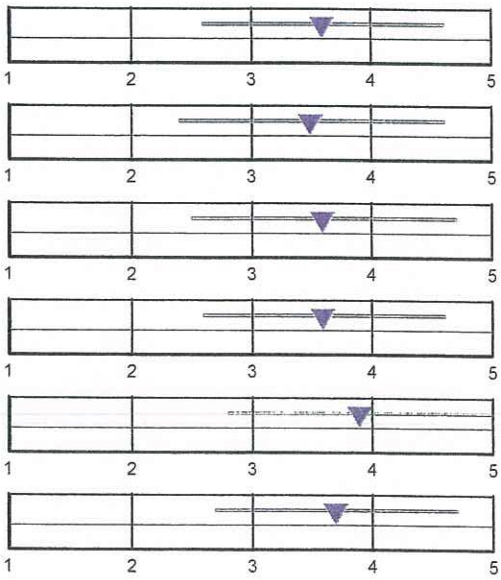
To what extent would this type of culture...

	Avg	S.D.
enable you to develop your capabilities and maximize your contributions to the organization?	4.1	1.0
enhance the quality of products/services offered by your organization?	3.9	0.9
require people like yourself to work more efficiently and effectively?	3.9	0.9
require members to develop better teamwork, communication, and interpersonal skills?	4.1	0.9
be consistent with the mission, philosophy, and/or values of the organization (as you understand them)?	4.0	0.9
be practical and realistic for an organization in the same industry (and operating environment) as yours?	3.9	0.8



To what extent would movement toward this type of culture...

	Avg	S.D.
be feasible and attainable in your organization?	3.6	1.0
be supported by top-level management?	3.5	1.1
be supported by middle management?	3.6	1.1
be supported by non-managerial personnel?	3.6	1.0
create uncertainty and tension for members?*	3.9	1.1
increase your commitment to the organization?	3.7	1.0



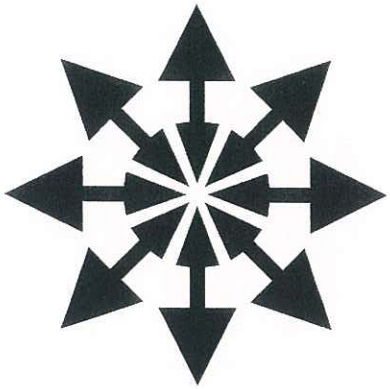
** this item is negatively worded in the OCI, and the score presented is reversed for presentation purposes, in order to be consistent with the response format of the other items.*

Key

▼ Average ═══ Standard Devation

Item Scale

1 = Not at all
2 = To a slight extent
3 = To a moderate extent
4 = To a great extent
5 = To a very great extent



Organizational Culture Supplementary Questions Survey

London Hydro

May 2011

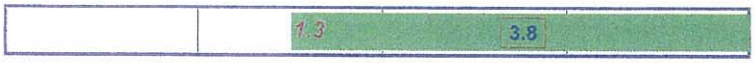
London Hydro
Supplementary Questions Survey

1 : Are you aware of the Wellness programs at my organization?

234 responses

Not at all 1 *3* *To a very great extent 5*

2 : Are you aware of the free and confidential Personal Wellness Profile?



234 responses

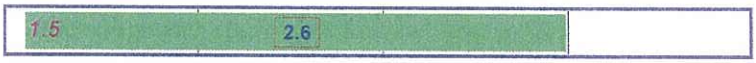
Not at all 1 *3* *To a very great extent 5*

3 : Have you participated in at least one Wellness program (one-on-one wellness consultation, health fair, flu shot clinic, lunch & learn)?

234 responses

Not at all 1 *3* *To a very great extent 5*

4 : Have you made positive changes to benefit your health as a result of your organization's Wellness program?



233 responses

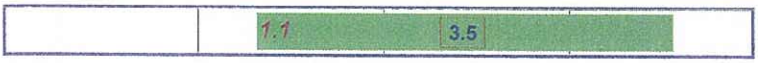
Not at all 1 *3* *To a very great extent 5*

5 : Do you plan to make positive changes to benefit your health as a result of the organization's Wellness program?

232 responses

Not at all 1 *3* *To a very great extent 5*

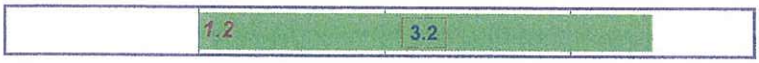
6 : Do you feel employees at London Hydro are accepting of the potential of any group (for example: men, women, visible minorities, people with disabilities, gays and lesbians)?



232 responses

Not at all 1 *3* *To a very great extent 5*

7 : Is there a spirit of mutual respect, collegiality, and due process in place to deal with harassment and discrimination effectively?



232 responses

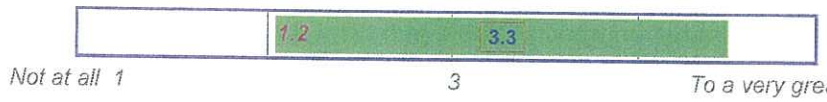
Not at all 1 *3* *To a very great extent 5*

St. Dev. Avg.

8 : Is London Hydro aware of employees' accommodation needs?

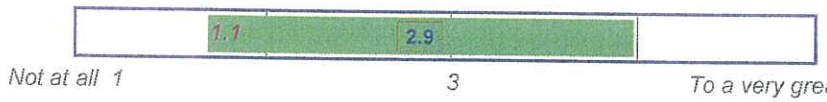
226 responses

9 : Is London Hydro open to being flexible to address employees' accommodation needs?



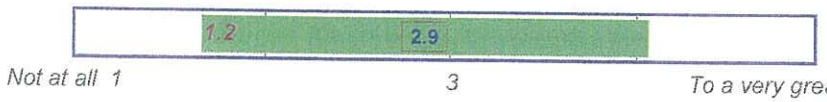
227 responses

10 : Do you feel management does as it says it will?



230 responses

11 : Do you feel management is fair and credible?



226 responses

St. Dev. | Avg.

1 : Are you aware of the Wellness programs at my organization?

Total responses out of 234

Not at all	***5***	2.1%
To a slight extent	***18***	7.7%
To a moderate extent	***37***	15.8%
To a great extent	***69***	29.5%
To a very great exent	***105***	44.9%

2 : Are you aware of the free and confidential Personal Wellness Profile?

Total responses out of 234

Not at all	***14***	6.0%
To a slight extent	***29***	12.4%
To a moderate extent	***42***	17.9%
To a great extent	***54***	23.1%
To a very great exent	***95***	40.6%

3 : Have you participated in at least one Wellness program (one-on-one wellness consultation, health fair, flu shot clinic, lunch & learn)?

Total responses out of 234

Not at all	***65***	27.8%
To a slight extent	***20***	8.5%
To a moderate extent	***25***	10.7%
To a great extent	***35***	15.0%
To a very great exent	***89***	38.0%

4 : Have you made positive changes to benefit your health as a result of your organization's Wellness program?

Total responses out of 233

Not at all	***80***	34.3%
To a slight extent	***44***	18.9%
To a moderate extent	***40***	17.2%
To a great extent	***35***	15.0%
To a very great exent	***34***	14.6%

5 : Do you plan to make positive changes to benefit your health as a result of the organization's Wellness program?

Total responses out of 232

Not at all	***58***	25.0%
To a slight extent	***38***	16.4%
To a moderate extent	***52***	22.4%
To a great extent	***42***	18.1%
To a very great exent	***42***	18.1%

6 : Do you feel employees at London Hydro are accepting of the potential of any group (for example: men, women, visible minorities, people with disabilities, gays and lesbians)?

Total responses out of 232

Not at all	***9***	3.9%
To a slight extent	***39***	16.8%
To a moderate extent	***68***	29.3%
To a great extent	***68***	29.3%
To a very great exent	***48***	20.7%

7 : Is there a spirit of mutual respect, collegiality, and due process in place to deal with harassment and discrimination effectively?

Total responses out of 232

Not at all	*24*	10.3%
To a slight extent	*35*	15.1%
To a moderate extent	*73*	31.5%
To a great extent	*60*	25.9%
To a very great exent	*40*	17.2%

8 : Is London Hydro aware of employees' accommodation needs?

Total responses out of 226

Not at all	*20*	8.8%
To a slight extent	*37*	16.4%
To a moderate extent	*70*	31.0%
To a great extent	*64*	28.3%
To a very great exent	*35*	15.5%

9 : Is London Hydro open to being flexible to address employees' accommodation needs?

Total responses out of 227

Not at all	*23*	10.1%
To a slight extent	*35*	15.4%
To a moderate extent	*62*	27.3%
To a great extent	*65*	28.6%
To a very great exent	*42*	18.5%

10 : Do you feel management does as it says it will?

Total responses out of 230

Not at all	*27*	*11.7%*
To a slight extent	*66*	*28.7%*
To a moderate extent	*69*	*30.0%*
To a great extent	*47*	*20.4%*
To a very great exent	*21*	*9.1%*

11 : Do you feel management is fair and credible?

Total responses out of 226

Not at all	*29*	*12.8%*
To a slight extent	*64*	*28.3%*
To a moderate extent	*60*	*26.5%*
To a great extent	*48*	*21.2%*
To a very great exent	*25*	*11.1%*

London Hydro

Culture Development

2012 Year End Report

W. Kunz
12/13/2012

Introduction

London Hydro has made a commitment to create an engaging, constructive culture. This report reviews the progress made to-date and recommendations for initiatives that will move the organization forward in 2013 and 2014.

A number of initiatives have been completed including

- an **Organizational Culture Report** (2011) that compiled the results of a survey completed by approximately 90% of our employees. The report provided a snapshot of our current culture, our ideal culture, and the top ten gaps between the two cultures. The results were presented to all employees in the fall of 2011.

- **Front Line Leadership** training for directors, managers, supervisors and lead hands (2011 and 2012) addressed key issues identified in the Organizational Culture Report. Specifically it addressed the need to foster a constructive work culture by dealing effectively with performance issues and creating a climate of open communication that nurtures employee achievement.

- **Employee Focus Groups** (2012) were held to explore the results of the culture survey and to gather feedback that could be used to develop further plans. An outside consultant facilitated five sessions, four of which had unionized employees only and the fifth had supervisor/manager attendees.

- New internal **communication** includes quarterly Director Meetings, monthly "Message from the CEO" bulletin, executive crew visits, stories about various departments, the safety billboard, media boards outside cafeteria and in Materials Management, and the London Hydro orientation video.

Leadership Training & Development has made a Positive Impact

Nearly every person with people-leadership responsibility has been trained in a 2 to 4 day leadership program. Every successful graduate of that training had to document specific actions that he or she implemented and the impact on their department. The final session (Performance Conversations) was delivered in late 2012 to assist supervisors, managers and directors to provide meaningful performance feedback.

A number of employees who attended a focus group acknowledged that many supervisors and managers made noticeable improvements in their leadership style and approach after attending the leadership training.

The link between Constructive Culture and Operational Excellence

At a recent symposium on Culture, Leadership and Performance that was attended by members of London Hydro's HR team, Sid Ridgley from Simulcorp showed the link between positive culture change and customer satisfaction scores. Documented cases have shown that even small movements toward a more constructive culture can yield positive results in productivity, employee attitude, attraction, and retention of talent and cost management.

Employees who observe any positive momentum towards a better workplace will generally stay with the organization longer and be more committed to its success.

London Hydro will need to attract and retain talented individuals to replace those who retire. A constructive culture will make the company more attractive.

Opportunities for Improvements

London Hydro can move the culture forward with continued focus on practices and leadership approaches. Leadership skills of supervisors, managers and directors will continue to be developed by periodic refreshers and new content. Any newly promoted leaders will take the comprehensive leadership course delivered to existing leaders.

An even greater impact on the culture can be achieved by implementing some specific initiatives such as:

Hiring and Selection Processes

With the large number of expected retirements at all levels, London Hydro can proactively hire employees who will help contribute to a constructive culture.

To enhance the hiring and selection process consideration should be given to:

- interaction with multiple departments (those impacted by the position being filled); and
- interaction with potential co-workers.

By extending the amount of time a candidate can be observed by multiple London Hydro contacts, it should be easier to determine who is likely to be a better long term fit. While this might extend the amount of time spent on the hiring process and require additional time from internal resources, there should be a corresponding increase in hiring success. Hiring great employees will ultimately reduce the frustration and stress that comes with managing an employee who is a poor fit.

Performance Management

A key finding from focus groups was that poor job performance is not adequately addressed and this frustrates all employees. In the autumn of 2012, supervisors, managers and directors participated in a performance management workshop that was designed to help them

- achieve departmental goals;
- improve the performance of individuals;
- address performance and behavioural concerns; and
- lead an effective performance management conversation.

This workshop has reinforced the importance of performance conversations with all employees and the importance of the annual performance appraisal for all non-union staff. A New Hire Survey also reinforced the importance of performance conversations.

In 2012, London Hydro introduced a New Hire Survey that is completed after three months of employment for the purpose of fostering a climate of open communication and learning how better to meet the needs of new hires. Performance management was scored the lowest; specifically in the area of poor communication/expectation setting within the department. A process and tool to increase the communication between the new hire and their supervisor will help the new hire build confidence, adjust to our culture quicker, and become more productive sooner.

Succession Planning

Our succession plan is updated each year identifying individuals who may retire and also identifying possible successors for leadership roles. Not all positions have successors identified and not all positions will be filled in-house.

