EXHIBIT LIST

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	C			Management Discussion & Executive Summary
	D			Customer Engagement
		1		*UtilityPULSE* Customer Survey
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	E			Financial Information
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	G			Additional Information Requirements (including CDM and Smart Meter Status)
		1		OPUCN Distribution System Maps & Schematic Diagrams
		2		OPUCN Shareholder Declaration
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Exhibit	Tab	Schedule	Attach.	Description
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Exhibit	Tab	Schedule	Attach.	Description
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ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998;*

AND IN THE MATTER OF an Application by Oshawa PUC Networks Inc. for an Order approving rates and other service charges for the distribution of electricity for the years 2015 through 2019.

APPLICATION

1. The Applicant, Oshawa PUC Networks Inc. (OPUCN), is an Ontario corporation with its head office in the City of Oshawa. It carries on the business of distributing electricity within the City of Oshawa.

2. OPUCN applies to the Ontario Energy Board (Board), pursuant to section 78(2) of the *Ontario Energy Board Act, 1998* (OEB Act) and pursuant to the "Custom IR" rate setting method outlined in the *Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance Based Approach* (October 18, 2012) for an Order or Orders approving;

   a. final rates for the distribution of electricity effective January 1, 2015, as set out in Exhibit 8, set to recover OPUCN's forecast 2015 cost of service;

   b. a new variance account (2015 Revenue Variance Account) to capture the difference between revenue at OPUCN's current interim rates and the revenue that would have been collected had OPUCN's final 2015 rates been in place as of January 1, 2015 and through the actual date of implementation of final 2015 rates, and an order for recovery of the balance in the 2015 Revenue Variance Account by way of a rate rider to be effective from the date that final 2015 rates are implemented and through 2019;

   c. rates for the distribution of electricity for each of the years commencing January 1, 2016, January 1, 2017, January 1, 2018 and January 1, 2019

(collectively the Future Test Years), determined in accordance with OPUCN's forecast cost of service for each of these Future Test Years, but subject to future adjustment as described below;

d. a new Rate Smoothing Deferral Account effective January 1, 2015 to effect the smoothing of OPUCN's distribution rate changes during the rate plan period from 2015 through 2019, as proposed and evidenced in Exhibit 8;

e. an annual rate adjustment process to set final rates for each Future Test Year by adjusting the rates for each such year as approved in this application to reflect the revenue requirement impacts in the subject test year of:

   (i) updated actual and forecast costs for required contributions to Hydro One Networks Inc. for transmission upgrades to serve OPUCN's distribution area, and updated actual and forecast distribution system capital expenditures required as a result of regional planning activities;

   (ii) updated actual and forecast costs for required relocation of OPUCN distribution plant in response to 3rd party requests;

   (iii) updated customer connection and volume forecasts for the test year, and updated actual and forecast net new customer connection costs (including expansion and metering costs);

   (iv) updated cost of capital applying Board approved cost of capital parameters for capital structure, return on equity and cost of debt;

   (v) updated forecast working capital requirements based on updated cost of power forecasts for the test year; and

   (vi) material cost increases or decreases linked to unexpected, non-routine events not reasonably within the control of utility management or preventable by the exercise of due diligence, including changes in accounting or regulatory policy or changes in law having a material impact on OPUCN's cost or revenue structure (i.e. a "z-factor");

f. the following new variance accounts related to OPUCN's proposed annual rate adjustment process;

(i) a Net New Connection Cost Variance Account to capture the revenue requirement impact of the difference between forecast and actual net new customer connection costs (including expansion and metering costs);

(ii) a Distribution Plant Relocation Cost Variance Account to capture the revenue requirement impact of the difference between forecast and actual costs of OPUCN distribution plant relocations required by 3rd parties; and

(iii) an Unbudgeted Regional Planning Investment Cost Variance Account to capture the revenue requirement impact of the difference between forecast and actual costs incurred by OPUCN for contribution to Hydro One or for other unbudgeted distribution projects required as a result of regional planning;

g. an Off Ramp that will be triggered following any year from 2015 through 2018 during which OPUCN's ROE determined on the basis of weather-normalized earnings varies by 300 basis points or more above or below the ROE calculated annually in accordance with the Board's ROE formula; and

h. the following efficiency incentive mechanisms:

(i) A Controllable Capital Investment Efficiency Incentive Mechanism (CCIEIM) as proposed in this Application to incent OPUCN to control the costs of its controllable capital investment programs (its System Renewal Capital Investment Program and its investment in a new municipal substation and associated feeders) by allowing revenue requirement impacts of variances between forecast and actual capital investment for these programs to be to be shared between OPUCN and its ratepayers as proposed in the evidence filed herein; and

(ii) A Total Cost Efficiency Carryover Mechanism (TCECM) to continue to incent general efficiency initiatives late in the Custom IR rate plan period by allowing OPUCN to capture a portion of resulting sustainable cost savings for a short period of time (proposed as 2 years) following the end of the rate plan period as proposed in the evidence filed herein;

i. a new deferral account (a CCIEIM Deferral Account) to record the that portion of the variances in capital costs related to the proposed CCIEIM

efficiency incentive mechanism, for disposal at the end of the Custom IR Plan period as proposed in the evidence filed herein;

j. a new Change in Depreciation Rate Deferral Account to adjust accumulated depreciation for a change in depreciation rates resulting from an independent study obtained by OPUCN and filed in evidence with Exhibit 2 (Rate Base);

k. continuation of the following deferral accounts: Tax Rate Changes Deferral Account and Pension Cost Differential Deferral Account;

l. in all other respects the proposals described in the evidence filed in support of this Application and such modifications to those proposals as may be brought forward by OPUCN and deemed appropriate by the Board;

m. such final, interim or other orders and directions pursuant to the provisions of the *Ontario Energy Board Act, 1998* and the Board's *Rules of Practice and Procedure* as may be appropriate in relation to the Application and the proper conduct of this proceeding.

3. OPUCN is not seeking disposition of its 2013 deferral accounts, as their balances at December 31, 2013 were not material.

4. In the event that OPUCN's application is approved by the Board, the average distribution rate increase for residential customers consuming 800 kWh per year for 2015 will be approximately 5.6%, or about $1.30 per month (after smoothing).

5. The average annual distribution rate increases thereafter for the balance of the Custom IR rate plan period through 2019 will depend on the final rates set for each of the Future Test Years. Based on current forecasts, annual average rate increases for residential customers (after smoothing) are expected to be approximately as follows:

2016	5.7%	$1.38/mo
2017	6.0%	$1.54/mo
2018	6.5%	$1.76/mo
2019	5.9%	$1.71/mo

6. This Application will impact all customers of OPUCN. As it has in the past, OPUCN proposes to publish its Notice of Application in a public yet cost effective way by placing a copy in the local Oshawa paper of general circulation (Oshawa This Week).

7. OPUCN's Application and related documents may be viewed online at www.opuc.on.ca.

8. OPUCN requests that a copy of every document filed with the Board in this proceeding be served on it and its counsel as follows:

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As a senior officer of the Applicant, Oshawa PUC Networks Inc. I certify that the evidence filed in support of this Application is accurate, consistent and complete to the best of my knowledge.

DATED at Oshawa, Ontario, January 28, 2015.

OSHAWA PUC NETWORKS INC.

Phil Martin, CPA, CGA
VP Finance & Regulatory Compliance

MANAGEMENT DISCUSSION & EXECUTIVE SUMMARY

Introduction

OPUCN is applying to the Board for rates for the years 2015 through 2019, set in accord with its proposed Custom IR rate plan. The rates set for the years 2016 through 2019 would be subject to certain pre-defined adjustments, through an annual rate adjustment process. The Custom IR rate plan includes a rate smoothing proposal and a package of efficiency incentive mechanisms, which includes a Controllable Capital Investment Efficiency Incentive Mechanism (CCIEIM) and a Total Cost Efficiency Carryover Mechanism (TCECM). OPUCN has obtained independent third party assessments of its capital investment plans and total forecast cost levels, including an econometric benchmarking analysis from Pacific Economics Group LLC (PEG).

Driving the need for a Custom IR plan for OPUCN are the prolonged, elevated investments which OPUCN is required to make in order to continue to provide reliable and efficient electricity distribution service to the fast growing City of Oshawa.

Background

On July 12, 2013, OPUCN wrote to the Board Secretary to notify the Board that OPUCN intended to file a Custom IR application pursuant to the *Board Report: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* (RRFE), for distribution rates taking effect on January 1, 2015. OPUCN is currently under the Board's 3rd Generation IRM plan. OPUCN's last cost of service application was for rates effective in 2012, and therefore, but for this application, OPUCN would have been scheduled to file its next cost of service application for rates taking effect on January 1, 2016.

However, OPUCN is electing to exercise its option as contemplated by the RRFE to file an application for approval of a Custom IR rate plan to apply to the test years 2015 through 2019. The Board has indicated in the RRFE that:

> *Distributors may make a Custom IR application any time within the 3rd or 4th Generation IR or Annual IR Index Term. The Board will permit an exception to the early rebasing test for distributors applying under the Custom IR method in advance of their normal rebasing date. The Board's view is that the Custom IR method should be available as soon as possible for distributors with prolonged elevated investment needs. One of the Board's main concerns with early rebasing is the opportunity it affords distributors to avoid the efficiency incentives in the annual adjustment mechanism. The Board is satisfied that the Custom IR process will be sufficiently rigorous that an assessment of the adequacy of past and future productivity levels can be made and the results of that assessment can be incorporated into the distributor's future rates.*[1]

The evidence filed in support of this application demonstrates that:

1. The elevated capital investment requirements during the years since OPUCN's 2012 cost of service filing have steadily eroded OPUCN's earnings, such that rebasing of rates for 2015 is necessary in order to avoid earnings degradation to more than 900 basis points below Board approved ROE.

2. OPUCN forecasts continued, prolonged, non-discretionary capital investment requirements during the rate plan years. Under 4th generation IRM these continued capital investment needs would continue to erode earnings to significantly below Board approved levels, starting in the test year following rebasing.

3. OPUCN's current per-customer rate base continues to be significantly below that of its peers, and even with the significant non-discretionary capital investment levels required in the coming years this will still be the case in 2019 at the end of the proposed Custom IR plan period (reflecting continued above average efficiency levels).

4. OPUCN already has above average operational efficiency, being one of the 15 LDCs currently assigned to Group II (stretch factor of 0.15%) of the Board's

[1] RRFE, page 69.

stretch factor assignments.[2] In the face of customer growth forecast at 3% per year for the period 2015 through 2019, OPUCN's rate proposal maintains its OM&A cost per customer for 2019 at 2013 levels, reflecting continued operational efficiencies.

This application requests that rates be set, on a final basis, for 2015, and that rates be determined for the test years 2016 through 2019 subject to certain future annual adjustments for items that are unpredictable and present material risk as to level and/or timing of costs.

Request for Interim Rates and 2015 Revenue Variance Account Rate Rider

By letter dated December 23, 2014, OPUCN provided an update to the Board regarding its anticipated timing for filing this Custom IR application (prior to the end of January, 2015), and to request that the Board declare OPUCN's current rates as interim effective January 1, 2015. Further rationale for that request was provided by way of letter to the Board from OPUCN's counsel dated December 24, 2014. By Interim Rate Order dated December 30, 2014, OPUCN's current Board-approved Tariff of Rates and Charges was declared interim effective January 1, 2015.

At current rates, declared interim as of January 1, 2015, on a deemed capital structure basis OPUCN forecasts a 2015 ROE of approximately 0.1%, which would be approximately 930 basis points below Board approved ROE of 9.42%. This shortfall would aggravate earnings shortfalls in 2013 and 2014 of approximately 350 basis points and just under 520 basis points, respectively.

On a deemed basis the equity portion of OPUCN's 2015 rate base is approximately $42 million. Return on this rate base at the Board approved ROE level of 9.42% should be approximately $4 million. At 2015 interim rates, the revenue deficiency for the year is

[2] PEG Empirical Research in Support of Incentive Rate-Setting: 2013 Benchmarking Update (July 2014), Table 5.

forecast to be approximately $2.9 million. Thus the revenue deficiency at current rates accounts for almost 3/4^{ths} (7% of the 9.42%) of OPUCN's permitted return. If 2015 rates as applied for were to become effective half way through the year, the revenue deficiency would still be $1.5 million, putting OPUCN in an "off ramp" position with earnings at more than 350 basis points below Board approved levels.

In order to allow for timely restoration of earnings to a just and reasonable level, OPUCN has applied for 2015 rates to be set on a rebased cost of service, and for such rebased rates to be effective as of January 1, 2015. OPUCN proposes a new variance account (2015 Revenue Variance Account) to capture the difference between revenue at OPUCN's current interim rates and the revenue that would have been collected had OPUCN's final 2015 rates been in place as of January 1, 2015 and through the actual date of implementation of final 2015 rates, plus carrying costs at the Board approved rate. OPUCN has also requested an order for recovery of the balance in the 2015 Revenue Variance Account by way of a rate rider.

OPUCN has proposed that this rate rider will be effective from the date that final 2015 rates are implemented and through 2019. OPUCN proposes recovery of the revenue shortfall from January 1st to the date that final 2015 rates are implemented over the full term of the proposed Custom IR Plan in order to smooth the rate increase impact on customers in tandem with OPUCN's proposed methodology for rate smoothing as part of its Custom IR plan (as detailed in Exhibit 8).

Basis Upon Which OPUCN Applies for Custom IR

Under Section 2.2.1 of the RRFE, the Board made the following statement:

> *The Custom IR method will be most appropriate for distributors with significantly large multi-year or highly variable investment commitments that exceed historical levels.*

The main driver for OPUCN's application for approval of a Custom IR rate plan is OPUCN's large multi-year capital investment requirements. Driving these large multi-year capital investment requirements are:

1. Expected 3% annual average growth in customer connections and aggregate customer demand levels over the 2015 – 2019 plan period. These drivers require significant investment in both system expansion (i.e. new customer connection infrastructure) and system reinforcement (i.e. a new distribution station and upstream transmission capacity investment) in order for OPUCN to continue to provide reliable electricity distribution service; and

2. Significant capital expenditures for relocation of distribution assets to accommodate the infrastructure being developed to respond to the growth in population and business activity in Oshawa, particularly across the north end of the City due to the extension through Oshawa of the 407 ETR highway.

In response to customer and load growth forecasts informed by consultation with the City of Oshawa, the Region of Durham, and local developers, OPUCN's capital investment plan incorporates new assets to connect and serve the loads of 12,300 new customer connections (as compared with approximately 66,000 customer connections at the time of Oshawa's last cost of service rate approval for 2012 rates). In order to prudently plan for these needs, OPUCN needs to make investments in its infrastructure that will increase rate base by approximately $27 million between 2015 and 2019; a 31% increase over the proposed Custom IR plan term, and a 79% increase (approximately $50 million) when compared to the latest Board approved amount for 2012.

OPUCN's forecast of its annual capital expenditure requirements as compared to its annual depreciation expense are summarized in the Table 1:

Table 1: Annual Capital Expense vs. Depreciation

	Test Years				
	2015	2016	2017	2018	2019
Capital Expenditures	13,509,900	11,627,000	12,372,000	12,476,000	10,761,000
Depreciation Expense	4,491,588	4,847,338	5,000,972	5,203,071	5,370,697
Multiple	3	2	2	2	2

As has been the case since 2012, the pace of largely non-discretionary capital expenditures is forecast to continue to be at approximately two to three times the level of actual annual depreciation expense, which places financial pressure on OPUCN's ability to generate reasonable returns. Adjustments are necessary to recover the required growth in capital expense and the annual increase in depreciation expense, each of which out paces the inflation level increase in revenue that would be received under an IRM rate regime.

Table 2 identifies the increase in rate base resulting from OPUCN's forecast capital investment requirements and the related shortfall in deemed ROE resulting from a 4th Generation IRM rate model.

Table 2: Increase in Rate Base/Impact on ROE

	Test Years				
	2015	2016	2017	2018	2019
Rate Base	$ 104,990,575	$ 112,852,919	$ 119,890,558	$ 127,127,943	$ 133,201,327
Deemed Equity	40%	40%	40%	40%	40%
ROE	9.30%	9.30%	9.30%	9.30%	9.30%
Deemed Net Income	$ 3,905,649	$ 4,198,129	$ 4,459,929	$ 4,729,159	$ 4,955,089
Off Ramp Dead Band - Upper +3.0%	$ 5,165,536	$ 5,552,364	$ 5,898,615	$ 6,254,695	$ 6,553,505
Off Ramp Dead Band - Lower -3.0%	$ 2,645,762	$ 2,843,894	$ 3,021,242	$ 3,203,624	$ 3,356,673
Forecast Net Income Under IRM		$ 3,252,893	$ 3,435,339	$ 3,418,716	$ 3,884,099
Deemed ROE		7.21%	7.16%	6.72%	7.29%
Deemed ROE Deficiency		-2.09%	-2.14%	-2.58%	-2.01%

The table illustrates that under 4th Generation IRM, even with a 2015 rebasing, OPUCN would continue to significantly under earn from the 2016 test year and on. ROE forecast on a deemed capital structure would be near the off-ramp trigger of 3% in each of the 2016 through 2019 test years. The cumulative negative impact on earnings that would result from application of 4th generation IRM to OPUCN even after a 2015 rebasing is forecast to be in excess of $6 million (before PILs) from 2016 through 2019.

Through this Custom IR proposal OPUCN seeks advance approval of rates that recover the capital expenditures and depreciation expenses incorporated in OPUCN's forecast cost of service for each of the plan years. Through pre-determined annual adjustment mechanisms, actual rates for each of the plan years will be adjusted before implementation to reflect updated information as to the timing of the development in the City of Oshawa and as to certain uncontrollable capital investment costs for the year (such as contributions by OPUCN to Hydro One for required transmission reinforcements or costs incurred for OPUCN plant relocation required by 3rd parties). Through such pre-defined adjustments, if for reasons not under the control of OPUCN the forecast development and associated infrastructure projects fail to take place as and when anticipated, the revenue requirement in later years of the Custom IR plan will be adjusted to remove the costs forecast to meet such anticipated but un-materialized development, protecting customers from ultimately unnecessary rate increases. Conversely, if OPUCN's costs increase for reasons that are unpredictable and uncontrollable (such as greater contributions than forecast for required Hydro One Transmission reinforcements), OPUCN will be entitled to flow through such incremental costs.

OPUCN believes that the Custom IR as proposed achieves all of the objectives of the Board. Existing customers are protected as to price and quality of service, while OPUCN is assured access to the financial resources needed to maintain reliable service

to existing and new customers while recovering its cost of capital and remaining financially stable.

OPUCN'S Custom IR Proposal

OPUCN's Custom IR proposal has been developed to meet the following objectives:

1. Ensure that OPUCN's approved rates support funding of the extraordinary capital expenditures it anticipates in the next several years;
2. Be flexible enough to accommodate changes in timeframe or scale of the capital program that arise from factors beyond OPUCN's control;
3. Smooth rate increases over the plan period; and
4. Provide a fair and balanced incentive for OPUCN to achieve efficiencies in implementation of its capital and operational plans and share the benefits of such efficiencies with its customers.

To meet these objectives, OPUCN has applied for distribution rates for the test years 2015 through 2019 set on the basis of the detailed cost of service forecasts and supporting evidence provided in this Application. OPUCN has also developed a rate smoothing mechanism which utilizes rate riders calculated to effect a more constant year over year rate of growth in effective rates (i.e. approved rates plus rate riders). Using rate riders to effect such smoothing allows for the continued use by OPUCN of the Board's rate filing models while providing a separate and transparent overlay of the rate smoothing adjustments proposed. Details of OPUCN's proposed rates and smoothing mechanism are provided in Exhibit 8 (Rate Design).

OPUCN also proposes an annual rate adjustment process pursuant to which rates for each of the plan years from 2016 through 2019 as determined in this application will be adjusted in advance of implementation to reflect revised forecast costs associated with change in investment requirements which are beyond OPUCN's ability to predict or control. OPUCN recognizes that despite its careful and rigorous approach to its forecast

of new customer loads and associated capital expenditures, and its best planning in response to information regarding third party requirements for relocation of distribution infrastructure, there are significant risks of forecast error in these parameters over the five-year planning period. OPUCN is particularly concerned that events outside of its control could delay or reduce the expected growth in the community and/or the schedule for asset relocation in response to municipal, regional and third party requirements. Without adjustment for such delay or reduction in development activity, the rates approved at this time could significantly over-recover relative to OPUCN's later year costs. The proposed annual adjustments to account for pre-defined categories of potential test year cost variances are intended to protect both OPUCN and its customers from these uncontrollable and unpredictable material risks, and to preclude reopening OPUCN's rates to full review during the 5 year plan period.

Through an annual rate adjustment process, rates (or, as appropriate, rate riders) for the upcoming test year would be adjusted for revenue requirement impacts associated with:

1. Updated actual and forecast costs for required; i) contributions to Hydro One Networks Inc. for transmission upgrades; and ii) un-budgeted distribution projects required as a result of regional planning to serve OPUCN's distribution area;

2. Updated actual and forecast costs for required relocation of OPUCN distribution plant in response to 3rd party requests;

3. An updated load forecast and an associated update to OPUCN's net new customer connection costs to account for updated customer connection and volume forecasts for the test year;

4. Updated cost of capital applying Board approved cost of capital parameters for capital structure, return on equity and cost of debt; and

5. Updated forecast working capital requirements based on updated cost of power forecasts for the test year.

In addition, OPUCN has proposed a "z-factor" adjustment facility, as contemplated by the RRFE[3], to address material cost increases or decreases linked to an unexpected, non-routine event not reasonably within the control of utility management or preventable by the exercise of due diligence. OPUCN includes changes in accounting or regulatory policy and changes in law having a material impact on OPUCN's cost or revenue structure as eligible for z-factor treatment, providing that other applicable z-factor criteria are met. Z-factor eligibility and criteria are described in the Board's *Filing Requirements for Electricity Distribution Rate Applications* (2014 Edition for 2015 Rate Applications) at section 3.2.7 (and, by reference, section 2.6 of the Board's *Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* – July 14, 2008).

OPUCN is also proposing two efficiency incentive mechanisms:

1. A *Controllable Capital Investment Efficiency Incentive Mechanism* (CCIEIM) is proposed to incent OPUCN to control the costs of its controllable capital investment programs; its System Renewal Capital Investment Program and its investment in a new municipal substation and associated feeders. OPUCN proposes that the revenue requirement impacts of variances between forecast and actual capital investment for these programs be shared between OPUCN and its ratepayers through a rate rider to be applied to rates for the duration of the average depreciation period for the capital items included in the program. This proposed capital efficiency incentive mechanism reflects OPUCN's view that avoided rate base has permanent and significant value to ratepayers, but under the current regulatory regime in Ontario there is an embedded disincentive to drive out efficiencies in capital expenditures. Such efficiencies lower rate base and thus reduce long term (25 year) earnings by cost of service regulated utilities. OPUCN's proposal would mitigate this disincentive by allowing OPUCN's shareholder to effectively "earn" a return on capital investments avoided. The concept for this proposal originates in OPUCN's consideration of an analogous incentive mechanism developed and now being applied by the Office of Gas and Electric Markets (OFGEM), the U.K. energy regulator.

2. A *Total Cost Efficiency Carryover Mechanism* (TCECM) is also proposed, to continue to incent general efficiency initiatives late in the Custom IR rate plan period. This "efficiency carryover mechanism" would effectively allow OPUCN to

[3] RRFE, Table 1, page 13.

capture a portion of cost savings realized during the Custom IR term for a short period of time (proposed as 2 years) following the end of the rate plan period. Under this proposal, 50% of any positive average earnings above Board approved ROE during the plan period would be continued through a rate rider added to OPUCN's distribution rates for the two years following the end of the plan term (i.e. 2020 and 2021). This incentive mechanism mirrors a mechanism recently approved by the Alberta Utilities Commission for Atco Gas & Electric.

Details of both proposed incentive mechanisms are provided in Exhibit 10, Tab C.

Benchmarking OPUCN's Custom IR Proposal

In support of its Custom IR proposal, OPUCN retained Pacific Economics Group LLC (PEG) to appraise OPUCN's forecasted total cost for the IR plan period against an econometrically determined forecast benchmark total cost.

PEG is a leading utility cost research consultancy and has filed rigorous benchmarking and productivity studies in regulatory proceedings for two decades. In Ontario PEG has provided benchmarking evidence for Enbridge Gas Distribution and Hydro One Networks, and has twice developed power distributor benchmarking and productivity studies for the Board. The Board has used PEG's studies to set x factors in IR price escalation formulas and to develop econometric total cost benchmarking models along with a study of trends in the productivity of Ontario power distributors in support of the Board's IR rate-setting framework. PEG's report - *Benchmarking the Forecasted Cost of Oshawa PUC Networks (18 December 2014)* - is filed as Exhibit 10, Tab A.

Using the Board's econometric total cost model for OPUCN PEG benchmarked the 2015 – 2019 cost forecasts underlying this Custom IR application. PEG's conclusion is that OPUCN's cost performance will gradually rise from a level commensurate with a Group III stretch factor in 2015 to levels commensurate with a Group II stretch factor in later years of the plan. Forecasted cost will be 11.7% below the econometric cost benchmark on average.

In addition to the benchmarking analysis, PEG calculated the productivity growth implicit in OPUCN's cost forecast. PEG found that the productivity of OPUCN's operation, maintenance, and administration inputs would average 2.17% annual growth. The productivity of OPUCN's capital inputs would average 0.12% growth. Total factor productivity would average 0.87% annual growth. PEG found that the OM&A and total factor productivity expectations embedded in OPUCN's Custom IR rate application are well above the average historical trends for Ontario power distributors as calculated by PEG in its recent work for the Board.

Table 3 compares the productivity trends embedded in OPUCN's Custom IR application as assessed by PEG with the average trends for Ontario power distributors. Compared to both the nine-year 2003 through 2011 period and the ten-year 2003 through 2012 period, the forecasted 2015 through 2019 OM&A and total factor productivity trends of OPUCN are well above the average historical trends for the industry.

Table 3: OPUCN vs. Distributor Average Productivity Trends

	OPUCN Average	**Ontario Distributor Averages**	
	2015 – 2019	**2003 – 2011**	**2003 – 2012**
OM&A	2.17%	0.51%	- 0.40%
Capital	0.12%	0.01%	- 0.26%
Total Productivity Factor	0.87%	0.19%	- 0.33%

The PEG report provides independent evidence that OPUCN's proposed capital investments are efficient, fair and reasonable, and comparable to investment levels of other LDCs in the Province. In addition, the PEG report provides independent validation that the 2015 - 2019 OM&A cost levels embedded in this Custom IR application will remain among the most efficient in the province.

Additional independent validation of the reasonableness of OPUCN's proposed capital costs has been obtained from NBM Engineering Inc. (NBM) (see Exhibit 10, Tab B) and from METSCO Energy Solutions (METSCO) (see Exhibit 2, Tab B, Schedule 3).

Rate Smoothing

As detailed in Exhibit 8 – Rate Design, the year over year bill impacts resulting from OPUCN's proposed rates in each year of the 2015 - 2019 rate plan period are below the 10% value established by the Board's *Rate Impact Mitigation Measures* outlined in the 2006 Electricity Distribution Rate Handbook.

OPUCN is, however, mindful of the Board's expectation as articulated in the RRFE that the minimum 5 year term for a Custom IR proposal *"will help to manage the pace of rate increases for customers through adjustments calculated to smooth the impact of forecast expenditures"*[4]. OPUCN has also noted the emphasis in the Board's *Filing Requirements for Electricity Transmission and Distribution Applications* that the pacing of capital expenditures should be an important aspect of a distributor's 5 year Distribution System Plan.

In order to help manage the pace of rate increases for OPUCN customers over the course of OPUCN's Custom IR plan, and to respond to the Board's focus on paced investments, OPUCN proposes a rate smoothing mechanism in order to adjust rates in each year of the plan by rate riders, the effect of which is to steady the growth in effective rates (i.e. approved rates plus riders) from year to year through the plan period. Using rate riders to effect such smoothing allows for the continued use by OPUCN of the Board's rate filing models while providing a separate and transparent overlay of the rate smoothing adjustments proposed. The proposed rate smoothing

[4] RRFE, page 19

mechanism reduces the high percentage increases in revenue requirement for 2015 and 2016, and prorates the deferred amount over the remaining test years to adjust rates at a more steady pace.

Details of OPUCN's proposed rate smoothing are found in Exhibit 8 – Rate Design.

Monitoring and Outcome Measurement

To respond to the Board's stated RRFE objective of monitoring Custom IR period capital spending against the approved Capital Investment Plan, OPUCN proposes to annually file program level capital spending updates using these categories, and a comparison of updated capital program spending compared to the DS Plan program spending as presented and approved in this application. Such updates will include identification and discussion of the reasons for any material variance between OPUCN's capital investment plan as approved in this proceeding and updated actual and forecast capital spending as at the time of the annual rate adjustment filing. OPUCN will provide sufficient detail to allow the Board to monitor OPUCN's adherence to its capital investment plan approved in this proceeding.

The full scope of OPUCN's proposed annual reporting during the Custom IR Plan term is detailed in Exhibit 10, Tab F.

Off Ramp

The RRFE indicates that while the Board expects a distributor under a Custom IR plan to be committed to the plan for its duration, a regulatory review may be initiated if the distributor performs outside of a ±300 basis points earnings dead band or if its

performance erodes to unacceptable levels.[5] OPUCN proposes to retain this "off ramp" provision as part of its Custom IR plan.

Responsiveness of OPUCN's Custom IR Proposal to RRFE Principles and Expectations

The design of OPUCN's Custom IR rate plan, and this supporting Application, respond to the Board's expectations for Custom IR applications as articulated in the RRFE and through the Board's recent detailed *Decision with Reasons* in Enbridge Gas Distribution's Custom IR application[6]. Those expectations, and the way that OPUCN has responded to them, are summarized as follows:

1. ***Distributor's should focus on the following outcomes[7]:***

   a. ***Customer focus, with responsiveness to identified customer preferences;***

   OPUCN's customer engagement indicates that customers value investments that maintain reliable service, including in particular minimization of the frequency and duration of outages and timely information on the status of outages. OPUCN's planned capital investments are required to maintain reliable service in the face of fast growth of customer load in the coming years. OPUCN's proposed Outage Management System (OMS) and "grid modernization" initiatives will work in tandem to minimize outages and outage response time, and provide timely updates regarding outages and service restoration.

   b. ***Operational effectiveness, achieved by continuous improvement in productivity, cost performance and system and service reliability;***

   OPUCN's Distribution System Plan (DS Plan) details investments in infrastructure and system integrity work that are necessary to ensure continued safe, reliable and secure service. OPUCN's forecast capital investment plans and costs have been subject to rigorous review and benchmarking by independent third parties:

[5] RRFE, page 19
[6] EB-2012-0459; *Decision with Reasons* dated July 17, 2014.
[7] RRFE, page 2.

i. METSCO Energy Solutions (METSCO) has provided an *Asset Condition Assessment Report and Asset Management Plan* which documents METSCO's review of the status of OPUCN's distribution infrastructure and identification of critical and high priority asset investment requirements. METSCO's report has formed the basis for OPUCN's System Renewal capital investment program and the prioritization of its component projects. (See Exhibit 2, Tab B, Schedule 3)

ii. NBM Engineering Inc. (NBM) has provided an independent view on the expected costs of OPUCN's System Renewal and System Service projects, as a benchmark against which the reasonableness of OPUCN's own Capital Investment Program cost forecasts can be assessed. (See Exhibit 10, Tab B)

iii. UtiliWorks has provided a *Smart Grid Roadmap and Financial Analysis* informing OPUCN's measured plan for a "smarter" grid to enhance customer value and move OPUCN towards a "smarter" and more operationally efficient and effective future. (See Exhibit 2, Tab B, Schedule 4)

iv. Pacific Economics Group (PEG) has provided a Total Cost Benchmarking review of forecast plan period costs. PEG's report indicates that considering both OPUCN's capital and O&M cost forecasts for the plan period 2015 through 2019, OPUCN remains among the most cost efficient electricity distributors in the province. (See Exhibit 10, Tab A)

c. *Public policy responsiveness;*

As part of its strategy to modernize its distribution system and improve overall reliability, resiliency and value to its customers, OPUCN engaged a third party consultant (UtiliWorks) to assess OPUCN's present grid status and to develop a *Smart Grid Roadmap and Financial Analysis* (see Exhibit 2, Tab A, Schedule 4). OPUCN used this roadmap as a guide to prioritizing "smart grid" projects that will affordably increase efficiencies to its system operations, improve on system outage durations, and minimize outage impact on its customers. Paced and prioritized installation of automated intelligent devices will provide visibility on the "health" and loading of the distribution assets, facilitating automated switching to improve grid efficiency and, as required, restoration time.

d. ***Financial viability and sustained operational savings.***

The rationale for OPUCN's Custom IR application, including the rebasing of rates effective January 1, 2015, is to restore and maintain OPUCN's financial viability. The external benchmarking of OPUCN's cost forecasts by PEG validates that OPUCN's rate plan embeds continued superior productivity. OPUCN also proposes a Controllable Capital Investment Efficiency Incentive Mechanism (CCIEIM) and a Total Cost Efficiency Carryover Mechanism (TCECM) to further encourage sustainable capital and operational efficiencies. (See Exhibit 10, Tab C)

2. ***The exact nature of the Custom IR rate order, including the specifics of how costs approved by the Board will be recovered through rates, will be determined in individual rate applications.***[8]

OPUCN's Custom IR Plan proposes that rates will be determined on a cost of service basis for each test year of the plan period. Rates so determined now will be subject to certain pre-defined annual adjustments for external events that are beyond OPUCN's control and could have a material impact on the level and timing of distribution costs or revenues. Such adjustments are designed to protect both OPUCN and its ratepayers from the risks of such uncontrollable uncertainties over the plan period.

OPUCN has also proposed a rate smoothing mechanism to steady the pace of effective customer rate changes over the plan period.

3. ***The applicant must provide robust evidence of its cost and revenue forecasts, including external benchmarking evidence to support the reasonableness of cost forecasts and productivity expectations.***[9]

OPUCN has developed a comprehensive application to meet this expectation, and has procured external benchmarking and independent validation of its plans and costs (as noted above).

[8] RRFE, pages 18-19; EB-2012-0459; Decision with Reasons dated July 17, 2014, page 4.
[9] EB-2012-0459 Decision with Reasons dated July 17, 2014, see pages 3, 4 and 46.

4. ***The applicant should provide a comprehensive asset management and infrastructure investment plan that:***

   a. ***is directly linked to the capital budget and operationalized to support the prioritization of decisions and the optimization of utility assets[10];***

   b. ***manages the prioritization and pace of network investments having regard for the total bill impact on customers[11];***

   c. ***has been informed by appropriate consultation with customers[12]; and***

   d. ***has been subject to an independent assessment[13].***

   Filed as Exhibit 2, Tab B is OPUCN's comprehensive DS Plan, which addresses all of the foregoing requirements.

5. ***A minimum 5 year Custom IR term is appropriate.***

   OPUCN has proposed a 5 year term for its Custom IR plan.

6. ***The plan should address the allocation of risk between the company and ratepayers, particularly in the area of capital expenditures, and the company should bear some risk in exchange for the advance approval of higher capital expenditures for approval in rates.[14]***

   OPUCN has proposed certain pre-defined annual rate adjustments to address material cost or revenue variances linked to events beyond OPUCN's ability to predict or control. These pre-defined annual adjustments will preclude either OPUCN or its customers bearing the risks of such uncontrollable and unpredictable events. The balance of the costs underlying OPUCN's proposed rates for each year of the Custom IR plan term are at OPUCN's risk, with certain pre-defined controllable capital program costs being subject to an innovative risk sharing mechanism (the CCIEIM referred to above).

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[10] EB-2012-0459 Decision with Reasons dated July 17, 2014, see pages 7, 32 and 34.
[11] RRFE, pages 24, 25, 27, 36 and 37.
[12] RRFE, page 27.
[13] RRFE, page 19; EB-2012-0459; Decision with Reasons dated July 17, 2014, see page 6.
[14] EB-2012-0459; Decision with Reasons dated July 17, 2014, see pages 34, 37, 38 and 40.

7. ***Annual reporting of capital spending versus plan is required.***[15]

As outlined above, and further discussed in Exhibit 10, Tab F (Annual Reporting), OPUCN proposes to report in its annual rate adjustment applications on its performance relative to the Capital Investment Plan. OPUCN will provide sufficient detail to allow the Board to monitor OPUCN's adherence to its Capital Investment Plan approved in this proceeding.

8. ***A preferred incentive mechanism should support long-term sustainable productivity***[16]***, including encouraging asset optimization***[17]***.***

OPUCN has proposed a Total Cost Efficiency Carryover Mechanism (TCECM) to continue to incent general efficiency initiatives late in the Custom IR rate plan period. OPUCN has also proposed a Controllable Capital Investment Efficiency Incentive Mechanism (CCIEIM) to incent OPUCN to control the costs of its controllable capital investment programs (its System Renewal Capital Investment Program and its investment in a new municipal substation and associated feeders). (See Exhibit 10, Tab C.)

Revenue Requirement

OPUCN's requested revenue requirement includes the recovery of its costs to provide distribution services, permitted return on equity and the funds necessary to service debt. Through this rate application, OPUCN seeks Board approval on revenue requirement for each of the test years 2015 through 2019. Table 4 sets out the revenue requirement sought and the revenue deficiency based on prior year rates for each year of OPUCN's proposed custom IR plan term.

[15] RRFE, page 20; EB-2012-0459 Decision with Reasons dated July 17, 2014, pages 20 and 79 – 81.
[16] EB-2012-0459 Decision with Reasons dated July 17, 2014, see pages 16 and 17.
[17] RRFE, page 61.