A large number of employees can retire from London Hydro over the next five years; many from senior positions and the trades. This will create challenges as well as opportunities. The challenges include the experience and knowledge that will walk out the door, the war for talent in the marketplace, and the loss of productivity. However, this also creates career opportunities, new perspectives, and can have a faster impact on the culture change.

Current practices such as our performance appraisal system help in succession planning. The process includes an appraisal of current knowledge, experience, and skills as well as a section about an employee's career aspirations. It provides an opportunity for the employee and supervisor to develop a plan to help the employee attain the experience and technical/leadership skills necessary to be successful in a new role. A new initiative being considered to help in the identification of training needs is discussed below.

360 Degree Feedback

In 2013, we plan to evaluate 360 degree instruments. The 360 Degree Feedback Process is a powerful tool to help supervisors see themselves from the perspective of others: their direct reports, their own supervisor and their colleagues. As part of a training program, it can be effective for helping supervisors focus their development on the areas in which they would benefit most. The goal is to continue to introduce initiatives that move our current culture toward the ideal culture.

Union Environment

Working in a union environment is always challenging, more so during a collective bargaining year. The impact of bargaining can be enormous and last long after an agreement is reached. The current collective agreement between London Hydro and the PWU expires December 31, 2012 and negotiations for a new agreement begin December 17, 2012. Although the day-to-day practices are not as impactful they are important to the culture of the organization.

In 2013, sessions will be held for supervisor, managers, and directors to talk about the collective agreement and the importance of fair and consistent practices.

Innovation

Employee Involvement

London Hydro should consider a more formal approach to soliciting employee ideas for continuous improvement. This can be partially integrated into an initiative to open up access and communication up and down the organization. This can achieve two outcomes: 1) increase employee involvement, and 2) improve operational effectiveness.

A continuous improvement process should have specific targets and ideally involve employees directly in the process of analyzing, making recommendations and implementing solutions. It will be less effective to simply ask employees to generate ideas and then leave those ideas in the hands of time-constrained managers and supervisors to implement. To be most effective, the teams may require some assistance in terms of training and facilitation.

Communication

Employees place importance in knowing what is going on in the organization and feeling a sense of "being in on things." One of the reasons that London Hydro's culture becomes more defensive at lower levels is because information does not fully flow to the front line staff and from the staff to management.

Below are examples to improve communications and employee involvement.

- **Briefing Sheet for Front Line Leaders:** Implement a briefing sheet with key talking points that can be used by front line supervisors and managers to deliver key messages to employees. A weekly frequency for these talking points will make it easier for the supervisor to cover them each week.

- **Department/team meetings:** Institute short, regular meetings, perhaps even as brief as 15 minutes once a week so that employees feel informed. An agenda template can be implemented so that the meeting is high impact and serves a functional purpose.

- **London Hydro Business School:** Executives, directors, managers, and supervisors put on classes internally to teach London Hydro's business to employees. This is especially helpful so that employees can learn about the key drivers of business success. It is important that the messaging be made simple and easy to understand so as not to be boring and confusing. An external consultant could assist in creating the framework for this process. Even though it might take considerable time to teach all employees about all the facets of the business, it will create positive momentum.

- **Informal but Regular Contact with Executives**: The CEO and possibly other executives invite cross sections of employees to a lunch in the executive boardroom where some time can be spent explaining recent decisions and activities and ask for employee input. Employees can then take what they learn and spread that news back in their departments. It is possible to combine this initiative with the London Hydro Business School idea.

- **Employee Involvement in Business Challenges** – When the organization faces a specific business challenge, involve employees to offer suggestions, and consider options. Even if the ultimate decision rests with management, greater employee involvement will make the solution/decision more palatable.

Conclusion

London Hydro has undertaken several initiatives that have moved the organization towards being more constructive. The challenge now is to implement some specific actions that will engage employees and contribute to operational excellence. These initiatives can create real efficiencies while providing a more motivating work environment that is attractive to the best and brightest.

We expect to see a shift towards a more constructive culture in March, 2014 when the next organizational culture survey will be done. However as noted above the work to-date may be overshadowed by the current collective bargaining process.

Information Technology Strategy
Fiscal Year 2011-2013

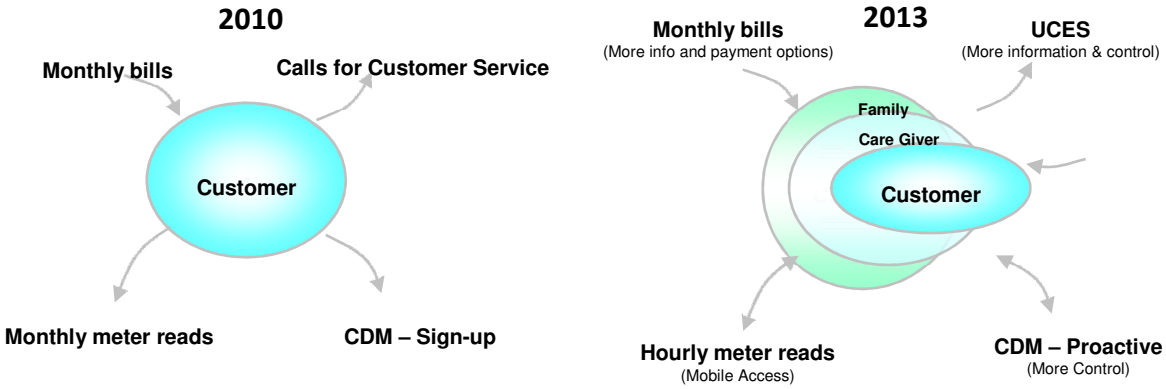
Prepared October 2010

Table of Contents

Executive Summary

Increasing complexity and change within the electricity market and in growing customer expectations creates challenges in provision of IT services and solutions to support London Hydro's needs. Many current and future developments in the utility industry and specifically the Ontario electricity market, such as the smart metering initiative, AMI, smart grid, conservation and demand management contribute to a step change in complexity and necessitate the development of more sophisticated IT solutions to collect, store and process data.

This increased complexity is not limited to the business systems used within the corporation. Introduction of Time of Use rates, conservation initiatives, green energy and distributed generation also create challenges of communication and understanding amidst growing customer expectations of how they interact with companies.



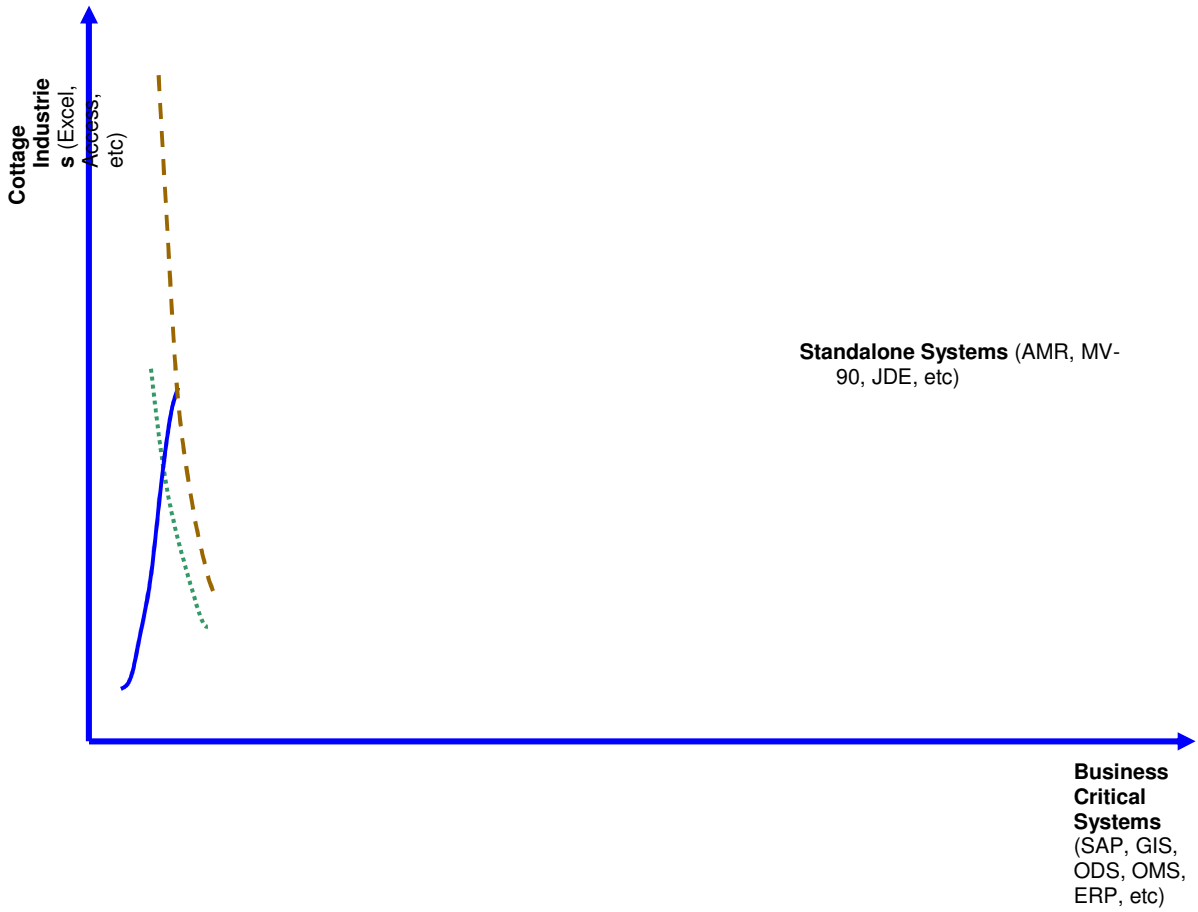
These changes though, present opportunities to engage customers and build relationships between London Hydro and the community. Technology solutions will play an important role in how this area develops over time.

The increase in complexity within systems and interactions with customers requires a new approach to provision of the more advanced IT services and solutions required to support the organization. This Information Technology Strategy has been created with the goal of defining a vision, strategy and direction for London Hydro's technology development over the period 2011 to 2013 and setting a stage for development beyond 2013. Extensive evaluation of the existing state of information technology assets in place at London Hydro as well as current projects in progress has been considered in defining key focus areas for the IT group:

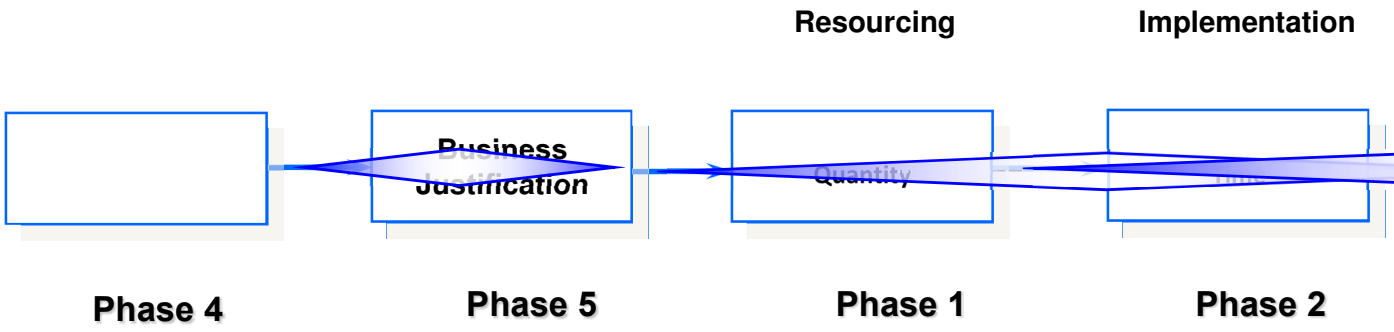
- 3 year Program and Technology Outlook
- Integrated Resource Planning

- Cost Control and Quality

Defining, maintaining and following a three year strategy for technology development provides longer term goals to strive for and consider during project design and development, encouraging teams to think about the broader IT picture and how



individual components will fit into the organization as a whole. In this initial three year program we will continue to develop and integrate core enterprise systems (SAP, GIS, ODS, OMS), staying the course with SAP, Intergraph and Oracle as strategic vendors/partners and aiming to extract maximum value from the technology investments that London Hydro has already made over past years. We will also be taking a structured approach to evaluating and integrating emerging technologies such as mobile applications, collaboration tools and social networking to support internal communication, external communication and customer engagement.



Development of new internal work processes, centered on a standard PMO project framework will be used to ensure quality in IT solutions. A more business driven focus will be put on projects, ensuring business needs are well understood throughout all stages of projects and implementing new quality control tools. Ultimately we aim to create cost effective IT solutions by delivering the right solution, first time around.

In implementing the three year IT strategy, London Hydro needs to leverage our strengths and opportunities while addressing our weaknesses to ensure long term sustainability of the IT infrastructure and applications. Integrated resource planning will allow us to better manage internal resources and training to ensure that London Hydro has the internal IT skills to maintain business operations effectively and reduce reliance on external consultants. Our aim is also to seek a more effective balance in utilization of consultants on project work, targeting their usage to leverage the specializations they provide.

Strengths	Weaknesses	Opportunities	Threats
Systems Knowledge	SAP Skills	Collaboration	Retention
Business Knowledge	Work Processes	Customer Engagement	Scale
Creativity	User Expectations	Adoption & QA	External Reliance
IT Operations	Change Management	AMI & Smart Metering	Regulatory Changes

Section 1. Introduction

1.1. Vision

Contribute to London Hydro's vision and mission by optimizing IT through effective planning, delivery of technology projects and operations on time, on budget and within expected quality for London Hydro customers.

1.2. Mission Statement

Our mission is to provide technology leadership while delivering cost effective and flexible technology solutions and services to London Hydro's business users and customers.

1.3. Principles

In pursuit of the IT Services vision and mission we will:

- Obtain in depth understanding of customers needs to ensure requirements are properly defined and considered to deliver quality solutions
- Define multi-year forward thinking plans for technology integration, considering overall life-cycle cost of technology solutions and investments
- Deliver technology solutions to enable London Hydro to be an industry leader
- Define, maintain and refine processes and methods to ensure consistency and quality in technology solution deliverables
- Establish and utilize standards and longer term partnerships in IT service procurement, encouraging competitive pricing and strong service management
- Establish business partnerships to build trust within the business user community and ensure acceptance of delivered solutions
- Strive to provide equal consistent levels of service to all business areas
- Continuously evaluate our application and infrastructure landscapes for opportunities to simplify and consolidate processes to minimize overhead

1.4. Culture

Within the IT services organization, we aim to create a culture of creative and innovative problem solving and multi-disciplinary staffing. From an IT perspective, London Hydro's size can create problems of scale – the organization and data processing requirements are such that larger scale solutions are sometimes required, yet the organization is not necessarily of sufficient size to afford the investments that such solutions often imply.

To achieve success, we need to deliver solutions and support in a more efficient and effective manner, by utilizing staff in multiple roles throughout system lifecycles, encouraging a broader perspective and understanding of systems and the business processes they are created to support, which can be facilitated through improved internal communication and cross-training of processes between current resources. In conjunction with this, we need to encourage more creative and innovative use of the systems already available to minimize overheads and help to simplify the technology landscape to the extent possible.

1.5. Background

London Hydro is an electricity distribution company, serving the area of London, ON and is a public corporation with a sole shareholder - the Corporation of the City of London. London Hydro distributes electricity to approximately 144,000 customers within its franchise service territory; its distribution network spans some 420 square kilometers within the City of London. As a community corporation, London Hydro subscribes to the principles of safety, reliability of supply, customer care, and public trust.

London Hydro operates within a complex electricity market and regulatory environment in the Province of Ontario. This necessitates significant investment not only in the operational aspects of a 'wires' company, but also in the areas of meter to cash (including metering, VEE, billing, collections) and market settlements processes.

London Hydro's IT organization, comprised of the Project Management Office and IT departments exists to implement and maintain business IT systems and infrastructure to support all areas of the organization, which broadly covers Engineering, Operations, Metering Services, Customer Services, Finance and Human Resources.

Section 2. Condition Assessment

2.1. Application Landscape

London Hydro's application landscape can been broadly divided into three categories[1] of business systems:

- Enterprise systems support major or fundamental business process areas and operations, including the SAP Customer Information System, Intergraph Geographic Information System and JDEdwards Financials/ERP. These systems represent substantial technology platform and financial investment.
- Specialized systems primarily support the processes of Category A systems, through data collection, integration of systems or narrower focused processes. These systems represent smaller technology and financial investment.
- Outside of the primary and secondary systems are those generally disconnected from other systems and created on an ad-hoc needs basis outside of the support of IT services. These are often referred to as 'cottage industry' systems.

A logical connectivity diagram of the current landscape may be found in Appendix A.

2.1.1. Customer Information System

London Hydro went live with the current SAP Customer Information System in June 2009, replacing the old CIS*Ontario* system. Since that time, focus has been primarily on stabilization of the core system functionality and development of incomplete processes. Several areas of functionality have seen redesign efforts in 2010 to resolve outstanding issues, including the print workbench bill print extract process to produce more reliable bills, promise to pay (payment arrangements), collections final notice and disconnect approval processes. In all cases, redesign efforts have allowed London Hydro to make better use of standard SAP functionality, reducing the volume of custom developments, while resolving outstanding issues.

Efforts being completed in 2010 will still leave two significant areas outstanding for development work; the regulated Security Deposit Assessment process has yet to be completed in SAP and EBT processes require redesign to improve integrity and provide a properly auditable solution. In addition to these major items, there are a significant number of smaller open issues that will need to be addressed.

Development of new functionality to implement time of use billing and interfaces to the provincial MDM/R service are underway currently, expected to complete in late 2010 and early 2011 respectively. Changing requirements from the Smart Meter Entity

[1] *Note that these categories represent a method of classification for technology platform and financial investments, not the level of importance or criticality of a system to business operations.*

operating the MDM/R service will require changes to interfaces in 2011 to support requirements set out by Measurement Canada which due to scheduling of the certification process, were not able to be considered in the initial development.

Reporting is an ongoing concern with regards to the Customer Information System, but is also an issue across the entire application landscape. Due to limitations of the standard SAP query tools and time/effort requirements to produce reports in the SAP ABAP programming language, many queries are written directly against the underlying SAP database, while some simpler queries do utilize the built in SAP tools and others have been implemented in ABAP. Moving into 2011 as use of SAP continues to grow and new processes are integrated, it is imperative that an overall reporting strategy be defined to standardize the approach, methods and tools utilized for both transactional and business intelligence type reports.

2.1.2. Geographic Information System

London Hydro introduced GIS technology in 2007, when Intergraph was selected as the GIS vendor to provide a suite of tools to manage our electrical data. Data editing tools were configured for the GIS staff, and a basic map display application was provided to other Engineering & Operations users. With 3 years of use, staff have identified a number of areas where efficiencies can be achieved and reporting accuracy can be improved. In a few areas, such as data validation and analytical tools, the expected functionality has fallen short; these need to be augmented.

Our geographic data is currently stored and managed by London Hydro in Intergraph's GIS, in CAD format and mylar maps. London Hydro regularly needs to incorporate outside sources of information from the City of London, contractors and consultants. This data is not well integrated, and therefore not easily accessible to users.

2.1.3. JDEdwards Financials/ERP

JD Edwards (JDE) EnterpriseOne is the primary financial reporting system at London Hydro. It was originally implemented (as JDE World) in 1997 and is used by the Finance Department for General Ledger, Accounts Payable and Fixed Assets and by other departments for Purchasing, Work Orders and Materials Management.

It is a multi-tiered application comprising a presentation layer on client desktops, a server application layer and a database layer. In 2010 the server application was migrated from the Sun platform to Windows/VMWare and the database was migrated from Oracle 9i on Sun to Oracle 11g on Linux. The underlying tools release was also upgraded to the latest available version as part of this project. Though a decision was made to remain with the existing client application version the new tools release provides the flexibility to upgrade to a newer version if desired or deemed necessary.

Also during 2010, investments have been made in updating the JD Edwards financial application to comply with International Financial Reporting Standards (IFRS) requirements. The initial compliance date for IFRS was expected to be January 1, 2011 but it is now likely to be deferred until 2012. Further work remains to complete the

transition from Canadian GAAP to IFRS and the deferral of the compliance date will impact how London Hydro proceeds. User departments have also identified areas in which further efficiencies could be achieved within JDE, such as automation of Purchase Order Generation.

Inquiry Suite, a third-party product, is used as a reporting tool with JDE. A project is underway to upgrade to the latest version of this software which is now called Insight2JDE. This system will need to be evaluated along with SAP based business intelligence as part of the overall creation of a reporting strategy in 2011.

2.1.4. Secondary Systems

The Sensus FlexNet RNI system, which functions as a head-end to London Hydro's AMI system continues to be configured and optimized in preparation for utilization of hourly meter data in 2011. Efforts have included a major software version upgrade and two RNI services have been prototyped and tested for use in future systems integration. These are the utility standard 'multispeak' interface and a JMS based message queue - currently the JMS service is more fully featured and hosted by the Sensus RNI itself. These web services are expected to be leveraged for future connection to billing or outage management systems. Despite the work completed to date, additional software upgrades will need to be applied from the vendor to ensure correct functioning in the AMI and provincial MDM/R enabled environment.

In late 2009, London Hydro sought to extract early value from deployed AMI infrastructure prior to implementation of AMI and smart meter processes in 2011, since several towers and some thousands of meters were deployed in the field. Despite the system not being ready to handle hourly meter data for billing, analysis showed that sufficient data was being collected to successfully utilize the infrastructure as an Automated Meter Read (AMR) solution. An innovative approach was created utilizing existing meter read interfaces and an integration process to achieve AMR operation which is transparent to the SAP CIS, thereby reducing implementation cost. Through 2010, all deployed smart meters have been transitioned to this process, so that over 130,000 meters are now being read remotely each month. In 2011 as smart meters are transitioned on to AMI processes and utilization of hourly data, this process and the corresponding integration system will be removed from the application landscape.

In July 2010, the SAP Utility Customer eServices (UCES) application was deployed, enabling customers to access their account information (such as balance, bill images, consumption) via the London Hydro web site. These functions that were previously available via the customer self-service application connected to CIS*Ontario*, had been unavailable for more than a year following go-live of the SAP system. As smart meters, time of use billing and conservation programs are introduced over the next few years a long term development and integration strategy for London Hydro's web presence and customer engagement will need to be defined.

To facilitate recurring reporting requirements, reduce database query performance impacts and cross-system connectivity for data, an informal reporting database or data mart has arisen. This has proven useful as an interim transactional and BI reporting type system as well as for interim business process operations such as security deposit assessment. Efforts around creation of an overall reporting strategy will need to consider this system and how its function can be more formalized within the application landscape.

Though efforts are underway to enhance the functionality of London Hydro's Geographic Information System, there are existing concerns regarding the integration between GIS and the SAP CIS system. With one of the primary objectives of the GIS to provide a strong connectivity model to support future OMS developments, a consistent cross-system data model must be established to enable unambiguous data connectivity and integrity for system integration.

2.1.5. Cottage Industry Systems

Many London Hydro business departments utilize 'cottage industry' type systems on a day to day basis. These often take the form of Microsoft Access databases or sophisticated Excel spreadsheets that have been created within a department to satisfy particular needs not met by the IT supported application landscape.

These systems represent a risk to London Hydro for several reasons:

- Data sources for these systems may not be validated or correctly understood, resulting in business decisions or actions taken on incorrect information.
- Systems are not considered in impact analysis for changes to enterprise and specialized systems, since they are not well defined.
- Systems are not tested for interoperability with new software versions, such as Microsoft Office or Windows, or conflicts with other business applications.
- Systems may be business critical, but are not included in disaster recovery planning or appropriate data backup.

Action needs to be taken to identify and catalogue these systems and their purposes, since no comprehensive list currently exists. This will provide an initial step towards the consolidation of data and functionality within supported systems.

2.2. IT Infrastructure

2.2.1. Servers and Storage

Throughout 2010 efforts have continued in consolidation and virtualization of London Hydro's server environment and migration of all VMWare ESX 2.5 virtual servers to VMWare ESX 3.5 has been completed to keep the virtualization environment up to date. London Hydro is currently supporting two virtualization environments – VMWare ESX 3.5 for Windows guest systems and Xen for Red Hat Linux guest systems.

London Hydro's SAP environment is supported by 10 Red Hat Xen host systems with 35 Red Hat Linux virtual servers. With the replacement of London Hydro's legacy CIS*Ontario* application by SAP, the number of CIS related database instances has grown from thirteen to forty, with the total storage requirement growing from 3.6 to 14.4 terabytes. As such, it is necessary to develop a database maintenance and tuning strategy to ensure the performance of the SAP instances.

London Hydro's storage systems are provided in two tiers – Tier 1 is targeted at supporting high performance and availability needs of mission critical applications, while Tier 2 supports file server usages and non-production systems. Storage systems have been consolidated to HP SAN systems along with a storage expansion during 2010, with the table below showing the high level storage breakdown.

	Tier	Total Capacity (TB)	Used Capacity 2010Q3 (TB)
HP EVA SAN (FC)	1	39	32
HP EVA SAN (FATA)	2	13	7.5

The SAP system data growth is currently averaging 200GB per month. Taking this into consideration, the infrastructure group will need to concentrate on two primary areas of concern: keeping up with data storage demands and keeping in sync the disaster recovery and backup strategy.

Increasing data storage requirements has a direct impact to the ability to backup data for disaster recovery purposes. A new NEO400S tape library with two LTO4 tape drives has been installed to help manage nightly backup tasks, but this does not address the long term issues that are faced in this area, which will be compounded by London Hydro's original NEO2000 backup tape library reaching end of life in 2011. To resolve the backup dilemma, it will be necessary to establish new strategies for data backup and recovery in the near future.

London Hydro's Citrix farm was initially intended to allow London Hydro staff remote access to applications while away from the office; however, over time this service has expanded to be utilized by business partners and consultants across the business. The current solution is running on two HP blade servers, but to meet increasing user demands a third host will be necessary and the environment needs to be brought into London Hydro's virtualized environment to provide better scalability, failover and resource management.

2.2.2. Network and Connectivity

In 2009 London Hydro's edge equipment reached its 5-year anniversary date. Unfortunately, due to budget restrictions, replacement of these 3Com switches has been deferred until the first quarter of 2011. Our plan will be to expand the overall number of network ports at the edge switches and simplify the network to a common hardware vendor with products that support integrated Power over Ethernet (PoE), Quality of Service (QoS) and Cost of Service (CoS) features.