Table 4: Revenue Requirements/Deficiencies vs. Prior Year

	Test Years at Proposed Rates				
	2015	2016	2017	2018	2019
Operating Revenue at Existing Rates	18,703,174	21,884,533	23,950,683	24,855,397	26,088,546
Revenue Deficiency	2,862,090	1,663,120	440,556	749,846	105,296
Other Distribution Revenue	1,336,319	1,506,940	1,631,192	1,452,379	1,517,631
Total Revenue	22,901,582	25,054,593	26,022,430	27,057,622	27,711,473

By comparison, Board-Approved revenue requirement for 2012, actual revenue from 2012 and 2013, and forecast revenue for the 2014 Bridge Year are included in Table 5.

Table 5: Historical and Bridge Year Revenue

	At Board-Approved Rates			
	2012 Board-Approved	2012 Audited	2013 Audited	2014 Bridge Year
Residential	10,753,668	10,500,774	10,563,015	10,728,223
GS Less Than 50 KW	2,575,166	2,613,205	2,610,463	2,641,120
GS 50 To 999 KW	3,505,793	3,210,935	3,274,806	3,301,935
GS Intermediate 1,000 To 4,999 KW	465,943	542,792	570,202	535,829
Large Use	197,547	226,694	232,630	237,328
Street Lighting	696,349	670,252	626,148	620,072
Sentinel Lighting	1,826	0	0	0
Unmetered Scattered Load	54,793	47,426	47,816	49,096
Operating Revenue	18,251,085	17,812,079	17,925,081	18,113,604
Other Distribution Revenue	1,792,057	2,030,035	1,934,649	1,390,271
Total Distribution Revenue	20,043,143	19,842,114	19,859,729	19,503,876

Table 6 presents the year over year dollar change, annual percentage change, and cumulative average percentage change in the revenue requirement for the historical and forecast years. Actual revenue for 2012 compared with the Board approved 2012 revenue requirement has also been provided.

Table 6: Change In Revenue 2012 through 2019

	At Board-Approved Rates				Test Years at Proposed Rates				
	2012 Board-Approved	2012 Audited	2013 Audited	2014 Bridge Year	2015	2016	2017	2018	2019
Change in Revenue Requirement		-201,029	17,616	-355,853	3,397,707	2,153,010	967,838	1,035,192	653,851
Cumulative Change in Revenue			17,616	-338,238	3,059,469	5,212,479	6,180,317	7,215,509	7,869,360
Percentage Change in Revenue Requirement		-1.0%	0.1%	-1.8%	17.4%	9.4%	3.9%	4.0%	2.4%
Cumulative Average Percentage Change			0.1%	-0.9%	4.9%	6.0%	5.6%	5.3%	4.9%

The cumulative average annual percentage change in revenue requirement from 2012 to 2019 is an increase of 4.9% (4.7% if calculated based on the 2012 Board approved revenue requirement). It is important to note that actual revenues have not reached the level of the 2012 Board approved revenue requirement during the applicable interim IRM rate period (2012 through 2014). This deficiency in revenue is primarily reflective of the disparity between the Board approved load forecasts and the actual customer connection count, consumption and demand results experienced. The cumulative shortfall in revenue requirement for 2012 through 2014, which also negatively impacts OPUCN's earnings, is forecast to be over $500,000.

As noted earlier in this exhibit, and as further detailed in Exhibit 2 – Rate Base and OPUCN's Distribution System Plan, the main driver for increases in OPUCN's revenue requirement is OPUCN's large multi-year capital investment requirements. Driving these large multi-year capital investment requirements are:

1. Expected 3% annual average growth in customer connections and aggregate customer demand levels over the 2015 – 2019 plan period. These drivers require significant investment in both system expansion (i.e. new customer connection infrastructure) and system reinforcement (i.e. a new distribution station and upstream transmission capacity investment) in order for OPUCN to continue to provide reliable electricity distribution service; and

2. Significant capital expenditures for relocation of distribution assets to accommodate the infrastructure being developed to respond to the growth in population and business activity in Oshawa, particularly across the north end of the City with the extension of the 407 ETR highway through Oshawa.

As detailed in Exhibit 3 – Operating Revenue, OPUCN forecasts 2015 through 2019 increases to its customer connections count that are significantly larger than historical trend primarily due to population growth anticipated by The City of Oshawa. The incremental forecast customer connections reduce costs recovered from existing customers.

On the forecasts underpinning this application, OPUCN's average annual distribution revenue per customer connection will increase through the proposed 5 year rate plan period from approximately $368, as per the 2012 Board approved customer connections count and revenue requirement, to approximately $436 in 2019. This represents a cumulative average percentage increase of 2.5% in the estimated average annual distribution revenue per customer connection compared with the cumulative average percentage increase in revenue requirement of 4.7% as outlined above. That is, distribution revenue per customer is increasing at just over half the rate as OPUCN's overall revenue requirement increase.

OPUCN is starting from a relatively low average distribution revenue per customer requirement. Table 7 presents historical average annual distribution revenue per customer connection results for OPUCN, other comparable LDC's and the industry

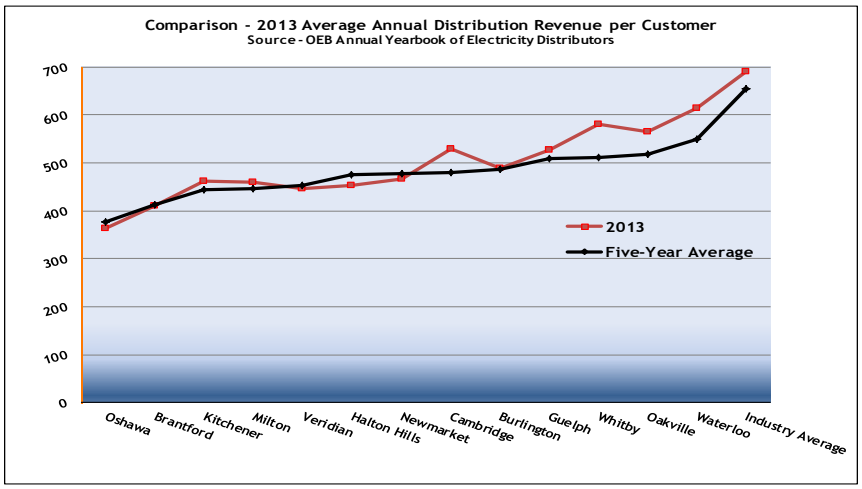
average. Figure 1 charts the 2013 and five year average data. The source of the information is Ontario Energy Board's *Annual Yearbook of Electricity Distributors*.

Table 7: Average Distribution Revenue per Customer OPUCN vs. Comparators

Average Distribution Revenue per Customer	Brantford	Burlington	Cambridge	Guelph	Halton Hills	Kitchener	Milton
2009	417	438	420	491	455	387	442
2010	429	468	466	496	469	423	430
2011	418	482	480	507	466	448	450
2012	393	555	502	522	530	497	449
2013	410	489	529	527	453	461	460
Average	413	486	479	509	475	443	446

Average Distribution Revenue per Customer	Newmarket	Oakville	Oshawa	Waterloo	Whitby	Veridian	Industry Average
2009	474	465	378	505	471	416	606
2010	479	496	377	434	501	480	637
2011	514	524	403	553	512	433	667
2012	453	543	361	640	495	484	677
2013	466	566	363	615	580	446	691
Average	477	519	376	549	512	452	656

Figure 1: 2013 Average Distribution Revenue per Customer OPUCN vs. Comparators



As illustrated in the table and figure above:

- OPUCN has consistently maintained lower average annual distribution revenue per customer connection than most comparable LDCs and relative to the industry average over the past 5 years.

- For 2013 and on average for the five year period 2009 through 2013, OPUCN provided electricity distribution services at the lowest average annual distribution revenue per customer connection compared to LDCs recognized as cohorts and to the industry average.

OPUCN believes its average annual distribution revenue per customer connection historical results combined with an increase in revenue requirement per customer that is just over half of the increase in its overall revenue requirement validates that OPUCN's requested revenue requirements for the years 2015 through 2019 remains fair and reasonable, and reflects efficient management by OPUCN of its costs to operate the LDC and execute its capital investment plan.

Further details on OPUCN's proposed revenue requirement can be found in Exhibit 3 – Operating Revenue.

Load Forecast

OPUCN forecast its load using a two step process:

1. Develop a multivariate regression prediction model.

2. Adjust the results of the regression analysis for the following conditions not anticipated in the prediction model:

    a. Anticipated population growth in the City of Oshawa that is higher than its historical patterns since 2003; and

    b. CDM savings targets set for OPUCN by the Ontario Power Authority.

For the first step in the load forecast process, OPUCN used a load forecast model similar to that included in its approved 2012 cost of service application (EB-2011-0073)

and which uses the same methodology used by a number of other distributors in past and current applications. This model is based upon a weather normalization multivariate regression analysis.

Regression analysis was used to develop an equation describing the relationship between monthly actual energy purchases and other explanatory variables determined to influence the consumption of electricity including; heating degree days, cooling degree days, number of days in the month, spring/fall flag and Oshawa unemployment rates.

The regression model was used to predict monthly electricity purchases for the 2014 bridge year and test years, 2015 through 2019, based upon historical purchases for the period January 2003 to December 2013. The regression results are summarized in Table 8:

Table 8: OPUCN Historical & Forecast Load Modelling Results

Purchased Energy (kWh) - Year		Actual Purchases	Normalized Test	Normalized 10 Year Average	Normalized 20 Year Trend
Historical	2003	1,232,724,170	1,214,096,287	1,214,096,287	1,214,096,287
	2004	1,178,441,190	1,198,833,047	1,198,833,047	1,198,833,047
	2005	1,174,501,350	1,207,050,039	1,207,050,039	1,207,050,039
	2006	1,151,360,440	1,170,881,308	1,170,881,308	1,170,881,308
	2007	1,191,153,590	1,147,471,681	1,147,471,681	1,147,471,681
	2008	1,158,881,926	1,110,172,412	1,110,172,412	1,110,172,412
	2009	1,128,390,785	1,126,724,654	1,126,724,654	1,126,724,654
	2010	1,148,489,332	1,129,720,236	1,129,720,236	1,129,720,236
	2011	1,148,632,387	1,164,987,380	1,164,987,380	1,164,987,380
	2012	1,136,211,953	1,150,628,520	1,150,628,520	1,150,628,520
	2013	1,130,407,042	1,158,628,601	1,158,628,601	1,158,628,601
2014 Normalized Bridge Year	2014		1,146,348,132	1,150,460,103	1,145,381,907
2015 Normalized Test Year	2015		1,161,409,406	1,167,776,366	1,162,698,169
2016 Normalized Test Year	2016		1,179,453,259	1,188,189,234	1,183,111,038
2017 Normalized Test Year	2017		1,191,117,842	1,202,222,364	1,197,144,168
2018 Normalized Test Year	2018		1,205,768,874	1,219,351,429	1,214,273,233
2019 Normalized Test Year	2019		1,220,192,559	1,236,310,148	1,231,231,951

OPUCN applied three alternative weather normalization approaches to the regression model: (i) the period matching the historical electricity purchases; (ii) the ten year trend for heating degree days and cooling days; and (iii) the twenty year trend for heating degree days and cooling days. OPUCN believes the weather normalizing conditions for

the period matching the historical electricity purchases provides the most robust results and used these results as the basis for its load forecast.

As reflected in OPUCN's Distribution System Plan (Exhibit 2, Tab B), the City of Oshawa is anticipating higher than historical population growth attributed mainly to the extension of the 407 ETR from Pickering to east of Oshawa. Table 9 provides OPUCN's estimated incremental customer connection forecast by rate class expected as a result of increased future population growth.

Table 9: Incremental Customer Connections 2015 - 2019

Description	Residential	GS<50 kW	GS 50 to 999 kW	Large User	GS>1,000 kW	Streetlight	Sentinel Light	USL	Total
Average Annual Customer Connection Count									
2014 Bridge Year	0	0	0	0	0	0	0	0	0
2015 Test Year	831	96	15	0	0	119	0	0	1,060
2016 Test Year	1,697	195	31	0	1	244	0	0	2,167
2017 Test Year	2,601	297	46	0	1	375	0	0	3,321
2018 Test Year	3,543	403	63	0	1	513	0	0	4,524
2019 Test Year	4,526	513	80	0	2	657	0	0	5,778

The Base Case model produced an annual predicted growth rate of approximately 1.4% in customer connections for 2015 through 2019. OPUCN has increased the predicted growth rate to 3.0% upon adding the customer connections presented in Table 9. Weather normalized usage per customer connection and loss factor assumptions were applied to these incremental customer connections to adjust the load forecast.

The CDM savings adjustments applied to the regression forecast are summarized in Table 10.

Table 10: Forecast CDM Savings

OPA Program Year	CDM Savings					
	2014	2015	2016	2017	2018	2019
Sub-total	6,337,000	15,178,000	25,092,000	35,348,000	46,629,500	58,594,500

These CDM savings assumptions respond to the preliminary target of 68.4 GWh's of CDM savings issued by the Ontario Power Authority (OPA) in response to a March 26,

2014 directive from the Minister of Energy to the OPA to undertake activities in support of the Ontario government's *Conservation First Framework*.[18]

Further details regarding OPUCN's load forecast, including the foregoing adjustments, can be found in Exhibit 3 – Operating Revenue.

Rate Base and Capital Expenditure Plan

Table 11 presents OPUCN's last Board approved rate base, OPUCN's actual rate base for 2012 and 2013, its forecast rate base for the Bridge Year 2014, and its proposed rate base for each of the Test Years 2015 through 2019.

Table 11: Rate Base 2012 through 2019

Account Description	Board-Approved	Actual		Bridge Year	Test Years at Proposed Rates				
	2012	2012	2013	2014	2015	2016	2017	2018	2019
Average Fixed Assets, Net Book Value	64,466,729	65,730,028	72,863,640	79,809,426	87,729,108	95,297,323	102,149,013	109,178,252	115,117,616
Working Capital Allowance	16,350,751	16,113,366	16,983,323	18,573,227	17,261,467	17,555,595	17,741,546	17,949,691	18,083,712
Rate Base	80,817,479	81,843,394	89,846,963	98,382,653	104,990,575	112,852,919	119,890,558	127,127,943	133,201,327

The proposed rate base and capital expenditure plan for the test years 2015 through 2019 are the major drivers for the increase in required revenue proposed in this rate application.

The rate base is expected to be $133.2 million in 2019 which represents an increase of $52.4 million when compared with the 2012 Board approved rate base of $80.8 million. The average annual percentage increase for the period is 7.4%.

[18] The OPA has since increased OPUCN's CDM target through 2019 from 68.4 to 73.0 GWh's; *Conservation First Framework LDC Tool Kit (Draft VI – August 12, 2014).* OPUCN has not adjusted its load forecast for this increase at this time. Adjustment for this updated target will be reflected in OPUCN's rate adjustment application for the 2016 test year, and is currently expected to be immaterial.

Average fixed assets are expected to increase by $50.7 million and working capital allowance by $1.7 million when compared with the 2012 Board approved amounts. Average annual percentage increases in fixed assets and working capital allowance are 8.6% and 1.5% respectively.

OPUCN identified a need to invest in its distribution system during its last cost of service application to rebase 2012 rates (EB-2011-0073). Outlined in the 2012 application was a program to spend approximately $60 million over the five year period 2011 through 2015 (not including OPUCN's investment in the smart meter initiative totalling approximately $6.5 million). During the period 2011 through 2015, OPUCN is now expecting to spend approximately $58 million (not including the investment in smart meters) in capital expenditures which is in line with what was reported in its 2012 rate application noted above. The average annual capital expenditure of $10 million from 2011 through 2015 is approximately two times the average annual expenditure made during the previous 10 year period.

As detailed in OPUCN's Distribution System Plan (Exhibit 2, Tab B), planned capital expenditures are forecast to continue at the current pace and will total approximately $61 million for the Test Years 2015 through 2019. The key drivers for the planned capital expenditures include:

1. Customer connections increasing by approximately 3% per year on average compared with historical averages of approximately 1%.
2. Residential and commercial peak demand growth of approximately 3% per year.
3. Grid modernization in response to customer preferences and public policy considerations and to the benefit of longer term operational efficiency.

In addition to reporting planned capital expenditures during the 2012 rate application process, OPUCN supported its requirements by comparing "Average Net Fixed Assets

per Customer" with other LDCs and the industry average. "Average Net Fixed Assets per Customer" is a metric reported to the Board and included in the Board's *Annual Yearbook of Electricity Distributors*. Based upon the information provided, it was generally acknowledged that OPUCN was significantly lower than its comparable LDCs and was in need of increasing its pace of investments. At page 12 of the November 20, 2006 Transcript from EB-2011-0073 remarks by counsel to School Energy Coalition in support of the settlement agreement placed before the Board in that proceeding are recorded as follows:

> *"So the ratepayers are concerned that this is a utility that does need investment. You can see from their statistics that their infrastructure needs some spending. And the ratepayers want them to do that…"*.

The statistics referred to by counsel included the Company's average net fixed assets per customer. Table 12 presents historical average net fixed assets per customer results for OPUCN, other comparable LDC's and the industry average.

Table 12: Historical Net Fixed Assets per Customer: OPUCN and Comparators

Net Fixed Assets Per Customer	Brantford	Burlington	Cambridge	Guelph	Halton Hills	Kitchener	Milton
2009	1,592	1,330	1,669	1,838	1,404	1,638	1,560
2010	1,648	1,323	1,638	1,783	1,448	1,699	1,715
2011	1,645	1,339	1,655	2,222	1,485	1,780	1,770
2012	1,552	1,561	1,848	2,494	1,924	1,938	1,833
2013	1,547	1,553	1,999	2,561	2,125	2,011	1,784
Average	1,597	1,421	1,762	2,180	1,677	1,813	1,732

Net Fixed Assets Per Customer	Newmarket	Oakville	Oshawa	Waterloo	Whitby	Veridian	Industry Average
2009	1,522	1,766	992	2,154	1,582	1,330	2,348
2010	1,550	1,998	988	2,461	1,585	1,484	2,551
2011	1,549	2,223	1,178	2,933	1,559	1,565	2,713
2012	1,590	2,395	1,325	3,227	1,530	1,654	2,917
2013	1,597	2,422	1,436	3,279	1,671	1,720	3,080
Average	1,562	2,161	1,184	2,811	1,585	1,551	2,722

Consideration of this data for OPUCN and comparable Ontario LDCs indicates that:

- OPUCN's capital expenditure per customer for this historical period averaged third lowest among its comparators.
- OPUCN's Average Net Fixed Assets per Customer continues to be significantly below its comparator LDCs.

Comparing the average of the Average Net Fixed Assets per Customer of the other LDCs for 2013 ($1,977), with OPUCN's Average Net Fixed Assets per Customer ($1,436), and multiplying the difference ($1,977 - $1,436 = $541) by the OPUCN number of customers in 2013 (53,969), the difference in OPUCN's net fixed assets from the average of its comparators is approximately $29 million.

The forecast total net fixed assets in 2019 is $115,117,616 and the number of customers in 2019 is forecast to be 63,311 (using the definition of "customer" adopted by the Board for yearbook reporting purposes, which excludes street lighting, sentinel lighting, and USL connections). The forecast Average Net Fixed Assets per Customer in 2019 is $1,818 which remains below the average for the comparable LDCs in 2013.

This analysis indicates to OPUCN that its planned capital investment levels remain fair and reasonable, and maintain an appropriate balance between maintenance and improvement of distribution service on the one hand, and sector leading cost levels on the other hand, all in line with indicated customer preferences and priorities.

OPUCN is not requesting any costs related to renewable energy generation connections/expansions.

In respect of "smart grid" initiatives, OPUCN's 2015 – 2019 capital investment plan include approximately $2.6 million in grid modernization that includes the installation of

automated switches, self-healing and intelligent devices and software applications to reduce system restoration time, mitigate customer impact of system outages and improve customer communication. Details can be found in OPUCN's Distribution System Plan (see Exhibit 2, Tab B, Schedule 7, Attachment H).

In respect of regional planning, OPUCN's 2015 – 2019 capital investment plan includes $6.5 million in cost contributions to Hydro One Networks Transmission for a regional transmission capacity solution. This budgeted amount is subject to considerable uncertainty, however in the absence of better information, OPUCN has retained its initial $6.5 million estimate in its current capital investment plan. Further detail can be found in OPUCN's Distribution System Plan (see Exhibit 2, Tab B, Part I, section 4.).

Details of OPUCN's proposed rate base and capital expenditure plans can be found in Exhibit 2 – Rate Base.

OM&A Expenses

OPUCN's actual and forecast Operations, Maintenance and Administration (OM&A) costs are set out in Table 13.

Table 13: Actual & Forecast OM&A Costs

Account Description	Board-Approved	Actual		Bridge Year	Test Years at Proposed Rates				
	2012	2012	2013	2014	2015	2016	2017	2018	2019
OM&A Costs	11,480,220	11,240,450	11,210,095	11,291,473	12,145,702	12,614,203	12,886,688	13,109,806	13,183,490

Annual OM&A is forecast to increase $1.7 million from the last Board approved amount by 2019. This is an average annual increase of 2%. The Conference Board of Canada published Consumer Price Index (CPI) percentage increases for Oshawa are set out in Table 14:

Table 14: Conference Board of Canada CPI for Oshawa

Year	2012	2013	2014	2015	2016	2017	2018
CPI	1.7%	1.3%	2.3%	2.6%	2.6%	2.7%	2.7%

OPUCN's forecast average annual OM&A increase of 2% is below the Conference Board of Canada forecasts for Oshawa.

Table 15 presents historical OM&A cost per customer as reported in the Board's *Annual Yearbook of Electricity Distributors* for OPUCN, comparable LDCs and the industry average. This data demonstrates that historically OPUCN has managed with among the lowest levels of OM&A costs per customer of Ontario LDCs.

Table 15: Ontario LDC OM&A Cost per Customer Data

Net OM&A Per Customer	Kitchener	Oshawa	Veridian	Brantford	Waterloo	Oakville	Newmarket
2009	142	168	174	205	172	163	199
2010	142	168	183	201	191	176	203
2011	155	191	181	176	182	206	198
2012	189	211	238	199	220	223	240
2013	186	208	221	230	244	270	215
Average	163	189	199	202	202	208	211

Net OM&A Per Customer	Milton	Whitby	Cambridge	Burlington	Halton Hills	Guelph	Industry Average
2009	195	214	197	208	209	194	267
2010	192	223	188	218	211	195	282
2011	210	214	209	225	227	251	292
2012	209	219	266	252	283	267	309
2013	248	266	275	260	241	298	325
Average	211	227	227	233	234	241	295

OPUCN forecasts its OM&A cost per customer for 2019 at $208, unchanged from 2013. This results from forecast OM&A cost increases being held at approximately 2% per year, in the face of customer growth forecast at 3% per year. In order to maintain OM&A per customer costs at current levels, OPUCN must operate more efficiently in future than it does presently.

The key driver to this achievement will be maintaining full-time equivalent employees (FTEs) at today's level. Table 16 presents customers per FTE reported in the Board's *Annual Yearbook of Electricity Distributors* for OPUCN and comparable LDCs for the years and LDCs that are available in the Board's reports.

Table 16: Ontario LDC Customers per FTE Data

Customers per FTE	Brantford	Burlington	Cambridge	Guelph	Halton Hills
2011	584	684	543	484	433
2012	554	711	541	491	418
2013	602	695	517	459	413
Average	580	697	534	478	422

Customers per FTE	Milton	Newmarket	Oakville	Oshawa	Waterloo	Veridian
2011	663	585	595	717	454	519
2012	673	594	583	711	449	517
2013	655	607	579	750	395	517
Average	664	596	585	726	433	518

Oshawa's average customers per FTE statistic for the three year historical period (726) is well above the other LDCs and the overall average for the LDCs listed (551), indicating that OPUCN has been serving customers in an efficient manner.

OPUCN's customers per FTE forecast for 2019 is 782. To achieve this level of efficiency embedded in OPUCN's Custom IR Plan rates, OPUCN will have to improve its current superior labour efficiencies enough to avoid adding 6 FTEs to serve OPUCN's increasing customer base.

Labour and benefit costs represent over 60% of gross OM&A costs. Total historical and forecast compensation costs are included in Table 4-2 of Exhibit 4 – Operating Costs, disaggregated into "labour" and "benefits" components and presented along with explanatory details.

Other OM&A costs are forecast to increase by $0.7 million or 2% on average per year cumulatively.

Details of OPUCN's proposed OM&A costs can be found in Exhibit 4 – Operating Costs.

Cost of Capital

In determining its revenue requirements for 2015 through 2019, OPUCN has applied the deemed capital structure of 56% long-term debt, 4% short-term debt and 40% equity in accordance with the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities*, December 11, 2009.

OPUCN has applied the values for each component of the capital structure as set out in the Board's letter of November 20, 2014 establishing Cost of Capital parameters applicable for all cost of service and Custom IR applications with rates effective in the 2015 calendar year.

Details on OPUCN's Cost of Capital are presented in Exhibit 5 – Cost of Capital & Capital Structure.

Cost Allocations & Rate Design

In preparing its proposed revenue to cost allocations, OPUCN followed the Board's *Review of Electricity Distribution Cost Allocation Policy* (EB-2010-0219), March 31, 2011. For purposes of this Custom IR Application, OPUCN has prepared a cost allocation model for each of the five test years 2015 through 2019 using the Board's version 3.1 *Cost Allocation Model* in accordance with the instructions contained in the model to determine the proportion of OPUCN's total revenue requirement that is to be recoverable from each customer rate class for each test year. From the cost allocation

models, revenue-to-cost ratios for each customer rate class for each test year have been calculated using the proportionate total revenues and costs.

The results of cost allocation studies are typically presented in the form of revenue-to-cost ratios. This is shown by rate classification and is the ratio of distribution revenue collected by rate classification compared to the costs allocated to the classification. Table 17 summarizes OPUCN's proposed revenue-to-cost ratios for each of the Custom IR plan period test years compared with the 2012 Board approved revenue-to-cost ratios for OPUCN and to the Board's cost allocation policy.

Table 17: OPUCN Proposed Revenue to Cost Ratios 2015 - 2019

	2012 Board-Approved	Test Years at Proposed Rates					Policy Range
		2015	2016	2017	2018	2019	%
Residential	94.2%	95.5%	95.7%	96.6%	97.0%	97.4%	85 - 115
GS Less Than 50 KW	120.0%	120.0%	120.0%	119.3%	119.1%	118.9%	80 - 120
GS 50 To 999 KW	108.2%	101.9%	101.2%	99.1%	97.8%	97.0%	80 - 120
GS Intermediate 1,000 To 4,999 KW	120.0%	120.0%	120.0%	120.0%	120.0%	120.0%	80 - 120
Large Use	115.0%	115.0%	109.6%	102.6%	98.2%	95.3%	85 - 115
Street Lighting	87.3%	95.5%	95.7%	96.6%	97.8%	99.4%	70 - 120
Sentinel Lighting	120.0%	120.0%	120.0%	120.0%	120.0%	120.0%	70 - 120
Unmetered Scattered Load	90.2%	95.5%	95.7%	96.6%	97.0%	97.4%	80 - 120

The changes to OPUCN's revenue-to-cost ratios are explained by the higher than normal expected customer growth and associated change in customer mix over the next five years. The majority of the customer growth is expected to occur in the residential customer rate class which implicitly impacts streetlights as well.

Details of OPUCN's proposed revenue-to-costs ratios can be found in Exhibit 7 – Cost Allocation.

OPUCN is not proposing any changes to the fixed charge/variable charge split in its rate design, subject only to rate design policy changes promulgated by the OEB. (Any such

rate design policy changes would be reflected in the applicable future annual rate adjustment process proposed for the Custom IR Plan period.)

Deferral & Variance Accounts

OPUCN does not seek disposition of its existing deferral and variance accounts at this time.

OPUCN is requesting continuation of the following existing deferral accounts:

Tax Rate Changes Deferral Account

OPUCN is seeking approval to maintain the Tax Rate Changes Deferral Account to record appropriate transactions over the Custom IR rate term if required.

In response to statutory tax rate changes, OPUCN will annually recalculate Utility Income Taxes using the new tax rate for the period of time from the statutory tax rate change and compare the results with the calculation of Utility Income Tax for the relevant test year or years included in this application. When appropriate OPUCN will seek Board approval for a rate rider to clear the balance in the Tax Rate Changes Deferral Account.

Pension Cost Differential Deferral Account

OPUCN received an Order from the Board in OPUCN's 2012 cost of service rate application (EB–2011-0073) to establish the OPEB Deferral Account to record the cumulative actuarial gains or losses in OPUCN's post-retirement benefits in *Account 1508, Other Regulatory Assets, Sub-account OPEB Deferral Account*. OPUCN is required under the Order to capture the one-time adjustment to the post-retirement liability on the date of transition to IFRS. This amount results from an election applied under IFRS that would otherwise result in a charge to

OPUCN's retained earnings. The amount of the one-time adjustment that will be recorded in this account is to be supported by an actuarial valuation when disposition of the deferral account is sought.

The deferral account is to be adjusted as required to record changes in the cumulative actuarial gains or losses in OPUCN's post-retirement benefits as supported by updated actuarial valuations prepared for OPUCN. Adjustments to the deferral account are to be made to offset the effect on OPUCN's income that would otherwise result from the actuarial adjustments made to the cumulative actuarial gains or losses.

No carrying charges are to be recorded on this account. Changes to the balance in this account are determined by actuarial valuation, so there is no issue of prudency in spending to be reviewed.

To seek approval to clear this account, OPUCN will file a copy of the relevant actuarial valuation and a clear explanation of the resulting balance in the account at that time. When appropriate OPUCN will seek Board approval for a rate rider to clear the balance in the account.

OPUCN is requesting approval for the following new deferral/variance accounts:

2015 Revenue Variance Account

OPUCN requests establishment of this new variance account to capture the difference between revenue at OPUCN's current interim rates and the revenue that would have been collected had OPUCN's final 2015 rates been in place as of January 1, 2015 and until the actual date of implementation of final 2015 rates.

OPUCN seeks in this application an order for recovery of the balance in the 2015 Revenue Variance Account by way of a rate rider to be effective from the date that final 2015 rates are implemented and through the end of the proposed Custom IR Plan term in 2019.

Unbudgeted Regional Planning Investment Cost Variance Account

OPUCN requests establishment of this new variance account to capture the revenue requirement impact of the difference between the $6.5 million included in OPUCN's Custom IR Plan period rates for contribution to Hydro One Transmission and actual costs arising from the ongoing regional planning activities. Such actual costs would include both actual required Hydro One Transmission contributions and the cost of other unbudgeted distribution projects that may be required as a result of regional planning and in order to serve OPUCN's distribution area.

OPUCN anticipates that once these regional planning costs and the timing for such costs are finalized, it would file in the next annual rate adjustment process the calculations demonstrating the revenue requirement impact of variances in this cost item. OPUCN would seek a rate rider adjustment to provide for recovery of such revenue requirement impacts for the balance of the Custom IR term.

Further discussion of this cost item and the proposed adjustment therefore is provided in Exhibit 10, Tab D.

Distribution Plant Relocation Cost Variance Account

OPUCN requests establishment of this new variance account to capture the revenue requirement impact of the difference between the costs of externally driven plant relocations embedded in its forecasts for the Custom IR plan period

and actual costs incurred for plant relocations in response to third party requests. Given that the direction of such variances could vary over the course of the plan period (i.e. up or down, or both), OPUCN proposes to bring the balance in this account forward for disposition at the end of the 5 year plan period.

Further discussion of this cost item and the proposed adjustment therefore is provided in Exhibit 10, Tab D.

Net New Connection Cost Variance Account

OPUCN requests establishment of this new variance account to capture the revenue requirement impact of the difference between the net costs of new customer connections (including system expansion and metering costs) embedded in its forecasts for each of the Custom IR plan period test years and actual net costs incurred to connect new customers in each year of the plan term. Given that the direction of such variances could vary over the course of the plan period (i.e. up or down, or both), OPUCN proposes to bring the balance in this account forward for disposition at the end of the 5 year plan period.

Further discussion of this cost item and the proposed adjustment therefore is provided in Exhibit 10, Tab D.

Rate Smoothing Deferral Account

As noted above, OPUCN has proposed a rate smoothing mechanism which utilizes rate riders calculated to effect a more constant year over year rate of growth in effective rates (i.e. approved rates plus rate riders). This approach allows for the continued use by OPUCN of the Board's rate filing models while allowing for a separate and transparent overlay of the rate smoothing adjustments proposed.

The proposed rate smoothing mechanism reduces the high percentage increases in revenue requirement for 2015 and 2016, and prorates the deferred amount over the remaining test years. OPUCN requests establishment of this new deferral account to capture the annual variances between OPUCN's approved revenue requirement and the distribution rates proposed, for subsequent recovery in accord with OPUCN's rate smoothing proposal as detailed in Exhibit 8 – Rate Design.

CCIEIM Variance Account

OPUCN is proposing an innovative Controllable Capital Investment Efficiency Incentive Mechanism (CCIEIM). The CCIEIM is designed to incent OPUCN to control the costs of its controllable capital investment programs - its System Renewal Capital Investment Program and its investment in a new municipal substation and associated feeders - by allowing revenue requirement impacts of variances between forecast and actual capital investment for these programs to be shared between OPUCN and its ratepayers.

OPUCN is requesting approval of a new variance account to capture that portion of the variance in capital cost between its forecast and actual costs for execution of the two controllable capital programs (proposed as 50%) that is eligible for CCIEIM treatment (with a sub-account for each of the programs to allow for separate tracking). At the end of the rate plan period, OPUCN will bring forward its request for disposition of the revenue requirement impact of the balance in this account through a rate rider in accord with the CCIEIM as proposed.

Depreciation Expense Deferral Account

The Settlement Agreement approved in OPUCN's 2012 cost of service rate proceeding (EB-2011-0073) addresses OPUCN's as filed (in that proceeding) depreciation expense, as follows (see Page 50 of OPUCN's Revised Draft Rate Order issued on December 23, 2011):

> **Issue 4.3,** *"Is the proposed level of depreciation/amortization expense for the test year appropriate?*"
>
> On page 21 of the Settlement Agreement, the Parties have agreed that the level of depreciation expense for the 2012 test year will be $2,857,694 and that that value is appropriate. That value is based on the typical useful lives as developed by Kinectrics Inc. in the Asset Depreciation Study prepared for the Board. The Parties have further acknowledged that OPUCN intends to obtain an independent study of the lives of its distribution assets, and have agreed that following the completion of that study, OPUCN may apply for an accounting order that would provide for the adjustment of the expected lives and of the Oshawa PUC Networks Inc. revenue requirement associated with that adjustment, and for the reflection of those adjustments in a deferral or variance account.

OPUCN obtained the independent depreciation study contemplated in the 2012 Settlement Agreement, which study is filed in this application in Exhibit 2 – Rate Base. The study has found that a higher depreciation rate than the rate developed by Kinetrics and embedded in OPUCN's 2012 rates is appropriate. The higher depreciation rate found to be appropriate resulted in additional depreciation in the 2012 through 2014 period of approximately $150,000. OPUCN's proposed 2015 rate base has been adjusted (reduced) in accord with the findings from this depreciation study. Accordingly, in accordance with the approved EB-2011-0073 Settlement Agreement, OPUCN has included this

amount in its balance of deferral and variance accounts as set out in Exhibit 9 – Deferral and Variance Accounts, and seeks an order to dispose of this balance.

Bill Impacts

Following careful, considered and robust planning, OPUCN is proposing rate increases that are necessary to ensure sufficient funds to meet capital expenditure requirements, operating costs, payments in lieu of taxes and debt service, and to recover OPUCN's cost of capital, all in order to sustain a safe and reliable electricity distribution system and fiscal integrity. OPUCN is also proposing a rate smoothing mechanism to apply during the term of its Custom IR Plan and which will effect a more constant year over year rate of growth in effective rates. Table 18 provides both distribution rate and bill impacts of OPUCN's Custom IR proposal, by rate class and inclusive of the proposed rate smoothing, in dollars. Table 19 provides the same information in percentage terms.