Moving forward, the existing core Nortel network switches support contract will expire May of 2011. The strategy will be to replace the core Nortel switches with devices provided by a common vendor, resulting in a reduction of supported devices in the infrastructure and management of multi-vendor contracts to support a single network and connectivity solution. By standardizing on a single vendor, we will improve interoperability and reduce complexity and operational support effort.

Internet connectivity services are based on legacy infrastructure formerly owned by Group Telecom (GT). The GT infrastructure has changed ownership many times and is now owned and operated by Rogers Communications. Recently, Rogers informed London Hydro that the legacy GT network will be dismantled on Dec 31, 2010 and plans should be put in place to replace the link with a new service. Discussions have been conducted with multiple service providers, including Rogers, to investigate opportunities to reduce service cost and plan for a secondary internet link in 2011. Implementing two diverse internet links would provide customers greater reliability accessing web enabled customer service applications such as UCES, web presentment for TOU information and internal corporate internet dependencies such as bank transfers and the provincial mandate to move data the MDM/R.

2.2.3. Desktop Services

London Hydro's desktop computing systems are standardized around Hewlett Packard business machines, in particular HP Compaq Business Desktop 5000 series and HP ProBook notebooks. Panasonic ToughBook ruggedized laptops are also supported for outdoor/field use cases. In an effort to save costs, desktop systems have had their life extended beyond the dates they would generally be due for replacement, including utilization of some legacy Dell PCs. Current processing requirements can be managed in this manner currently as much processing actually occurs server-side for many of the business applications; however, this is not a long term sustainable approach to desktop system refreshes.

The newest replacement desktops and laptops come equipped with Microsoft Windows XP or Windows 7 licensed operating systems. Keeping to our current operating system (OS) standard, we deploy Windows XP onto all desktops and laptops; however, work has been initiated to evaluate and test Windows 7 for deployment targeted at 75% of the installed base for 2011. The remaining quarter will need specific attention to resolve compatibility and legacy application issues. Similarly, the standard office application suite continues to be Microsoft Office 2003, with a rollout plan to move to Microsoft Office 2007 at 50% of the installed base in 2010 and the remaining 50% in 2011.

2.2.4. Security and Privacy

A detailed audit review by a leading security auditing firm was completed in August 2009 and more focused reviews around London Hydro's internet presence and wireless network are being conducted in late 2010. The review included penetration testing, vulnerability scanning, network intrusion and social engineering.

The assessment indentified several areas of concern and remediation activities have been taking place during 2010 with a focus on reducing all 'High' and 'Medium High' risk areas to at least 'Moderate' rating by the end of the year. The results of the 2009 Security Assessment Rating and a 2010 Security Self-Assessment Rating are compared below to illustrate the progress made to date. In early 2010 Information Systems also completed implementation of recommended software tools to pro-actively identify vulnerabilities. These tools along with external security expertise will be utilized to continue remediation efforts in 2011.

2009 Security Assessment Rating Summary

ASSESSMENT AREA	RATING	ASSESSMENT AREA	RATING
Physical Security	ELEVATED	Wireless Networks	LOW
Network Management and Monitoring	MODERATE	Antivirus and Malicious Code	MEDIUM-HIGH
Firewall	MEDIUM-HIGH	Intrusion Detection/Prevention	MEDIUM-HIGH
Authentication	MEDIUM-HIGH	Vulnerability Assessment	HIGH
File System	MODERATE	WAN Infrastructure	LOW
Remote Access/VPN	MODERATE	LAN Infrastructure	MEDIUM-HIGH
Network Security	HIGH	Internet Traffic Analysis	LOW
Host Security	HIGH	Documentation	HIGH
Content Inspection	MEDIUM-HIGH	Policies	ELEVATED

2010 Security Self-Assessment Rating Summary

ASSESSMENT AREA	RATING	ASSESSMENT AREA	RATING
Physical Security	ELEVATED	Wireless Networks	LOW
Network Management and Monitoring	MODERATE	Antivirus and Malicious Code	LOW
Firewall	MODERATE	Intrusion Detection/Prevention	LOW
Authentication	MODERATE	Vulnerability Assessment	LOW
File System	MODERATE	WAN Infrastructure	LOW
Remote Access/VPN	MODERATE	LAN Infrastructure	MEDIUM-HIGH
Network Security	HIGH	Internet Traffic Analysis	LOW
Host Security	HIGH	Documentation	LOW
Content Inspection	MODERATE	Policies	ELEVATED

RATING	DEFINED AS
HIGH	Serious vulnerabilities that have been exploited or are highly likely to be exploited in addition to significant deficiencies in design, implementation or management.
MEDIUM-HIGH	Vulnerabilities identified with moderate likelihood of exploitation and at least one significant deficiency in design, implementation or management.
MODERATE	Vulnerabilities discovered with low likelihood of exploitation coupled with minor deficiencies in design, implementation or management.
ELEVATED	No vulnerabilities discovered but minor deficiencies in design, implementation or management were discovered. All critical patches and service packs have been applied.
LOW	No vulnerabilities or deficiencies in design, implementation or management. All patches and service packs have been applied.

London Hydro has engaged Greenlight Technologies Inc. to perform a risk assessment of the SAP ECC system to determine the level of risk exposure for Segregation of Duties (SoD) violations. This assessment will be used as a starting point for a comprehensive review of SAP security roles and their assignment throughout the SAP user community. One of the key risk areas for London Hydro within the SAP system is having external consultants with extremely permissive authorizations in the production SAP environment which has occurred due to the volume of data corrections required on a regular basis that would otherwise be unmanageable. This is a situation that must be rectified as early as possible.

2.3. Systems Support

Currently the London Hydro IT service desk includes two part time Level 1 personnel and two or three Level 2 LAN Administrators. This team enters and tracks support tickets utilizing the SAP Solution Manager application. Over the period since SAP go-live, it has

become clear that while the SAP Solution Manager system is a useful tool for management of SAP systems, it does not appear by default to offer an effective solution for service desk processes. Management and reporting of outstanding support tickets is a cumbersome process and search facilities are significantly lacking. In order to provide adequate support to the business, alternate service desk systems need to be considered along with self-service options allowing end users to submit and obtain status updates.

The IT service support structure currently has no formalized service level agreements with the business or well defined performance targets or operational goals. This is primarily a result of being in 'fire-fighting' mode since SAP go-live, acting in very much a reactive manner to deal with a volume of problems that exceeds the capacity of the available resources. As the SAP system begins to stabilize and plans for implementation of new systems are being created, it is becoming more important to establish process and structure around the support aspects of not only the SAP environment, but all business applications. This is something that extends outside of support staff and must become a consideration in all projects since they will eventually transition to support.

2.4. IT/PMO Capabilities

Strengths	Weaknesses	Opportunities	Threats
Systems Knowledge	SAP Skills	Collaboration	Retention
Business Knowledge	Work Processes	Customer Engagement	Scale
Creativity	User Expectations	Adoption & QA	External Reliance
IT Operations	Change Management	AMI & Smart Metering	Regulatory Changes

2.4.1. Strengths

Knowledge in both systems (outside of the scope of SAP) and business key areas is an important strength that the IT services team has; however, this knowledge is generally found in silos. Additional effort needs to be put in to distribute knowledge throughout the team to build on the existing strength. Cross training exercises, collaboration tools and external training can help build and broaden this strength.

Existing resources are also able to find creative solutions to problems, which is important for an organization of London Hydro's size. Creativity in solution development should be encouraged, but needs to be carefully balanced with practicality and lifecycle support requirements to ensure sustainability.

2.4.2. Weaknesses

The key area of weakness in the current environment relates to SAP skills in both functional and technical areas. Very few internal resources have had any formal SAP training and most have obtained their existing knowledge only through hands-on use of the system. This weakness creates a dependence on external consultants even for

relatively small system changes and hinders London Hydro's ability to evaluate the quality of work completed by contractors.

Focus also needs to be put on work processes and change management as the IT services organization is lacking formalized processes and consistency in solution delivery. Defining standards for processes, especially in relation to solution delivery and management is necessary to improve efficiency in the project lifecycle and achieve better cost control, particularly with regards to external consulting services.

The IT services team also needs to improve user focus of development and support activities to consider solutions from the end user perspective. As with most IT organizations, there is a tendency to view solutions primarily from a technical and ease of implementation perspective, with much reduced emphasis on end user experience, which can lead to ineffective solutions for the business. Overcoming this weakness will lead to more effective solutions and a greater level of business acceptance.

2.4.3. Opportunities

The Ontario electricity market and the utility industry in general is at a stage where there are many opportunities being presented. Many opportunities arise as the result of Smart Metering initiatives and the systems required to support the surrounding processes. London Hydro can take advantage of these opportunities through collaboration with other utilities and vendors, for example, through the SAP lighthouse council, as well as direct collaboration with other local LDCs in Ontario.

These efforts can help to further London Hydro's technology adoption goals and position the organization as a market leader, which would provide greater ability to influence vendor system development roadmaps and participation in early access releases to help improve quality assurance of London Hydro's production systems.

Customer engagement is a major opportunity for London Hydro as a whole. With the introduction of smart meters and time of use billing, along with conservation programs necessary to meet the organization's CDM targets, systems to empower customers in reducing energy usage or shifting to cheaper times in the day will provide a direct value impact to the customer. These systems and underlying infrastructure should be built with flexibility in mind to allow integration of emerging and mobile technologies, including iOS, Blackberry and Android smart phone applications, social network integration, etc. over the next few years.

2.4.4. Threats

Staff retention and reliance on external consultants are key threats that relate to resourcing. The current resourcing model utilizing primarily external consulting resources provides some flexibility in resource management, but ultimately comes at a much higher cost. Over the longer term, reliance on external consultants for regular operations needs to be minimized to control both cost and risk. At the same time, internal staff need to be formally trained in SAP technologies to achieve the reduction in reliance on external vendors. This could create problems with staff retention, in the

form of staff preferring to pursue other career opportunities or utilizing their knowledge and experience to move into the consulting field.

Scale is also a concern for London Hydro – the organization and data processing requirements are such that larger scale solutions are sometimes required, yet the organization is not necessarily of sufficient size to afford the investments that such solutions often imply.

2.5. Vendor Management & Partnerships

At the beginning of 2010, London Hydro's relationship with Wipro as a system integrator ended. Wipro had been the system integrator for the original SAP implementation. Since that time, a bridging model was put in place as an interim measure to maintain operation and issue resolution of the SAP system, primarily resourced by RayTech Inc. along with additional independent consultants to augment internal resourcing and fill knowledge gaps.

Moving forward, London Hydro needs to pursue longer term and well defined partnerships, moving from a single source to a multi-source operating model with vendors so that adequate support and resourcing for issue resolution and new developments can be ensured. A preferred vendor list based on vendor scorecards and standardized competitive rate cards based on volume would help to reduce the overhead and cost where external resourcing is required.

One of the objectives in London Hydro's SAP IS-U implementation was technology modernization at an affordable investment. Since the costs associated with implementation of an SAP system were substantial, London Hydro's vision was to lower total cost of ownership using a shared solution approach with other utilities. Unfortunately though, due to various reasons the initial drive to implement this vision could not be achieved. Further to this end, London Hydro approached InfoSys to conduct an assessment exercise to evaluate the health of the current SAP solution and to devise methods of marketing (such as a joint 'Utility in a Box' SAP solution) the solution to realize the original vision. These efforts need to continue to be pursued to provide more manageable lifecycle costs.

Section 3. Business Objectives

3.1. Corporate Objectives

As part of London Hydro's overall Corporate Strategic Plan for 2010 to 2012, the following strategic priorities were defined:

- Technology Strategy
  - SAP CIS efficiency gains
  - Successful smart meters implementation
  - IFRS conversion
  - Establish business case development process for investment justification
  - Develop business cases for MDUS, OMS, SAP-ERP and other applications
  - Seamless integration of MDUS
- Green Energy Strategy
  - Continued success in delivering the existing CDM programs
  - Establish CDM business plan to achieve CDM targets as established by the regulators
  - Commercial PV system business plan
  - Community renewable technology information centre
  - Renewable generation interconnection plan
- Human Resources Strategy
  - Health and Safety compliance and enhancement
  - Employee training and development
  - Union negotiation
  - Corporate culture: forging of a more positive relationship
  - Develop "bench strength"
- Financial & Regulatory Strategy
  - Achieve an annual target return on deemed equity of 5% to 8%
  - Maintain S&P credit rating of A-
  - Maintain positive working relationship with MEI and OEB
- Customer Service Strategy
  - Meet OEB customer service objectives
  - Maintain and improve positive rating from our customer satisfaction surveys
  - Community outreach programs to educate customers regarding smart meters

3.2. Key Focus Areas

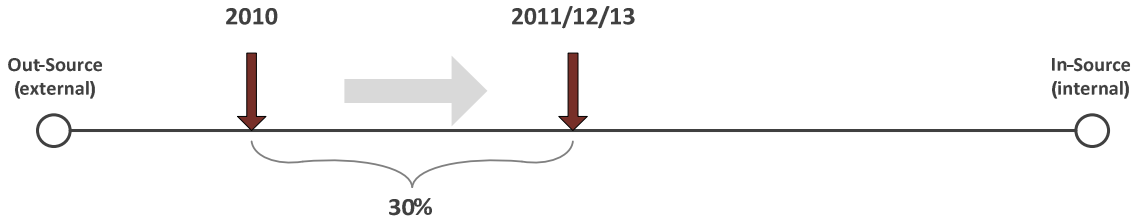
Three key areas have been defined for the Project Management Office and IT service departments to focus on in future initiatives:

- 3 Year Program & Technology Outlook
- Integrated Resource Planning
- Quality and Cost Control

3.3. IT Services Goals

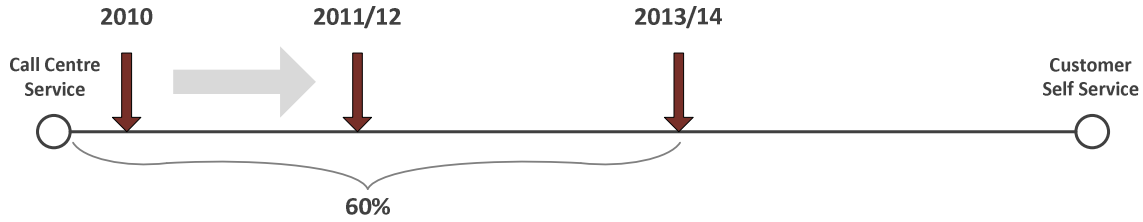
In support of the London Hydro corporate objectives, IT Services has established a number of internal goals to strive towards in the period leading to 2013:

Resourcing Model – Cost Control & Sustainability



London Hydro's current resource model for IT Application Management Services (AMS) and development is heavily weighted towards utilization of external consultants, which is primarily a result of having little internal SAP skills. In 2011 through to 2013, we would like to build up internal SAP strengths and 're-tool' staff to create a 30% shift towards an internal resource model, providing a more balanced resourcing approach and reducing overall service costs as a result.