Table 18: Distribution Rate & Bill Impacts (inclusive of rate smoothing): $

Customer Class		Year over Year $ Change					
		2015	2016	2017	2018	2019	2014-2019
Distribution Sub-Total (includes DVA, Smart Meter rate riders & line loss on Cost of Power)							
Residential		$1.30	$1.38	$1.54	$1.76	$1.71	$7.69
GS Less Than 50 KW		$1.96	$2.10	$2.45	$2.10	$2.44	$11.05
GS 50 To 999 KW		$157.10	$171.73	$175.99	$187.78	$190.36	$882.96
GS 1,000 To 4,999 KW		$67.24	$216.29	$65.82	$27.52	$(98.68)	$278.19
Large Use		$2,085.9	$1,848.3	$430.0	$718.1	$98.8	$5,181.1
Street Lighting		$(0.06)	$0.26	$0.06	$0.15	$0.02	$0.44
Sentinel Lighting		$0.37	$0.30	$(0.01)	$0.10	$(0.08)	$0.66
Unmetered Scattered Load		$1.44	$1.76	$1.81	$2.21	$2.29	$9.49

Customer Class		Year over Year $ Change					
		2015	2016	2017	2018	2019	2014-2019
Total Bill (including OCEB)							
Residential		$2.17	$1.41	$1.56	$1.80	$1.73	$8.67
GS Less Than 50 KW		$3.90	$2.14	$2.49	$2.13	$2.49	$13.15
GS 50 To 999 KW		$306.20	$174.66	$178.98	$190.98	$193.59	$1,044.41
GS 1,000 To 4,999 KW		$428.42	$219.96	$66.94	$27.99	$(100.36)	$642.95
Large Use		$5,305.6	$1,879.7	$437.3	$730.3	$100.5	$8,453.5
Street Lighting		$(3.15)	$(1.57)	$0.07	$0.16	$0.02	$(4.47)
Sentinel Lighting		$0.49	$0.30	$(0.01)	$0.09	$(0.08)	$0.79
Unmetered Scattered Load		$2.19	$1.78	$1.84	$2.24	$2.33	$10.38

Table 19: Distribution Rate & Bill Impacts (inclusive of rate smoothing): %

Customer Class		Year over Year % Change					CAGR
		2015	2016	2017	2018	2019	2014-2019
Sub-Total B - Distribution (includes DVA, Smart Meter rate riders & line loss on Cost of Power)							
Residential	800 kWh	5.6%	5.7%	6.0%	6.5%	5.9%	5.9%
GS Less Than 50 KW	2000 kWh	3.6%	3.7%	4.2%	3.4%	3.9%	3.8%
GS 50 To 999 KW	480 KW	6.6%	6.8%	6.5%	6.5%	6.2%	6.5%
GS 1,000 To 4,999 KW	919 KW	1.3%	4.1%	1.2%	0.5%	(1.8)%	1.0%
Large Use	7828 KW	7.2%	5.9%	1.3%	2.1%	0.3%	3.3%
Street Lighting	0.12/0.08 KW	(1.2)%	5.3%	1.2%	3.0%	0.4%	1.7%
Sentinel Lighting	0.4 KW	4.9%	3.8%	(0.2)%	1.2%	(1.0)%	1.7%
Unmetered Scattered Load	750 kWh	8.6%	9.7%	9.1%	10.2%	9.6%	9.4%

Customer Class		Year over Year % Change					CAGR
		2015	2016	2017	2018	2019	2014-2019
Total Bill (including OCEB)							
Residential		1.8%	1.1%	1.3%	1.4%	1.4%	1.4%
GS Less Than 50 KW		1.3%	0.7%	0.8%	0.7%	0.8%	0.9%
GS 50 To 999 KW		1.6%	0.9%	0.9%	0.9%	0.9%	1.0%
GS 1,000 To 4,999 KW		0.8%	0.4%	0.1%	0.1%	(0.2)%	0.2%
Large Use		1.1%	0.4%	0.1%	0.2%	0.0%	0.4%
Street Lighting		(22.9)%	(14.8)%	0.8%	1.7%	0.3%	(7.5)%
Sentinel Lighting		2.1%	1.3%	(0.0)%	0.4%	(0.3)%	0.7%
Unmetered Scattered Load		2.0%	1.6%	1.7%	2.0%	2.0%	1.9%

The annual total customer bill impacts of the proposed rate increases are below the 10% value established by the Board's *Rate Impact Mitigation Measures* policy outlined in the 2006 Electricity Distribution Rate Handbook for customers with typical consumption.

The proposed rate smoothing mechanism reduces the high percentage increases in revenue requirement for 2015 and 2016, and prorates the deferred amount over the remaining test years in order to adjust rates at a more steady pace. Tables 20 and 21 summarize the rate impacts resulting from OPUCN's proposed 2015 – 2019 distribution rates before and after proposed rate smoothing.

Table 20: Unsmoothed Rate Impacts

Customer Class		Year over Year % Change					CAGR
		2015	2016	2017	2018	2019	2014-2019
Sub-Total B - Distribution (includes DVA, Smart Meter rate riders & line loss on Cost of Power)							
Residential	800 kWh	15.4%	1.3%	1.6%	2.6%	0.4%	4.1%
GS Less Than 50 KW	2000 kWh	10.2%	(0.5)%	1.4%	2.5%	0.4%	2.7%
GS 50 To 999 KW	480 KW	14.5%	5.6%	1.4%	2.3%	0.3%	4.7%
GS 1,000 To 4,999 KW	919 KW	1.3%	4.1%	1.2%	0.5%	(1.8)%	1.0%
Large Use	7828 KW	7.2%	5.9%	1.3%	2.1%	0.3%	3.3%
Street Lighting	0.12/0.08 KW	(1.2)%	5.3%	1.2%	3.0%	0.4%	1.7%
Sentinel Lighting	0.4 KW	4.9%	3.8%	(0.2)%	1.2%	(1.0)%	1.7%
Unmetered Scattered Load	750 kWh	22.1%	6.0%	1.4%	3.6%	0.8%	6.5%

Table 21: Smoothed Rate Impacts

Customer Class		Year over Year % Change					CAGR
		2015	2016	2017	2018	2019	2014-2019
Sub-Total B - Distribution (includes DVA, Smart Meter rate riders & line loss on Cost of Power)							
Residential	800 kWh	5.6%	5.7%	6.0%	6.5%	5.9%	5.9%
GS Less Than 50 KW	2000 kWh	3.6%	3.7%	4.2%	3.4%	3.9%	3.8%
GS 50 To 999 KW	480 KW	6.6%	6.8%	6.5%	6.5%	6.2%	6.5%
GS 1,000 To 4,999 KW	919 KW	1.3%	4.1%	1.2%	0.5%	(1.8)%	1.0%
Large Use	7828 KW	7.2%	5.9%	1.3%	2.1%	0.3%	3.3%
Street Lighting	0.12/0.08 KW	(1.2)%	5.3%	1.2%	3.0%	0.4%	1.7%
Sentinel Lighting	0.4 KW	4.9%	3.8%	(0.2)%	1.2%	(1.0)%	1.7%
Unmetered Scattered Load	750 kWh	8.6%	9.7%	9.1%	10.2%	9.6%	9.4%

Further details on the customer rate impacts of OPUCN's proposed Custom IR Plan can be found in Exhibit 8 – Rate Design.

CUSTOMER ENGAGEMENT

OPUCN takes a pragmatic approach to customer focus initiatives. OPUCN uses multiple cost effective approaches to solicit and review feedback from its customers.

Customer Opinion Surveys

As a small organization, OPUCN manages its costs by participating in industry-wide customer opinion and satisfaction research. In 2010, OPUCN participated along with other Ontario LDCs in Simul Corporation's *Annual Electric Utility Customer Satisfaction Survey*, and did so again in 2014. As a result of its participation, OPUCN received a *UtilityPULSE Report Card*® and survey analysis which provides the consolidated results of the survey, in which nearly 10,000 residential and small commercial customers across Ontario participated. As well as indicating the broad concerns of Ontario customers, the report compares the scores achieved by OPUCN individually with the province-wide average and a national average. A copy of this *UtilityPULSE* report is filed as Schedule 1 to this evidence (Exhibit 1, Tab D, Schedule 1).

In addition, OPUCN contracted separately with Simul Corporation to conduct interviews with a representative sample of its approximately 500 customers with demands of 50 kW or more. This survey was carried out in late 2013 and entailed one-on-one telephone interviews with individuals who have the responsibility to interact with the utility in the event of a power outage. Specific OPUCN data was supplemented with Simul Corporation's province-wide database of similar customers in preparing a separate "large customer" report to OPUCN. A copy of the *UtilityPULSE* Large Customer Satisfaction Survey is filed as Schedule 2 to this evidence (Exhibit 1, Tab D, Schedule 2).

These reports indicate that OPUCN is equal or better than the average LDC in Ontario and nationally in the eyes of its customers. Overall, 93% of OPUCN's residential and small commercial customers surveyed and 90% of large customers surveyed are very or fairly satisfied with OPUCN. In terms of priority investments, 86% support the upgrading and maintaining of plant to improve reliability, and 80% and 75% support investment to reduce the restoration time during outages and to reduce the number of outages, respectively. These results support OPUCN's focus on System Renewal investments, Smart Grid initiatives and an integrated OMS.

Survey Responses From Residential and Small Commercial Customers

In incorporating the results of the survey of residential and small commercial customers into its strategy for improving responsiveness to customers, OPUCN benefits from two types of information: (i) a comparison of the responses of OPUCN customers with the average responses of the customers of other utilities, indicating whether and how OPUCN needs to strengthen service quality in order to meet a province-wide standard; and (ii) information as to the general views and concerns of Ontario and OPUCN customers.

OPUCN was pleased to find that in the latest survey that 91% of its customers responded that they were very satisfied or fairly satisfied with OPUCN's service when asked at the beginning of the survey, and that 93% were very satisfied or fairly satisfied when asked at the end of the survey. The survey design involves asking this question twice, in order to assess the impact on the response, when the customer has time to answer other questions and reflect on the service experience received. In 2010, these figures were comparable; that is, 89% and 94% respectively. OPUCN's 2014 scores are very similar to the national average, but considerably better than the 2014 scores of 83% and 80% respectively for Ontario LDCs on average.

The *UtilityPULSE* report compares OPUCN's score to the Ontario average on 12 dimensions of customer needs. OPUCN scored higher than the Ontario average on all 12 dimensions, and 5 or more percentage points higher on 8 of the 12 dimensions.

Customers who had actually contacted their LDC about a problem were asked about 6 aspects of the interaction. The percentage of OPUCN customers reporting that they were very satisfied or satisfied with the interaction exceeded the corresponding Ontario percentage by more than 5% in every aspect and by more than 10% on 5 of the 6 aspects. When narrowed to include only customers who had dealt with their LDC by telephone or in person (rather than through electronic communication), OPUCN exceeded the provincial score by 14%.

In terms of general perceptions, OPUCN scored better than the provincial average on all 12 aspects, and at least 10% better on being customer-focused, easy to do business with, reasonable cost, good value for money, and adapts well to change.

According to the survey, OPUCN was well below (better than) the provincial average in terms of customers reporting billing problems or problems not related to billing or outages in the past 12 months, and well above (better than) the provincial average in terms of customers with problems reporting that their problem was resolved.

The *UtilityPULSE* report also provides an overall scorecard to each participating utility, with a comparison to provincial and national average scores. The scorecard assesses aggregate measures for customer care, company image, and perception of management operations. OPUCN is proud to have received an overall score of A, as compared with provincial and national scores of B+.

In terms of implications for future improvements in service and communication to small customers, the study report notes that websites and social media are growing in

popularity as mechanisms for businesses to communicate with customers. During the 2013 ice storm, 92% of respondents reported that their contact with OPUCN was by telephone; however customers may prefer other means in the event of major outages in the future. While confirming that the ability to obtain updates is important to customers, actual restoration of power is key. 85% of OPUCN customers with an opinion said that OPUCN "quickly handles outages and restores power".

OPUCN's "smarter grid" and Outage Management System (OMS) proposals respond directly to customer preferences for reliability and power quality as revealed through OPUCN's customer engagement activities. As detailed in OPUCN's Distribution System Plan[1] OPUCN will implement distribution automation, including intelligent devices, equipment and systems, to reduce restoration time and minimize the number of customers being impacted by outages. OPUCN plans to complete the installation of an Outage Management System (OMS) by December 2015. The OMS will be fully integrated with OPUCN's SCADA, GIS, AMI, CIS and IVR, so that OPUCN will be able to proactively identify customers without electrical power, without waiting for customers to call in and report the outage. This OMS will help OPUCN:

- Proactively provide more frequent and more timely updates to customers during an outage (e.g. the area affected by the outage, number of customers affected, possible cause and when power may be restored).
- Reduce the duration, frequency and impact of interruptions.
- Assist in automation of the outage detection, restoration, and reporting process.

Overall, this modernization and associated operational system improvements will improve system reliability and provide enhanced value to its customers.

[1] Exhibit 2, Tab B. See in particular Part I, Section 2.(b); see Part II, Section 1; and Part VI, Section 2.(d),

Survey Responses from Customers with Demands of 50 kW or More

As was the case for the residential and small commercial customer survey, the large customer survey compares OPUCN's scores to the Ontario average on a number of attributes relating to customer satisfaction and loyalty. The scores achieved by OPUCN were within a very small (percentage) range of the provincial results on all of the service attributes surveyed, and on the indices computed by Simul Corporation based on the survey. Based on the sample of customers that were contacted and agreed to participate, 90% of customers in this category say they are very satisfied or fairly satisfied with OPUCN's service.

In addition to customer satisfaction and loyalty, the survey provided a list of issues about which larger customers most commonly contact their LDC. The most common issues are Billing (41%), power quality (21%) and connect/disconnect orders (19%). Respondents were also asked how important it is for their utility to make specific types of investments. Power reliability (98%) and power quality (98%) were the two top items in response. Shorter power restoration times was also important to respondents, at 91%.

In Ontario, large customers with demand greater than 50 kW were also asked during the survey what they considered the most important changes that their LDC could make to improve satisfaction. Lower rates charged for power received 17% of "votes", with improvements to power quality in second place (9%). A small number of respondents indicated bill accuracy (2%), more conservation information (2%), or extended services hours (3%) as areas where the LDC should be focusing customer service improvement initiatives. Overall, 50% of respondents (across Ontario) indicated that they were satisfied, and had no recommendations for service improvements.

From the survey, OPUCN has determined its large customers were generally satisfied with the service being provided, and, in relation to planned capital investments included

in OPUCN's Distribution System Plan, large customer respondents have confirmed the appropriateness of an emphasis on reliability, power quality and outage restoration time.

Feedback Through Customer Service Interfaces

On an informal basis, OPUCN also collects unsolicited comments and suggestions made by customers to its call centre staff for review by management. OUPCN's website allows customers to provide comments and concerns through email and through a feedback blank that can be completed on line. OPUCN takes these comments and suggestions very seriously, and will act immediately on suggestions that can be implemented without significant disruption or cost. Otherwise, changes suggested by customers are considered as part of the planning process.

OPUCN posts on its website a listing of its capital investment projects for the coming year. OPUCN has posted its capital projects for 2014 and in January 2015, will post its 2015 program. This allows OPUCN customers to review the proposed projects and submit their concerns or questions to OPUCN. Any customer feedback or concerns are reviewed and responses provided accordingly.

OPUCN also provides advance notices to customers advising them of upcoming overhead or underground plant rebuilds in their area or neighbourhood, including any planned outages. Any questions or concerns (for example location of the proposed poles or pad-mount type transformers) are normally resolved directly with the customer.

OPUCN plans to hold an open house in 2015 regarding its new substation (MS9) planned for construction in 2016, to engage its customers and share the high level details of this new substation plan. OPUCN will receive customer feedback and address any concerns to the best of its abilities.

Progressive cities require a strong partner to work with them in attracting developers, industry, retailers and infrastructure providers that will help make their communities a place where people want to live, work and play. OPUCN works closely with the City of Oshawa to assist these stakeholders in bringing major projects online, on time. An example of OPUCN's efforts in working closely with developers is its relationships with the Durham Chapter of Building Industry and Land Development Association and Durham Region Home Builders Association – voice of the land development, home building and professional renovation industry in Durham Region. OPUCN has worked with developers and large customers to improve the process by which new service connections are made. Key changes include posting OPUCN's connection requirements on its website and making the necessary documents available there.

OPUCN continues to meet with its major customers (e.g. University of Ontario Institute of Technology (UOIT), Lakeridge Health Centre, Oshawa Center) and key developers (e.g. The Metrontario Group/Tribute Homes, The Rice Group/COSTCO; Great Gulf Development), for ongoing updates and service related consultation on their project plans and future developments.

Provision of Information and Service to Customers

OPUCN uses a variety of approaches to make information available to customers. Through OPUCN's website a customer can register for and access a "My Account" facility that provides account billing history for five years, balances and payment information. New, since 2010 is smart meter data presentment, providing the customer's individual load profile. Residential customers can enter specific information pertaining to load (type of home, heating and cooling, appliance inventory and usage, etc.) to support a breakdown of the total bill into end uses (heating, cooling, laundry, cooking, home entertainment, lighting, etc.). This function helps customers understand where they can conserve, and supports the call centre in dealing with high bill complaints.

Effective on April 28, 2014, OPUCN implemented as its customer information system the Harris Northstar platform. The new system provides efficiencies by allowing scheduling of certain processing jobs overnight, and does automatically certain functions that have previously been carried out manually. In particular, arrears management is more automated, improving efficiency in the customer service area. The new system will also provide a platform to increase the provision of interactive services either by telephone or web. Through the website, routine questions can be answered at all hours, and the customer can view bills as far back as 2007.

OPUCN is aware that some LDCs have automated processing of move in/out services through their websites. OPUCN has made a strategic decision not to move in that direction at present, considering that the present telephone process provides the customer with personal attention in this crucial interaction, and allows questions to be answered. This is particularly important when the customer is new to the community and to OPUCN.

OPUCN provides eBilling with email notification services for its customers. eBilling has been very successful for OPUCN and boasts a penetration rate of more than 20% of residential customers (over 10,000 customers) which is one of the highest penetration rates in the Province. OPUCN continues its efforts to increase its eBilling penetration rates through information and marketing in order to increase the efficiencies and cost savings that are realized and passed onto its customers through rate applications.

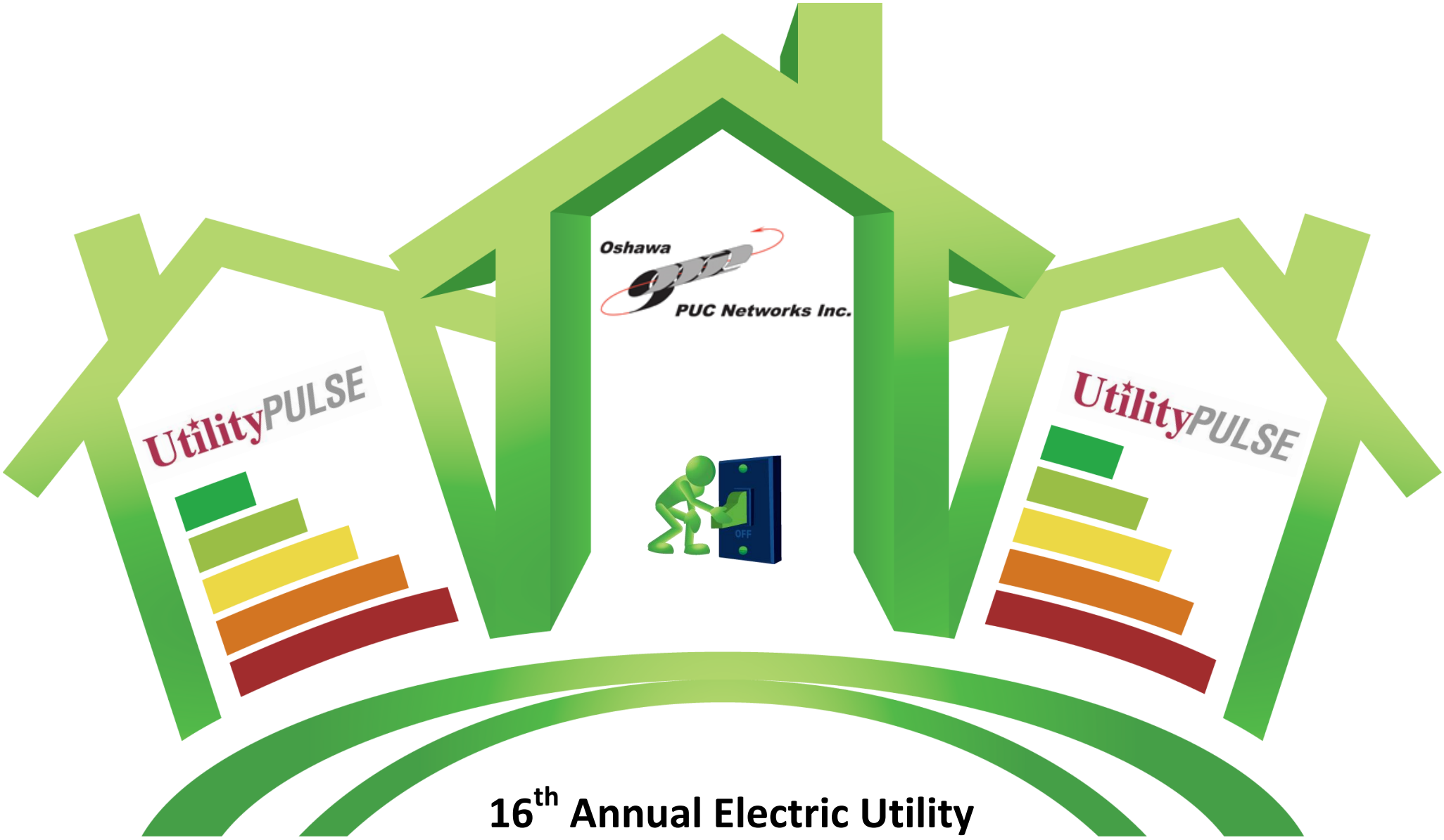
Since not all customers will prefer or have access to online services, OPUCN also offers a range of services information through its Interactive Voice Response (IVR) system. With 24-hour access, the customer can retrieve basic information such as last balance, last payment, and last amount billed, and can pay by credit card. The IVR system is also utilized to provide information that customers can access when an outage occurs.

Improvement of the specificity of information available to customers about outages (location and estimated time for restoration) is an objective for OPUCN, and depends on implementation of OPUCN's proposed Outage Management System (OMS) and associated systems integration, as referenced above.

OPUCN considers its staff to be the vital link in delivery of efficient, customer-friendly service. To support effective communication and work processes, new workstation ergonomics were introduced, and a 2014 reorganization consolidated the customer service function. A new program to solicit and review employee suggestions for service and efficiency improvements has also been introduced.

OPUCN also maintains customer focus through involvement in the Oshawa community and visibility at community events. For example, OPUCN maintains a booth at local Canada Day festivities, where customers can ask questions and obtain CDM information in an informal, family-friendly environment.

Oshawa PUC Networks Inc.



16th Annual Electric Utility Customer Satisfaction Survey

The purpose of this report is to profile the connection between Oshawa PUC Networks Inc. and its customers.

The primary objective of the Electric Utility Customer Satisfaction Survey is to provide information that will support discussions about improving customer care at every level in your utility.

The UtilityPULSE Report Card® and survey analysis contained in this report do not merely capture state of mind or perceptions about your customers' needs and wants - the information contained in this survey provides actionable and measurable feedback from your customers.

All comments and questions should be addressed to:

Sid Ridgley, UtilityPULSE division, Simul Corporation

Toll free: 1-888-291-7892 or Local: 905-895-7900

Email: sidridgley@utilitypulse.com or sridgley@simulcorp.com

Executive summary

Rosemarie LeClair, Chair of the Ontario Energy Board, in a recent presentation (Ontario Energy Network, April 28, 2014) said the OEB's consumer centric regulatory framework defines the utility's obligation for planning, obligations for customer engagement and its responsibilities for monitoring and measuring performance results.

EB-2010-0379 Report of the Board: Scorecard Approach (ROB-SA) (March 5, 2014)

Throughout this report are connections to the OEB's Report of the Board. Where possible we have addressed the specifics in the document and, the "spirit" of the Scorecard Approach.

We believe that the data from interviewing over 10,000 electric utility customers so far, in 2014, supports 3 main conclusions:

1- Customers, almost universally, are concerned about the cost of electricity

2- Customers are resilient and can adapt to adversity, in fact, they are very tolerant when a utility goes through a very difficult situation

3- In a utility world that is used to "pushing information out", it has to invest in and hone its competencies in having 2-way interactions with customers.

Reasonable costs

9,943 Ontario survey respondents were asked if they agree or disagree with the following statement *"The cost of electricity is reasonable when compared to other utilities".* 50% agree in 2014, and 62% agreed in 2010. Satisfaction with the utility is about the same in those respective years.

We can also say that issues in the electricity industry, as a whole, show satisfaction ratings and other important measures lower in 2014 than they were in 2013. A customer may be upset with the amount that electricity costs, or what is going on in the industry, but that may not translate to being upset with their own local utility.

Data from the 2014 survey shows that respondents who give their utilities high marks for respect, trust, and social responsibility also give their utilities high marks for providing high quality services, and better marks for both cost efficiency and reasonableness of costs.

The attributes which help an LDC to be seen as trusted and highly credible are: knowledge, integrity, involvement and trust. On demonstrating Credibility and Trust, Oshawa PUC Networks has done well. Overall, Oshawa PUC Networks 83% [Ontario 77%; National 80%].

EB-2010-0379 ROB-SA: Comparability

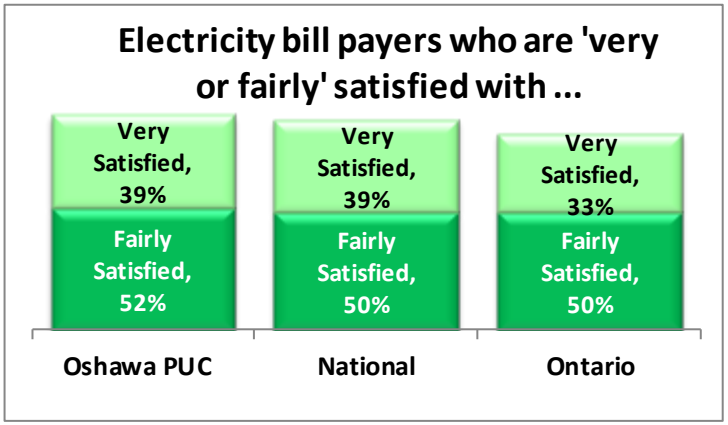
Your 2014 report contains data comparisons to:

- An Ontario-wide LDC benchmark
- A National LDC benchmark
- Previous year's ratings (where available)

- Ontario LDCs participating in the 2014 survey
- UtilityPULSE database

EB-2010-0379 ROB-SA: Customer Focus

There are 2 identified Performance Categories in the OEB Report, they are Customer Satisfaction & Service Quality. Performance measurements for these areas range from *'relatively easy to attain production statistics'* to '*harder to define and measure qualitative items'*. None-the-less this survey provides you with insights about how customers perceive performance of the utility.



Base: total respondents

EB-2010-0379 ROB-SA: Customer Focus - Customer Satisfaction - Satisfaction Survey Results

Customer satisfaction is one of the measures in the consumer centric regulatory framework. This rating is known as an effectiveness rating as it represents a sum total of perceptions and expectations that a customer has about their utility. Those expectations go far beyond "keeping the lights on", "billing me properly", and "restoring power quickly".

Oshawa PUC SATISFACTION SCORES – Electricity customers' satisfaction					
Top 2 Boxes: 'very + fairly satisfied'	**2014**	**2013**	**2012**	**2011**	**2010**
PRE: Initial Satisfaction Scores	91%	-	-	-	89%
POST: End of Interview	93%	-	-	-	94%

Base: total respondents/ (-) not a participant of the survey year

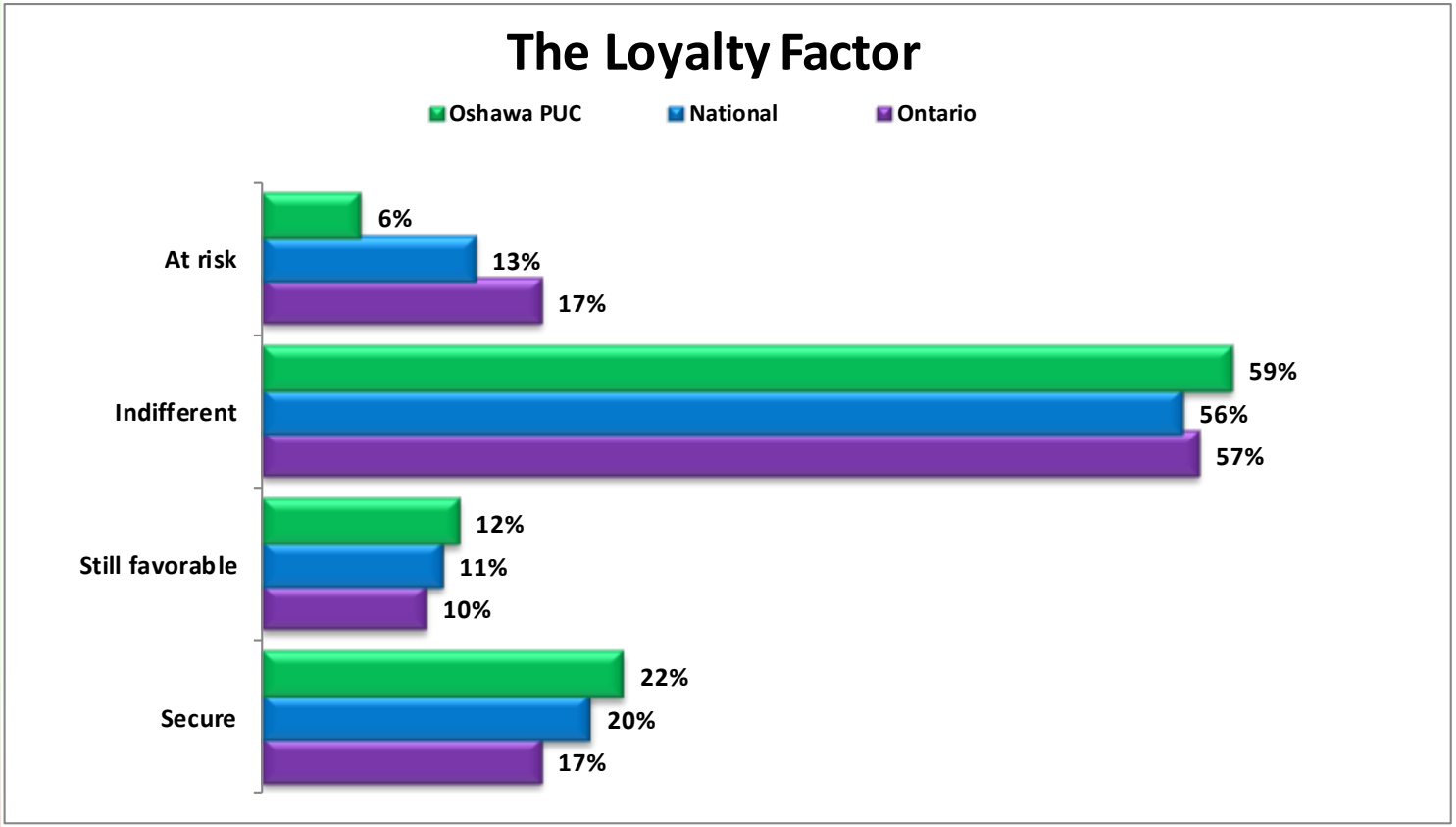
- ***Satisfaction*** *happens when utility core services meet or exceed customer's needs, wants, or expectations.*
- ***Loyalty*** *(Affinity) occurs when a customer makes an emotional connection with their electric utility on a diverse range of expectations beyond core services.*

Customer Affinity

Loyalty, for private industry, is a behaviourial metric. Loyalty, for natural monopolies (like LDCs) is an attitudinal metric.

Customer Loyalty Groups				
	Secure	**Favorable**	**Indifferent**	**At Risk**
Oshawa PUC				
2014	22%	12%	59%	6%
2013	-	-	-	-
2012	-	-	-	-
2011	-	-	-	-
2010	24%	15%	54%	7%

Base: total respondents/ (-) not a participant of the survey year



Base: total respondents

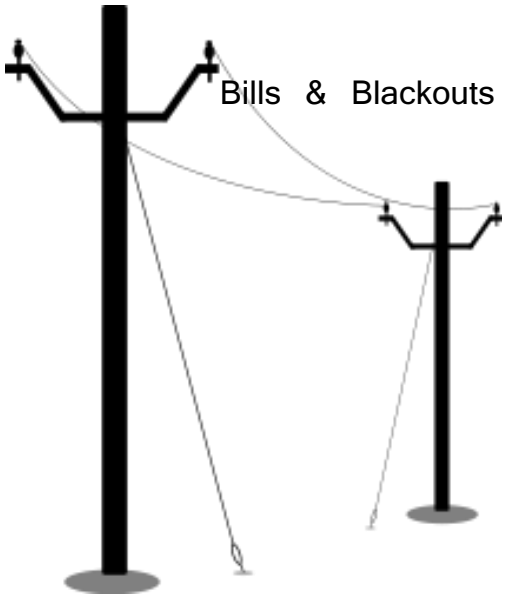
Utilities benefit from a trusted relationship with their empowered Customers. Higher levels of trust are the hallmarks of Secure customers. When people interact, either face-to-face, by telephone or on-line, if people do not trust each other, the interaction is not going to be efficient. Trust improves the

speed at which the interaction can be accomplished. At Risk customers recall experiencing more outages and more billing problems than Secure customers. What makes matters worse is, At Risk customers are about 2X more likely to contact the utility to deal with it.

None-the-less problems will happen.

The Killer B's (Blackouts and Bills)

It is inevitable that there will be blackouts/power outages – the key is how a utility anticipates outages and more importantly, how it deals with them. It should also be noted that there is a disconnect between what a utility might call a "billing problem" and what a customer defines as a "billing problem". Though both viewpoints are valid, employees need to be trained to answer those which cause the most concern with customers.



Percentage of Respondents indicating that they had a Blackout or Outage problem in the last 12 months			
	Oshawa PUC	**National**	**Ontario**
2014	43%	47%	49%
2013	-	41%	35%
2012	-	44%	46%
2011	-	43%	43%
2010	42%	45%	41%

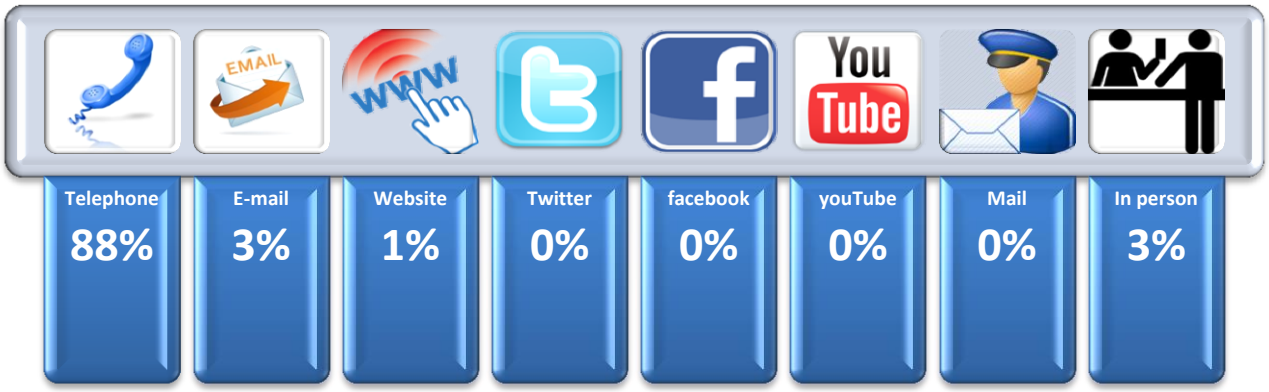
Base: total respondents/ (-) not a participant of the survey year

Percentage of Respondents indicating that they had a Billing problem in the last 12 months			
	Oshawa PUC	National	Ontario
2014	10%	16%	25%
2013	-	8%	10%
2012	-	12%	13%
2011	-	10%	16%
2010	10%	10%	12%

Base: total respondents/ (-) not a participant of the survey year

What method did you use to contact your electric utility when you had a problem?

Base: data from the full 2014 database



Customers may prefer a particular communication channel today (i.e., 88% telephone), however, that does not mean the customer who prefers the telephone will not want, or eventually want another channel for communications. In addition, there could be variances in preferences based on the type of issue or transaction.

EB-2010-0379 ROB-SA: Customer Focus – Customer Satisfaction – Billing Accuracy

There is a difference between what a customer believes is a billing problem versus a technical or production level measurement. Without the benefit of production level numbers, 86% of respondents 'agree strongly + somewhat' that the utility has "accurate billing". The Ontario benchmark rating is 77%.

EB-2010-0379 ROB-SA: Customer Focus – Customer Satisfaction – First Contact Resolution

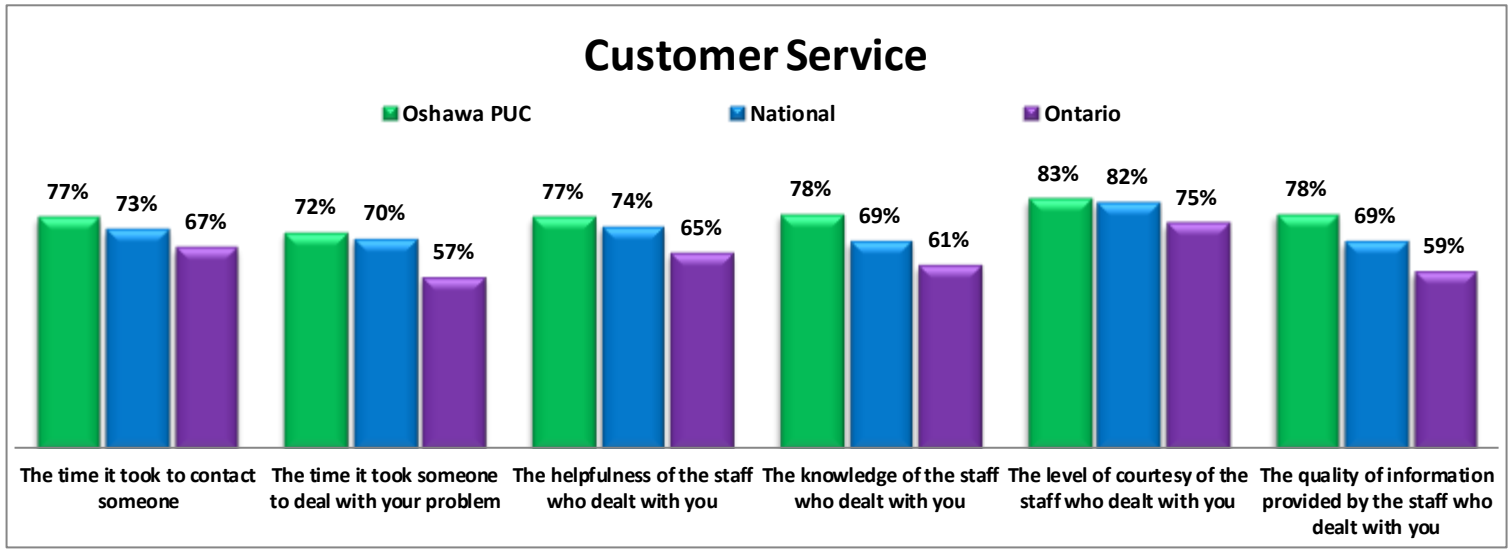
This performance measure is not defined in the EB-2010-0379 ROB-SA March 5, 2014 document. First contact resolution is an outcome base measurement which is affected by: type of problem, competency levels of staff, empowerment levels of staff, and organization culture to name a few.

Your 2014 survey gives you the following information from respondents:

1- Satisfaction with the contact experience
2- A problem solved rating
3- A Customer Experience Performance rating (CEPr)

Satisfaction with the contact experience

When there are problems, how they are handled can validate or invalidate a customer's perception about the utility's competency in handling the problem, and in running the operation. Here is how Customers, who contacted your LDC, rated their one-on-one transaction.



Base: total respondents who contacted the utility

Customer expectations are on the rise and continue to change. Customers expect their utility to have customer care practices and services that are in-line with any other organization that is important to their everyday life. Setting realistic expectations and consistently delivering to those expectations are keys to higher levels of Customer satisfaction. The setting of customer expectations is tough, but the harder part is to deliver consistency.

Overall satisfaction with most recent experience			
	Oshawa PUC	National	Ontario
Top 2 Boxes: 'very + fairly satisfied'	76%	75%	62%

Base: total respondents who contacted the utility

Problem solved rating

Respondents who said that they contacted the utility were also asked "Do you consider the problem solved or not solved?" 78% of your LDC's respondents said the problem was solved. The Ontario benchmark rating is 61%.

Customer Experience Performance rating (CEPr)

What do customers anticipate contact will be with their local utility when they have a problem? Will it be adversarial, or cooperative, or pleasant, etc. High numbers in CEPr indicate that a large majority of customers would agree that their next contact will be a good or positive one.

Customer Experience Performance rating (CEPr)			
	Oshawa PUC	National	Ontario
CEPr: all respondents	84%	82%	79%

Base: total respondents

EB-2010-0379 ROB-SA: Customer Focus – Service Quality

The three performance measures identified are all time based measures. They are: New Residential Services Connected on Time; Scheduled Appointments Met on Time; and, Telephone Calls Answered on Time. These are good examples of efficiency measures. In addition to time, there are other dimensions of Service Quality that Customers value.

Customer Service Quality			
Top 2 boxes, 'strongly + somewhat agree'	**Oshawa PUC**	**National**	**Ontario**
Deals professionally with customers' problems	86%	82%	78%
Pro-active in communicating changes and issues affecting Customers	77%	74%	73%
Quickly deals with issues that affect customers	83%	79%	74%
Customer-focused and treats customers as if they're valued	82%	74%	72%
Is a company that is 'easy to do business with'	86%	79%	75%
Cost of electricity is reasonable when compared to other utilities	67%	60%	55%
Provides good value for money	74%	67%	63%
Delivers on its service commitments to customers	86%	84%	82%

Base: total respondents with an opinion

EB-2010-0379 ROB-SA: Operational Effectiveness

With the exception of the Public Safety measure, which is yet to be defined, performance measures would typically take the form of a monitoring and measuring (quantitative) rating. Though customers may not have the benefit of numbers, they do have a perception.

Management Operations			
Top 2 boxes, 'strongly + somewhat agree'	**Oshawa PUC**	**National**	**Ontario**
Provides consistent, reliable electricity	89%	89%	86%
Quickly handles outages and restores power	85%	86%	83%
Makes electricity safety a top priority for employees and contractors	87%	89%	87%
Operates a cost effective electricity system	76%	69%	62%
Overall the utility provides excellent quality services	85%	83%	80%

Base: total respondents with an opinion

UtilityPULSE Report Card®

The purpose of the UtilityPULSE Report Card is to provide your utility with a snapshot of performance – it represents the sum total of respondents' ratings on 6 categories of attributes that research has shown are important to customers in influencing satisfaction and affinity levels with their utility.

Oshawa PUC's UtilityPULSE Report Card®

Performance

	CATEGORY	Oshawa PUC	National	Ontario
1	**Customer Care**	**B+**	**B+**	**B**
	Price and Value	B	B	C+
	Customer Service	A	B+	B
2	**Company Image**	**A**	**B+**	**B+**
	Company Leadership	A	B+	B+
	Corporate Stewardship	A	A	B+
3	**Management Operations**	**A**	**A**	**A**
	Operational Effectiveness	A	A	B+
	Power Quality and Reliability	A	A	A
	OVERALL	**A**	**B+**	**B+**

Base: total respondents

Corporate Image

Reputation, image, brand have to be actively managed. Positive impressions beget positive perceptions. Marketing communication includes positioning the utility in a way that makes customers want your utility and its services. Every utility has a brand, why not have the brand you want?

Attributes strongly linked to a hydro utility's image			
	Oshawa PUC	National	Ontario
Is a respected company in the community	87%	81%	78%
A leader in promoting energy conservation	80%	78%	77%
Keeps its promises to customers and the community	84%	79%	76%
Is a socially responsible company	85%	78%	77%
Is a trusted and trustworthy company	85%	82%	77%
Adapts well to changes in customer expectations	78%	71%	68%
Is 'easy to do business with'	86%	79%	75%
Provides good value for your money	74%	67%	63%
Overall the utility provides excellent quality services	85%	83%	80%
Operates a cost effective hydro-electric system	76%	69%	62%

Base: total respondents with an opinion

Customers, as human beings, are both rational and emotional. The rational side of the customer holds the LDC accountable for doing its job (as contracted), thereby fulfilling the customer's basic needs. The emotional side of the customer is about fulfilling expectations. Meeting rational needs – at best – gets the customer to a neutral state and at worst creates dissatisfaction. Emotional needs, when met, assuming base level rational needs are met, can move a customer from neutral to higher levels of satisfaction. The

industry is obsessed with rational concerns about customer behaviour, but the real motivation for customer behaviour is emotional, not rational.

What do customers think about electricity costs?

Ask a utility customer – anywhere in the province of Ontario – what do they think about electricity, there is a very high probability they will say electricity costs are too high or too expensive. For customers who said that they had a billing problem in the last 12 months, and stated that the problem was "high bills" or "high rates or charges", there was very little variability between customers who could be called Secure, Favourable, Indifferent or At Risk. There was also very little variability between age groupings or income groupings.

Our survey database shows 50% more customers in 2014 citing complaints with "high bills" or "high rates or charges" than in 2010. There is a growing concern over electricity costs, especially as it relates to its portion of a household budget. This means the industry needs to monitor "ability to pay".

Is paying for electricity a worry or major problem …			
	Oshawa PUC	**National**	**Ontario**
Not really a worry	68%	69%	59%
Sometimes I worry	21%	20%	26%
Often it is a major problem	7%	7%	11%
Depends	1%	3%	2%

Base: total respondents

Supplemental Insights

Recognizing that customers' interests and needs continue to shift, we have provided data and insights, on a number of subjects such as e-care, e-billing, conservation and more.

Electric Industry Knowledge & SMART Grid

Beyond knowing that they need electricity to maintain their day to day activities, does the average person feel that they are actually knowledgeable about the electric utility industry?

Knowledge level about the electric utility industry	
	Ontario
Extremely knowledgeable	2%
Very knowledgeable	11%
Moderately knowledgeable	47%
Slightly knowledgeable	26%
Not very knowledgeable	14%
Don't know	1%

Base: total respondents in the Ontario Benchmark survey

Two-thirds (60%) of those polled in the Ontario Benchmark survey considered themselves moderately to extremely knowledgeable about the electric industry.

While it is evident that the SMART grid is still not a much talked about concept, only 34% have a basic or good understanding of what it is, oddly enough, 60% still think that it is important to pursue SMART grid implementation. It is also clear that the majority of respondents are very + somewhat supportive of the utility working with neighbouring utilities on SMART grid initiatives.

Level of knowledge about the SMART Grid	
	Ontario
I have a fairly good understanding of what it is and how it might benefit homes and businesses	9%
I have a basic understanding of what it is and how it might work	25%
I've heard of the term, but don't know much about it	36%
I have not heard of the term	29%
Don't know	1%

Base: total respondents in the Ontario Benchmark survey

Efforts to reduce energy consumption

Do customers believe there is a real pay-off for trying to reduce their energy consumption? Does this impact overall efforts to reduce consumption? Respondents were asked *"How active have you been in trying to reduce your electricity consumption?"* (Base: total respondents in the Ontario Benchmark survey)

- 94% feel they are "very + somewhat active" in trying to reduce electricity consumption, and
- 81% of those do believe their efforts have resulted in reduced energy consumption, of which
- 44% estimate that they were able to offset an energy consumption reduction of more than 10%, and
- 72% believe that these efforts translated to savings on their electricity bills.

Level of Activity in trying to reduce electricity consumption	
	Ontario
Very active	52%
Somewhat active	42%
Neither proactive or inactive	0%
Not active	2%
Not very active	3%

Base: total respondents in the Ontario Benchmark survey

Estimate of percentage reduction in consumption	
	Ontario
1 – 2 %	5%
3 – 5 %	10%
6 – 8 %	4%
9 – 10 %	15%
More than 10%	44%
Don't know	21%

Base: total respondents in the Ontario Benchmark survey whose active efforts have reduced consumption

Active efforts have reduced energy consumption

81%

16%

Base: total respondents in the Ontario Benchmark survey who have been active in trying to reduce energy consumption

Efforts to conserve have translated into savings on your electricity bill

72%

24%

Base: total respondents in the Ontario Benchmark survey whose active efforts have reduced consumption

Energy Conservation & Efficiency

Energy efficiency can be broken down into two areas: *better use of energy through improved energy-efficient technologies;* and *energy saving through changes in customer awareness and behaviour.*

Efforts to conserve energy				
Ontario LDCs	**Yes**	**No**	**Already Done**	**Don't Know**
Install energy-efficient light bulbs or lighting equipment	19%	9%	70%	1%
Install timers on lights or equipment	12%	50%	35%	2%
Shift use of electricity to lower cost periods	22%	17%	58%	3%
Install window blinds or awnings	12%	27%	60%	2%
Install a programmable thermostat	13%	25%	60%	2%
Have an energy expert conduct an energy audit	9%	71%	16%	4%
Removing old refrigerator or freezer for free	14%	44%	38%	4%
Join the peaksaverPLUS™ program	15%	49%	21%	16%
Replacing furnace with a high efficiency model	12%	33%	52%	4%
Replacing air-conditioner with a high efficiency model	14%	38%	44%	4%
Use a coupon to purchase qualified energy saving products	35%	39%	22%	5%

Base: An aggregate of respondents from 2014 participating LDCs

E-care and E-billing

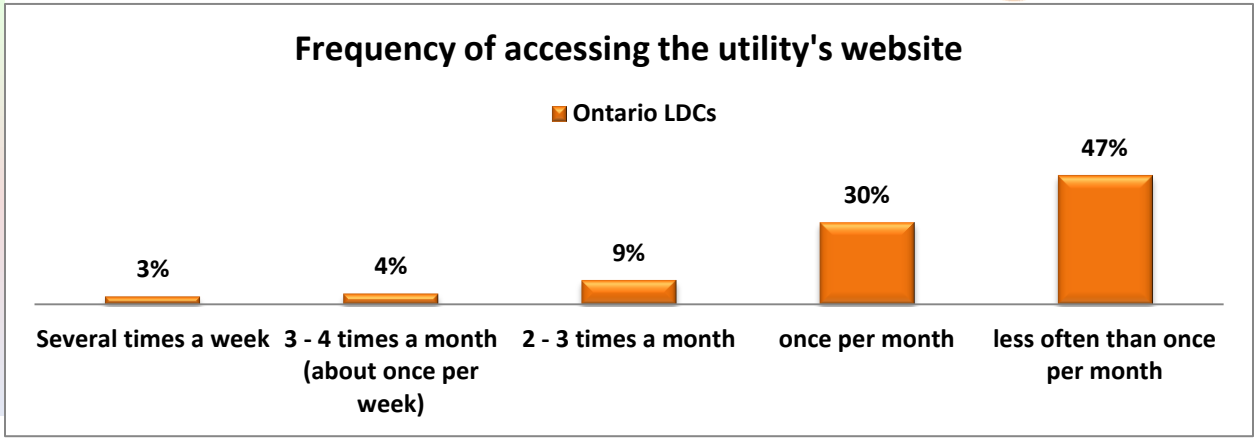
Technology – specifically the internet—has allowed people access to far more information than ever before and the ability to do more than ever before.

Do you have access to the internet?	
	Ontario LDCs
Yes	87%
No	13%

Base: An aggregate of respondents from 2014 participating LDCs

Over the past six months have you accessed your local utility website?

Base: An aggregate of respondents from 2014 participating LDCs



Base: An aggregate of respondents from 2014 participating LDCs

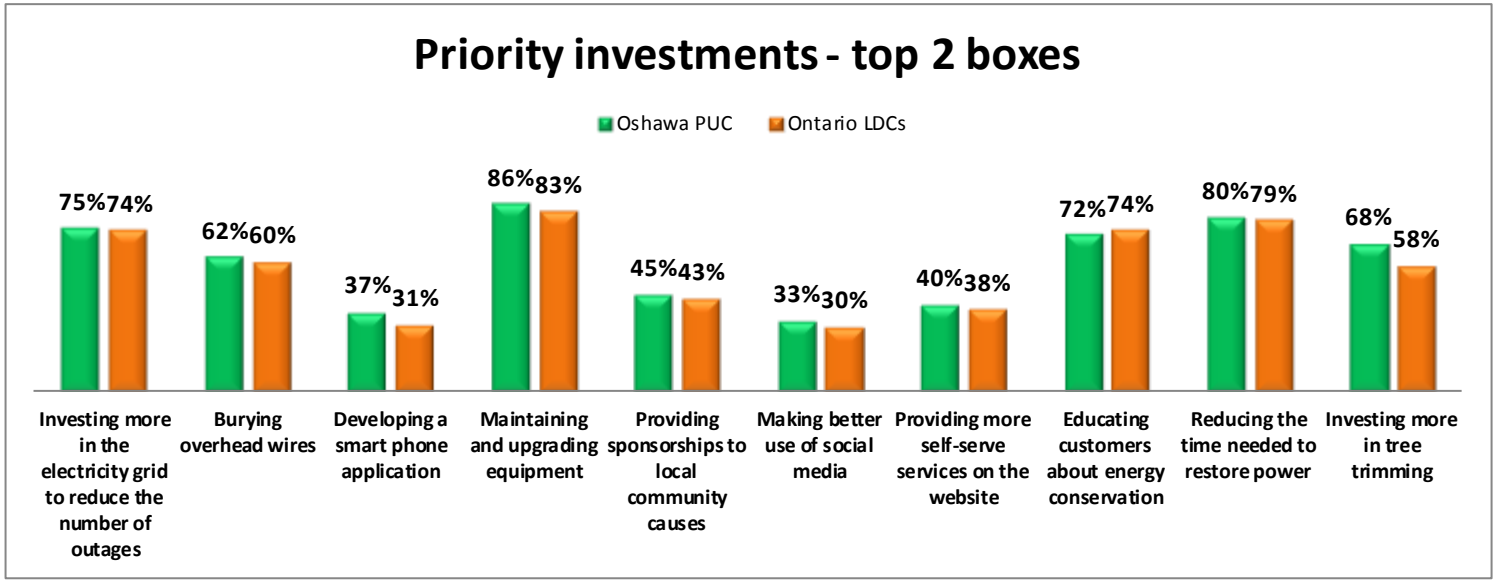
Likelihood of using the internet for future customer care needs for things such as:	
Top 2 Boxes: 'very + somewhat likely'	**Ontario LDCs**
Setting up a new account	31%
Arranging a move	38%
Accessing information about your bill	55%
Accessing information about your electricity usage	54%
Accessing energy saving tips and advice	45%
Accessing information about Time Of Use rates	51%
Maintaining information about your account or preferences	51%
Paying your bill through the utility's website	32%
Getting information about power outages	47%
Arranging for service	40%

Base: An aggregate of respondents from 2014 participating LDCs

As society becomes increasingly more familiar with technology it will become a more popular medium for giving and receiving information. One could also say, demographics will also put more pressure on the technology channels. Unfortunately, customers adopt technology on their own timetable. This causes the utility to continue to improve existing channels while building the technological channels wanted by some today, but by the year 2020, demanded by many. Will your utility be ready?

Priority Investments

While regulation and reliability are top concerns in the utility industry, aging infrastructure is now a top operational concern. Customers agree with industry insiders that infrastructure renewal is a high priority. This year, respondents were asked for their views about prioritizing investments.



Base: An aggregate of respondents from 2014 participating LDCs / 90% of total respondents from the local

Some findings shown above correlate with some of the suggestions made by respondents on things the utility could do to improve. Percentage of comments received from all Ontario respondents were:

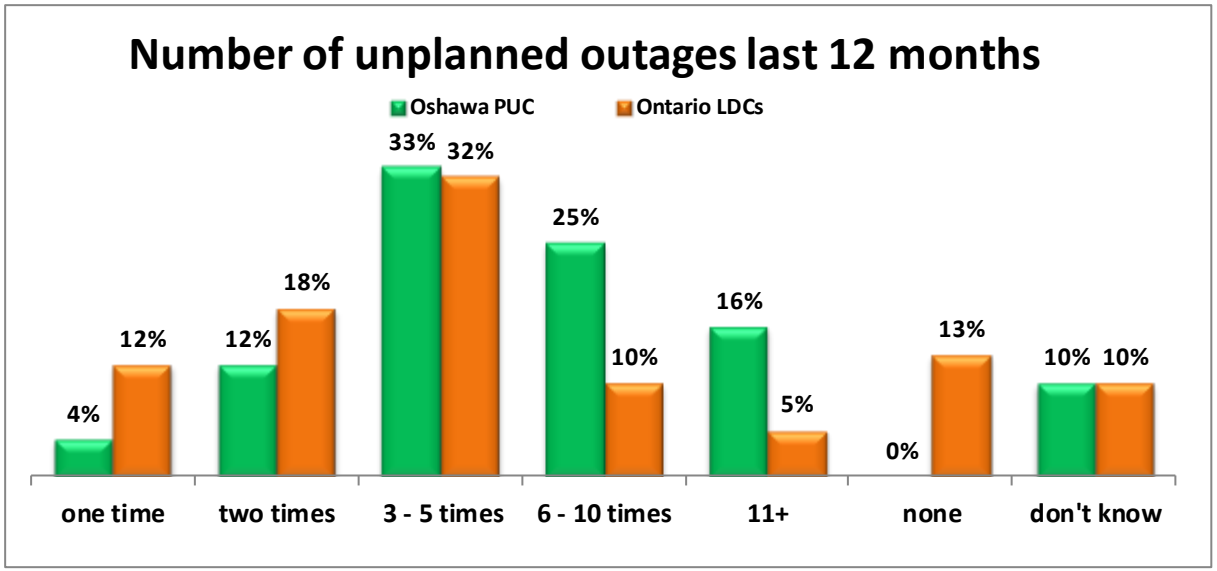
- 14% improve reliability (10% in 2010)
- 11% better maintenance (3% in 2010)

- 10% better communication (7% in 2010)

Outage Management

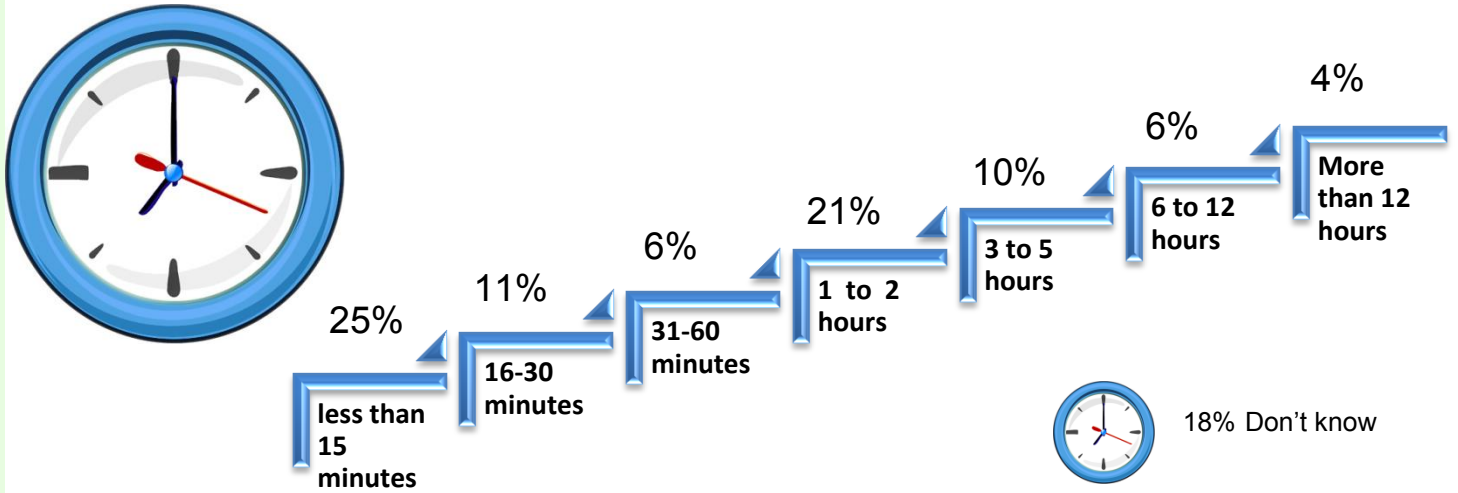
Whether an outage is planned or unplanned, the reality is that it is going to cause disruption and inconvenience under best case scenario and under worst case scenarios there could be safety and financial consequences.

However, one thing for certain, no matter what the scenario happens to be, customers are expecting their utility to keep them continually updated on the status of outages. Most importantly, and top priority, is to know the estimated restoration time. They also want to know the cause of the outage because they do not want to be a frequent outage customer.



Base: An aggregate of respondents from 2014 participating LDCs / 90% of total respondents from the local utility

When an unplanned outage occurs, how long, on average, is the outage?



Base: 90% of total respondents from the local utility

How a utility chooses to handle, manage and communicate with customers during an outage situation does affect customers' satisfaction with their utility. Customers want timely, accurate and relevant information about an outage and customers expect a utility to use various communication channels to ensure their message is getting out there. This means not only obtaining information via the call centre and IVR but customers have increasing expectations for proactive two-way communication through social media, utility websites and modern communication devices (e.g. tablets, smartphones) and apps.

Inability to provide the above information accurately and in a timely manner will result in customer complaints, increased call volumes to your call centres, create unwanted public and media attention, and negatively impact customer satisfaction.

Utility's effectiveness during an unplanned outage		
Top 2 Boxes: 'very + somewhat effective'	**Ontario LDCs**	**Oshawa PUC**
Responding to questions	61%	60%
Providing a reason for the outage	61%	64%
Providing an estimate when power will be restored	60%	57%
Responding to the power outage	81%	86%
Restoring power quickly	85%	92%
Communicating updates periodically	64%	67%
Posting information to the website	35%	36%
Using media channels for providing updates	53%	50%

Base: An aggregate of respondents from 2014 participating LDCs / 90% of total respondents from the local utility

On December 20, 2013, a severe ice storm struck the central and eastern portions of Canada and the northeastern United States. The storm's devastation caused major damage to utility distribution lines, towers, transformers, poles and entire substations and resulted in large scale outages and blackouts

for long periods of time. The data suggests that customers are both tolerant and understanding when major outages take place.

Did you have a power outage during the ice storm in December 2013?

Base: total respondents

82%

15%

Percentage of Respondents who contacted their utility about the ice storm power outage	
	Oshawa PUC
Yes	14%
No	86%

Base: total respondents affected by the ice storm

Oshawa PUC
Length of outage (during Ice Storm 2013)

Less than 2 hours	2 – 4 hours	4+ hours or ½ day	12-18 hours or ½ - ¾ day	19-24 hours or 1 day	1 to 1.5 days	1.6 to 2 days	More than 2 days
8%	14%	24%	19%	4%	10%	7%	9%

Base: total respondents affected by the ice storm

Oshawa PUC
Method used to contact electric utility about outage during the 2013 ice storm

Telephone	E-mail	Website	Twitter	facebook	In person	Don't know
92%	2%	6%	0%	0%	0%	0%

Base: total respondents who said they contacted the utility about the ice storm

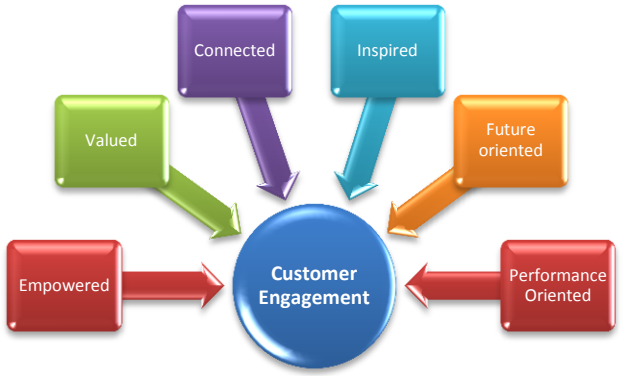
In your view, what is an acceptable period of time to go without electricity in situations like the ice storm?

Base: total respondents affected by the ice storm

•None (the power shouldn't be going out)	5%
•Less than 2 hours	7%
•2 - 4 hours	16%
•4+ hours or 1/2 day	18%
•12 - 18 hours or 1/2 day to 3/4 day	10%
•19 - 24 hours or 1 day	12%
•1 to 1.5 days	5%
•1 .6 to 2 days	5%
•More than 2 days	4%

Customer Centric Engagement Index (CCEI)

The EB-2010-0379 ROB-SA report includes the following: "better engage with their customers to better understand and respond to their needs…" Conducting surveys (like this one), holding town hall meetings, focus groups, etc. are examples of engaging your customers. We call this an activity based definition of engagement. Asking 100 people to complete a survey is an engagement activity. This survey also provides you with an emotional look at engagement.



The CCEI index is a gauge of the amount of goodwill that has been generated. High numbers in CCEI suggests that there is a high level of goodwill amongst your customers – this is important for two reasons. First when something goes awry for the utility, goodwill helps the utility to be resilient. Second, goodwill encourages active participation in requests to participate in engagement activities or program offerings from the utility.

Utility Customer Centric Engagement Index (CCEI)			
	Oshawa PUC	**National**	**Ontario**
CCEI	81%	79%	76%

Base: total respondents

In a world of chaos and confusion what will a customer do? Find someone to help. In the electricity industry, the vast majority of customers turn to, and rely on, their local utility. Knowing that customers will turn to their electric utility requires utilities to really know their customers. Not easy when customer expectations continue to shift.

The shift is on. 15 years ago a utility could think about their customers in terms of usage, now they have to think about them in terms of personas (i.e., customer type). Currently, customer segmentation, for most utilities, consists of a number of "personas". While this may be adequate today, in order to achieve high customer participation in programs and to optimize business processes there will be a need for granular targeting of communications.

Most utilities are quite comfortable “pushing” out communications in a one-way world. However, the shift is on because the new channels are 2-way; even without the new channels customers are expecting 2-way dialogue. The impact on a utility’s marketing-communications is significant.

Value is what a customer perceives they get in exchange for what they give up. The real challenge is educating customers on the value they receive. In the absence of a value proposition the primary thing people will talk about is cost.

We recommend having meaningful two-way dialogue with employees (and others) to leverage the results from your 2014 customer satisfaction survey derived from speaking with 405 Oshawa PUC Networks customers [March 3 - March 21, 2014]. The electric utility business has demanding customers with high expectations.

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June, 2014

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Satisfaction (pre & post)

Customer Satisfaction is an intangible as it is the sum total of real experience, or perceptions of what an experience may be like when a customer is dealing with their LDC. Satisfaction is not a program, it is an outcome. Satisfaction, as a measurement, is a part of the Ontario Energy Board's Performance Measurement for Electricity Distributors: A Scorecard Approach (Ontario Energy Board, EB-2010-0379, March 5, 2014).

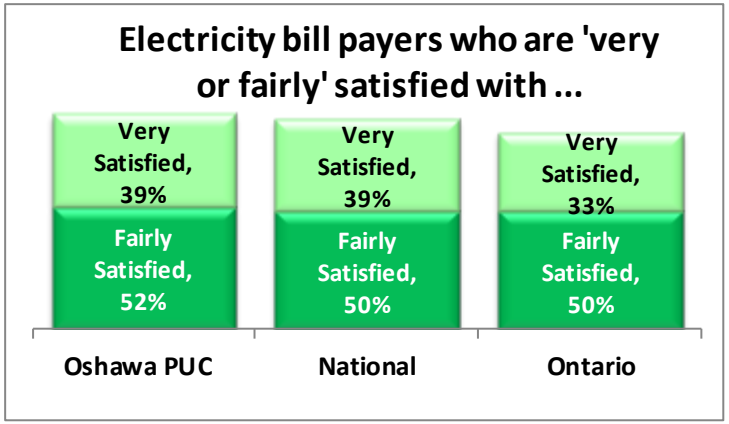
Satisfaction is an effectiveness rating of whether the objectives of process(s), service(s) or activities have been achieved. This makes Satisfaction, as a Scorecard measure, a rating that prompts discussion, planning, investing, and being connected to the Customer in order to effect an improved rating.

"Telephone calls answered on time" is an efficiency rating or a rating to assist in determining whether the right amount of resources have been used to deliver a process, service or activity. ***Efficiency*** *is about achieving objectives with the minimum amount of people, time, money and other resources.* For utilities reducing costs of delivering, supporting or maintaining a service is often the main driver for improving operational efficiency. While being obsessed with costs is important, the customer is also obsessed with quality. Finding the right balance between efficiency and effectiveness measures is difficult.

Effectiveness *ratings are measures that keep the organization and its people more future focused than efficiency ratings.* This is not to say that efficiency ratings are not important, they are. The customer does care that their problem was solved and that the telephone was answered in less than 30 seconds. After 16 years of continued research with electric utility customers, expectations of their electric utility go far beyond "keeping the lights on", "billing me properly", and "restoring power quickly". However, acting quickly, yet not dealing with the customer concern, ultimately translates into a poor experience.

- **Satisfaction** happens when utility core services meet or exceed customer's needs, wants, or expectations.

- **Loyalty** occurs when a customer makes an emotional connection with their electric utility on a diverse range of expectations beyond core services.



Base: total respondents

Satisfaction alone does not make a customer loyal; a willingness to commit and advocate for a company along with satisfaction identifies the three basic customer attitudes which underpin loyalty profiles. While satisfaction is an important component of loyalty, the loyalty definition needs to incorporate more attitudinal and emotive components.

Electricity bill payers who are 'very or fairly' satisfied with…					
	2014	2013	2012	2011	2010
Oshawa PUC	91%	-	-	-	89%
National	89%	90%	88%	89%	86%
Ontario	83%	90%	86%	84%	80%

Base: total respondents/ (-) not a participant of the survey year

As noted in previous reports:

Our research has found that in the utility industry environment, especially in Ontario, where most utilities are municipally owned, satisfaction is a strong driver of customer trust which in turn can impact employee engagement. The satisfaction of public customers/citizens both improves employee engagement and is improved by it.

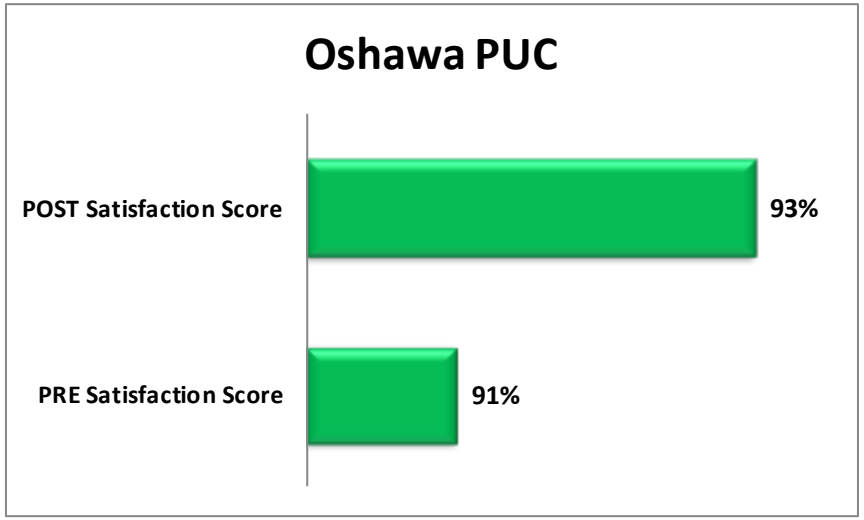
The synergy which exists between customer satisfaction and employee engagement has enormous implications for the performance of those who make up a utility's workforce. Many service personnel

are motivated by their desire to help others; succeeding at this task (and having clear evidence that they have satisfied their "customers") can help keep them motivated and engaged.

Satisfied employees, who are working in an organizational culture which promotes service excellence is critical, too. Many companies make the mistake of measuring only customer satisfaction. Measuring organizational culture is the key because employees play an integral role in the customer relationship. Employees do more than deliver customer service – they personalize the relationship between customer and the utility.

Creating loyal customers and loyal employees go hand in hand and it is the leaders of organizations that must create this alignment. Implementing service excellence works best when its principles are well understood and widespread collaboration is encouraged by management's visible actions. In our experience, this is best achieved by driving change from the 'top down' at the same time as inspiring and fully engaging employees from the 'bottom up'.

In the Simul/UtilityPULSE Customer Satisfaction survey, the overall satisfaction question is asked both at the beginning (PRE) and the end (POST).



Base: total respondents

Asking the general satisfaction question at the start of the survey avoids bias and we obtain a spontaneous rating. This allows measurement of customers' overall impressions of the utility prior to prompting them to think of specific aspects of the relationship. After we have asked about specific aspects of the customer experience, we gain a more *considered* (or conditioned) response.

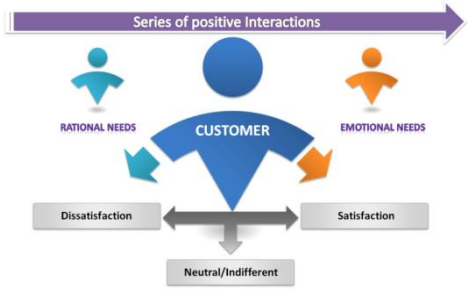
SATISFACTION SCORES – Electricity customers' satisfaction			
Top 2 Boxes: 'very + fairly satisfied'	**Oshawa PUC**	**National**	**Ontario**
PRE: Initial Satisfaction Scores	91%	89%	83%
POST: End of Interview	93%	87%	80%

Base: total respondents

SATISFACTION SCORES – Electricity customers' satisfaction					
Top 2 Boxes: 'very + fairly satisfied'	**2014**	**2013**	**2012**	**2011**	**2010**
PRE: Initial Satisfaction Scores	91%	-	-	-	89%
POST: End of Interview	93%	-	-	-	94%

Base: total respondents/ (-) not a participant of the survey year

Customers, as human beings, are both rational and emotional. The rational side of the customer holds the LDC accountable for doing its job (as contracted), thereby fulfilling the customer's basic needs. The emotional side of the customer is about fulfilling expectations. Meeting rational needs – at best –



gets the customer to a neutral state and at worst creates dissatisfaction. Emotional needs, when met, (assuming base level rational needs are met), can move a customer from neutral to higher levels of satisfaction.

Attributes strongly linked to a hydro utility's image			
	Oshawa PUC	**National**	**Ontario**
RATIONAL NEEDS			
Provides consistent, reliable electricity	89%	89%	86%
Quickly handles outages	85%	86%	83%
Accurate billing	86%	83%	77%
Provides good value for money	74%	67%	63%
Is 'easy to do business' with	86%	79%	75%
Operates a cost effective hydro-electric system	76%	69%	62%
EMOTIONAL NEEDS			
Deals professionally with customers' problems	86%	82%	78%
Provides information to help customers reduce electricity costs	77%	77%	75%
Pro-active in communicating changes	77%	74%	73%
Quickly deals with issues that affect customers	83%	79%	74%
Adapts well to changes in customer expectations	78%	71%	68%
Overall the utility provides excellent quality services	85%	83%	80%

Base: total respondents with an opinion

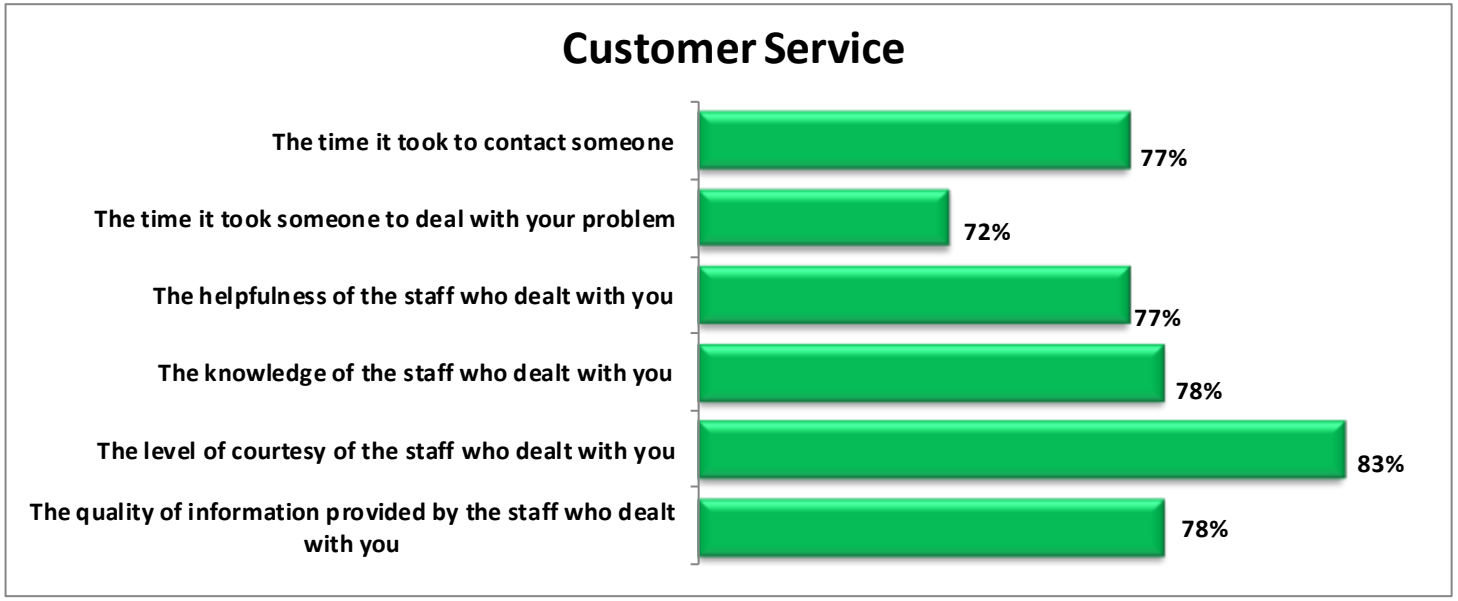
Customer Service

Customer service is a series of activities grouped in processes designed to provide customers and other stakeholders with information or assistance which address customers' needs. Those needs are far more diverse than they have ever been thereby, compelling customer service to change in response to increasing customer demands. Given the increase in fragmentation of customer type and customer problems, the need for building a customer-centric culture in line with customers' needs, preferences and expectations is important when customer satisfaction is important to the organization.