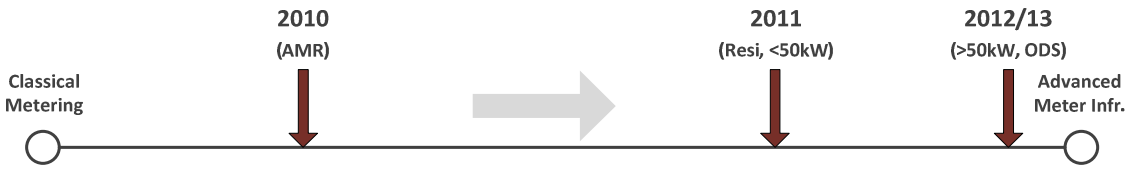
Customer Engagement and Self-service – Operational Efficiency & Enhanced Service



Customers' primary method of communication with London Hydro today is via phone to the call centre. In 2010, customer self-service functionality connected to SAP was introduced with the Utility Customer e-Services (UCES) application. Moving into 2011 and 2012, we will build on the existing capabilities with web presentment functionality supporting time of use billing as well as conservation programs. Moving even further to 2013 and 2014, customer self-service functions will continue to be improved and expanded, with a multi-channel approach utilizing not only web based solutions, but also providing mobile accessibility for smart phone and tablet devices. The ultimate aim of these developments will be to facilitate a major shift in customer behavior to

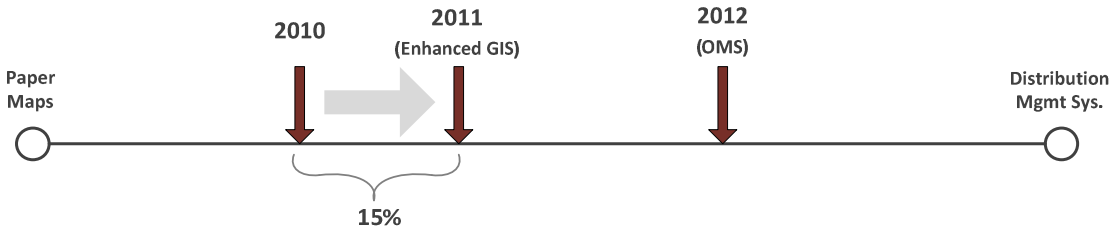
empowered self-service options, reducing call centre overheads, improving service levels and supporting 24 hour accessibility of customer services.

Advanced Metering Infrastructure – Regulatory Objective



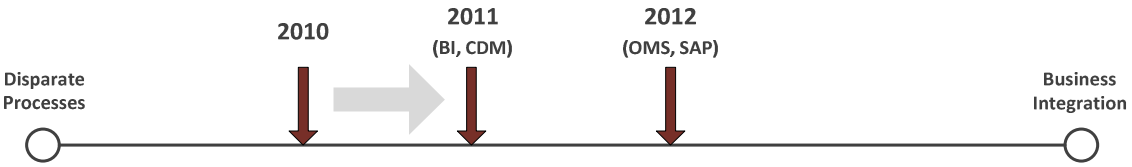
London Hydro has already made progress on the road to full AMI utilization with the implementation and transition to AMR in 2010, extracting early value from the deployed AMI infrastructure. 2011 will see a significant step made with production utilization of hourly smart meter data for residential and general service < 50 kW customers in conjunction with the provincial MDM/R service. With these functions in place, through 2012 and 2013 benefits of the Operational Data Store system will begin to be seen, along with simplification of systems and processes through integration of capabilities for larger Commercial and Industrial customers (>50kW).

Distribution Management – Operational Efficiency & Reliability



In 2010, the existing Intergraph G/Technology GIS provides significant improvement over basic processes utilizing only paper distribution maps. Enhancements planned for implementation in 2011 will provide a further shift towards distribution management, strengthening the spatial connectivity model of assets and improving utilization of the GIS. In 2012 and beyond, implementation of an Outage Management System, integrated with GIS and SCADA systems (and potentially SAP and ODS systems) will yet further advance capabilities in this area.

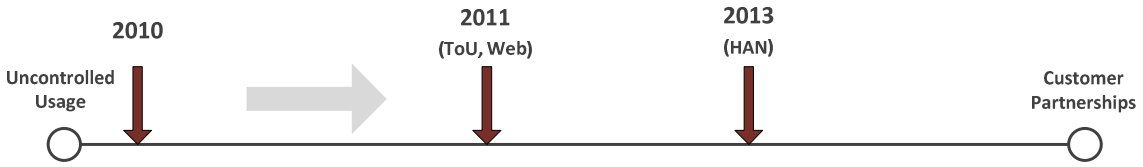
Business Integration



Many processes within London Hydro have some form of integration within the existing SAP IS-U system; however, there are also many disparate processes and weak connectivity. Further integration of processes utilizing SAP and supporting systems will occur in 2011 with implementation of functionality to support management of CDM

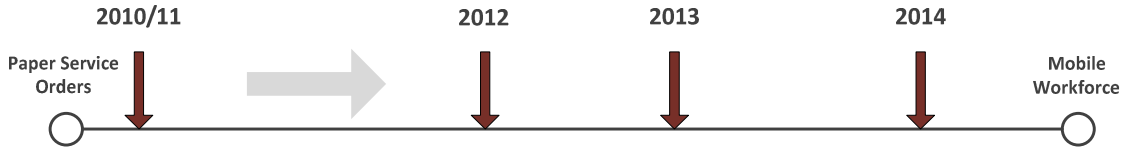
programs as well as initial integration of Business Intelligence reporting and decision support systems. Through 2012 and 2013, implementation of OMS as well as efforts to introduce SAP ERP components will result in more integrated, seamless and more efficient business processes.

Customer/Conservation Partnerships



While current conservation programs exist and have even exceeded expectations, it is expected that the nature of conservation and demand management will shift over the coming years towards customer partnerships whereby customers have the information and ability to make active decisions on energy usage. This will initially be driven by the introduction of time of use billing and will be facilitated through implementation of a web presentment solution to provide customers with information regarding their energy usage. As technologies and customer engagement develops, opportunities to interact more directly will be pursued, utilizing home area network devices and connectivity for dynamic interaction with individual consumers.

Field Service Work – Productivity Gains



Paper service orders capture almost all of London Hydro's field service work currently and will continue to do so through 2011; however, the next years will see a move towards mobile workforce solutions, with increasing emphasis on larger volumes of data and processing timelines, real time or near real time field work updates will become important, with initial steps taken in 2012 towards a workforce management infrastructure and through 2013 and 2014, adding operations crew scheduling and dispatch, metering changes and field collections with almost all field activity recorded remotely. Continuous advances in smart phone and tablet technologies will allow this shift at lower costs than possible today by utilizing commodity hardware platforms.

Section 4. Direction and Strategy

4.1. Key Initiatives

Focus Area	Initiative	Strategies
3 Year Program & Technology Outlook	Strategy & Architecture	Technology Outlook and Roadmaps Systems Integration Approach Architectural Evolution
	Enterprise Systems	System Consolidation Removal of Cottage Industry Enterprise Resource Planning Utility Operations Reporting & Business Intelligence
	New Business Capabilities	AMI & Smart Metering Conservation and Demand Management Customer Engagement Emerging Technologies Mobile Workforce Automation
Integrated Resource Planning	Resourcing Structure	Organization Structure Employee Development External Resourcing
Quality & Cost Control	IT Business Improvements	Project Management Processes Documentation Standards Quality Assurance Cloud Computing/SaaS Communication and Collaboration Tools Quality Control

4.2. Strategy and Architecture

4.2.1. Technology Outlook & Roadmaps

We will endeavor to develop maintain an follow a series of technology roadmaps and strategies in key business and systems areas, defining desired 3 year program technology end states to support London Hydro's business needs and processes to develop from current state through to the end state in a clear logical manner. Taking a more strategic long-term program approach will result in reduced lifecycle cost through avoidance of rework during progression towards the end state and also with regards to influence of architectural decisions made within individual projects.

Due to the rapid pace of development in the IT space, we intend to re-evaluate our outlook and roadmaps on a quarterly basis to determine progress made towards the defined end state and ensure continued alignment with our own goals and objectives, those of the organization as a whole and also with key vendor product roadmaps.

4.2.2. Systems Integration Approach

Traditionally, London Hydro has had a systems level approach to implementation of IT solutions, focusing in detail on individual systems and their internal operations, but giving little consideration to the overall IT landscape. More effective use of existing IT infrastructure and system capabilities as well as reducing lifecycle costs in future projects can be realized by looking at the 'big picture'. Within each development project it will be necessary to consider the impact of new systems across the application space and justify any increase in landscape complexity since any point of connectivity between systems is also a potential point of failure.

Virtually all connectivity between systems in London Hydro's current application landscape is implemented as point to point connections - interface connectivity between two specific systems. Over the coming years as part of our technology outlook and roadmap efforts we will evaluate implementation of alternate strategies, in particular a service bus oriented approach and potential utilization of the 'multispeak' standard to add flexibility to the architecture and maintain more loosely coupled system integration.

4.2.2. Architectural Evolution

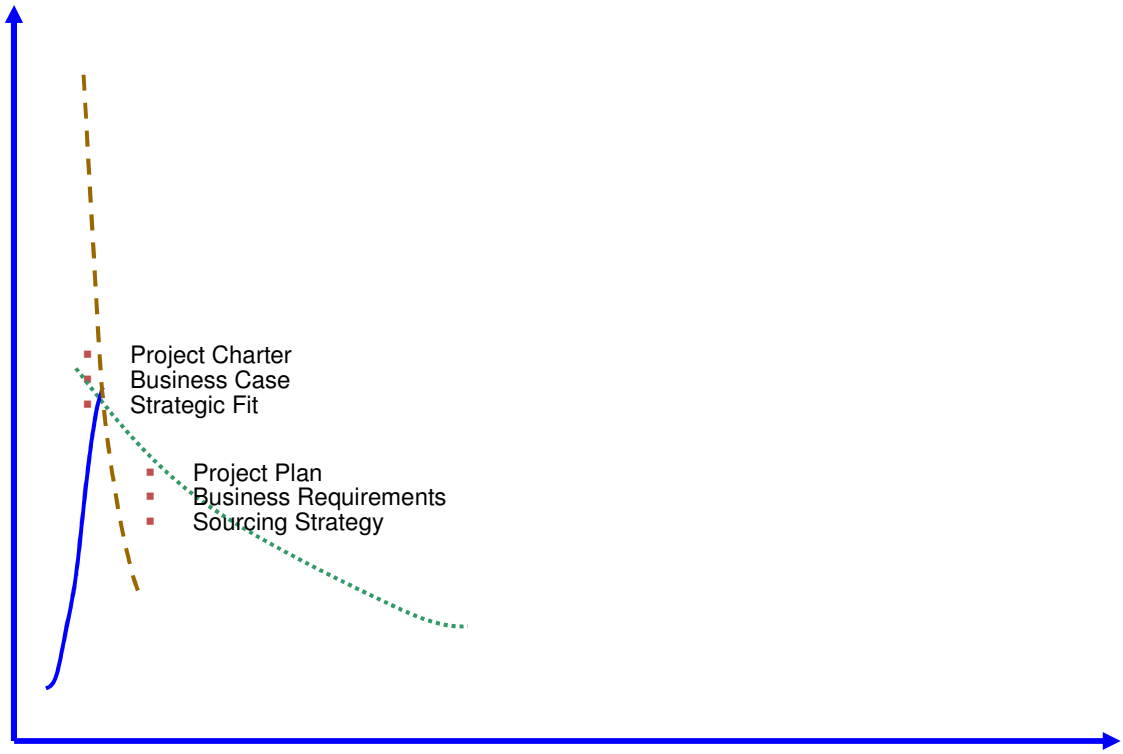
With long-term integration strategies and technology roadmaps defined, it is possible to plan more effective approaches to realization of desired architecture end states. We will endeavor to develop a more iterative and evolutionary approach to architectural changes. This will be achieved where possible by implementing smaller more manageable changes over longer periods of time rather larger big-bang type changes that can be disruptive to operational processes.