Customers don't want to be passed from CSR to CSR, unnecessary bureaucracy, to keep repeating why they are calling, to duplicate information already given, or to have to understand the inner workings of the utility organization. Customers are expecting an intelligent and personalized experience.

Respondents, who contacted their utility via the telephone or in-person, were asked about six aspects of their most recent experience with a representative from Oshawa PUC Networks.

- Information – quality of information provided
- Staff attitude – level of courtesy
- Professionalism – the knowledge of staff
- Delivery – helpfulness of staff
- Timeliness – the length of time it took to get what they needed
- Accessibility – how easy it was to contact someone



Base: total respondents who contacted the utility

Satisfaction with Customer Service			
Top 2 Boxes: 'very + fairly satisfied'	**Oshawa PUC**	**National**	**Ontario**
The time it took to contact someone	77%	73%	67%
The time it took someone to deal with your problem	72%	70%	57%
The helpfulness of the staff who dealt with you	77%	74%	65%
The knowledge of the staff who dealt with you	78%	69%	61%
The level of courtesy of the staff who dealt with you	83%	82%	75%
The quality of information provided by the staff who dealt with you	78%	69%	59%

Base: total respondents who contacted the utility

Respondents, who contacted their utility via an electronic means, e.g., email, website, social media, were asked about four aspects of their most recent experience with a representative.

Satisfaction with Customer Service via electronic means	
Top 2 Boxes: 'very + fairly satisfied'	**Overall**
The timeliness of response	68%
The quality of information provided	65%
The helpfulness of the information	63%
The level of professionalism	72%

Base: data from the full 2014 database

The customer service representative's role is essential to effectively handling customer issues/incidents/problems/requests. Having a skilled, trained representative is vital for a positive customer experience when a customer decides to make contact. Respondents who did have contact with a utility representative within the last 12 months were asked about their overall satisfaction with *that* experience.

Overall satisfaction with most recent experience – Telephone & In-person			
	Oshawa PUC	**National**	**Ontario**
Top 2 Boxes: 'very + fairly satisfied'	76%	75%	62%

Base: total respondents who contacted the utility

Overall satisfaction with most recent experience – Electronic means	
	Overall
Top 2 Boxes: 'very + fairly satisfied'	68%

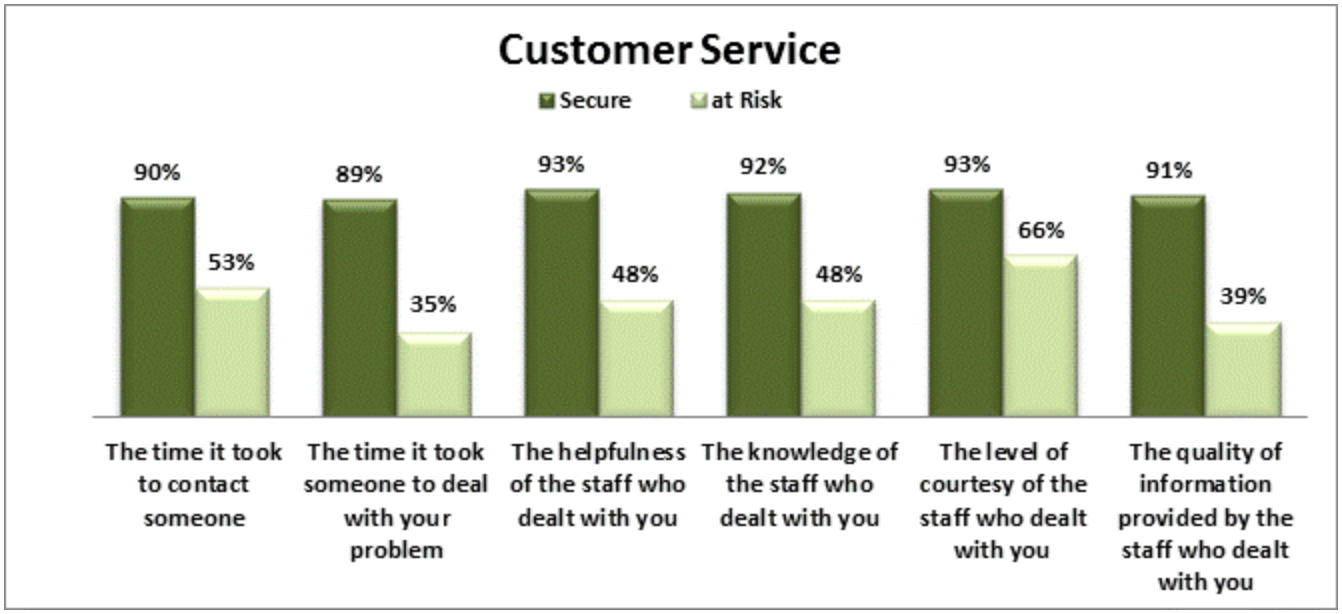
Base: data from the full 2014 database

Customers value speed and responsiveness especially as it relates to solving problems. The more flexibility you're able to offer and the more empowerment given to employees, the better able employees will be to meet those "speed" and "responsiveness" requirements. Customers benefit, too, when employees are able to resolve problem issues "on the spot" instead of having to "talk to my manager."

SATISFACTION SCORES – Electricity customers' satisfaction			
	Overall	**Problems Solved**	**Problems Not Solved**
Top 2 Boxes: 'very + fairly satisfied'	90%	90%	60%
Bottom 2 Boxes: 'fairly + very dissatisfied'	7%	7%	35%

Base: data from the full 2014 database

Empowerment is the backbone of the service recovery principle. In the face of error or problems, acting quickly and decisively, being empowered and turning a dissatisfied customer into a satisfied one tends to have a positive impact.



Base: data from the full 2014 database

Satisfaction with Customer Service			
Top 2 Boxes: 'very + fairly satisfied'	**Overall**	**Recent Experience Satisfied**	**Recent Experience Dissatisfied**
The time it took to contact someone	75%	86%	43%
The time it took someone to deal with your problem	68%	85%	19%
The helpfulness of the staff who dealt with you	76%	90%	33%
The knowledge of the staff who dealt with you	73%	88%	32%
The level of courtesy of the staff who dealt with you	82%	92%	56%
The quality of information provided by the staff who dealt with you	71%	88%	21%

Base: data from the full 2014 database

The service experience has a profound impact on customer service scores. The data shows a direct correlation between a satisfied customer experience and the ratings given across all six measures of person-to-person customer service. While there are a lot of things utilities cannot control, one thing they can control is the quality of service they provide.

Important attributes which shape perceptions about service quality			
	Oshawa PUC	National	Ontario
Deals professionally with customers' problems	86%	82%	78%
Is pro-active in communicating changes and issues which may affect customers	77%	74%	73%
Quickly deals with issues that affect customers	83%	79%	74%
Customer-focused and treats customers as if they're valued	82%	74%	72%
Is a company that is 'easy to do business with'	86%	79%	75%
Cost of electricity is reasonable when compared to other utilities	67%	60%	55%
Provides good value for money	74%	67%	63%
Delivers on its service commitments to customers	86%	84%	82%
Trusted and trustworthy company	85%	82%	77%
Respected company in the community	87%	81%	78%
Provides information and tools to help manage electricity consumption	77%	77%	75%
Adapts well to changes in customer expectations	78%	71%	68%

Base: total respondents with an opinion

ICE STORM 2013

On December 20, 2013, a severe ice storm struck the central and eastern portions of Canada and the northeastern United States. The storm's devastation caused major damage to utility distribution lines, towers, transformers, poles and entire substations and resulted in large scale outages and blackouts for long periods of time. The data suggests that customers are both tolerant and understanding when major outages take place.

Did you have a power outage during the ice storm in December 2013?

82%

15%

Base: total respondents

Days after the storm passed through, thousands were left without power as crews worked around the clock in the affected areas, but difficult weather conditions -- including more snow and continued freezing temperatures -- was making power restoration a challenge.

Oshawa PUC
Length of outage (during Ice Storm 2013)

Less than 2 hours	2 – 4 hours	4+ hours or ½ day	12-18 hours or ½ - ¾ day	19-24 hours or 1 day	1 to 1.5 days	1.6 to 2 days	More than 2 days
8%	14%	24%	19%	4%	10%	7%	9%

Base: total respondents affected by the ice storm

A common communication channel used by customers is their website. Most utilities use their website to publish outage information to customers; timely information posted to your website could reduce the impact on other utility resources.

Percentage of Respondents who contacted their utility about the ice storm power outage	
	Oshawa PUC
Yes	14%
No	86%

Base: total respondents affected by the ice storm

Some utilities websites provide customers with the start time of the outage, the number of customers impacted by the outage, and an outage map. Storm Centre landing pages on the utilities' websites have become a best practice where outage information is consolidated in one easy to access location. Social media will become increasingly important depending upon the severity of the outage. The reality is social media adoption rates are growing, which means, in time, these channels will become an additional means for providing information.




Oshawa PUC Method used to contact electric utility about outage during the 2013 ice storm						
Telephone	**E-mail**	**Website**	**Twitter**	**facebook**	**In person**	**Don't know**
92%	2%	6%	0%	0%	0%	0%

Base: total respondents who said they contacted the utility about the ice storm

In your view, what is an acceptable period of time to go without electricity in situations like the ice storm?

Base: total respondents affected by the ice storm

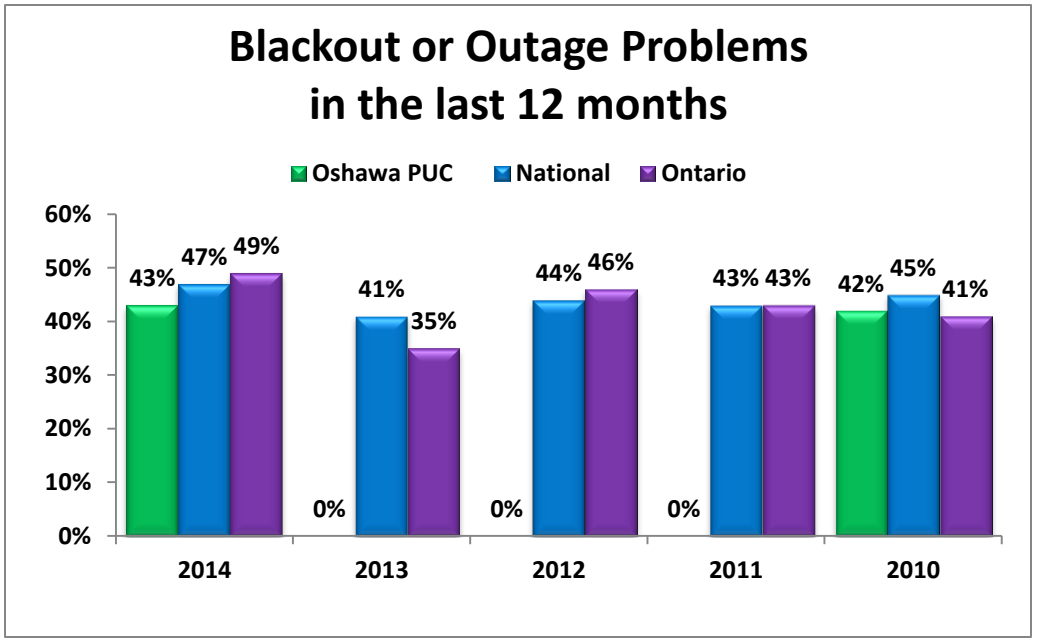
•None (the power shouldn't be going out)	5%
•Less than 2 hours	7%
•2 - 4 hours	16%
•4+ hours or 1/2 day	18%
•12 - 18 hours or 1/2 day to 3/4 day	10%
•19 - 24 hours or 1 day	12%
•1 to 1.5 days	5%
•1 .6 to 2 days	5%
•More than 2 days	4%

During any outage (planned or unplanned) restoring power quickly and safely is a top priority. Consistent and effective communication will drive the customer experience during an outage. If the customer starts to get mixed messages i.e. website versus radio and television news versus public service announcements are not in sync, then a customer could potentially perceive the situation as being not in order and therefore could also question safe and quick restoration. The more disarray the customer senses from mixed communication messages, the more intolerant they will become of the duration of the outage. Consistent updates across all channels will at least provide a sense of security – that the utility is on top of it and working to get things back up and running.

Bill payers' recent problems and problem resolution

Outages and billing problems, we call them the "Killer B's", the two issues that are most likely to cause grief to utility customers.

At one time, if the power went off for a few minutes, it was considered annoying and inconvenient. However, with so many devices hooked into the electricity system, even a small power outage can be truly aggravating. 85% of respondents with an opinion agree (top 2 boxes) Oshawa PUC Networks "quickly handles outages and restores power".



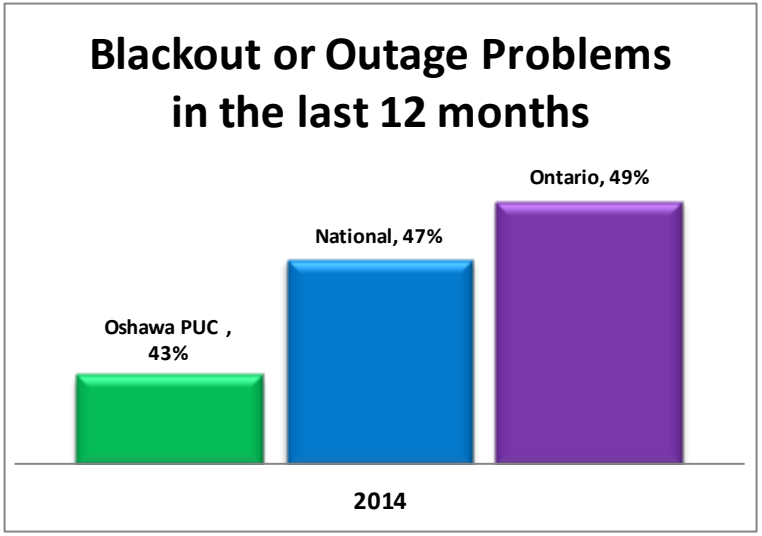
Base: total respondents / (-) not a participant of the survey year

Ideally, no one wants to go without electricity, however it is an inevitability that at some point the power will go out, especially during severe weather related events. During these instances, most customers will be somewhat flexible in their expectation for quick restoration. However, as an outage prolongs and impacts daily routines and when there is an uncertainty as to the expected restoration time, customers begin to become less understanding and more demanding.

Despite a utility's best efforts, there will be times when the power goes off.

Percentage of Respondents indicating that they had a Blackout or Outage problem in the last 12 months			
	Oshawa PUC	**National**	**Ontario**
2014	43%	47%	49%
2013	-	41%	35%
2012	-	44%	46%
2011	-	43%	43%
2010	42%	45%	41%

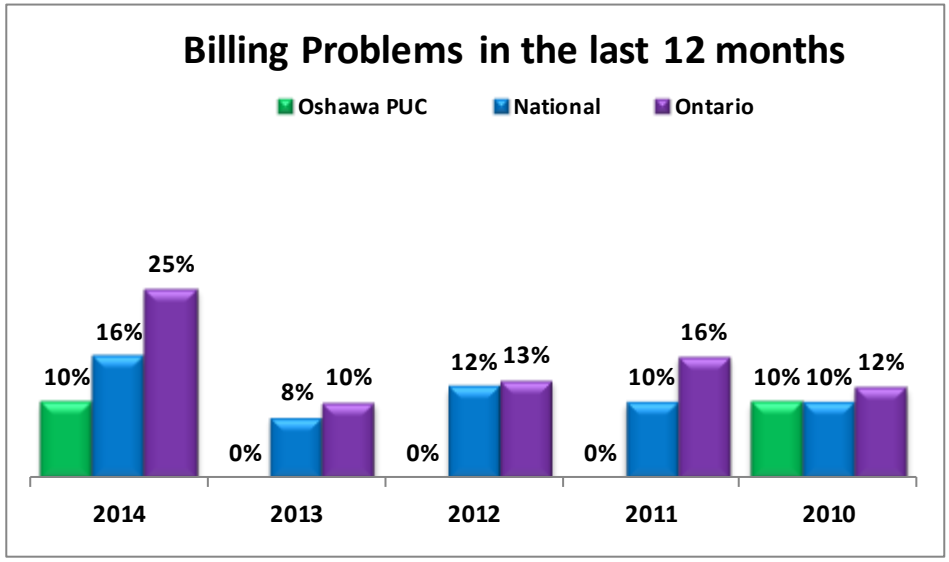
Base: total respondents/ (-) not a participant of the survey year



Base: total respondents

For most customers, their bill is the only thing they see (or pay attention to) from their utility provider. It not only tells them how much to pay, it documents their service usage, breaks down the various charges and provides contact information for customer service. As the principal form of communication between a utility and its customers, utilities cannot underestimate the importance of billing.

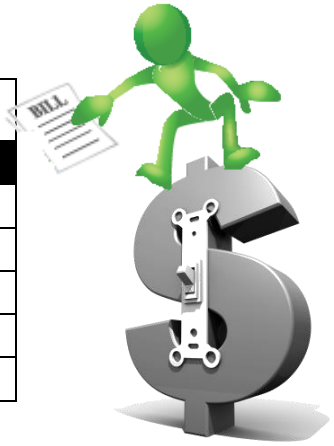
When it comes to billing, customers expect zero-defect delivery. Customers expect timely and accurate billings which they understand. Incorrect information, miscalculated balances, bills that are too difficult to understand result in time logged by your CSR's as well as dissatisfied customers. Improving billing activities has an immediate impact on the revenue streams of a utility in terms of costs associated with managing call center applications.



Base: total respondents/ (-) not a participant of the survey year

Percentage of Respondents indicating that they had a Billing problem in the last 12 months			
	Oshawa PUC	National	Ontario
2014	10%	16%	25%
2013	-	8%	10%
2012	-	12%	13%
2011	-	10%	16%
2010	10%	10%	12%

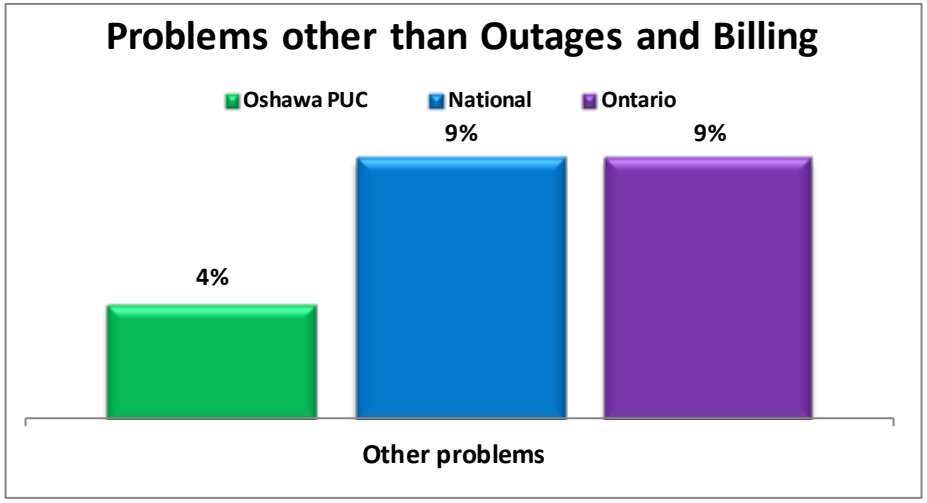
Base: total respondents/ (-) not a participant of the survey year



Types of Billing Problems	
	Oshawa PUC
The amount owed was too high	74%
Complaint about rates or charges	17%
The bill was difficult to understand	5%
The bill arrived late	5%

Base: total respondents with billing problems

As it relates to problems, the Killer B's – Bills and Blackouts still occupy top ranking – while moving/setting up a new account, maintenance repairs, high bills, information on pricing, SMART meters and energy conservation are issues which also contribute to inbound call-centre calls.



Base: total respondents

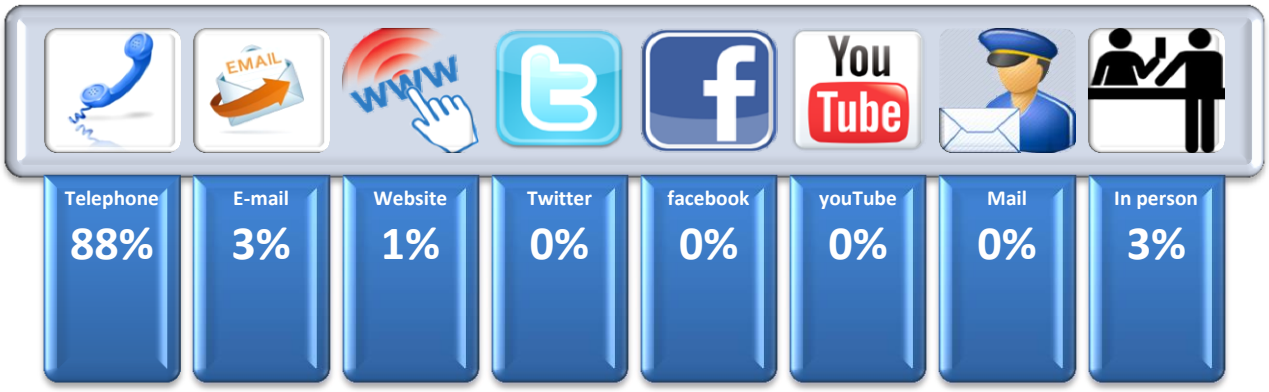
Percentage of Respondents with problems other than billing or power outages in the last 12 months			
	Oshawa PUC	**National**	**Ontario**
Yes	4%	9%	9%
No	95%	90%	90%

Base: total respondents

The reality is, there will be outages, there will be billing issues and there will be other problems. The key is how the customer is looked after when the problem(s) arises. By understanding the complaint process and customer complaint behaviour, a utility can learn how to reduce the impact of an unfavourable service experience or complaint.

What method did you use to contact your electric utility when you had a problem?

Base: data from the full 2014 database



Customers care more about getting their problem solved than they do about following or using the utilities processes. Solving the customer's problem with the first interaction (often called first call resolution) is a driver of perception. Customers want to deal with someone who understands what they are calling about, they want to have access to the correct person to talk to and they expect this person to have the ability to inform and or make decisions to work through the customer's concern. The reality is that customers know we do not live in a perfect world and problems will arise. What customers want however, is to ultimately have their problem solved. When the problem is solved the utility benefits.

Percentage of Respondents who contacted their utility and had their problem solved in the last 12 months			
	Oshawa PUC	**National**	**Ontario**
Yes	78%	69%	61%
No	21%	26%	36%

Base: total respondents

Attributes describing operational effectiveness			
	Overall Score	Problem Solved	Problem Not Solved
Provides consistent, reliable electricity	90%	88%	82%
Delivers on its service commitments to customers	86%	86%	71%
Accurate billing	85%	83%	66%
Quickly handles outages and restores power	87%	84%	80%
Makes electricity safety a top priority	88%	88%	86%
Uses responsible environmental practices when completing work	85%	85%	75%
Is efficient at managing the hydro-electric system	82%	80%	65%
Is a company that is 'easy to do business with'	85%	83%	64%
Operates a cost effective hydro-electric system	73%	72%	54%
Overall the utility provides excellent quality services	85%	84%	70%

Base: data from the full 2014 database from those respondents with an opinion

Technology is considered by many in the electricity utility industry to be both a blessing and a curse. On one hand, the LDC (and other service providers) can benefit from embracing technology to reduce costs and hopefully improve service thereby, putting control into the hands of the customer. However, technology can enable the customer's dissatisfaction to go viral.

Loyalty levels of customers (i.e., Secure, Favorable, Indifferent, At Risk) do have a different "recall" as it relates to problems encountered.

Bill payers recalling a power failure or outage				
	Secure	**Favorable**	**Indifferent**	**At Risk**
Yes	31%	35%	46%	48%
No	68%	64%	52%	51%

Base: data from the full 2014 database

Bill payers recalling a billing problem				
	Secure	**Favorable**	**Indifferent**	**At Risk**
Yes	4%	6%	15%	46%
No	95%	93%	83%	51%

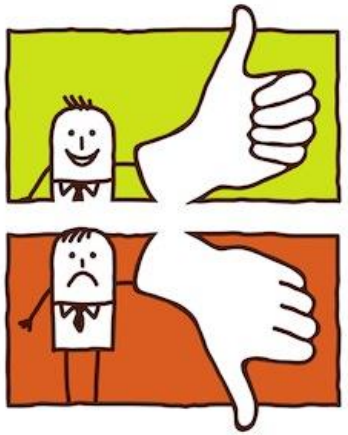
Base: data from the full 2014 database

Bill payers who said their problem was solved				
	Secure	**Favorable**	**Indifferent**	**At Risk**
Yes	92%	79%	73%	35%
No	7%	17%	22%	59%

Base: data from the full 2014 database

Customer Experience Performance rating (CEPr)

Every touch point with customers on the phone, website or in-person influences what customers think and feel about the organization. The key is handling every individual element of an interaction with a customer so that he/she feels good at the end of the whole interaction and the utility achieves its business objectives.



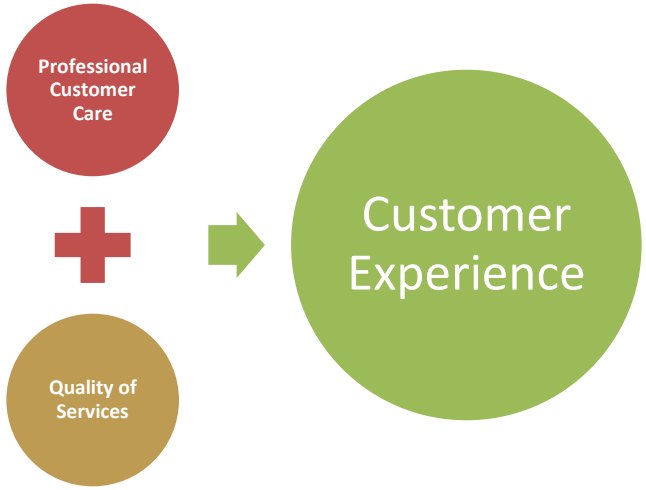
Great experiences occur when all functions of the organization align with one another to achieve the outcomes your customers seek. A good customer experience starts with understanding what your customers care about most and understanding which promises are most important to your customers.

At the heart of the CEPr are 4 central questions:

- Are interactions with the organization professional and productive?
- Is the organization 'easy to deal with'?
- Does the organization effectively meet your needs?
- Does the organization provide high quality services?

Some of the factors which contribute to the overall Customer experience:

- Delivering accessible and consistent customer service
- Understanding customer expectations
- Maintaining timely resolution timelines
- Providing effective communication(s) according to customer needs
- Demonstrating responsiveness
- Speeding up problem resolution
- Conducting problem analysis to prevent recurring issues
- Easy to do business with
- Seeking customer feedback and following through on recommendations



Customer Experience Performance rating (CEPr)			
	Oshawa PUC	**National**	**Ontario**
CEPr: all respondents	84%	82%	79%

Base: total respondents

The CEPr (all respondents) for Oshawa PUC Networks is 84%. This rating would suggest that a very large majority of customers have a belief that they will have a good to excellent experience dealing with a Oshawa PUC Networks professional. However, the balance of respondents is not anticipating a good to excellent experience, and as such could be more challenging to serve.

The CEPr score is what we refer to as an effectiveness rating and is affected by many dimensions of service. While an excellent transaction today creates a positive experience today, the perception created is that future transactions will be excellent too, which is how you want your customers to feel. Of course a negative transaction creates the perception that future transactions will be negative. The key then is to emphasize problem resolution with a "one call" mindset.

The impact of Satisfied or Dissatisfied experiences on some operational attributes			
	Oshawa PUC	Recent Experience Satisfied	Recent Experience Dissatisfied
Provides consistent, reliable electricity	89%	88%	67%
Delivers on its service commitments to customers	86%	89%	62%
Accurate billing	86%	87%	58%
Quickly handles outages and restores power	85%	86%	56%
Makes electricity safety a top priority	87%	87%	66%
Uses responsible environmental practices when completing work	86%	88%	72%
Is efficient at managing the hydro-electric system	82%	83%	64%
Overall the utility provides excellent quality services	85%	85%	54%

Base: respondents who have contacted the utility

Customer Centric Engagement Index (CCEI)

The EB-2010-0379 ROB-SA report includes the following: “better engage with their customers to better understand and respond to their needs…” Conducting surveys (like this one), holding town hall meetings, focus groups, etc. are examples of engaging your customers. We call this an activity based definition of engagement. Asking 100 people to complete a survey is an engagement activity.

This survey also provides you with an emotional look at engagement. The CCEI index is a gauge of the amount of goodwill that has been generated. High numbers in CCEI suggests that there is a high level of goodwill amongst your customers – this is important for two reasons. First when something goes awry for the utility, goodwill helps the utility to be resilient. Second, goodwill encourages active participation in requests to participate in engagement activities or program offerings from the utility.

The UtilityPULSE Customer Engagement Index (CCEI) is a metric designed to get a more in-depth look at the attachment a customer has with your LDC and its brand.

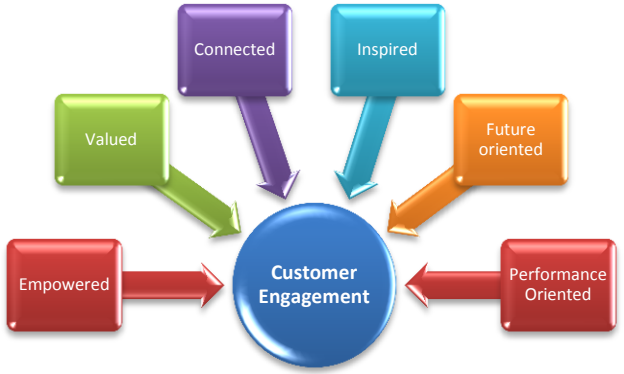
Your Annual UtilityPULSE survey tracks a customer's willingness to continue to do business, and willingness to recommend their local utility. Through a combination of calculations the end result is a Customer Loyalty index. That is, the number of customers that are: At risk, Indifferent, Favourable, Secure. The goal of every enterprise ought to be the creation of more Secure and Favourable customers. We believe that high levels of customer engagement correlate strongly to high levels of Secure and Favourable customer numbers.

We believe that a customer-centric definition of engagement is valuable to individuals, teams and executives in an LDC for determining what needs to be done to ensure that the organization is successful today and successful again tomorrow – in a changed world.

Engagement is how customers think, feel and act towards the organization. As such, ensuring that customers respond in a positive way requires that they are rationally satisfied with the services provided AND emotionally connected to your LDC and its brand. The more frequently and consistently an organization's products and services can connect with a customer, especially on an emotional level, the stronger and deeper the customer becomes engaged with the organization.

What does customer centric engagement look like?

UtilityPULSE has identified the six key dimensions of what defines customer engagement. They are: empowered, valued, connected, inspired, future oriented and performance oriented.



They include:

- Does the utility allow their customers to feel ***empowered*** about their interactions with the company and decisions affecting their electricity usage
- Does the utility give customers the sense of being ***valued***
- Does the utility act in ways which allows customers to stay ***connected***
- Do customers get ***inspired*** by the way the utility conducts business
- Is the utility forward thinking enabling customers to be ***future oriented***
- Does the utility conduct operations in such a way that customers believe that they are truly ***performance oriented*** in achieving goals and results

Utility Customer Centric Engagement Index (CCEI)			
	Oshawa PUC	**National**	**Ontario**
CCEI	81%	79%	76%

Base: total respondents

Customer centric engagement is a measure of "goodwill" towards the utility. Customers who are less engaged, as measured by the CCEI are more concerned about costs than customers who are highly engaged. Customers who are highly engaged are more inclined to look past costs and money issues and use thoughtful analysis to make values-based decisions.

UtilityPULSE Report Card®

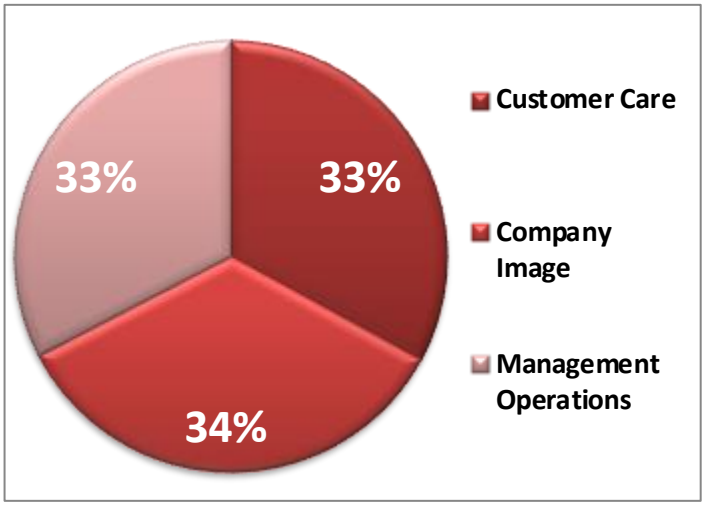
Simul's UtilityPULSE Report Card® is based on tens of thousands of customer interviews gathered over sixteen years. The purpose of the UtilityPULSE Report Card® is to provide electric utilities with a snapshot of performance – on the things that customers deem to be important. Research has identified over 20 attributes, sorted into six topic categories (we call these drivers), that customers have used to describe their utility when they have been satisfied or very satisfied with their utility. These attributes form the nucleus, or base, from which "scores" are assigned. Customer satisfaction and loyalty also play a major role in the calculations.

There are two main dimensions of the UtilityPULSE Report Card® the first is Customer psyche and the other is Customer perceptions about how the utility executes its business.

The Psyche of Customers

Every utility has virtually the same responsibility – provide safe and reliable electricity – yet not all customers are the same. The following chart shows the weight or significance of each category to the customer when forming their overall impression of the utility. Three major themes, each with two major categories make up the UtilityPULSE Report Card®. In effect the Report Card provides feedback about your customers' perception on the importance of each category and driver – as it relates to the benchmark.

UtilityPULSE Report Card® for Oshawa PUC Networks



Base: total respondents

The UtilityPULSE Report Card® also provides customer perceptions about how your utility executes or performs its responsibilities. This is different, very different, from what a customer might say about a major concern or worry that they have about electricity. As our survey has shown since its inception the primary suggestion for improvement is “reduce prices”, which is also a major concern which your customers have about municipal taxes, gas for the vehicle, and other utilities.

Readers of this report should note that the categories and drivers are interdependent. Which means that, for example, failure to provide high levels of power quality and reliability will have a negative impact on customer perceptions as it relates to customer service. Customer care, when it doesn’t meet customer expectations has a negative impact on Company Image, etc.

Defining the categories and major drivers:

Category: Customer Care

Drivers: Price and Value; Customer Service

Just because everyone likes good customer care, that in and by itself, is not a reason to provide it – though it may be important to do so. In highly competitive industries good customer service may be a differentiating factor. The case for electric utilities is simple, high levels of customer care result in less work (hence cost) of responding to customer inquiries and higher levels of acceptance of the utility's actions.

Price and Value:

Customers have to purchase electricity because life and lifestyle depend on it. This driver measures customer perceptions as to whether the total costs of electricity represent good value and whether the utility is seen as working in the best interests of its customers as it relates to keeping costs affordable.

Customer Service:

Customers do have needs and every now and again have to interface with their utility. How the utility handles various customers' requests and concerns is what this driver is all about. Promptly answering inquiries, providing sound information, keeping customers informed and doing so in a professional manner are the major components of this driver.

Category: Company Image

Drivers: Company Leadership; Corporate Stewardship

Utilities have an image even if they do not undertake any activities to try to build it. A company's image is both a simple and complex concept. It is simple because companies do create images that are easily described and recognized by their target customers. It is complex because it takes many discrete elements to create an image which includes, but is not limited to: advertising, marketing communications, publicity, service offering and pricing.

An electric utility trying to manage its image has one more challenge to deal with, and that is the electric industry itself. There are so many players that residential customers (in particular) don't know who does what or who is responsible for what. So when there are political or regulatory announcements, the local utility is often swept up into the collective reaction of the population.

Company Leadership

This driver is comprised of customer perceptions as it relates to industry leadership, keeping promises and being a respected company in the community.

Corporate Stewardship

Customers rely on electricity and want to know that their utility is both a trusted and credible organization that is well managed, is accountable, is socially responsible and has its financial house in order.

Category: Management Operations

Drivers: Operational Effectiveness; Power Quality and Reliability

Electrical power is the primary product which utilities provide their customers and, they have very high expectations that the power will be there when they need it. Customers have little tolerance for outages. The reality is, every utility has to get this part right…no excuses. It is the utility's core business. This category and its drivers are clearly the most important for fulfilling the rational needs of a utility's customers.

Operational Effectiveness

This driver measures customers' perceptions as they relate to ensuring that their utility runs smoothly. Attributes such as: accurate billing and meter reading, completing service work in a professional and timely manner and maintaining equipment in good repair are deemed as important to customers.

Power Quality and Reliability

Power outages are a fact of life – and, customers know it. They expect their utility to provide consistent, reliable electricity, handle outages and restore power quickly and make using electricity safely an important priority.

Oshawa PUC's UtilityPULSE Report Card®

Performance

	CATEGORY	Oshawa PUC	National	Ontario
1	**Customer Care**	**B+**	**B+**	**B**
	Price and Value	B	B	C+
	Customer Service	A	B+	B
2	**Company Image**	**A**	**B+**	**B+**
	Company Leadership	A	B+	B+
	Corporate Stewardship	A	A	B+
3	**Management Operations**	**A**	**A**	**A**
	Operational Effectiveness	A	A	B+
	Power Quality and Reliability	A	A	A
	OVERALL	**A**	**B+**	**B+**

Base: total respondents

As the UtilityPULSE Report Card® shows, the total customer experience with an electric utility is defined as more than “keeping the lights on”. Customers deal with your utility every day for a variety of reasons, most likely because they need someone to help them solve a problem, answer a question or take their order for service. All your employees, from customer service representatives to linemen, leave a lasting impression on the customers they interact with. In effect there are many moments of truth. Moments of truth are every customer touch point that a utility has with their customers. Therefore, managing these moments of truth creates higher levels of Secure customers while reducing the number of At Risk customers that exist.

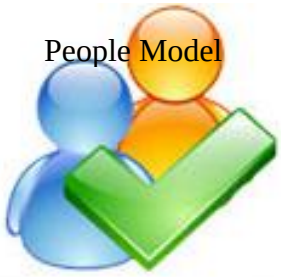
It's the small things done consistently that matter: Things like greeting every customer, whether on the phone or in person, in a friendly and helpful manner. Things like listening to the customer's needs, providing solutions to their problems and showing appreciation to the customer for their business.

Utilities now recognize customer communications as a valuable aspect of their business. The better a utility communicates with customers, in a manner that speaks to them, the more satisfied they are with their overall service. “Sending out information” is not the same as having a “conversation” with a customer. We believe that it is increasingly important to channel your communications to the various customer segments which exist.

Obviously employees – in every area – play a critical role in customer service success. Consequently how they feel about their job responsibilities and role in the company will be communicated indirectly through the level of service which they actually provide customers with whom they interact. The reality is engaged employees are the key to excellent customer care.

Our survey work with employees shows that there are many elements of an organizational culture to support the people model needed to achieve high levels of engagement.

Our research has identified 6 main drivers that promote and support people giving their best:



- **Empowered**
- **Valued**
- **Connected**
- **Inspired**
- **Growing**
- **Performance oriented**

There are 12 key processes from “attracting employees” to “saying goodbye to employees” that are part of your people model to get the best performance from every employee.

We believe that taking the time to understand the difference between employee satisfaction and organizational culture is worthwhile from a resourcing perspective and from a people development perspective. Every organization has a culture – we believe that it is a leadership imperative to install and maintain a culture that ensures that you attain the achievements and successes of your utility’s many investments in people, technology and equipment.

The Loyalty Factor

If a customer is satisfied, it doesn't necessarily mean he or she is loyal. Satisfaction is about fulfilling promises/expectations; loyalty goes way beyond that by creating exceptional experiences and long-lasting relationships. There is a reason why marketing campaigns strive to build brand loyalty, not brand satisfaction. Measuring customer loyalty in an industry where many customers don't have a choice of providers doesn't make sense. Or does it?

The answer depends on how you define "customer loyalty."

Private industry often equates customer loyalty with basic customer retention. If a customer continues to do business with a company, that customer is, by definition, considered to be loyal. If this definition were applied to many companies in the utility industry, all customers would automatically be considered loyal. As such, measuring customer loyalty would appear to be unnecessary.

Natural monopolies (like LDCs) are not really different in what they should measure except that trying to determine which customers are "loyal" or "at risk" is not about their future behaviour but more about their "attitudinal" loyalty (are they advocates?).

Perhaps a better or more relevant way for utilities to approach the definition of customer loyalty is to further expand how they think about loyalty. Consider the following definition: Customer loyalty is an emotional disposition on the part of the customer that affects the way(s) in which the customer (consistently) interacts, responds or reacts towards the company – its products & services and its brand.

So what does it mean to respond favourably to a company? At a basic level, this can mean choosing to remain a customer. As previously mentioned however, this is essentially a non-issue for many utility companies. It then becomes necessary to think beyond just customer retention. One needs to consider other ways in which customers can respond favourably toward a company.

Other favourable responses or behaviours can be classified into one of three categories that reflect the concept of customer loyalty:

- Participation
- Compliance or Influence
- Advocacy

Specific examples of potential participatory behaviour in the electric utility industry include:

- Signing up for programs that help the customer reduce or manage their energy consumption
- Using the utility as a consultant when selecting energy products and services from a third party
- Participating in pilot programs or research studies

Specific examples of potential compliance or influence behaviours that utility customers might exhibit include:

- Seeking the utility's advice or expertise on an energy-related issue

- Voluntarily cutting back on electricity usage if the utility advised the customer to do so
- Accepting the utility's energy advice or referrals to energy contractors or equipment
- Being influenced by the utility's opinion regarding energy- management advice, equipment, or technologies
- Providing personal information that enables the utility to better serve the customer
- Paying bills online

Creating customer advocates can be especially important for a company in a regulated industry. In the absence of customer advocates, or worse, in a situation where customers speak unfavourably about a company or actively work to support issues that are counter to those the company supports, companies can suffer a variety of negative consequences like increased business costs, lawsuits, fines and construction delays. For an electric utility, specific examples of potential advocacy behaviour include:

- Supporting the utility's positions or actions on energy-related public issues, including the environment
- Supporting the utility's position on the location and construction of facilities
- Providing testimonials about positive experiences with the utility

In sum, loyal behaviour in the utility industry may not be as evident as it is in a more competitive environment. Measuring customer loyalty in a generally non-competitive industry requires one to think about loyalty in non-traditional ways. Customer loyalty is an intangible asset that has positive consequences or outcomes associated with it no matter what the industry. Properly measuring loyalty among utility customers requires thoughtful probing to thoroughly identify the range of participation, compliance, and advocacy behaviours that will ultimately benefit the company in meaningful ways, and foster happier and more loyal customers.

The UtilityPULSE Customer Loyalty Performance Score segments customers into four groups: **Secure** – the most loyal - **Still Favorable**, **Indifferent**, and **At risk**.

Secure customers are "very satisfied" overall with their local electricity utility. They have a very high emotional connection with their utility and definitely would recommend their local utility.

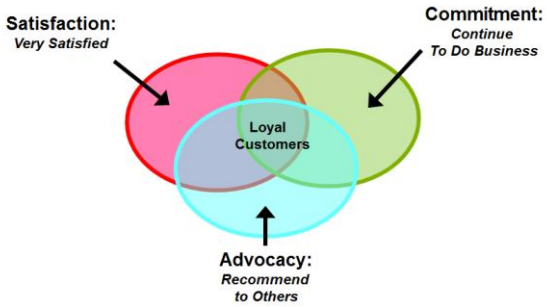
Still favorable customers are "very satisfied" overall, "definitely" or "probably" would recommend their local utility and not switch if they could.

Indifferent customers are less satisfied overall than secure and still-favorable customers and less inclined to recommend their local utility or say they would not switch.

At risk customers, who are "very dissatisfied" with their electricity utility, "definitely" would switch and "definitely" would not recommend it.

Loyalty is driven primarily by a company's interaction with its customers and how well it delivers on their wants and needs.

Customer Loyalty Model

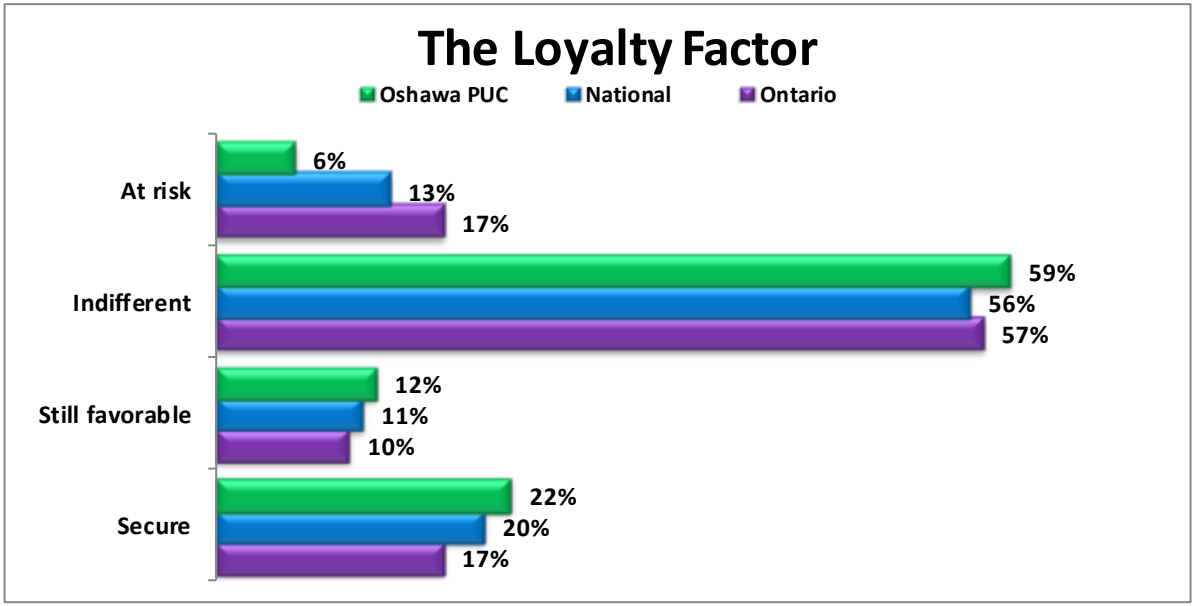


Loyalty is based on likelihood to:

- ***Satisfaction: overall satisfaction***
- ***Commitment: continue as a customer***
- ***Advocacy: willingness to recommend***

Customer Loyalty Groups				
	Secure	**Favorable**	**Indifferent**	**At Risk**
Oshawa PUC				
2014	22%	12%	59%	6%
2013	-	-	-	-
2012	-	-	-	-
2011	-	-	-	-
2010	24%	15%	54%	7%

Base: total respondents/ (-) not a participant of the survey year



Customer Loyalty Groups				
	Secure	**Favorable**	**Indifferent**	**At Risk**
Ontario				
2014	17%	10%	57%	17%
2013	24%	15%	51%	11%
2012	20%	13%	53%	14%
2011	17%	13%	54%	16%
2010	21%	12%	52%	15%
National				
2014	20%	11%	56%	13%
2013	26%	17%	47%	10%
2012	30%	13%	46%	11%
2011	28%	14%	46%	12%
2010	17%	14%	60%	9%

Base: total respondents

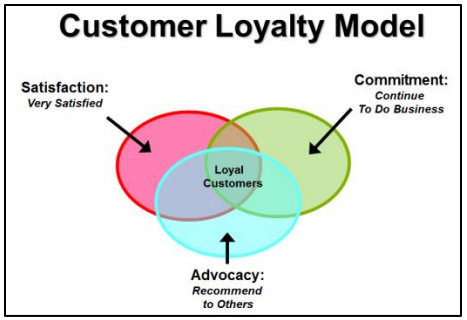
Secure customers' experiences and perceptions are distinct from those of Indifferent customers. There is yet an even greater gap between those identified as Secure versus At Risk.

- Problems are experienced and remain unresolved far more often by the Indifferent or At Risk segments in comparison to others. This is not an unusual finding.
- Other areas of interaction also revealed considerable differences among the segments. Consistently, Secure customers' perceptions are most positive.

Important attributes which shape perceptions about customer affinity			
	Overall	**Secure**	**At Risk**
Customer focused and treats customers as if they're valued	80%	95%	49%
Is pro-active in communicating changes and issues which may affect customers	79%	93%	56%
Deals professionally with customers' problems	85%	96%	61%
Provides information to help customers reduce their electricity costs	79%	92%	55%
Quickly deals with issues that affect customers	82%	95%	56%
Delivers on its service commitments to customers	86%	97%	67%
Provides information and tools to help manage electricity consumption	79%	92%	56%
Is 'easy to do business with'	85%	98%	55%
Adapts well to changes in customer expectations	75%	90%	45%
The cost of electricity is reasonable when compared to other utilities	62%	79%	37%
Provides good value for your money	70%	89%	38%
Provides consistent reliable electricity	90%	99%	77%
Operates a cost effective hydro-electric system	73%	91%	41%
Overall the utility provides excellent quality services	85%	98%	62%

Base:data from the full 2014 database from those respondents with an opinion

Customer commitment



Customer loyalty is a term that can be used to embrace a range of customer attitudes and behaviours. One of the metrics used to gauge loyalty is the measure of **retention,** or intention to buy again; this loyalty attitude is termed **commitment.**

Customer commitment to the local electricity supplier is a very important driver of customer loyalty in the electricity service industry. In a similar way to trust, commitment is considered an important ingredient in successful relationships. In simpler terms, commitment refers to the motivation to continue to do business with and maintain a relationship with a business partner i.e. the local utility.

For electric utilities, this measurement is about identifying the number of customers who feel that they “want to” vs “have to” do business with you. Potential benefits of commitment may include word of mouth communications - an important aspect of attitudinal loyalty. Committed customers have been known to demonstrate a number of beneficial behaviours, for example committed customers tend to:

- Come to you. One of the key benefits of establishing a good level of customer loyalty is that customers will come to you when they need a product or service.

- Validate information received from 3rd parties with information and expertise that you have.
- Try new products/initiatives.
- Perhaps they will even trust you when recommendations are made.
- Be more price tolerant.
- More receptivity of utility viewpoints on various issues.
- More tolerance of errors or issues that inevitably take a swipe at the utility.
- Stronger levels of perception regarding how the utility is managed.

Though customers can not physically leave you, they can emotionally leave you and when they do, it becomes an extreme challenge to garner their participation or support for utility initiatives.

Electricity customers' loyalty – … Is a company that you would like to continue to do business with			
	Oshawa PUC	**National**	**Ontario**
Top 2 Boxes: 'Definitely + Probably' would continue	88%	74%	72%
Definitely would continue	57%	41%	35%
Probably would continue	31%	32%	37%
Might or might not continue	3%	8%	7%
Probably would not continue	3%	4%	5%
Definitely would not continue	2%	8%	10%

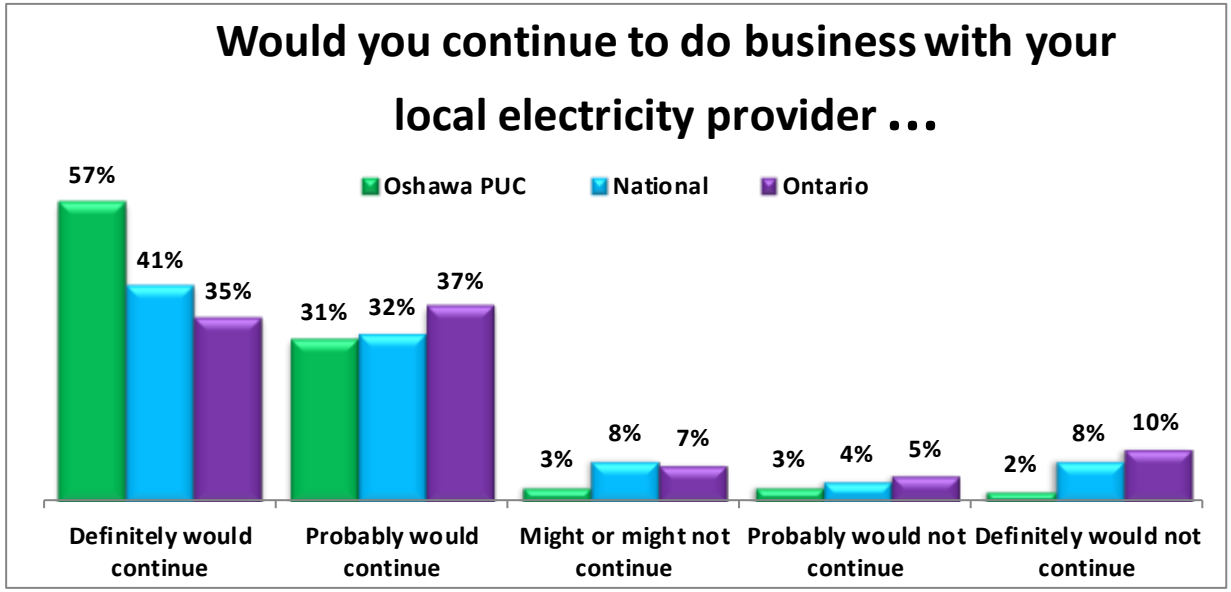
Base: total respondents

Electricity customers' loyalty – … Is a company that you would like to continue to do business with				
Oshawa PUC	**<$40K**	**$70K+**	**18-34**	**55+**
Top 2 Boxes: 'Definitely + Probably' would continue	88%	87%	91%	91%

Base: total respondents

Electricity customers' loyalty – Is a company that you would like to continue to do business with					
Oshawa PUC	**2014**	**2013**	**2012**	**2011**	**2010**
Top 2 boxes: 'Definitely + Probably' would continue	88%	-	-	-	86%

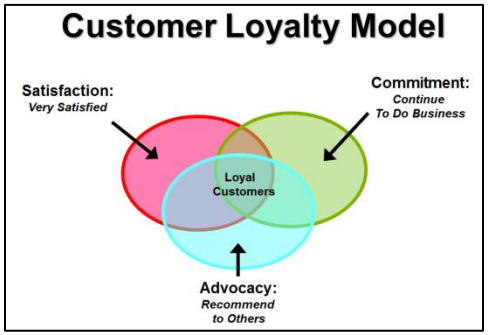
Base: total respondents/ (-) not a participant of the survey year



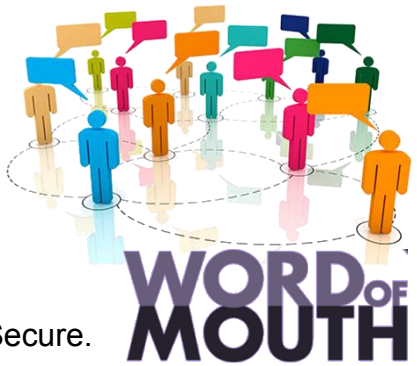
Base: total respondents

Word of mouth

Advocacy is one of the metrics measured in determining customer loyalty. Essentially, companies believe that a loyal customer is one that is spreading the value of the business to others, leading new people to the business and helping the company grow. Customer referrals, endorsements and spreading the word are extremely important forms of customer behaviour. For LDCs this is about generating positive referants about the LDC as a relevant and valuable enterprise.



When customers are loyal to a company, product or service, they not only are more likely to purchase from that company again, but they are more likely to recommend it to others – to openly share their positive feelings and experiences with others. In today's world, thanks to the Internet, they can tell and influence millions of people. That equates to new customers and revenue. The same holds true, if not more, when customers are disloyal. Disgruntled customers could share their negative experiences with an ever-widening audience, jeopardizing a company's reputation and resulting in fewer engaged customers and/or customers who are Favourable or Secure. Secure customers, typically are advocates and they are deeply connected and brand-involved.



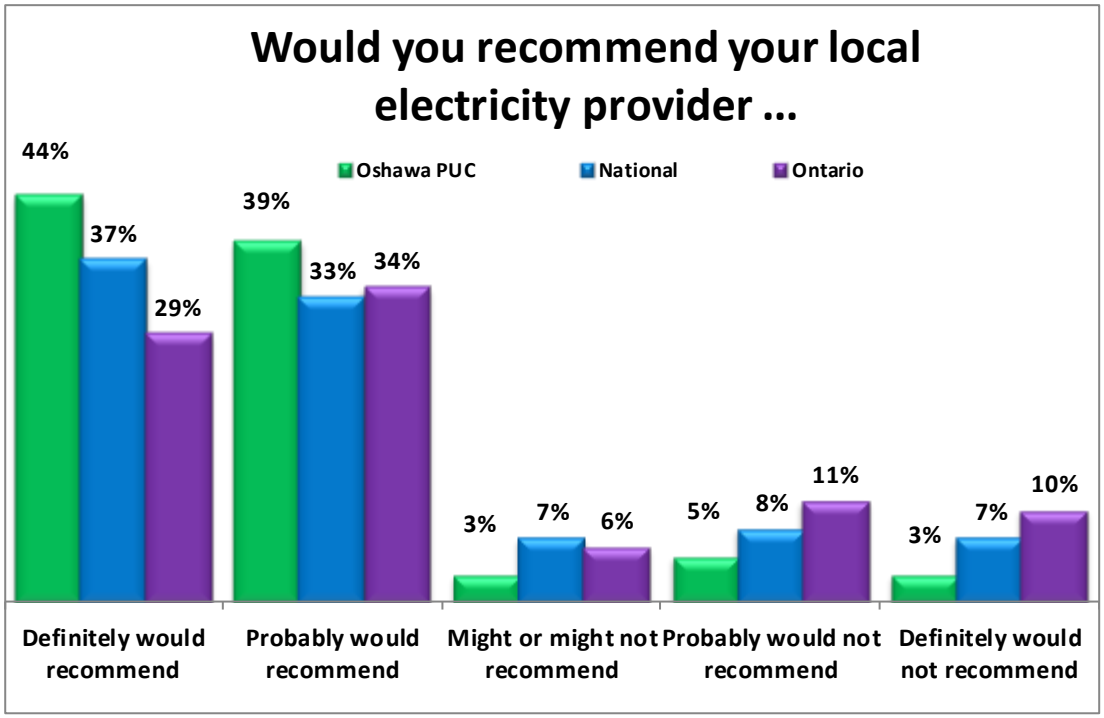
There are two forms of word of mouth which utilities need to understand. The first is Experience-based word of mouth which is the most common and most powerful form. It results from a customer's direct experience with the utility or the re-statement of a direct experience from a trusted source.

The second is Relay-based word of mouth. This is when customers pass along important messages to others based on what they have learned through the more traditional forms of communications. For example, if the utility was communicating an offer for "free LED lights" chances are high that the offer will be "relayed" to others through word of mouth.

For an electric utility, specific examples of potential positive advocacy behaviour include:

- *Recommending that other customers specifically locate in the geographic area that is serviced by that utility*
- *Supporting the utility's positions or actions on energy-related public issues, including the environment*
- *Supporting the utility's position on the location and construction of facilities*
- *Providing testimonials about positive experiences with the utility*

Would you tell me if you agree or disagree with the following statement? Oshawa PUC is a company that you would recommend to a friend or colleague …



Base: total respondents

Word of mouth communication is a very powerful form of communication and influence. When customers are speaking to other customers (or their peers) it is more credible, goes through less perceptual filters and can enhance the view of services or products better than marketing communication.

Electricity customers' loyalty – … is a company that you would recommend to a friend or colleague			
	Oshawa PUC	**National**	**Ontario**
Top 2 boxes: 'Definitely + Probably' would recommend	83%	69%	63%
Definitely would recommend	44%	37%	29%
Probably would recommend	39%	33%	34%
Might or might not recommend	3%	7%	6%
Probably would not recommend	5%	8%	11%
Definitely would not recommend	3%	7%	10%

Base: total respondents

Electricity customers' loyalty – is a company that you would recommend to a friend or colleague				
Oshawa PUC	**<$40K**	**$70K+**	**18-34**	**55+**
Top 2 boxes: 'Definitely + Probably' would recommend	82%	85%	87%	82%

Base: total respondents

Electricity customers' loyalty – is a company that you would recommend to a friend or colleague					
Oshawa PUC	**2014**	**2013**	**2012**	**2011**	**2010**
Top 2 boxes: 'Definitely + Probably' would recommend	83%	-	-	-	75%

Base: total respondents/ (-) not a participant of the survey year

Corporate image

Customers may dislike what is going on in the electricity industry and they may have an intense dislike for the amount that they have to pay – but they may not dislike their local utility. We hear comments in the interviews such as: *"I hate how much electricity costs, but my utility does a good job."; "Electricity is so expensive these days and it keeps going up and up, but thank goodness for XYZ hydro."* Customers who are connected to the brand, respect the brand, are more likely to look favourably on their utility. The opposite is also true, customers who do not connect or respect the brand and who are upset with the industry produce very challenging customers when things go wrong.

Corporate Image/Brand, as a factor for influencing a customer's perception about their utility has grown significantly in importance to customers. In 2006, Corporate Image/Brand had about an 18% weighting, Customer care had about a 26% weighting and Management operations had about a 56% weighting as it relates to affecting customer's perceptions. Today, in 2014 all three areas are about equal in weighting.

Data from the 2014 survey show that respondents who give their utilities high marks for respect, trust, and social responsibility also give their utilities high marks for providing high quality services, and better marks for both cost efficiency and reasonableness of costs.

Reputation, image, brand has to be actively managed. Nothing is private anymore. Positive impressions beget positive perceptions. Below are some of the attributes measured in the annual UtilityPULSE survey which are strongly linked to a utility's image.

Attributes strongly linked to a hydro utility's image			
	Oshawa PUC	**National**	**Ontario**
Is a respected company in the community	87%	81%	78%
A leader in promoting energy conservation	80%	78%	77%
Keeps its promises to customers and the community	84%	79%	76%
Is a socially responsible company	85%	78%	77%
Is a trusted and trustworthy company	85%	82%	77%
Adapts well to changes in customer expectations	78%	71%	68%
Is 'easy to do business with'	86%	79%	75%
Provides good value for your money	74%	67%	63%
Overall the utility provides excellent quality services	85%	83%	80%
Operates a cost effective hydro-electric system	76%	69%	62%

Base: total respondents with an opinion

Every LDC has a brand and a brand image, while that image can be affected by events in the industry beyond the control of the LDC, the reality is there is a cost benefit to improving the customer experience, generating higher levels of customer engagement and growing the numbers of Favourable and Secure customers. Providing consistent reliable electricity while being seen as 'easy to do business with', along with providing

information and support for customers to use electricity more efficiently are core components of a successful relationship with customers. The reality is, every utility has an image – why not have the image you want? While keeping the lights on builds a customer's belief that their utility is competent at what it does, image is about building a customer's belief that they can be confident that their utility is successful today and will be successful again tomorrow.

Marketing – Communications			
	Oshawa PUC	National	Ontario
Topics that require more pro-active communication			
Cost of electricity is reasonable when compared to other utilities	67%	60%	55%
Provides information to help customers reduce electricity costs	77%	77%	75%
Adapts well to changes in customer expectations	78%	71%	68%
Operates a cost effective hydro-electric system	76%	69%	62%
Provides good value for money	74%	67%	63%
Topics that your utility scores very well on			
Is a trusted and trustworthy company	85%	82%	77%
Respected company in the community	87%	81%	78%
Accurate billing	86%	83%	77%
Overall the utility provides excellent quality services	85%	83%	80%
Provides consistent, reliable energy	89%	89%	86%

Base: total respondents with an opinion

Corporate Credibility & Trust

The foundation of every relationship is trust. Without it, engaging customers becomes a large challenge and when trust is low, or non-existent, feedback may not be truthful. Recognizing the myriad of events that have taken place in the industry, it has become increasingly important for a utility to be credible and trusted.

Establishing trust and credibility, whether with business partners, customers or regulators, is not achieved overnight. Creating credibility is a process, which advances only through honest, continuous communication between the utility, its regulators, and the public at large. Pro-active and credible communications from an LDC should do three things for its customers: 1- demonstrate competency 2- build confidence and 3- show a future orientation.

Attributes strongly linked to Credibility & Trust			
	Oshawa PUC	National	Ontario
Overall the utility provides excellent quality services	85%	83%	80%
Keeps its promises to customers and the community	84%	79%	76%
Customer-focused and treats customers as if they're valued	82%	74%	72%
Is a trusted and trustworthy company	85%	82%	77%

Base: total respondents with an opinion

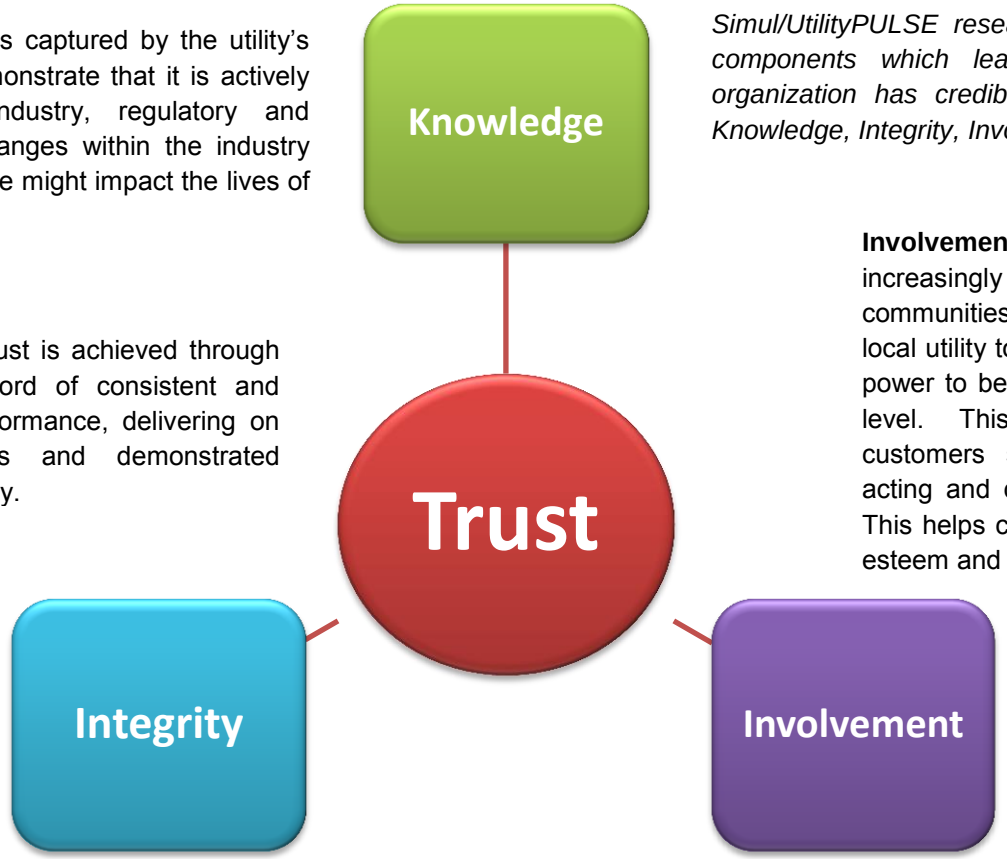
Public trust in their local utility is the degree to which the public believes that the utility will act in a particular manner because the utility has incorporated the public's interest into its own. Utilities benefit from a trusted relationship with their empowered Customers. Trust and credibility can be thought of as indicators of the degree of confidence stakeholders have in your organization's ability to deliver on its commitments. Trust and credibility are outcomes based on what your utility actually does, not what it might be doing.

Knowledge is captured by the utility's ability to demonstrate that it is actively aware of industry, regulatory and economic changes within the industry and how these might impact the lives of customers.

Simul/UtilityPULSE research shows the under-pinning components which lead customers to believe an organization has credibility and can be trusted are: Knowledge, Integrity, Involvement and Trust.

Trust — Trust is achieved through a track record of consistent and reliable performance, delivering on commitments and demonstrated accountability.

Involvement — Corporate Involvement is increasingly important to Canadian communities as it is an opportunity for their local utility to use their resources and man-power to benefit people at the community level. This helps to build credibility as customers see that the organization is acting and delivering on its commitments. This helps customers regard the utility with esteem and respect.



Integrity is established by demonstrating adherence to a code of conduct. It requires consistently acting in accordance with the values and goals that have been communicated to customers.

Using the four components of demonstrating Credibility and Trust, the resultant index shows that LDCs enjoy a high level of credibility and trust. "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently." [Warren Buffet]

Credibility and Trust Index
Knowledge The utility is seen as being knowledgeable about the services it provides, about what is happening in the industry, and how customers can reduce costs or create more value.
Integrity The utility is seen as an organization that will act in the best interests of its customers and can be counted on to provide services and resolve problems in a professional manner.
Involvement The utility is actively involved in the industry, in the community and in things that affect the customer.
Trust The utility is an organization that can be trusted and is worthy of respect.
Overall Oshawa PUC Networks 83% [Ontario 77%; National 80%]

How can service to customers be improved?

Every business, even natural monopolies, need to keep a focus on its customers, its standards of operations and being responsive to problems. Insights into what isn't working or what can be done to improve often come from customers. Continuous improvement is the new normal.

Customers are more informed, more aware, more conscious of what's going on around big issues in the world around them and in this age of internet and social media, they are better equipped to influence service quality and outcomes. They have learned to compare products and services, to document and monitor customer service and satisfaction, and to request or demand higher quality. And, when things go wrong, customers also know that they are "one click" away from the world knowing about it.

As a further way to identify pressure points and areas of concern, respondents were asked to give their top two priorities for improvement to their local utility's service.

For 2014 there is heightened awareness for the need to maintain equipment, keep things up to date, improve reliability, and communicate effectively.

And we are interested in knowing what you think are the one or two most important things Oshawa PUC Networks could do to improve service to their customers?

One or two most important things 'your local utility' could do to improve service	
Oshawa PUC	**% of all suggestions**
Better prices/lower rates	28%
Improve reliability of power	19%
Better maintenance	19%
Better communication with customers	15%
Better online presence	12%
Extend service hours/availability of hydro representative	8%
Information & incentives on energy conservation	7%
Eliminate SMART meters	6%
Improve/simplify/clarify billing	6%
Be more efficient	6%
Remove hidden costs on bills	4%
Don't charge for previous debt	3%
Staff related concerns	1%

Base: total respondents with suggestions

What do customers think about electricity costs?

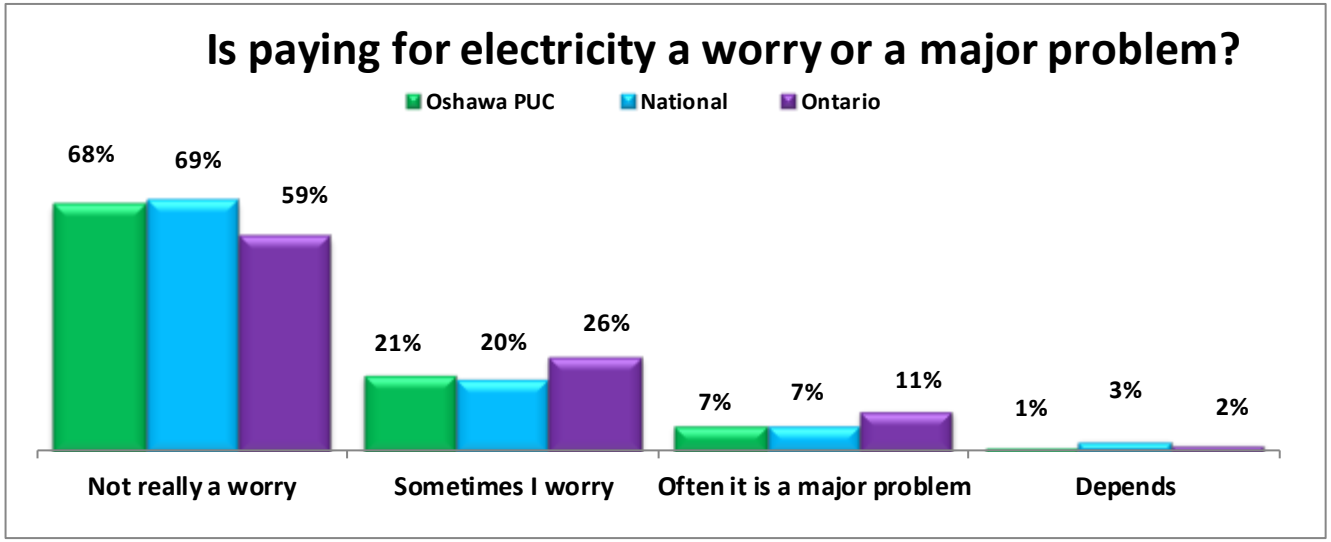
Ask a utility customer – anywhere in the province of Ontario – what do they think about electricity, there is a very high probability that they will say that electricity costs are too high or too expensive. For customers who said that they had a billing problem in the last 12 months, and stated that the problem was "high bills" or "high rates or charges", there was very little variability between customers who could be called Secure, Favourable, Indifferent or At Risk. There was also very little variability between age groupings or income groupings.

In 2010, 44% of customers who said they had a billing problem cited "high bills" or "high rates or charges" as being the culprit. Our survey database for 2014 tells us the comparable number is 68%. In 5 years there has been much shift towards the issue being high bills and/or high rates. There is a growing concern over costs, which means that the industry needs to monitor "ability to pay".

Next I am going to read a number of statements people might use about paying for their electricity. Which one comes closest to your own feelings, even if none is exactly right? Paying for electricity is not really a worry, Sometimes I worry about finding the money to pay for electricity, or Paying for electricity is often a major problem?

Is paying for electricity a worry or a major problem?				
	Not a worry	Sometimes	Often	Depends
	Oshawa PUC			
2014	68%	21%	7%	1%
2013	-	-	-	-
2012	-	-	-	-
2011	-	-	-	-
2010	70%	22%	5%	1%

Base: total respondents/ (-) not a participant of the survey year



Base: total respondents

Is paying for electricity a worry or a major problem?				
	Not a worry	Sometimes	Often	Depends
Oshawa PUC				
<$40,000	61%	32%	6%	0%
$40<$70,000	61%	21%	14%	1%
$70,000+	76%	17%	5%	1%

Base: total respondents

The UtilityPULSE database for 2014 shows respondents who have an income less than $40,000 have almost 2X more billing problems than those who have income in excess of $70K per year. 20% of customers <40K said they had a billing problem compared to 11% of respondents who had income over $70K. However respondents in the lower income bracket are more likely to shift use of their electricity to lower cost periods.