4.3. Enterprise Systems

4.3.1. System Consolidation

London Hydro's application landscape continues to grow as new applications are introduced in support of business and regulatory initiatives. As this growth occurs, overheads of maintenance and support increase and more diversified skill sets are required. To ensure that business applications and IT infrastructure can be effectively supported, one of our general principles is to continuously evaluate our landscapes for opportunities to simplify and consolidate processes.

As illustrated in the graph below, our intent is to reduce the volume of secondary and 'cottage industry' systems by incorporating functionality and processes into our larger enterprise systems. While this is a general principle that we apply, it is not a global target – each system must be considered on a case by case basis since system consolidation is a tradeoff between complexity in the application landscape and complexity within an enterprise system.



The process of evaluation for system consolidation is an ongoing one taking small steps towards a larger goal, though 2011 to 2013 will see some major strides in this area as we begin efforts towards process integration in the enterprise system, particularly with regard to ERP implementation and also to lesser extent with ODS and GIS.

4.3.2. Removal of Cottage Industry

As mentioned elsewhere in this document, cottage industry type systems, which often take the form of Microsoft Access databases or sophisticated Excel spreadsheets usually arise within business departments to satisfy an IT need that is not being met by existing systems supported by the corporate IT organization. These systems pose a risk for IT and London Hydro as a whole for several reasons:

- Data sources for these systems may not be validated or correctly understood, resulting in business decisions or actions taken on incorrect information.
- Systems are not considered in impact analysis for changes to enterprise and specialized systems, since they are not well defined.
- Systems are not tested for interoperability with new software versions, such as Microsoft Office or Windows, or conflicts with other business applications.
- Systems may be business critical, but are not included in disaster recovery planning or appropriate data backup.

Removing these systems is one of highest priority items for data integrity management and system consolidation, but needs to be approached carefully and methodically to prevent business disruption. The purpose and use of these systems needs to be well understood so that processes and requirements can be incorporated into the supported enterprise system.

The ultimate goal for these types of system is not only to remove them from the IT landscape, but also to prevent new ones from being created. This is the more challenging aspect of managing cottage industry systems since it requires greater depth of understanding in business processes and anticipation of how user will utilize solutions to identify potential gap areas.

4.3.3. Enterprise Resource Planning

With a goal of simplifying the IT application landscape and bringing in further process integration to help optimize business operations, we are looking towards SAP's Enterprise Resource Planning (ERP) solution as a platform for enterprise system consolidation and development. SAP is currently the market leader in the ERP space, capturing 35% of the market and utilizing their ERP solution would allow us to leverage the significant investments already made in the SAP environment at London Hydro.

Our intention would be to extend the solution into other areas of the organization, initially replacing the functionality currently provided by the JDEdwards system, since corporate financial processes form the core of all ERP systems. The table below shows a mapping of the components to be implemented in the initial stages:

JD Edwards ERP Module	SAP ERP Module
General Ledger	FI-General Ledger (FI-GL), FI-Controlling (FI-CO)
Procurement & Material Management	Materials Management (MM)
Fixed Asset & Work Order	FI-Asset Accounting (FI-AA), Project Systems (PS) Plant Maintenance (PM)
Accounts Payable	FI-Accounts Receivable (FI-AR), FI-Accounts Payable (FI-AP)
Payroll & Attendance	HR & Payroll

Once these core components are in place and operational, processes within other organization areas can then be integrated within the SAP modules already activated, or additional SAP modules can be more easily activated – as the system scope increases, the overhead of adding functionality tends to reduce as the principles of the system become better understood by the business and less mock configuration must be completed to satisfy integration dependencies. This will aid in future integration to take advantage of Outage Management, Workforce Management and mobile computing opportunities.

We believe that through an SAP ERP approach, operational synergies can be achieved between ERP and IS-U (CIS) components within our SAP environment, facilitating exploitation of long term opportunities to build common, integrated business practices and processes, which would not be achievable in a more disparate system environment.

4.3.4. Utility Operations

London Hydro's GIS should be the system of record for location and connectivity of distribution assets. This can answer simple questions for system planning, engineering design and operations and maintenance such as:

- Where are the poles older than 50 years? Or where are firon switches installed?
- Where is City of London directing growth (type and timeframe)? What areas have special designations by the conservations authority or historical district?
- Which customers and areas suffer the poorest reliability?

A GIS enhancement project in 2011 will address the needs and provide functionality for the above items, supporting short term goals. Our longer term goals are to integrate GIS with other enterprise systems, to support much more complex and higher value functions that drive efficiencies such as:

- Identification and notification for customers affected by outages (GIS with SAP, SCADA, OMS, AMI)
- Commit current available stock for a work order, flag additional ordering if required (GIS with Materials Management, Design)
- Queue and remotely dispatch service orders to available and appropriate crews, can include route planning (GIS with HR, SAP, Workforce Management)

We need to work with the incumbent GIS vendor to ensure their technology can achieve these functional and data integrations to add value and decrease the total cost of ownership of GIS. Completion of GIS enhancements in 2011 will lay the foundation for implementation of an Outage Management System (OMS) through 2012/13.

Along with enhancements within GIS, we will also be working to establish an improved model for integration between SAP and GIS. This is currently achieved using a basic data model and data extracts stored in an intermediate database for integration. Unfortunately the data model handles most, but not all customer configurations, leading to incorrect connectivity in certain cases. Development of a stronger data model and mapping between the systems will resolve this outstanding issue and provide a base for further system integration. Opportunities to implement a service based interface for integration or utilization of SAP's GIS business connector will be evaluated for enabling real time connectivity and elimination of the current intermediate integration database.

4.3.5. Reporting & Business Intelligence

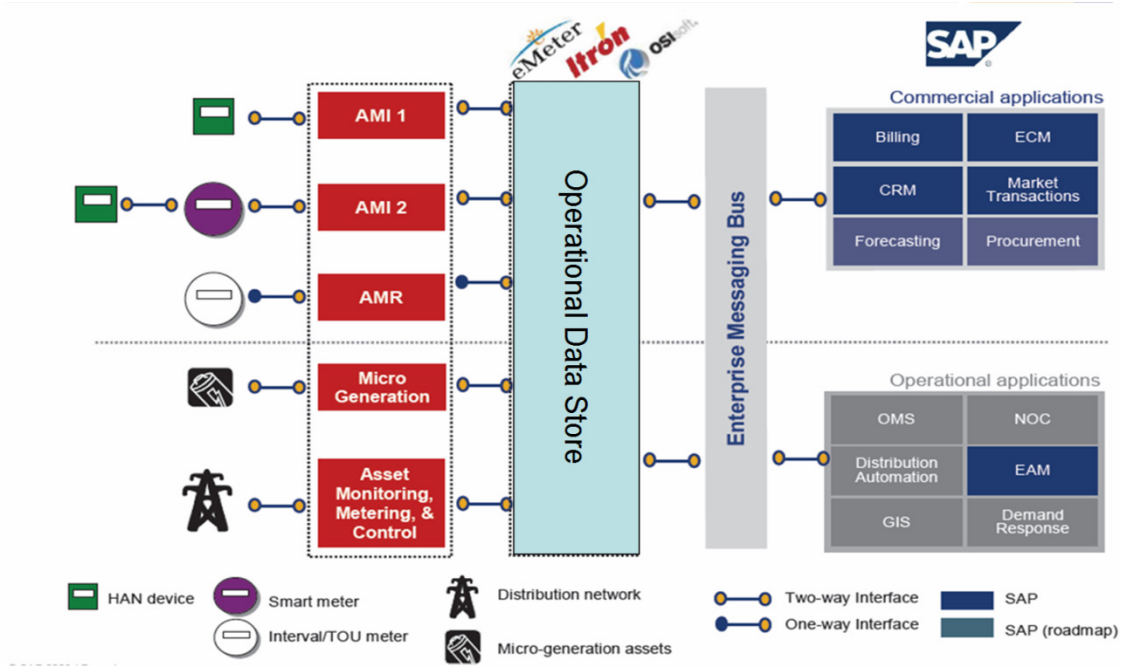
Reporting has been an ongoing concern surrounding implementation of new systems in the application landscape. As new systems are introduced, mechanisms for reporting are introduced, invariably with differences from reporting used for other systems. As use of enterprise systems increases, reporting needs will grow substantially and the technology base used to satisfy these needs must be controlled.

Our efforts will begin with the formation of a reporting strategy to define the approach and tools for building and maintaining reports across the organization, covering both transactional and business intelligence type reporting including enterprise data warehousing. This will be applied initially to transactional reporting development which currently makes up the bulk of London Hydro's reporting requirements and later to business intelligence reporting as we develop functionality in that area.

4.4. New Business Capabilities

4.4.1. AMI & Smart Metering

In the process of evaluating strategies for integration and management of AMI and Smart Meter systems into London Hydro's technology landscape, we engaged SAP to look at our systems, data storage and processing requirements in relation to interoperability with the existing SAP CIS solution. In this evaluation, SAP advocated adoption of their Meter Data Unification & Synchronization (MDUS) standard for AMI back office integration and deployment of an MDUS compliant Operational Data Store (ODS). This standard provides a pre-built service based interface between SAP Utilities components and several major ODS vendor products.



Utilization of the MDUS standard and a compliant ODS system aligns London Hydro's enterprise systems with SAP's long term Utilities development roadmap, enabling new functionalities within and between SAP and ODS systems as SAP and ODS partners deliver enhancement packages in 18 to 24 month cycles. London Hydro has now also secured membership in SAP's 'Lighthouse Council', a group of major utility industry players in North America working with SAP to define and influence these standards and SAP's product development roadmap.

A project has already been initiated for initial implementation of an ODS system, which will provide the fundamental system functionality to store, manage and utilize hourly smart meter data. This system is also a strategic investment providing enabling technology that will allow future development of more sophisticated functionality within our enterprise systems in two major areas:

1. Meter Data Management and Billing
   Initially we will pursue enabling functionality to support Commercial and Industrial (C&I) services, removing the need for the separate Itron MV-90 interval meter interrogation and data management system, which will lead to a unified system for management of all types of meter data. The ODS system will also facilitate additional automation to wholesale settlement processes and calculation of complex bill determinants for distributed and micro generation services to be passed seamlessly on to the SAP billing engine.
2. Engineering & Operations
   The ODS system will enable access not only to significantly more detailed usage profiles than previously available, but will also provide even data from meters indicating events such as voltage tolerances, etc. In conjunction with eventual GIS integration users will have the ability to determine detailed load profiles at any point on the distribution grid to aid in distribution planning.

4.4.2. Conservation & Demand Management

As conservation programs are developed in response to regulated CDM load reduction targets, systems for management of these programs will be required. Support for these capabilities will begin with implementation of methods for storing customer demographics, load indicators and program participation to facilitate determination of customer eligibility for programs. A series of reports to aid in analysis of the results and impact of program activities such as load control events will also be created.

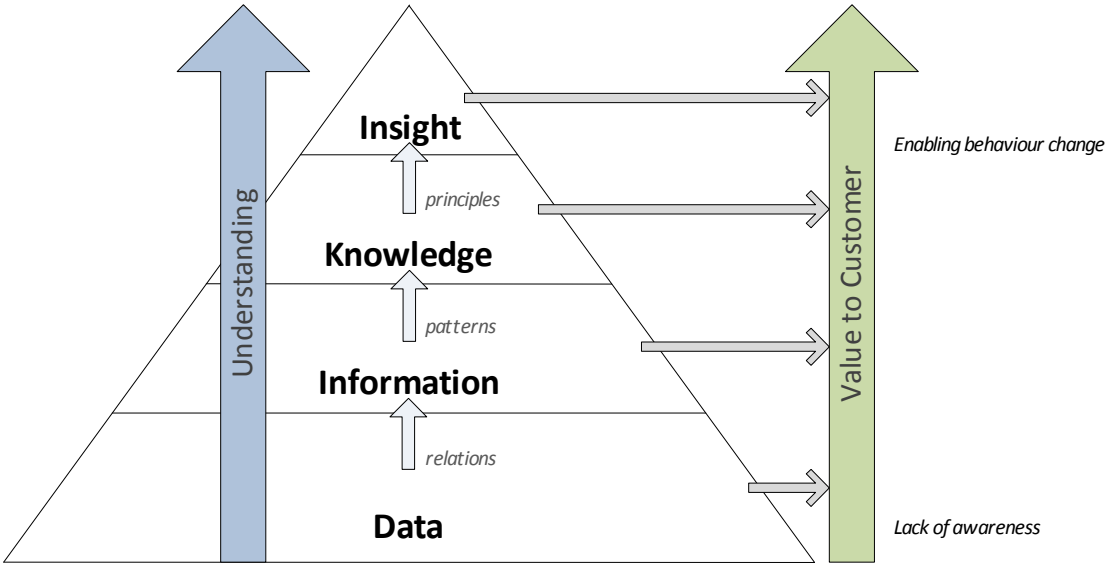
Further objectives to support CDM should include customer self-service enhancements providing conservation program marketing targeted to customer applicability and existing program participations as well as online signup for these programs. We will also investigate the potential of utilizing campaign management functionality within the SAP CRM system for program targeting and participation functions.