Our data also shows that lower income customers are less likely to utilize energy conservations methods that cost money. More important however is the difference the <$40K respondents vs the >$70K as it relates to taking action or who have “already done” a conservation action. Installed a programmable thermostat? 44% “Done” <$40K, 70% “Done” ?$70K. Installed timers: 26% vs 38% “Done”. Replaced Furnace: 43% vs 57% “Done”. Replaced air-conditioner: 35% vs 49%.

Ability to pay then has an impact on conservation.

Is paying for electricity a worry or a major problem?				
	Not a worry	**Sometimes**	**Often**	**Depends**
		Ontario		
2014	59%	26%	11%	2%
2013	66%	21%	11%	1%
2012	59%	27%	11%	2%
2011	52%	31%	13%	3%
2010	67%	23%	8%	2%
		National		
2013	69%	20%	7%	3%
2013	70%	18%	8%	2%
2012	67%	22%	8%	2%
2011	63%	25%	8%	2%
2010	71%	20%	6%	1%

Base: 2014 Ontario and National benchmark surveys

What do small commercial customers think?

Residential and small business customers create the bulk of a utility's service transactions every day—and account for more than half of the energy consumed — understanding their needs and expectations is becoming more important than ever before.

Interestingly the definition for small commercial customers is defined based on usage. While this definition is used for regulatory purposes, the reality is small commercial customers have many "personas". Unfortunately customer information on small commercial customers rarely contains enough data to truly develop targeted communications.

Small Commercial Customer (General Service < 50kW Demand)

A small commercial customer is defined by the OEB as a non-residential customer in a less than 50 kW demand rate class. These customers are similar to the residential customer in that their bill does not have a demand component to it and their charges are based upon KWH of consumption. Most of these customers would occupy small storefront locations or offices

Data from the 2014 full database shows small commercial customers with higher satisfaction and having less outages than residential customers. However commercial customers are 2X more likely to contact their utility when the power goes off or when there is a billing problem.

Deposit requirements, monthly energy bills (and, therefore, energy usage), power quality, and reliability all directly impact a small business's financial situation. Unlike residential customers who tend to describe the cost of power interruptions in terms of a "inconvenience", commercial (and industrial) customers associate power interruptions with the cost of lost business, i.e., a loss in production is a loss in profits.

Likewise, based on the requirement of electricity to sustain business operations, there exists a difference in actual levels of demand response. For instance, small business and commercial users are unlikely to choose to decrease their electricity consumption if it is incompatible with efficient management of their business processes or threatens contracted deliveries to their primary product markets. In some cases, electricity consumption is a relatively small proportion of total input and operating costs, which substantially reduces the financial incentive for shutting down production during off peak pricing.

The tables associated with this report will contain Ontario LDC specific information as it relates to residential and commercial customers. Recognizing that smaller data samples are susceptible to greater data swings, for most LDCs there would be 60 or 90 responses from small commercial customers. We have compiled the following based on a group composite of all of our 2014 discussions with small commercial and residential customers.

Satisfaction: Pre & Post		
Satisfaction (Top 2 Boxes: 'very + somewhat satisfied')	**Residential**	**Commercial**
Initially	89%	91%
End of Interview	90%	93%

Base: total respondents from the full 2014 database

As it relates to the six attributes associated with customer service:

Very or fairly satisfied with…	Residential	Commercial
The time it took to contact someone	73%	78%
The time it took someone to deal with your problem	66%	76%
The helpfulness of the staff who dealt with your problem	74%	83%
The knowledge of the staff who dealt with your problem	71%	82%
The level of courtesy of the staff who dealt with your problem	81%	89%
The quality of information provided by the staff member	70%	79%

Base: total respondents from the full 2014 database

Commercial respondents had higher satisfaction levels with customer service versus Residential respondents.

Overall satisfaction with most recent experience		
	Residential	**Commercial**
Top 2 Boxes: 'very + somewhat satisfied'	73%	79%
Bottom 2 Boxes: 'somewhat + very dissatisfied'	24%	19%

Base: total respondents from the full 2014 database

Comparisons between Residential and Commercial		
Loyalty Groups	**Residential**	**Commercial**
Secure	22%	26%
Still Favourable	10%	12%
Indifferent	60%	55%
At risk	7%	7%

Base: total respondents from the full 2014 database

Loyalty Model Factors	***Residential***	***Commercial***
Very/somewhat satisfied	89%	91%
Definitely/probably would continue	82%	84%
Definitely/probably would recommend	75%	77%

Base: total respondents from the full 2014 database

Outages & Bill problems	Residential	Commercial
Respondents with outage problems	43%	28%
Respondents with billing problems	14%	13%

Base: total respondents from the full 2014 database

Attempts to contact local utility…	Residential	Commercial
Respondents with outage problems	18%	33%
Respondents with billing problems	31%	63%

Base: total respondents from the full 2014 database

Residential respondents reported a considerably higher incidence of outages.

Commercial respondents were more likely to call in about billing and outage problems.

Important attributes which describe operational effectiveness		
	Residential	Commercial
Provides consistent, reliable electricity	90%	91%
Delivers on its service commitments to customers	86%	87%
Accurate billing	85%	86%
Quickly handles outages and restores power	87%	88%
Makes electrical safety a top priority	88%	90%
Uses responsible environmental practices when completing work	85%	88%
Is efficient at managing the hydro-electric system	81%	83%
Is a company that is 'easy to do business with'	84%	85%
Operates a cost effective hydro-electric system	73%	74%

Base: total respondents with an opinion from the full 2014 database

Important attributes which shape perceptions about corporate image		
	Residential	Commercial
Is a respected company in the community	86%	87%
Maintains high standards of business ethics	84%	85%
A leader in promoting energy conservation	81%	83%
Keeps its promises to customers and the community	83%	84%
Is a socially responsible company	84%	85%
Is a trusted and trustworthy company	85%	86%
Adapts well to changes in customer expectations	75%	77%
Overall the utility provides excellent quality services	85%	86%

Base: total respondents with an opinion from the full 2014 database

Important attributes which shape perceptions about service quality and value		
	Residential	Commercial
Is pro-active in communicating changes and issues which may affect customers	79%	83%
Provides good value for money	70%	71%
Customer-focused and treats customers as if they're valued	79%	81%
Deals professionally with customers' problems	85%	86%
Quickly deals with issues that affect customers	82%	84%
Provides information and tools to help manage electricity consumption	80%	79%
Provides information to help customers reduce their electricity costs	79%	71%
The cost of electricity is reasonable when compared to other utilities	62%	64%

Base: total respondents with an opinion from the full 2014 database

Is paying for electricity a worry or a major problem?		
	Residential	**Commercial**
Not really a worry	66%	67%
Sometimes I worry	22%	21%
Often it is a major problem	7%	8%
Depends	2%	2%

Base: total respondents from the full 2014 database

When a weather related event occurs there is no distinction as to whom it will target – basically all those in its path will be affected. As it relates to the Ice Storm of 2013, the following are responses taken from all residential and commercial respondents who said they were affected by the storm.

Percentage of Respondents who contacted their utility about the ice storm power outage		
	Residential	**Commercial**
Yes	17%	22%
No	82%	75%

Base: total respondents from the full 2014 database who were affected by the ice storm

Length of outage (during Ice Storm 2013)								
	Less than 2 hours	2 – 4 hours	4+ hours or ½ day	12-18 hours or ½ - ¾ day	19-24 hours or 1 day	1 to 1.5 days	1.6 to 2 days	More than 2 days
Residential	21%	19%	21%	8%	5%	5%	4%	7%
Commercial	17%	20%	15%	7%	6%	4%	4%	9%

Base: total respondents from the full 2014 database who were affected by the ice storm

While technology has provided various channels for communications, the telephone remains the predominant means of communication at this point in time.

What method did you use to contact your electric utility about the outage during Ice Storm 2013?		
	Residential	Commercial
Telephone	86%	94%
E-mail	1%	1%
Social media - Twitter	1%	0%
In person	1%	0%
Other	2%	2%
Don't know	3%	2%

Base: total respondents from the full 2014 database who were affected by the ice storm

While there is no doubt a power outage will cause disruption in day to day events, the tolerance level in the wake of an outage is related to the amount of dependency on electricity in day to day workings. Regardless, respondents in this year's survey be they residential or commercial shared a common tolerance level for the length of time to go without electricity during an extreme event or situation.

In your view, what is an acceptable period of time to go without electricity in situations like Ice Storm 2013?

	Residential	Commercial
None (the power shouldn't be going out)	7%	8%
Less than 2 hours	11%	12%
2-4 hours	17%	17%
4+ hours or ½ day	16%	14%
12 – 18 hours or ½ day to ¾ day	8%	6%
19 – 24 hours or 1 day	10%	10%
1 to 1.5 days	5%	4%
1.6 to 2 days	5%	7%
More than 2 days	4%	4%
Other	2%	1%
Don't know	14%	17%

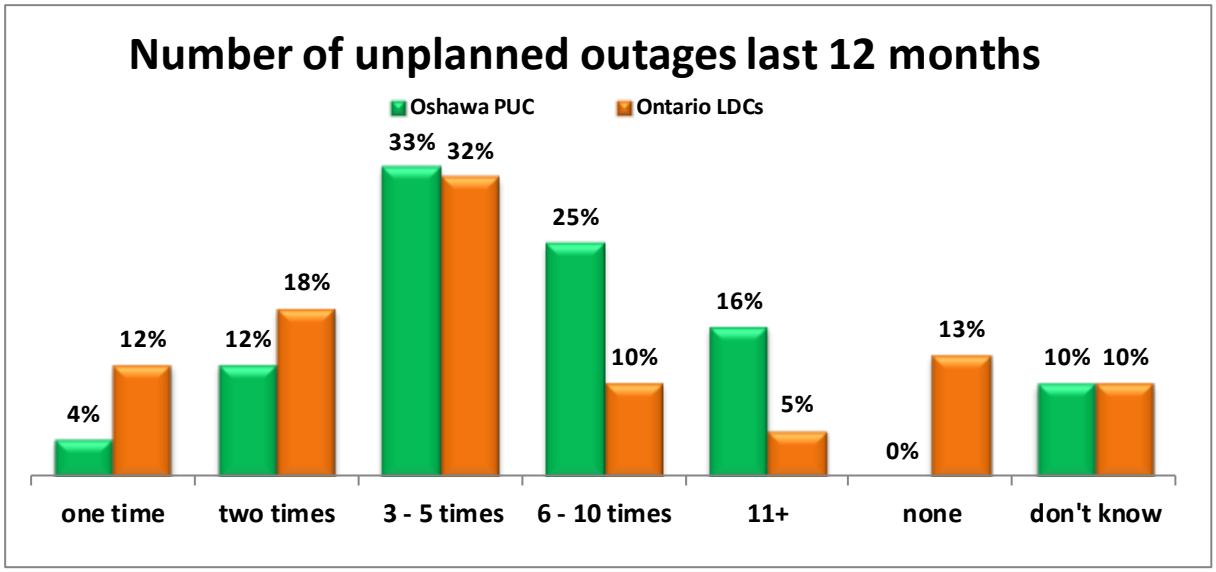
Base: total respondents from the full 2014 database who were affected by the ice storm

SUPPLEMENTAL QUESTIONS

Outage Communications

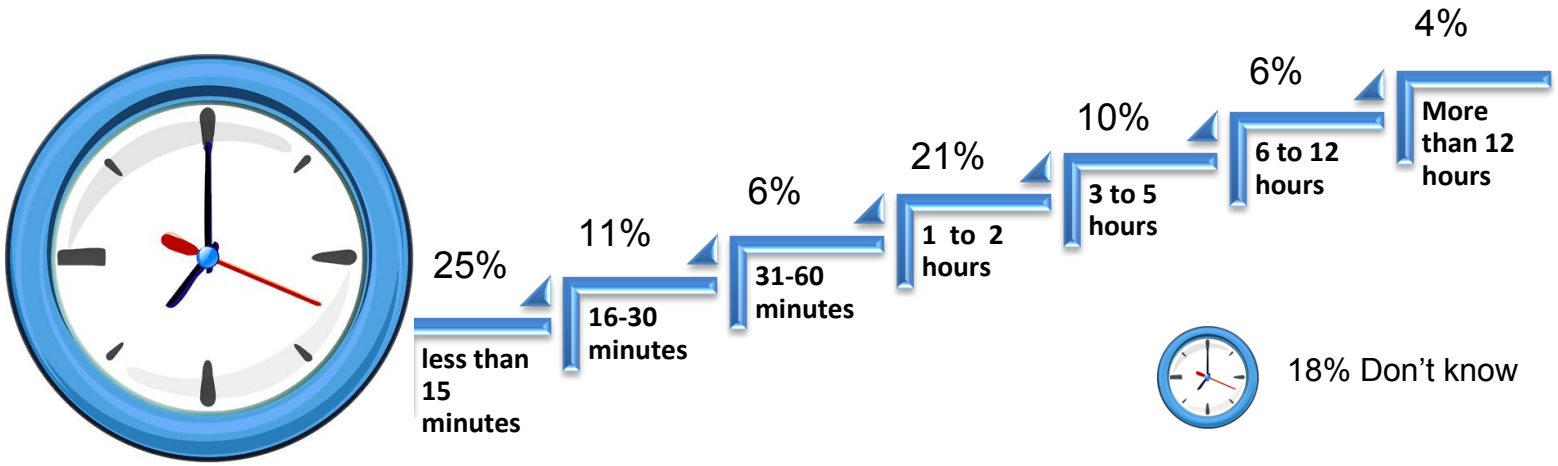
Whether an outage is planned or unplanned, the reality is that it is going to cause disruption and inconvenience under best case scenarios and under worst case scenarios there could be safety and financial consequences.

The impact of severe weather such as storms and other outage events are causing longer duration and more frequent outages.



Base: An aggregate of respondents from 2014 participating LDCs / 90% of total respondents from the local utility

When an unplanned outage occurs, how long, on average, is the outage?



Base: 90% of total respondents from the local utility

However, one thing for certain, no matter what the scenario happens to be, customers are expecting their utility to keep them continually updated on the status of outages. Most importantly, and top priority, is to know the estimated restoration time. They also want to know the cause of the outage because they do not want to be a frequent outage customer.

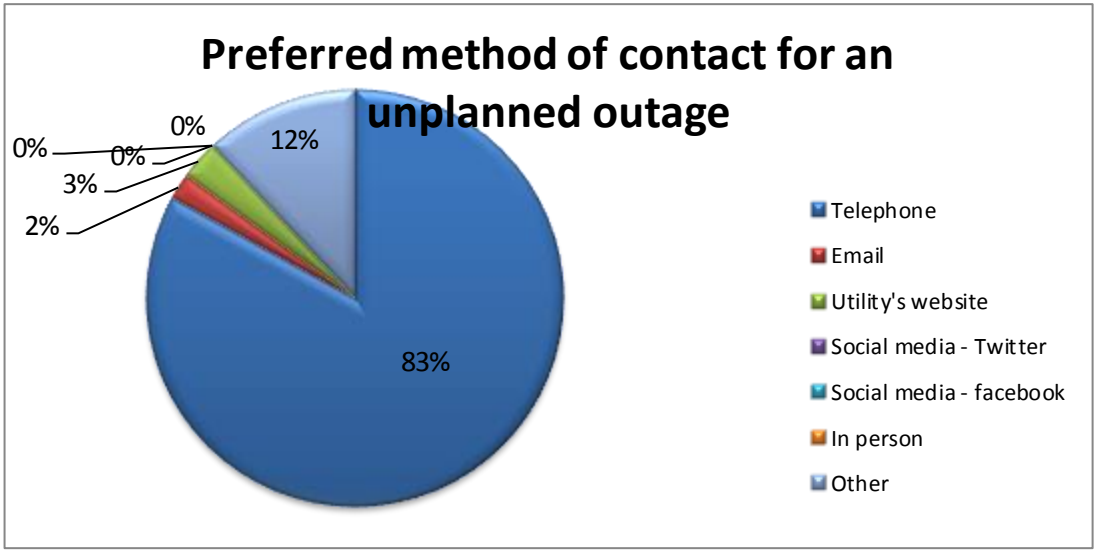
How a utility chooses to handle, manage and communicate with customers during an outage situation does affect customers' satisfaction with their utility. Customers want timely, accurate and relevant information about an outage and customers expect a utility various communication channels to ensure their message is getting out there. This means not only obtaining information via the call centre and IVR but customers have increasing

expectations for proactive two-way communication through social media, utility websites and modern communication devices (e.g. tablets, smartphones) and apps.

The types of information that customers require during an outage include:

- When will their power be restored?
- What areas are affected?
- How many customers are impacted?
- Have work crews been dispatched to the affected area and is the utility working to restore power?
- What was the cause of the power outage?
- What can customers do to cope during the outage?

Inability to provide the above information accurately and in a timely manner will result in customer complaints, increased call volumes to your call centres, create unwanted public and media attention, and negatively impact customer satisfaction.



Base: 90% of total respondents from the local utility

Utility's effectiveness during an unplanned outage		
Top 2 Boxes: 'very + somewhat effective'	**Ontario LDCs**	**Oshawa PUC**
Responding to questions	61%	60%
Providing a reason for the outage	61%	64%
Providing an estimate when power will be restored	60%	57%
Responding to the power outage	81%	86%
Restoring power quickly	85%	92%
Communicating updates periodically	64%	67%
Posting information to the website	35%	36%
Using media channels for providing updates	53%	50%

Base: An aggregate of respondents from 2014 participating LDCs / 90% of total respondents from the local utility

Customer expectations during an unplanned (and even planned) outage event:

- Communication about when they can expect their power to be restored
- Detailed information about what is happening in their community or service area
- Easy access to information – ideally from a familiar source

Keeping customers in the loop will help ease tensions during an outage event. An informed customer will be a less angry customer.

Priority Investments

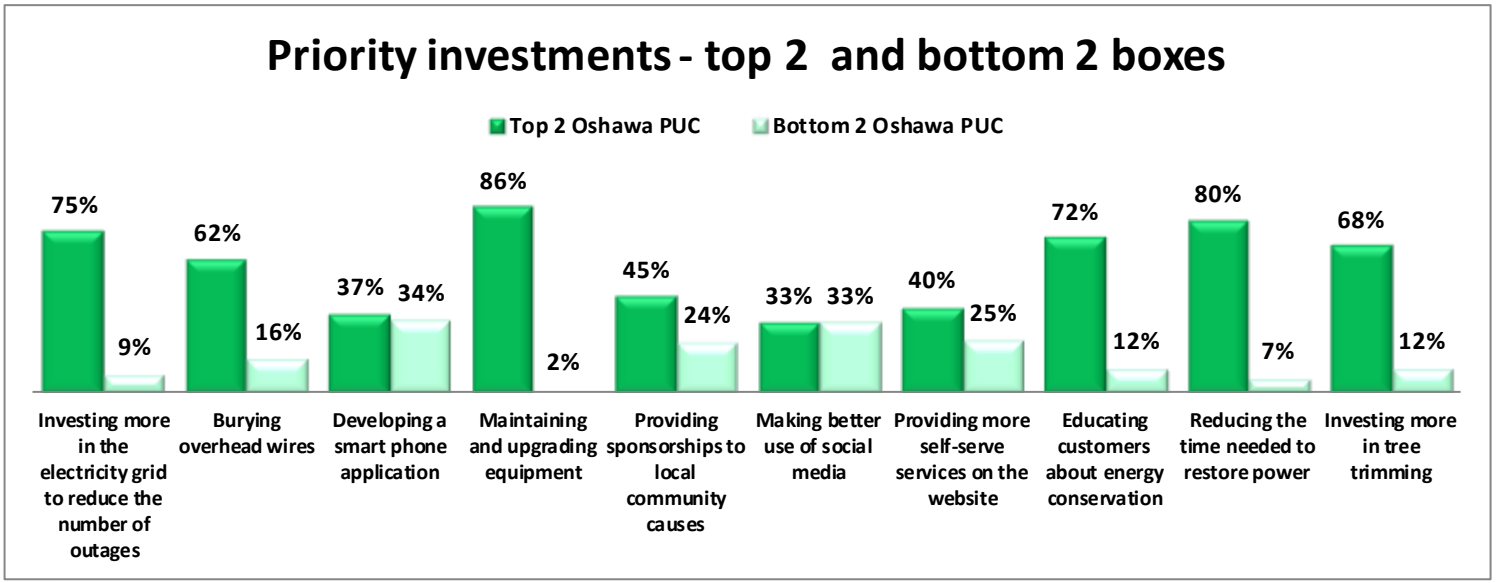
While regulation and reliability are top concerns in the utility industry, aging infrastructure is now a top operational concern. Major issues around electricity are that generation investment has been deferred and major improvements are needed in distribution and transmission. Customers agree with industry insiders that infrastructure renewal is a high priority.

When most people turn on a light, they rarely give much thought to the vast networks and complex systems behind them. Electricity networks are aging. A significant rise in the level of upgrades and renewals of network infrastructure is needed so that the infrastructure will be fit for its current and future purposes. The costs of the components of providing electricity – generation, transmission, distribution and retail – are all increasing, adding upward pressure on utility rates. Canadians are noticing infrastructure more than usual, and at least some are trying to think about it—because when it fails, it has disturbing consequences.

This year, respondents were asked for their views about prioritizing investments and activities since ensuring sustainability of infrastructure and maintaining affordable electricity costs is becoming more of a challenge.

Priority Investments		
Top 2 Boxes: 'Very high priority + High priority'	**Ontario LDCs**	**Oshawa PUC**
Investing more in the electricity grid to reduce the number of outages	74%	75%
Burying overhead wires	60%	62%
Developing a smart phone application	31%	37%
Maintaining and upgrading equipment	83%	86%
Providing sponsorships to local community causes	43%	45%
Making better use of social media	30%	33%
Providing more self-serve services on the website	38%	40%
Educating customers about energy conservation	74%	72%
Reducing the time needed to restore power	79%	80%
Investing more in tree trimming	58%	68%

Base: An aggregate of respondents from 2014 participating LDCs / 90% of total respondents from the local utility



Energy Conservation & Efficiency

Addressing homeowner and small business energy conservation behaviours is a vital part of the success or failure of this country's energy future. Local utilities play an important role for shaping energy efficiency and energy conservation behaviours.

Attributes linked to energy conservation		
Top 2 Boxes: 'agree + strongly agree'	**Ontario LDCs**	**Oshawa PUC**
Provides information to help customers reduce electricity costs	79%	77%
Provides information and tools to help manage electricity consumption	79%	77%
A leader in promoting energy conservation	81%	80%

Base: total respondents with an opinion

With arguably more responsibility for energy use and energy conservation falling to consumers, two questions arise: (1) What factors affect whether individuals decide to conserve energy? (2) How might the knowledge of these factors be used to impact energy conservation decision-making processes to convince consumers to adopt energy conservation behaviours?

Individual choices to conserve are constrained by individual factors including technological availability, financial resources, and individual knowledge and abilities. The critical factor in the creation of comprehensive energy conservation education programs is the recognition that the consumer's culture, attitudes, and household demographics are driving forces behind consumer actions.

Efforts to conserve energy				
Ontario LDCs	**Yes**	**No**	**Already Done**	**Don't Know**
Install energy-efficient light bulbs or lighting equipment	19%	9%	70%	1%
Install timers on lights or equipment	12%	50%	35%	2%
Shift use of electricity to lower cost periods	22%	17%	58%	3%
Install window blinds or awnings	12%	27%	60%	2%
Install a programmable thermostat	13%	25%	60%	2%
Have an energy expert conduct an energy audit	9%	71%	16%	4%
Removing old refrigerator or freezer for free	14%	44%	38%	4%
Join the peaksaverPLUS™ program	15%	49%	21%	16%
Replacing furnace with a high efficiency model	12%	33%	52%	4%
Replacing air-conditioner with a high efficiency model	14%	38%	44%	4%
Use a coupon to purchase qualified energy saving products	35%	39%	22%	5%

Base: An aggregate of respondents from 2014 participating LDCs

Since conservation usually implies inconvenience or sacrifice ie. an individual must use less energy, change a pattern of the time certain chores are done, a motivational factor needs to exist to really incite a change in behaviour i.e. a self-interest or social responsibility or monetary gain.

But focusing on the "vital few" changes you're asking for has to be coupled with immediate and obvious feedback on the effects of change – especially at the start. If neither the dollar impact nor the environmental impact is significant at the level of individual change *and* the behaviour requires inconvenience or loss—it is unlikely that people will make the change.

As Rosemarie LeClaire stated in a presentation to the Ontario Energy Network (April 28, 2014), the industry has changed from a static energy system with largely passive and powerless consumers to one where customers want to be, expected to be, and should be more active in their energy use. Control has shifted from the utility to the customer. Like any major change there are early adopters, i.e., people who want to be proactive in the managing and monitoring of electricity use, and very late adopters i.e., people who resist having to actively manage their electricity use.

However there is a growing skepticism amongst customers who have made some energy conservation changes because they haven't seen a decline in their utility bills. The danger of encouraging someone to make a behaviour change with no real resultant reward for the change, the unintended consequence is what is called "learned helplessness". In other words, when people take action to solve a problem that fails, they almost always end up concluding that they have no control.

What is important then is to:

- Communicate effectively and realistically (it isn't all about saving money)
- Demonstrate the ease by which individuals can participate in various energy efficiency or energy conservation activities
- Provide testimonials from real people who have made changes
- Educate, educate, educate
- Address the biggest barrier to energy conservation efforts i.e., the costs involved in making a change, with financial incentives.

E-care

As customers pursue new, technology-enabled experiences with other service providers in the retail, telecommunications, and banking industries, they will expect the same from their utility.

Technology – specifically the internet—has allowed people access to far more information than ever before and the ability to do more than ever before: receive and pay bills on the internet, sign up for and change their services using the internet, find answers to their questions online about their accounts, i.e. statements, payments, balances and learn about products, services and topics, i.e., green energy, electricity pricing, etc.

Do you have access to the internet?	
	Ontario LDCs
Yes	87%
No	13%

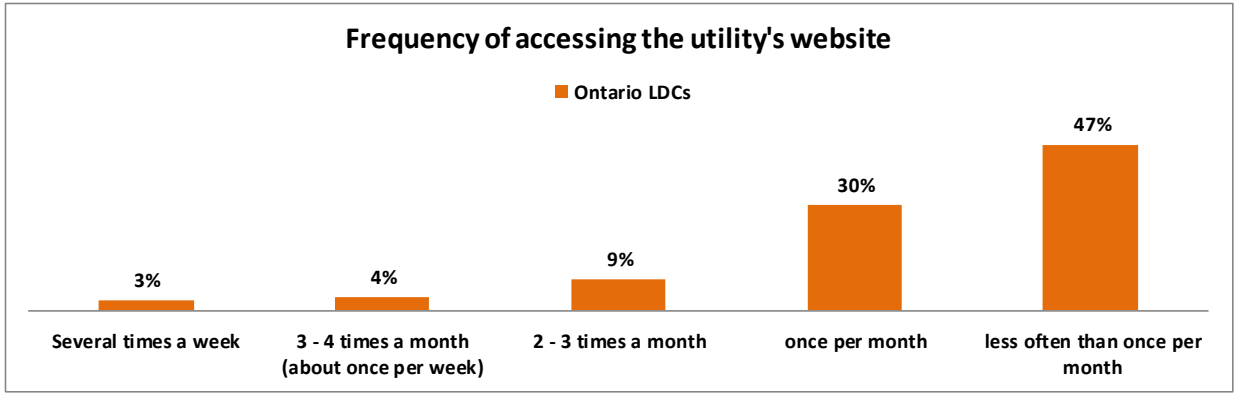
Base: An aggregate of respondents from 2014 participating LDCs

Utilities that provide their customers with access to information and empowerment tools will likely be better positioned to remain relevant and in touch with their customers. A challenge facing utilities right now is determining which tools and information delivery capabilities to build, and how to do so in a cost effective manner.

We asked respondents who were currently connected or had access to the internet if they in fact visited their local utility website.

Over the past six months have you accessed your local utility website?

Base: An aggregate of respondents from 2014 participating LDCs



Base: An aggregate of respondents from 2014 participating LDCs

The convenience and capability brought on by the internet allows customers to be empowered. Customers have the tools and knowledge to manage energy usage at their disposal. Empowerment also implies self-service and instant access to information.

Likelihood of using the internet for future customer care needs for things such as:	
Top 2 Boxes: 'very + somewhat likely'	**Ontario LDCs**
Setting up a new account	31%
Arranging a move	38%
Accessing information about your bill	55%
Accessing information about your electricity usage	54%
Accessing energy saving tips and advice	45%
Accessing information about Time Of Use rates	51%
Maintaining information about your account or preferences	51%
Paying your bill through the utility's website	32%
Getting information about power outages	47%
Arranging for service	40%

Base: An aggregate of respondents from 2014 participating LDCs

To keep up, utilities should develop a better understanding of their future customer, focus on the overall customer, stay current with the latest trends and technologies, and use information to create a more personalized, one-to-one experience.

Electric Utility Industry Knowledge & SMART Grid

Beyond knowing that electricity is needed to maintain their day to day activities, does the average person feel that they are actually knowledgeable about the electric utility industry?

Knowledge level about the electric utility industry	
	Ontario
Extremely knowledgeable	2%
Very knowledgeable	11%
Moderately knowledgeable	47%
Slightly knowledgeable	26%
Not very knowledgeable	14%
Don't know	1%

Base: total respondents in the Ontario Benchmark survey

Two-thirds (60%) of those polled considered themselves moderately to extremely knowledgeable about the electric industry.

In recent years, the concept of the "SMART Grid" has emerged—first using information technology as a means of improving electricity reliability—and then more recently—to improve efficiency, reduce pollution, and to incorporate more renewable and sustainable sources of generation. A smarter grid will become the SMART Grid over time, as new technologies bring us more benefits. However, what is the "SMART Grid" knowledge level held by consumers currently?

Once again, this year's survey probed around the concept of SMART Grid. While it is evident that the SMART Grid is still not a much talked about concept, only 34% have a basic or good understanding of what it is, oddly enough, 60% still think that it is important to pursue SMART Grid implementation. It is also clear that the majority of respondents (78%) are 'very + somewhat supportive' of the utility working with neighbouring utilities on SMART Grid initiatives.

Level of knowledge about the SMART Grid	
	Ontario
I have a fairly good understanding of what it is and how it might benefit homes and businesses	9%
I have a basic understanding of what it is and how it might work	25%
I've heard of the term, but don't know much about it	36%
I have not heard of the term	29%
Don't know	1%

Base: total respondents in the Ontario Benchmark survey

Importance of pursuing implementation of the SMART Grid	
	Ontario
Very important	26%
Somewhat important	34%
Neither important or unimportant	6%
Somewhat unimportant	5%
Unimportant	8%
Don't know	21%

Base: total respondents in the Ontario Benchmark survey

Support towards working with neighbouring utilities on SMART Grid initiatives	
	Ontario
Very supportive	41%
Somewhat supportive	37%
Neither supportive or unsupportive	4%
Somewhat unsupportive	4%
Unsupportive	4%
Don't know	10%

Base: total respondents in the Ontario Benchmark survey

Consumer Energy Use Behaviour

Canadian consumers, like people throughout the rest of the world, have faced rapidly rising energy prices during the past decade, and they have had to become more focused on energy conservation and efficiency. The cost of heating and cooling homes, along with negative fallout from an economic recession, has forced individuals to focus on their energy use and expenditures.

Do customers believe there is a real pay-off for trying to reduce their energy consumption? Does this impact overall efforts to reduce consumption? Respondents were asked *"How active have you been in trying to reduce your electricity consumption?"*

- 94% feel they are "very + somewhat active" in trying to reduce electricity consumption, and
- 81% of those do believe their efforts have resulted in reduced energy consumption, of which
- 44% estimate that they were able to offset an energy consumption reduction of more than 10%, and
- 72% believe that these efforts translated to saving on their electricity bills.

Of course, there are a number of factors (external environment, individual attitudes, household demographics, and consumer choice) which contribute to consumer energy use behaviours and consequences. Identifying these factors which contribute to consumer energy conservation practices and using these factors to tailor energy conservation education programs to change consumer energy use attitudes and behaviours is one essential step to reduce overall energy use and expenditures.

Level of Activity in trying to reduce electricity consumption	
	Ontario
Very active	52%
Somewhat active	42%
Neither proactive or inactive	0%
Not active	2%
Not very active	3%

Base: total respondents in the Ontario Benchmark survey

Estimate of percentage reduction in consumption	
	Ontario
1 – 2 %	5%
3 – 5 %	10%
6 – 8 %	4%
9 – 10 %	15%
More than 10%	44%
Don't know	21%

Base: total respondents in the Ontario Benchmark survey whose active efforts have reduced consumption

Active efforts have reduced energy consumption

81%

16%

Base: total respondents in the Ontario Benchmark survey who have been active in trying to reduce energy consumption

Efforts to conserve have translated into savings on your electricity bill

72%

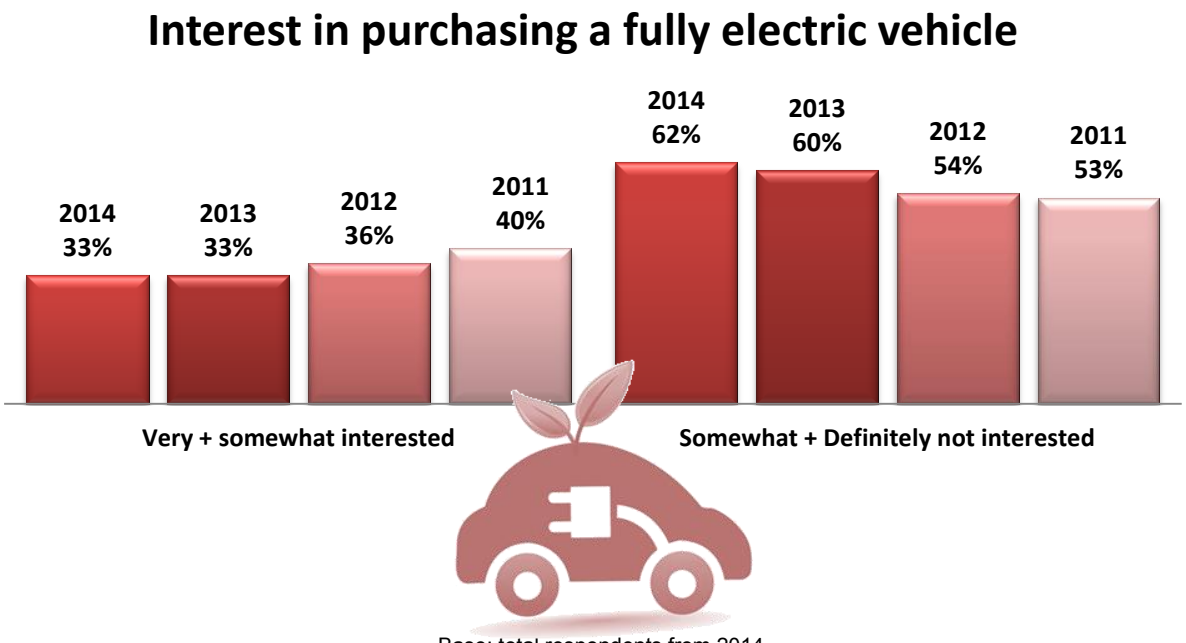
24%

Base: total respondents in the Ontario Benchmark survey whose active efforts have reduced consumption

Purchasing an Electric Vehicle

There is enormous uncertainty about just how quickly the number of EVs on the road is set to grow over the long term. Mass commercialization of EVs has still not taken hold in today's public mindset. 33% of respondents indicated interest in purchasing a fully electric vehicle, consistent with 2013 findings of 34% but a drop since 2011 where 41% expressed interest in replacing conventional vehicles with EVs. 61% expressed little or no interest in EVs, virtually no change since last year, at 60%, however an since 2011, where 53% claimed disinterest in the electric vehicle.

A breakdown of gender support shows that 38% of men vs 27% of women are interested in the EV. There has been a drop in the "positive support" from respondents in the $40k-$70k income range from 45% interested in 2013 to just 28% in 2014.



Base: total respondents from 2014 Ontario Benchmark survey

Looking at age demographics, again, shows a shift in thinking about wanting to purchase an electric vehicle. 22% of older respondents (55+) versus 47% of respondents aged 35-54 are in favour of EVs replacing conventional cars. 43% of those aged 18-34 are receptive to the idea of purchasing an electric vehicle.

When asked how long it would be before they would consider an EV as an option for their next car purchase, only 1 in 10 (11%) would consider an EV within the next 24 months.

Interest in purchasing a fully electric vehicle						
	Income <$40K	Income $40K<$70K	Income $70K +	Age 18-34	Age 35-54	Age 55+
Top 2 Boxes: 2014 'very + somewhat interested'	30%	28%	42%	27%	39%	28%
Top 2 Boxes: 2013 'very + somewhat interested'	22%	45%	43%	43%	47%	22%

Base: total respondents from 2014 Ontario Benchmark survey

Length of time before purchasing a fully electric vehicle	
	Ontario
Immediately to next 6 months	2%
7 to 12 months	2%
13 to 24 months	9%
Over 24 months	79%
Depends	5%
Don't know	3%

Base: total respondents from 2014 Ontario Benchmark survey

Method

The findings in this report are based on telephone interviews conducted for Simul Corp. by Greenwich Associates between March 3 - March 21, 2014, with 405 respondents who pay or look after the electricity bills from a list of residential and small and medium-sized business customers supplied by Oshawa PUC .

The sample of phone numbers chosen was drawn randomly to insure that each business or residential phone number on the list had an equal chance of being included in the poll.

The sample was stratified so that 85% of the interviews were conducted with residential customers and 15% with commercial customers.