4.4.3. Customer Engagement

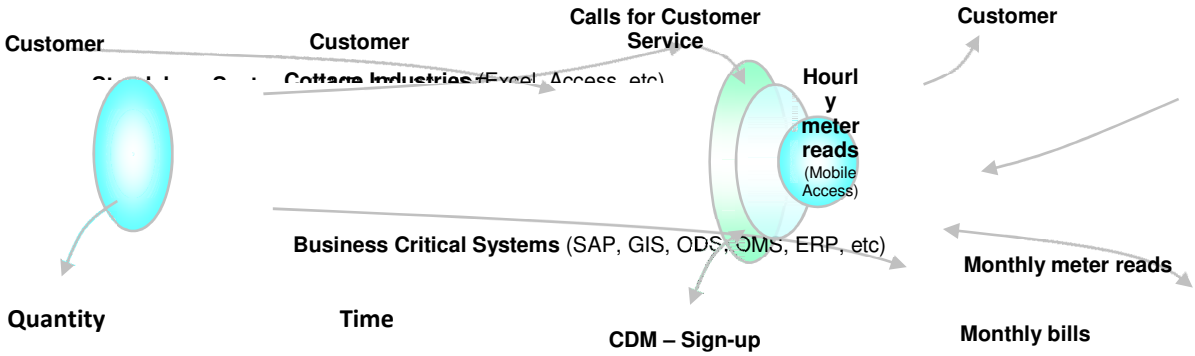
Customer engagement is one of the biggest opportunities that London Hydro can capitalize on over the next few years. The implementation of smart metering and time of use pricing will provide pricing incentive to understand more about their usage patterns and trigger questions of how to reduce costs. Leading utilities will take advantage of this increase in complexity to sell the benefits of customer self-service solutions that can show the customer how they can better manage energy usage.

The key focus for customer engagement should be the provision of information and knowledge to the customer regarding their energy usage. Basic customer self-service

solutions provide data presentment, showing customers their hourly meter data and basic bill information. This is a necessary first step in building up infrastructure to support advanced self-service functions, but will never drive significant adoption or influence customer energy usage at any large volume since most consumers are simply not interested in spending time analyzing energy data.



Building on the availability of meter and billing data to inform and advise customers how their usage patterns and behaviors influence their electricity bill, or how their efficiency compares to like customers will build knowledge and insight which in turn will enable behavior change on a much larger scale.



The first stage of implementation will provide a web based solution, integrating time of use capabilities with our existing UCES self-service application, followed by support for CDM program participation, micro generation and enhancement for support of traditional customer service functions, such move-in/move-out and property manager functions. Expanding scope of customer definition to engage family members and other authorized persons beyond the traditional customer will also prompt review of existing customer service processes.

The technical architecture of customer facing solutions needs to be designed with flexibility in mind, allowing systems to be easily adapted to changing requirements and integration of new enhancements and capabilities. Our goal will be to build a service oriented solution taking advantage of web services exposed from SAP, ODS and MDM/R to compose new integrated self-service functionality. Using this approach will provide easily reusable components that can subsequently be leveraged for other uses, such as mobile smart phone applications.

4.4.4. Emerging Technologies

Social Networking applications, such as Facebook and Twitter have seen explosive growth between 2007 and 2010. Current estimates put Facebook's user base at around 500 million and Twitter at around 190 million users, with 65 million 'tweets' being sent every day. The popularity of these services provides a major channel for communications with consumers, but leveraging this requires a shift in mindset and commitment from traditional avenues of communication.

While these services present excellent opportunities to engage customers and enhance corporate image, they present equal opportunity to tarnish the corporate image if not appropriately utilized. To this end, a strategy for leveraging social networking systems in key areas to drive customer engagement shall be developed in conjunction with the Corporate Communications department.

Mobile applications on smart phone platforms such as Apple's iOS (iPhone, iPad, etc.), Blackberry and Android based phones are another emerging technology area experiencing massive growth. Applications for these platforms could provide additional channels of communications for customer engagement. In 2011, implementation of web presentment functions in support of time of use billing will establish the necessary infrastructure and service APIs that can later be leveraged for implementation of mobile applications as we move forward to 2012.

4.4.5. Mobile Workforce Automation

As new processes and interactions relating to meters or master data synchronization are introduced, such as MDM/R interfaces, timelines for processing of activities will become more stringent. For example, prior to 2011, the update of SAP with an activity such as a meter exchange would have no problem being processed several days after the event occurred; however as new complexities are introduced a delay in processing field work may result in data being dropped from the MDM/R service and require manual intervention to resend data once service activities have been completed.

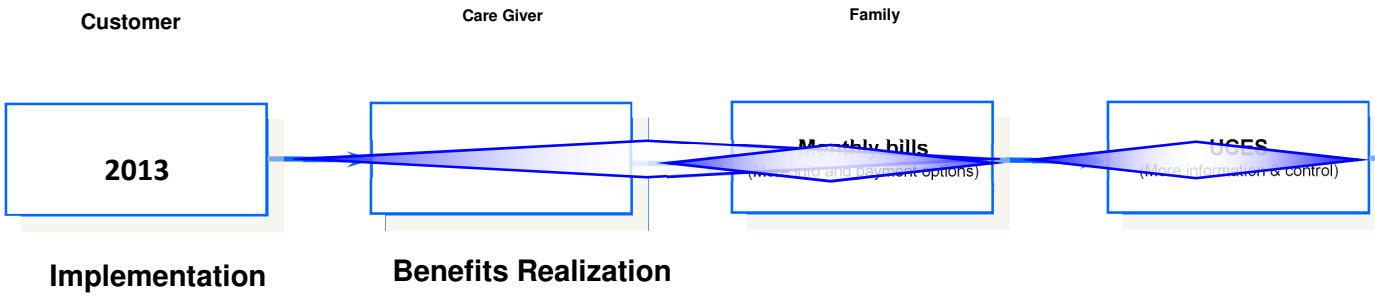
We need to search for ways to optimize field work processing, initially within the constraints of current systems and processing requirements, but eventually moving towards a mobile workforce automation solution, where staff are connected live from

field locations and can update service work in real time. It is anticipated that continual advancement in the smart phone and tablet space will reduce the initial expense for these systems through the use of commodity hardware moving into 2012/13.

4.5. IT Business Improvements

4.5.1. Project Management Processes

A new PMO phase methodology establishes a consistent method for project selection, control, and evaluation based on alignment with business goals and objectives. This Methodology consists of five phases, which are illustrated in the diagram below. Each phase is a distinct division of effort for a specified purpose during project delivery.



The phase methodology provides guidance for the development of deliverables, review, assessment, and approval of project outcomes during each review phase of project delivery to ensure quality control, completeness, feasibility and readiness to progress to the subsequent stage. This approach is currently being phased-in, utilizing key components as applicable to specific in-progress projects and will become the formal model for all new projects initiated by the PMO.

4.5.2. Documentation Standards

Lack of focus on documentation requirements has resulted in a situation where much of the functional and technical knowledge of enterprise systems is contained only within the minds of the people working on the systems and projects. This results in additional overhead when bringing in new internal and external resources as knowledge transfer becomes a costly exercise, especially with external consultants.

While the new project management processes will enforce the creation of documentation as deliverables, a set of documentation standards will also be created to define the purpose, structure and content of these deliverables. This will ensure that London Hydro obtains all of the necessary information to understand and maintain developments, avoiding repetitious costly knowledge transfers between consultants and ensuring we don't become dependent on external resources for London Hydro's ongoing operations.

4.5.3. Quality Assurance

Improved project management processes and documentation standards form part of an overall goal of providing quality assurance, which be a focus for improvement in 2011 and beyond, with a multi-faceted approach being taken in the following areas:

- Partnerships
- Delivery
- Organization Effectiveness

We shall stay the course with SAP, Intergraph and Oracle as strategic vendors/partners, aiming to extract maximum value from the technology investments that London Hydro has already made over the past years. We shall also look to work with these vendors, in particular SAP through the Lighthouse Council to help set direction and roadmaps for vendor development in the utility space. Additionally, we will look to cost sharing opportunities with other LDCs in services and knowledge.

Internally we will be working to establish service level agreements with the business users and incorporate feedback loops to monitor our success in meeting these service levels. A more structured approach to testing methods and execution including upfront planning, utilization of automated testing systems and improvements to defect management processes will aid in more effective solution delivery. Staying current with an 'n-1' software release strategy will ensure current technology availability with proven solutions avoiding a position of being on the 'bleeding edge'.

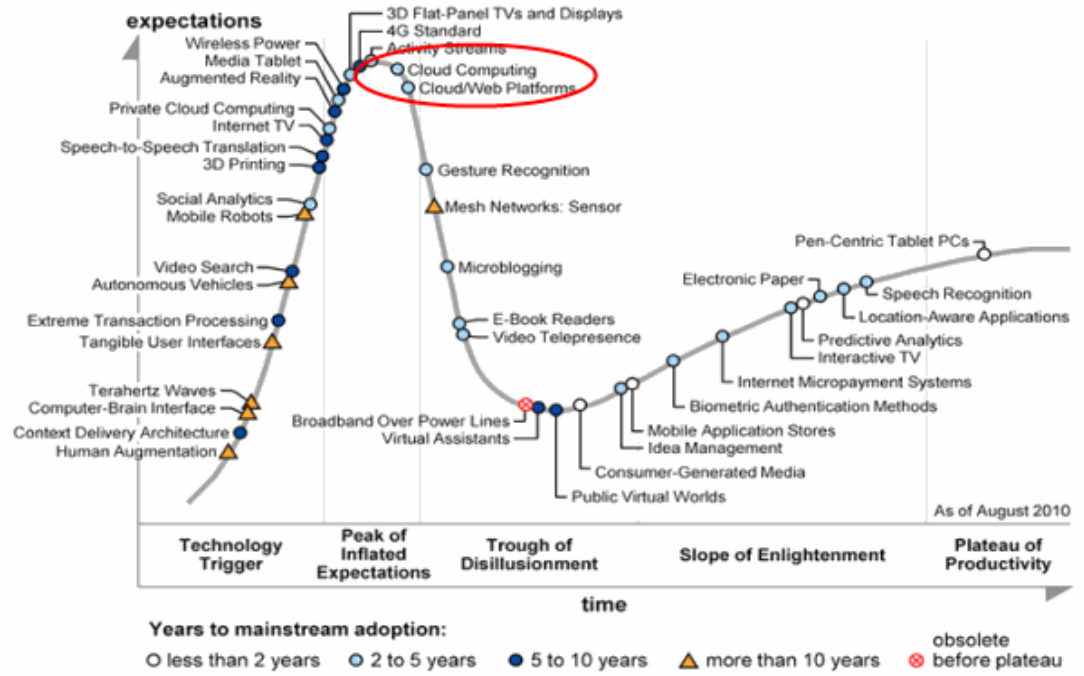
Consolidation of the IT and PMO organizations as well as the incorporation of the Business Analyst functions will help to provide a more integrated team for provision of IT services and solutions. Utilizing more defined processes and better understanding of business needs (rather than wants) in the early phases of projects will improve project team effectiveness. Finally, defining a preferred IT supplier list and utilizing rate cards and clearly define statements of work will allow the project teams to spend more time focusing on delivering a quality solution with a quality vendor.

4.5.4. Cloud Computing/SaaS

Cloud computing is a paradigm shift in provision of IT infrastructure and services, which has arisen in recent times through advancements in virtualization and Internet/web specific standards. The concept itself is fairly old, with computing resources being treated as utility services, though these newer technologies have made implementation feasible on massive scales. This model is based around on demand access to services and systems via the Internet, removing the implementation details for end user organization. Software as a Service (SaaS) extends this model further providing preconfigured hosted and managed applications in the cloud, for example Microsoft will be moving towards this business model with the Microsoft Exchange platform used by many companies for email services.

Effectively leveraging cloud computing services may be able to offer London Hydro benefits in the form of reliability and scalability of services, which are achievable due to on demand virtualized resource provisioning and multi-tenancy within the cloud

service. The other significant factor with these services which provides the major driver is reduction in capital expenditure on server resources. The pricing model for cloud computing services is generally usage based, considering CPU utilization, storage and network bandwidth which can be extremely favorable for some use cases since economies of scale of much larger companies are leveraged, removing the need for internal infrastructure, application expertise (in the case of SaaS), backup and disaster recovery capacity.



In 2011 we will begin evaluating both cloud computing and software as a service models/vendors to determine feasibility for implementation with London Hydro's systems. This will begin with basic services such as corporate email and collaboration tools, then later moving on to low transaction volume systems. Evaluation of these services will be ongoing across several years since the cloud computing industry is relatively new and is developing rapidly. As can be seen from the Gartner 'Hype Cycle' diagram above, this technology is currently within the peak of inflated expectations and the next few years will show the real-world practicality of implementing large volume services in the cloud.

4.5.5. Communication & Collaboration Tools

Barriers to communication hinder effectiveness of teams working together. While meetings are a practical forum for some communication needs but can be very costly when considering the time commitment of staff and consultants and also create scheduling conflicts that can delay discussion until all parties are available together.

Often technology can provide more effective means for team discussion and collaboration, with less impact on productivity. Many tools also have the advantage of being able to capture and store communications, providing a zero-effort replacement

for meeting minutes. Tools to facilitate collaboration between project team members will be evaluated by the IT team, including instant messaging and enhancements to the capabilities of the existing corporate intranet, or more enterprise centric portal solutions such as Microsoft SharePoint.

4.5.6. Quality Control

Our expectations of service and solution delivery should always be high, pushing to drive up quality of deliverables to meet our expectations, rather than lowering our expectations to what is given. Additional structure will be put into Quality Control processes with the aim of not only ensuring that solutions function correctly, but also as a mechanism to measure and quantify vendor/partner capability.

The quality control process will play a more significant part in projects, beginning during the design of solutions to allow testers to understand the solution being developed and prepare detailed and exhaustive test plans, rather than previous just-in-time efforts. The stages of testing and their definition will be better defined for consistency in execution and understanding across all projects and methods for tracking progress in execution and delivery as well as defect management will be formalized to avoid changing of processes mid-cycle.

Utilization of HP/SAP Quality Center to structure test planning, linking with requirements and management of defects will help to ensure these processes are well managed and test coverage addresses defined requirements. Automation of test execution will also be incorporated into the testing process with this tool, though the aim is not to develop automation of all tests, since this would be impractical in terms of both cost and effort – instead, test automation will be targeted to repeated regression test cases to reduce execution overhead of common cases, allowing testers to focus more on testing of new capabilities and more complex scenarios.

4.6. Resourcing Structure

4.6.1. Organization Structure

In 2010 a new Project Management Office was formed to provide leadership and governance for corporate IT projects. An organization structure has evolved providing alignment between the activities and responsibilities of the PMO and IT service teams.

PMO	AMS	Infrastructure
Business Liaisons	Application Support	Servers and Storage
Strategic Planning	Break Fix	Networking and Security
Business Case Development	Minor Enhancements	IT Service Desk/Portal
Portfolio Management	Interfacing	Telecommunications
Project Management	Business Reporting	Remote Connectivity
IT Architecture	Business Intelligence	Desktop Support

Sourcing and Contracting	Customer Facing Portals	Disaster Recovery
IT Quality Assurance	Batch Processing	IT Asset Management
Benchmarking	EDI/EBT	Database Management
Governance		Middleware (PI, Multispeak)

4.6.2. Employee Development

While employees have their defined roles in the organization, London Hydro's scale dictates that management of the complex environment in which we work requires ownership of secondary roles to ensure effective coordination within and between internal teams. Moving forward employee development will need to consider the multiple hats that people wear on a day to day basis to ensure adequate training and capability can be provided in all areas.

With the IT organization there is a drive for training and certification process in three major areas, which need to be pursued to ensure that London Hydro's systems and processes utilize industry best practices:

- Development of SAP skills and knowledge
- Development of project management process
- Certification on core infrastructure technologies

Active participation in working groups will also be important for making external contacts, positioning London Hydro as an industry leader and working to define the standards that we will ultimately have to implement.

4.6.3. External Resourcing

The nature of enterprise systems being implemented to support the rapidly increasing complexities in the utility industry necessitates use of external consultants for project and support resourcing since it would not be practical to maintain an internal team of sufficient breadth and depth of knowledge to cover all possible requirements given the scale and scope of enterprise systems such as SAP. The key objectives with regards to external consultants over the next few years will be to obtain an effective balance of utilization and manage contract costs.

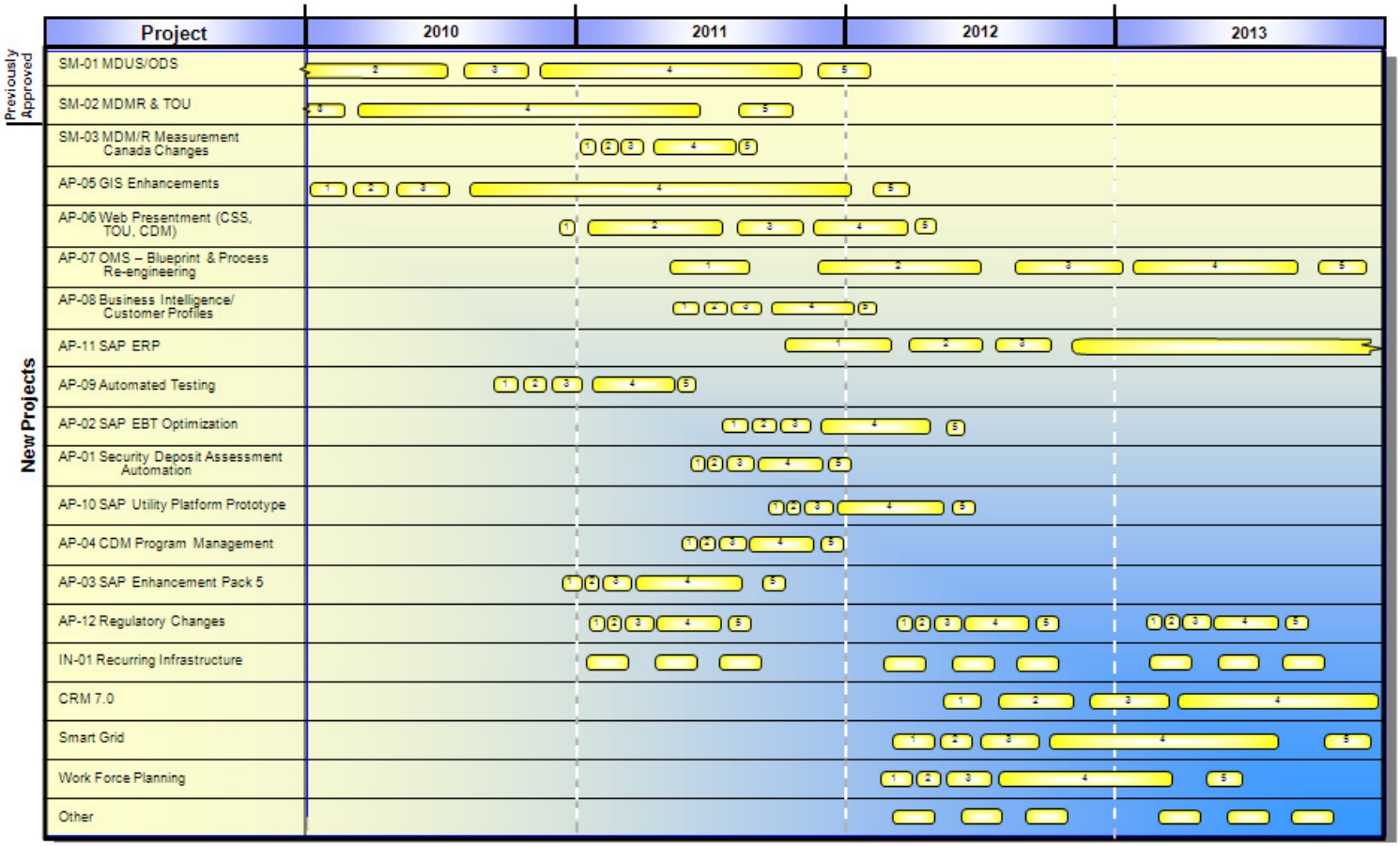
Out internal support team will be developed to enable handling of general break fix work, minor enhancements and reporting needs, with external consultants being utilized for their specific functional area experience and specialization where necessary. In conjunction with improved project management processes and documentation standards, we will increase focus on assimilation of knowledge from external resources into the support organization to extract greater value.

To support cost and quality control with external vendor relationships, we will work to establish a preferred supplier multi-vendor sourcing approach rather than the current single-source model, along with a standardized statement of work and rate card based on volume. This will reduce overhead in vendor selection for each work piece and

maintain a consistent competitive set of rates. Vendor management will utilize a scorecard approach to track vendor performance over time.

Section 5. Key Project Schedule

The chart below illustrates the scheduling of major project items over the period 2010 to 2013 working towards the goals of this strategy document.



Section 6. Risks

6.1. Risk Areas

Within projects, risk areas can be generally categorized into one of three areas and these areas are also applicable at a program and strategic plan level; Scope, Schedule and Resources.

	Key Risks	**Activities/Processes to Mitigate**
Scope	Scope Creep or Gap Software Defects Hardware Defects Dependency Change Integration Defect	Clearly define deliverables and formal change request processes Define work breakdown structure in manageable components to ensure work is well understood Assign ownership and determine reasons for items not being accepted
Schedule	Project Dependencies Sub-component Delays Estimation Errors Decision Delay Hardware Delay Dependency on External Parties	Understand the basis of estimations and potential variations Identify critical milestones from a business or regulatory perspective Identify high risk dependencies Compare estimates to historical values
Resources	Purchased service delays Lack of funds Attrition of resources People joining the team late Scarcity of skills	Integrated resource plan within and across projects to ensure resource commitment and avoid overloading Ensure task resourcing estimates are not overly optimistic Identify all understaffed tasks Document all risks associated with purchased services Include schedule and funding for training, equipment and travel Determine the complete project cost

Additionally, at a plan level there is another category of risk to be considered in availability of technology to implement the plan. Future projects are planned on the basis of particular technology being available to implement; however, vendor roadmaps can change. While these factors are external and therefore outside of our control, working closely with our vendors and partners to ensure that our own development plans continue to align with that of our enterprise systems.

6.2. Specific Risks

6.2.1. Expectations & Scope

Project expectations and scope needs to be very clearly defined between business, PMO/IT, executive committee and vendor/partner resources to ensure everyone is working to the same goals, with an understanding of the underlying business objectives. Without a common understanding of the goals and objectives of a project it is not possible to adequately define success criteria and achieve acceptance.

It is better to have vision of where we want or need to be and carry out smaller projects as building blocks to reach that vision, since smaller better defined projects have a much greater chance for success than trying to do everything in a single big project. A multi-project approach also forces project teams to consider the solution components and interactions at a much earlier stage which will help to solidify scope.

6.2.3. Capabilities & Capacity

Availability of staff between multiple projects is a major factor in resource risk - with many projects simultaneously in progress, existing resource must balance their time between each. Looking at the number and types of resources available, the base and skill set of internal resources is not necessarily sufficient to realize plans without additional training. These factors also tie in with the issue of retention – how to ensure that we not only build the right team, but that we can retain that team.

Careful planning and adequate notice of requirements from the project management side is necessary to ensure resources are not over allocated and plans need to incorporate appropriate training to ensure we develop the base skill sets required. Ensuring retention of resources is primarily a process of recognition for work that is done and ensuring a balance of interesting work.

6.2.4. Regulatory Changes

Regulatory change is also a significant risk since it cannot necessarily be planned for. London Hydro is operating in a complex regulatory environment that has effectively been in an almost constant state of flux for some ten years. Various new regulatory changes are already known for 2011, but others may occur beyond into 2012/13. Efforts required to satisfy regulatory change consume resources that would otherwise be working towards the goals of our strategy and hence could delay progress.

Appendix A.

Application Landscape Logical Connectivity

Media Release

London Hydro Launches a New Research LAB in Partnership with Western University

January 24, 2013, London, Ontario - London Hydro has participated in a number of joint projects with Western University and we feel that it's our responsibility to our community and customers to continually investigate new technology and programs that could provide alternative energy sources and environmental benefits for our current and future generations.

"The unique opportunity to set up a Lab within London Hydro and share expertise and learning experiences with Western University, its faculty, post-doctoral fellows and graduate and undergraduate students provides immense opportunities to pool resources and advance the design, development and testing of new technologies," says Vinay Sharma, London Hydro CEO.

The $1 million state-of-the-art Lab "Watts Lab for Smart Grid and Innovative DG Control Studies" is a unique model of successful collaboration between a university and a local electricity distribution utility. The initial funding provided by London Hydro for several Western research grant proposals has successfully leveraged substantial funds from various Federal and Provincial funding agencies.

"The Watts Lab is an exciting partnership between the energy sector and Western University," says Andrew Hrymak, Dean of Western Engineering. "The Lab offers our students hands-on training in a real-world setting. Our researchers will also benefit from the state-of-the-art equipment and close collaboration with colleagues at London Hydro."

The Lab will be primarily used for designing, developing and testing of enhanced utilization of real power generating capacity of distributed generator (DG) Inverters as Statcom, technology that has been patented by Dr. Rajiv Varma of Western University and London Hydro as a result of this successful research.

The Lab will also be used for other research such as:

- **The study of Short Circuit contributions from embedded DGs**
- **The study of the impact of reconfiguration of feeders – two way communication for dynamic control of embedded DGs**
- **Conservation: Adaptive control of residential devices**
- **Real time metering for renewable generation and conservation initiatives**
- **Smart techniques for charging/discharging of Electric Vehicles**

The Lab would not be possible without the funding and in-kind support from our other partners namely, Ontario Centres of Excellence, Bluewater Power, Hydro One, LEDC, German Solar, Testforce, and KACO, we thank all involved for their ongoing involvement and support.

"The Watt's lab exemplifies the critically important role a utility can play in testing, verifying and showcasing academic research," said Dr.Tom Corr, president and CEO of Ontario Centres of Excellence. "Field testing is essential for demonstrating the viability of technology developed in an academic setting. It provides the evidence needed to assure industry that the technology merits commercial development."

- 30 -

For more information contact:

Nancy Hutton
(519) 661-5800 ext 5797
Cell (519) 639-7774