In sampling theory, in 19 cases out of 20 (95% of polls in other words), the results based on a random sample of 405 residential and commercial customers will differ by no more than ±4.90 percentage points where opinion is evenly split.

This means you can be 95% certain that the survey results do not vary by more than 4.90 percentage points in either direction from results that would have been obtained by interviewing all Oshawa PUC residential and small and medium-sized commercial customers if the ratio of residential to commercial customers is 85%:15%.

The margin of error for the sub samples is larger. To see the error margin for subgroups use the calculator at http://www.surveysystem.com/sscalc.htm.

Interviewers reached 1,058 households and businesses from the customer list supplied by Oshawa PUC . The 405 who completed the interview represent a 38% response rate.

The findings for the Simul/UtilityPULSE National Benchmark of Electric Utility Customers are based on telephone interviews conducted March 3 through March 21, 2014, with adults throughout the country who are responsible for paying electric utility bills. The ratio of 85% residential customers and 15% small and medium-sized business customers in the National study reflects the ratios used in the local community surveys. The margin of error in the National poll is ±2.7 percentage points at the 95% confidence level.

For the National study, the sample of phone numbers chosen was drawn by recognized probability sampling methods to insure that each region of the country was represented in proportion to its population and by a method

that gave all residential telephone numbers, both listed and unlisted, an equal chance of being included in the poll.

The data were weighted in each region of the country to match the regional shares of the population.

The margin of error refers only to sampling error; other non-random forms of error may be present. Even in true random samples, precision can be compromised by other factors, such as the wording of questions or the order in which questions were asked.

Random samples of any size have some degree of precision. A larger sample is not always better than a smaller sample. The important rule in sampling is not how many respondents are selected but how they are selected. A reliable sample selects poll respondents randomly or in a manner that insures that everyone in the population being surveyed has an equal chance of being selected.

How can a sample of only several hundred truly reflect the opinions of thousands or millions of electricity customers within a few percentage points?

Measures of sample reliability are derived from the science of statistics. At the root of statistical reliability is probability, the odds of obtaining a particular outcome by chance alone. For example, the chances of having a coin come up heads in a single toss are 50%. A head is one of only two possible outcomes.

The chance of getting two heads in two coin tosses is less because two heads are only one of four possible outcomes: a head/head, head/tail, tail/head and tail/tail.

But as the number of coin tosses increases, it becomes increasingly more likely to get outcomes that are either close to or exactly half heads and half tails because there are more ways to get such outcomes. Sample survey reliability works the same way but on a much larger scale.

As in coin tosses, the most likely sample outcome is the true percentage of whatever we are measuring across the total customer base or population surveyed. Next most likely are outcomes very close to this true percentage. A statement of potential margin of error or sample precision reflects this.

Some pages in the computer tables also show the standard deviation (S.D.) and the standard error of the estimate (S.E.) for the findings. The standard deviation embraces the range where 68% (or approximately two-thirds) of the respondents would fall if the distribution of answers were a normal bell-shaped curve. The spread of responses is a way of showing how much the result deviates from the "standard mean" or average. In the Oshawa PUC data on corporate image,

Simul converted the answers to a point scale with 4 meaning agree strongly, 3 meaning agree somewhat and so on (see in the computer tables).

For example, the mean score is 3.57 for providing consistent, reliable electricity. The average is 3.09 for providing information to help customers reduce their energy costs.

For reliable electricity the standard deviation is 0.63. For affordable energy the S.D. is 0.88. These findings mean there is a wider range of opinion – meaning less consensus – about whether Oshawa PUC provides information to help customers to reduce their energy costs than about whether Oshawa PUC energy supplies are reliable.

Beneath the S.D. in the tables is the standard error of the estimate. The S.E. is a measure of confidence or reliability, roughly equivalent to the error margin cited for sample sizes. The S.E. measures how far off the sample's results are from the standard deviation. The smaller the S.E., the greater the reliability of the data.

In other words, a low S.E. indicates that the answers given by respondents in a certain group (such as residential bill payers or women) do not differ much from the probable spread of the answers "predicted" in sampling and probability theory.

Certain questions pertaining to conservation and conservation efforts used an aggregate data approach whereby similar data sets were accumulated to form a larger sample size establishing a higher confidence interval, forecasting value and modeling data.

In these instances, all of the sub-datasets from the entire UtilityPULSE database for 2014 were concatenated in order to use the average of all the control samples for comparison. The cumulated population base for these questions was in excess of 6,500.

At a 95% confidence level the margin of error is ±1.22 and at a 99% confidence level the margin of error would be ±1.6 . So the aggregate strategy has given a very good population sample size which better, or more accurately, reflects the true feelings and beliefs of the population as a whole.

Simul

UtilityPULSE

Good things happen when work places work. You'll receive both strategic and pragmatic guidance about how to improve Customer satisfaction & Employee engagement with leaders that lead and a front-line that is inspired. We provide: training, consulting, surveys, diagnostic tools and keynotes. The electric utility industry is a market segment that we specialize in. We've done work for the Ontario Electrical League, the Ontario Energy Network, and both large and small utilities. For sixteen years we have been talking to 1000's of utility customers in Ontario and across Canada and we have expertise that is beneficial to every utility.

Culture, Leadership & Performance – Organizational Development	**Focus Groups, Surveys, Polls, Diagnostics**	**Customer Service Excellence**
Leadership development	Diagnostics ie. Change Readiness, Leadership Effectiveness, Managerial Competencies	Service Excellence Leadership
Strategic Planning	Surveys & Polls	Telephone Skills
Teambuilding	Customer Satisfaction and Loyalty Benchmarking Surveys	Customer Care
Organizational Culture Transformation	Organization Culture Surveys	Dealing with Difficult Customers

Benefit from our expertise in Customer Satisfaction, Leadership development, Strategy development or review, and Front-line & Top-line driven-change. We're experts in helping you assess and then transform your organization's culture to one where achieving goals while creating higher levels of customer satisfaction is important. Call us when creating an organization where more employees satisfy more customers more often, is important.

Your personal contact is:

Sid Ridgley, CSP, MBA

Phone: (905) 895-7900 Fax: (905) 895-7970 E-mail: sidridgley@utilitypulse.com or sridgley@simulcorp.com

Oshawa PUC Networks Inc.

Large Customer Satisfaction Survey

The purpose of this report is to profile the connection between Oshawa PUC Networks Inc. and its customers.

The primary objective of the Large Customer Electric Utility Customer Satisfaction Survey is to provide information that will support discussions about improving customer care at every level in your utility.

The UtilityPULSE Report Card® and survey analysis contained in this report is intended to provide data and information that will help guide your decisions for making improvements to your operations.

All comments and questions should be addressed to:

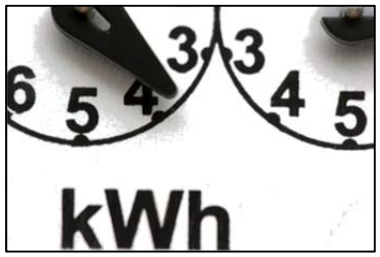
Sid Ridgley, UtilityPULSE division, Simul Corporation

Toll free: 1-888-291-7892 or Local: 905-895-7900

Email: sidridgley@utilitypulse.com or sridgley@simulcorp.com

Results…Large Customer Survey

[General Service (50-4999 kW)]



One of the primary objectives of Oshawa PUC is to increase customer satisfaction with specific segments of customers. As such, this survey was commissioned to specifically survey the large customer segment.

The survey was conducted from November 28th to December 9th, 2013 and is based on one-on-one telephone interviews with individuals who have the responsibility to interact with the utility in the event of a power outage. Though the sample size to draw upon was very small, we did receive excellent cooperation. In addition, survey findings for Oshawa PUC have been enhanced with the inclusion of data from our UtilityPULSE database of Ontario based customers [>50kW].

We recommend having meaningful two-way dialogue with employees (and others) to leverage the results from this survey. After-all, people can't care about the things that they don't know about.

Sid Ridgley
Simul/UtilityPULSE
Email: sidridgley@utilitypulse.com or sridgley@simulcorp.com
December, 2013

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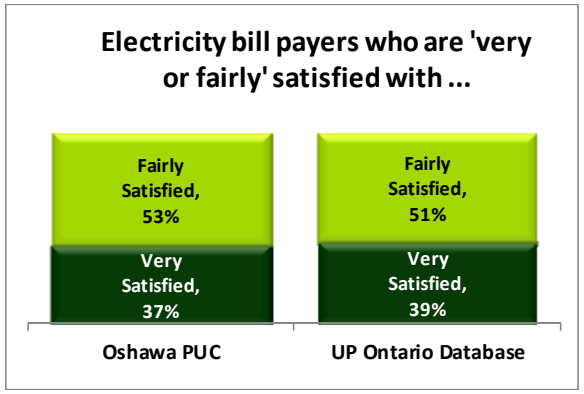
Satisfaction (pre & post)

The old adage “You cannot command respect, you have to earn respect” is a lesson that aptly describes the loyalty effect with customers. Many people mistakenly think doing a good job will lead to loyalty; that a satisfied customer equals a loyal customer.

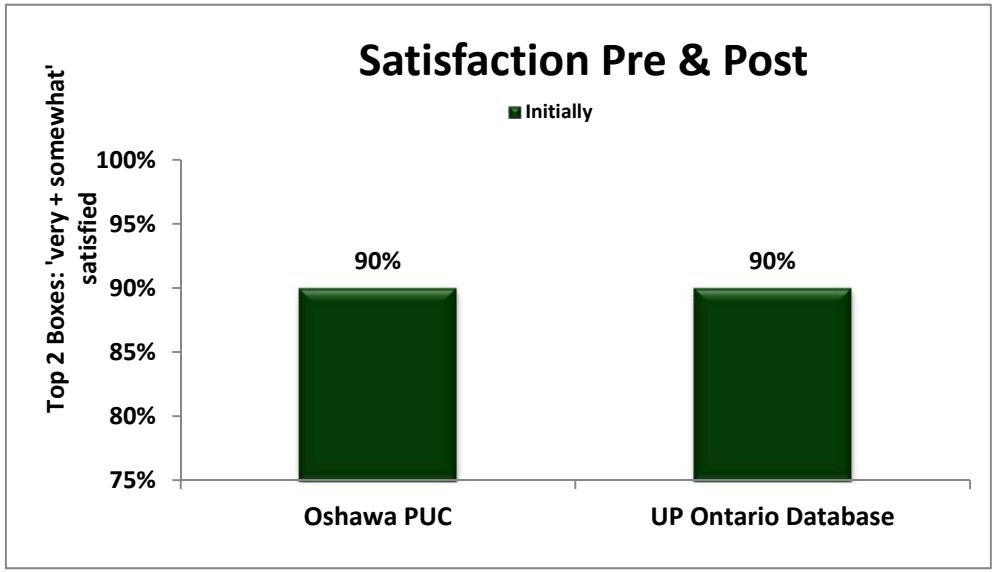
While private industry companies are compelled to understand their customers in order to drive sales and revenue, customer satisfaction measurements can form a similar focus for organizations in the absence of the commercial imperative, such as utilities which operate under monopolistic conditions. It can also help to build a connection with customers and front-line staff, and provide a uniting, motivating factor across the organization. Monopolies are not really different in what they should measure except that trying to determine which customers are “loyal” or “at risk” is not about their future behaviour but more about their “attitudinal” loyalty (are they advocates?). In the private sector customer satisfaction and loyalty are often seen as essential for survival and success. Public sector organizations, especially MUSH sector organizations (municipalities, universities, schools, hospitals), have come to realize that looking after their customers and taking the opportunity to learn from them is key to delivering services which are both effective and efficient.

Large customers are not the same as a residential or small commercial customer. After 15 years of continued research with electric utility customers, expectations of their electric utility go far beyond "keeping the lights on", "billing me properly", and "restoring power quickly".

- **Satisfaction** happens when utility core services meet or exceed customer's needs, wants, or expectations.
- **Loyalty** occurs when a customer makes an emotional connection with their electric utility on a diverse range of expectations beyond core services.



In the Simul/UtilityPULSE Customer Satisfaction survey, the overall satisfaction question is asked at the beginning of the survey. Asking the general satisfaction question at the start of the survey avoids bias and we obtain a spontaneous rating. This allows measurement of customers' overall impressions of the utility prior to prompting them to think of specific aspects of the relationship.



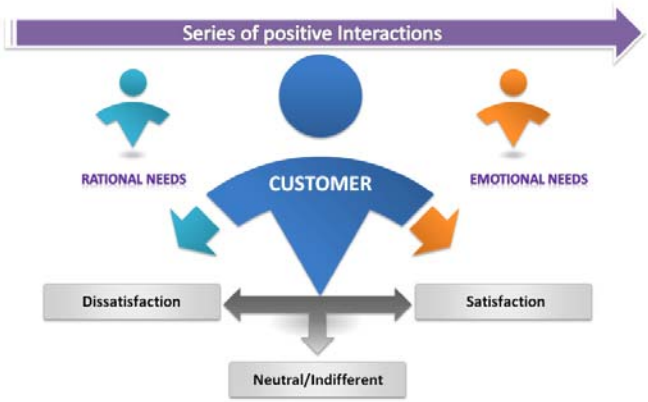
Oshawa PUC's sample sizes are small resulting in larger "swings", in our view the satisfaction level of respondents is within our predictive modelling.

Satisfaction alone does not make a customer loyal; a willingness to commit and advocate for a company along with satisfaction identifies the three basic customer attitudes which underpin loyalty profiles. While satisfaction is an important component of loyalty, the UtilityPULSE loyalty definition includes attitudinal and emotive components.

Customer Satisfaction		
Top 2 Boxes: 'very + fairly satisfied'	**Oshawa PUC**	**UP Ontario Database**
First interview question "satisfaction"	90%	90%

Base: total respondents

Customers, as human beings, are both rational and emotional. The rational side of the custom the LDC accountable for doing its job (as contracted), thereby fulfilling the customer's basic needs. The emotional side of the customer is about fulfilling expectations. Meeting rational needs – at best – gets the customer to a neutral state and at worst creates dissatisfaction. Emotional needs, when met, assuming base level rational needs are met, can move a customer from neutral to higher levels of satisfaction.



Attributes strongly linked to a hydro utility's image		
	Oshawa PUC	**UP Ontario Database**
RATIONAL NEEDS		
Provides consistent, reliable energy	92%	93%
Quickly handles outages	90%	90%
Delivers on its service commitments	89%	90%
Provides good value for money	73%	74%
Is 'easy to do business' with	89%	90%
Is efficient at managing the electricity system	86%	88%
EMOTIONAL NEEDS		
Representatives are knowledgeable, professional & courteous	91%	92%
Is trusted and trustworthy	90%	92%
Pro-active in communicating changes	86%	86%
Representatives provide high level of consistency	89%	89%
Adapts well to changes in customer expectations	82%	85%
Overall the utility provides excellent quality services	89%	90%

Base: total respondents with an opinion, UtilityPULSE database of large customers

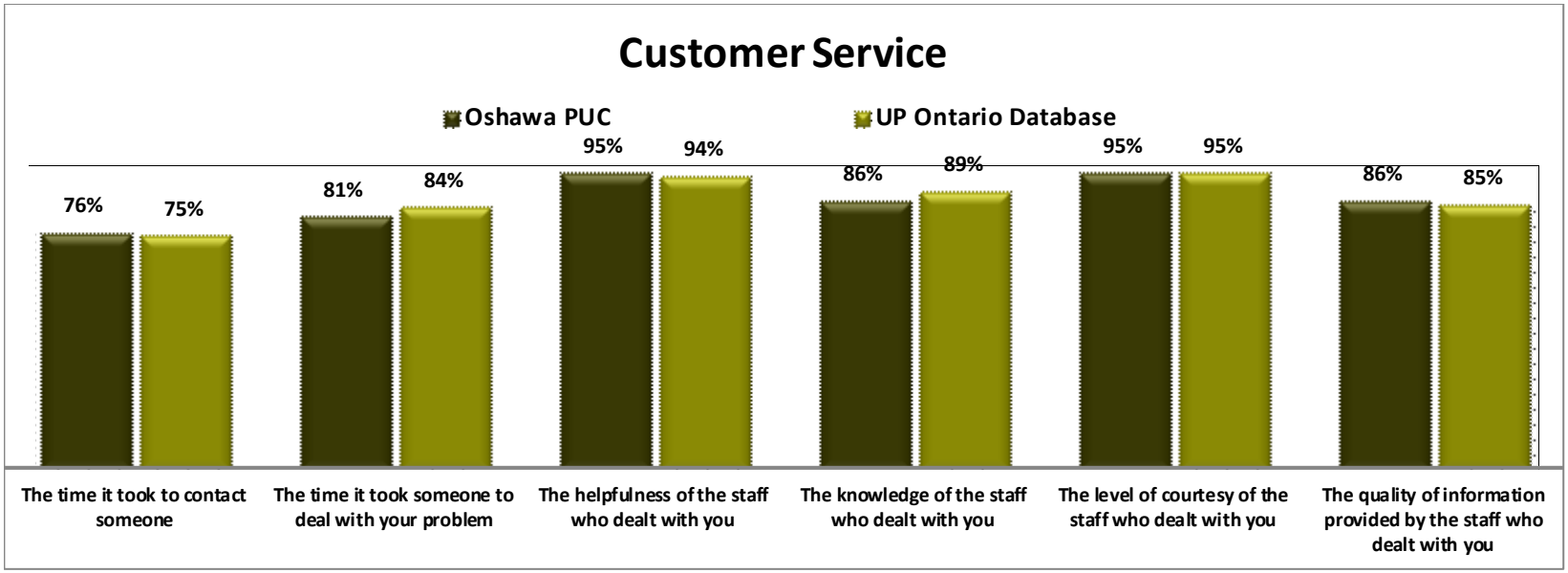
Customer Service

Customer service is a series of activities grouped in processes designed to provide customers and other stakeholders with information or assistance which address customer's needs.

Respondents were asked about six aspects of their most recent experience with a representative from Oshawa PUC.

- Information – quality of information provided
- Staff attitude – level of courtesy
- Professionalism – the knowledge of staff
- Delivery – helpfulness of staff
- Timeliness – the length of time it took to get what they needed
- Accessibility – how easy it was to contact someone

Customers value speed and responsiveness especially as it relates to solving problems. The more flexibility you're able to offer and the more empowerment given to employees, the better able employees will be to meet those "speed" and "responsiveness" requirements. Customers benefit, too, when employees are able to resolve problem issues "on the spot" instead of having to "talk to my manager." A recommendation, that we consistently make to all LDC executives, is to ensure that your company professionals have the empowerment and decision making authority necessary to make things happen quickly.



Base: total respondents who contacted the utility

Satisfaction with Customer Service

Top 2 Boxes: 'very + fairly satisfied'	Oshawa PUC	UP Ontario Database
The time it took to contact someone	76%	75%
The time it took someone to deal with your problem	81%	84%
The helpfulness of the staff who dealt with you	95%	94%
The knowledge of the staff who dealt with you	86%	89%
The level of courtesy of the staff who dealt with you	95%	95%
The quality of information provided by the staff who dealt with you	86%	85%

Base: total respondents who contacted the utility

Top reasons that Large Customers contact their LDC	
	UP Ontario Database
Billing issues	41%
Power Quality issues	21%
Order a connect or disconnect	19%
Maintenance/repair request	12%
Ways to save energy	7%
Get a meter reading	5%

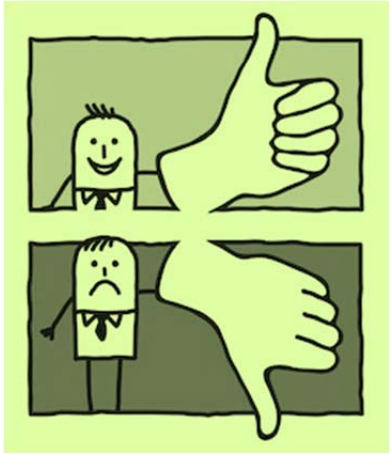
Base: UtilityPULSE Ontario database

Overall satisfaction with most recent experience		
	Oshawa PUC	**UP Ontario Database**
Top 2 Boxes: 'very + fairly satisfied'	81%	85%

Do you consider the problem solved?		
	Oshawa PUC	**UP Ontario Database**
Solved = Yes	71%	75%

Base: total respondents who contacted the utility

Customer Experience Performance rating (CEPr)



Every touch point with customers on the phone, website or in-person influences what customers think and feel about the organization. The key is handling every individual element of an interaction with a customer so that he/she feels good at the end of the whole interaction and the utility achieves its business objectives.

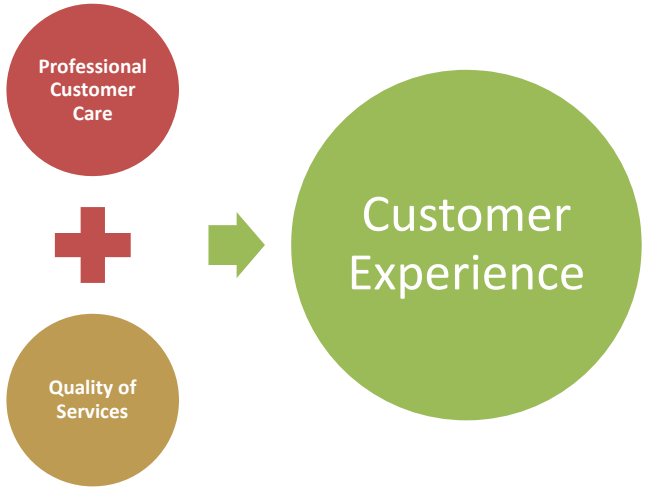
Great experiences occur when all functions of the organization align with one another to achieve the outcomes your customers seek. A good customer experience starts with understanding what your customers care about most and understanding which promises are most important to your customers.

At the heart of the CEPr are 4 central questions:

- Are interactions with the organization professional and productive?
- Is the organization 'easy to deal with'?
- Does the organization effectively meet your needs?
- Does the organization provide high quality services?

Some of the factors which contribute to the overall Customer experience:

- Delivering accessible and consistent customer service
- Understanding customer expectations
- Maintaining timely resolution timelines
- Providing effective communication(s) according to customer needs
- Demonstrating responsiveness
- Speeding up problem resolution
- Conducting problem analysis to prevent recurring issues
- Easy to do business with
- Seeking customer feedback and following through on recommendations



Customer Experience Performance rating (CEPr)		
	Oshawa PUC	**UP Ontario Database**
CEPr: Professional Customer Care	**90%**	90%
CEPr: Quality Services	**90%**	91%
CEPr: Overall	**90%**	91%

Base: all respondents

The CEPr (all respondents) for Oshawa PUC is 90%. On the surface this rating appears to be very high (and it is). But put the rating in context – it would mean that a very large majority of customers have a belief that they will have a good to excellent experience dealing with a Oshawa PUC professional. However, the balance of respondents is not anticipating a good to excellent experience, and as such could be more challenging to serve.

While an excellent transaction today creates a positive experience today, the perception created is that future transactions will be excellent too, which is how you want your customers to feel. Of course a negative transaction creates the perception that future transactions will be negative. The key then is to emphasize problem resolution with a “one call” mindset.

We believe it is important for LDC professionals who interact with this larger customer segment have the empowerment, skills and experience necessary to ensure speedy decision making on the issues that this customer segment face.

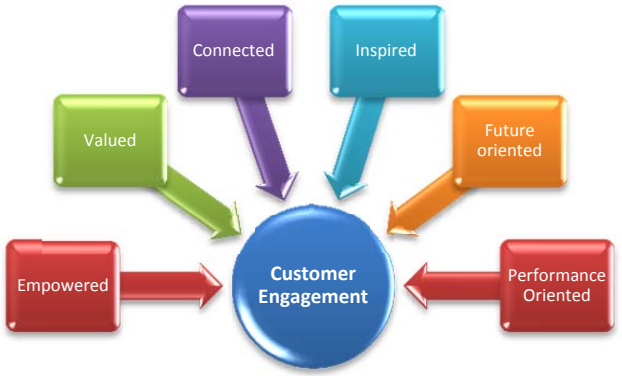
Customer Engagement Index (CEI)

The UtilityPULSE Customer Engagement Index (CEI) is a metric designed to get a more in-depth look at the attachment a customer has with your LDC and its brand.

Depending upon the "expert", engagement can take on two meanings. One is the simple act of soliciting feedback from your customers, something that this survey has done for you. The other is based on a more holistic view of engagement, that is, how ***customers think, feel and act towards the organization.***

Utility Customer Engagement Index (CEI)		
	Oshawa PUC	**UP Ontario Database**
CEI	**89%**	89%

Base: total respondents



UtilityPULSE has identified the six key dimensions of what defines customer engagement. They are: empowered, valued, connected, inspired, future oriented and performance oriented.

The Loyalty Factor

Private industry often equates customer loyalty with basic customer retention. If a customer continues to do business with a company, that customer is, by definition, considered to be loyal. If this definition were applied to many companies in the utility industry, all customers would automatically be considered loyal. As such, measuring customer loyalty would appear to be unnecessary.

Natural monopolies (like LDCs) are not really different in what they should measure except that trying to determine which customers are “loyal” or “at risk” is not about their future behaviour but more about their “attitudinal” loyalty (are they advocates?).

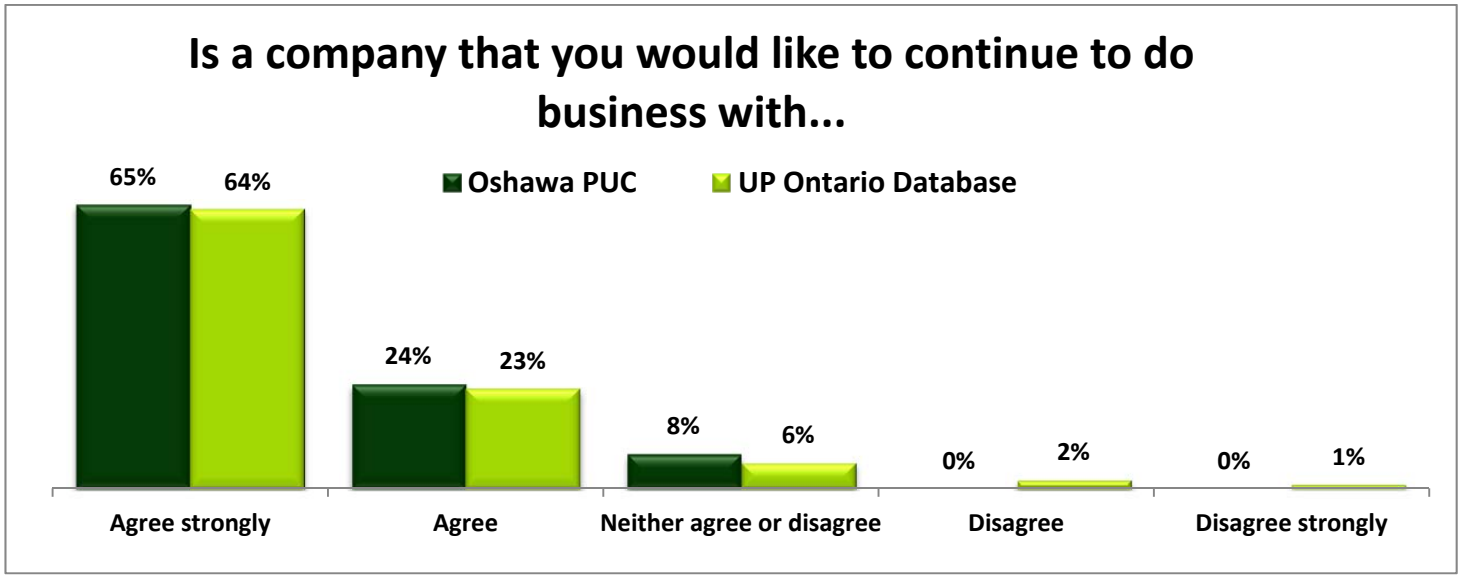
Perhaps a better or more relevant way for utilities to approach the definition of customer loyalty is to further expand how they think about loyalty. Consider the following definition: Customer loyalty is an emotional disposition on the part of the customer that affects the way(s) in which the customer (consistently) interacts, responds or reacts towards the company – its products & services and its brand.

Customer commitment to the local electricity supplier is a very important driver of customer loyalty in the electricity service industry. In a similar way to trust, commitment is considered an important ingredient in successful relationships. In simpler terms, commitment refers to the motivation to continue to do business with and maintain a relationship with a business partner i.e. the local utility.
For electric utilities, this measurement is about identifying the number of customers who feel that they "want to" vs "have to" do business with you.

So what does it mean to respond favourably to a company? At a basic level, this can mean choosing to remain a customer. As previously mentioned however, this is essentially a non-issue for many utility companies. It then becomes necessary to think beyond just customer retention. One needs to consider other ways in which customers can respond favourably toward a company.

Electricity customers' loyalty – … Is a company that you would like to continue to do business with		
	Oshawa PUC	**UP Ontario Database**
Top 2 Boxes: 'Definitely + Probably' would continue	88%	87%
Agree strongly	65%	64%
Agree	24%	23%
Neither agree or disagree	8%	6%
Disagree	0%	2%
Strongly disagree	0%	1%

Base: total respondents

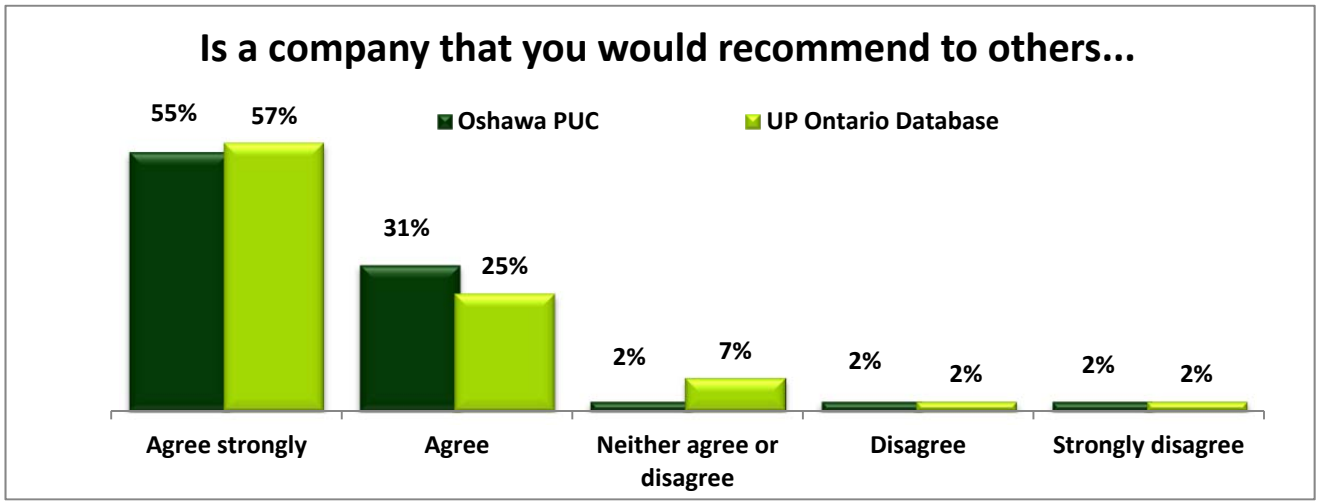


Base: total respondents

Advocacy is one of the metrics measured in determining customer loyalty. Essentially, companies believe that a loyal customer is one that is spreading the value of the business to others, leading new people to the business and helping the company grow. Customer referrals, endorsements and spreading the word are extremely important forms of customer behaviour. For LDCs this is about generating positive referants about the LDC as a relevant and valuable enterprise.

Electricity customers' loyalty – … is a company that you would recommend to a friend or colleague		
	Oshawa PUC	UP Ontario Database
Top 2 boxes: 'Definitely + Probably' would recommend	86%	82%
Agree strongly	55%	57%
Agree	31%	25%
Neither agree or disagree	2%	7%
Disagree	2%	2%
Strongly disagree	2%	2%

Base: total respondents



Base: total respondents

Corporate image, credibility & trust

Organizations today are always under scrutiny and have to consider the reality AND perception of their image. In the simplest of terms, how you are seen by your stakeholders is your corporate image and reputation. The corporate image is a dynamic and profound affirmation of the nature, culture and structure of an organization. This applies equally to corporations, businesses, government entities, and non-profit organizations.

No organization or company can plunge trust and credibility amongst its customers and stakeholders – and survive. Building and maintaining credibility and confidence make up a deliberate process that occurs over numerous interactions, usually over a long period of time.

Establishing trust and credibility, whether with business partners, customers or regulators, is not achieved overnight. Creating credibility is a process, which advances only through honest, continuous communication between the utility, its regulators, its customers, and the public at large.

Attributes strongly linked to a hydro utility's image		
	Oshawa PUC	**UP Ontario Database**
Is a respected company in the community	92%	90%
Keeps its promises to customers and the community	90%	88%
Is a trusted and trustworthy company	90%	92%
Adapts well to changes in customer expectations	82%	85%
Is 'easy to do business with'	89%	90%
Is efficient at managing the electricity system	86%	88%
Overall the utility provides excellent quality services	89%	90%

Base: total respondents with an opinion

How the attributes change when respondents believe that your LDC is "easy to do business with" or "not so easy".

Attributes strongly linked to a hydro utility's image – *Easy to do business with*		
UP Ontario Database	**Top 2 Boxes: 'Agree + Strongly Agree'**	**Bottom 2 Boxes: 'Disagree + Strongly Disagree'**
Is a respected company in the community	92%	69%
Keeps its promises to customers and the community	88%	44%
Is a trusted and trustworthy company	95%	55%
Adapts well to changes in customer expectations	87%	47%
Is 'easy to do business with'	XX	XX
Is efficient at managing the electricity system	90%	42%
Overall the utility provides excellent quality services	93%	43%

Base: Sample size for Oshawa PUC was too small for reporting, data is from UP Ontario database

A high belief in providing Excellent quality services versus a low belief will alter perceptions.

Attributes strongly linked to a hydro utility's image – *Excellent quality services*		
UP Ontario Database	**Top 2 Boxes: 'Agree + Strongly Agree'**	**Bottom 2 Boxes: 'Disagree + Strongly Disagree'**
Is a respected company in the community	92%	63%
Keeps its promises to customers and the community	90%	45%
Is a trusted and trustworthy company	94%	43%
Adapts well to changes in customer expectations	87%	46%
Is 'easy to do business with'	93%	25%
Is efficient at managing the electricity system	90%	38%
Overall the utility provides excellent quality services	XX	XX

Base: Sample size for Oshawa PUC was too small for reporting, data is from UP Ontario database

High trust levels versus low trust levels will have an effect on the perceived image.

Attributes strongly linked to a hydro utility's image – *Trusted and Trustworthy*		
UP Ontario Database	**Top 2 Boxes: 'Agree + Strongly Agree'**	**Bottom 2 Boxes: 'Disagree + Strongly Disagree'**
Is a respected company in the community	92%	73%
Keeps its promises to customers and the community	91%	40%
Is a trusted and trustworthy company	XX	XX
Adapts well to changes in customer expectations	87%	47%
Is 'easy to do business with'	90%	28%
Is efficient at managing the electricity system	89%	44%
Overall the utility provides excellent quality services	92%	40%

Base: Sample size for Oshawa PUC was too small for reporting, data is from UP Ontario database

Credibility and Trust Index
Knowledge The utility is seen as being knowledgeable about the services it provides, about what is happening in the industry, and how customers can reduce costs or create more value.
Integrity The utility is seen as an organization that will act in the best interests of its customers and can be counted on to provide services and resolve problems in a professional manner.
Involvement The utility is actively involved in the industry, in the community and in things that affect the customer.
Trust The utility is an organization that can be trusted and is worthy of respect.
Overall Oshawa PUC 89% [UP Ontario database 90%]

Base: total respondents

How can service to customers be improved?

Customers are more informed, more aware, more conscious of what's going on around big issues in the world around them and in this age of internet and social media, they are better equipped to influence service quality and outcomes.

And we are interested in knowing what you think are the one or two most important things 'your local utility' could do to improve service	
UP Ontario Database	**% of all respondents**
Better prices/lower rates	17%
Improve reliability of power	9%
Staffing: more knowledge, better service	7%
Better communications	5%
Response time/extended hours	3%
Improve billing	2%
Information on energy conservations	2%
Satisfied/no problems	50%

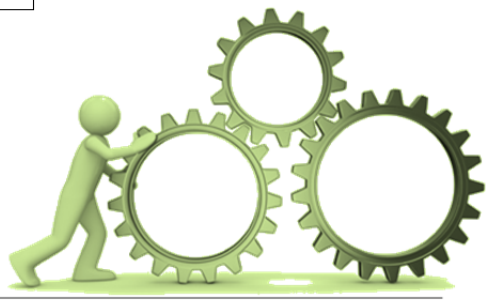
Base: UtilityPULSE Ontario database

Investing in Operations

Respondents were asked how important it is for their utility to make specific types of investments. It is not surprising that Power Reliability and Power Quality were the two top items. What may be surprising is the degree to which respondents believe it is important to do so. The following is offered to Oshawa PUC as additional insight derived from UtilityPULSE's on-going field work.

Importance of making investments	
Top 2 Boxes: 'very + fairly important'	**UP Ontario Database**
Power reliability	98%
Power quality	98%
Shorter timelines for power restoration	91%
Renewable energy generation	92%
Smart Grid	80%
Electric vehicles	77%

Base: All respondents, and UtilityPULSE Ontario database



Thinking ahead…a look into the future

Looking through the microscope while simultaneously looking through the telescope is what helps companies be more relevant & successful today while they prepare to be successful again "tomorrow" in a changed world. Though there are many factors that can affect the level of consumption for larger customers, your 2013 survey did ask respondents about the future.

…Thinking ahead over the next 1-2 years do you anticipate any changes to your business that would affect electricity consumption more than 5% up or down?		
	Oshawa PUC	**UP Ontario Database**
Yes	27%	29%
No	51%	56%
Can't say	22%	15%

Base: All respondents, and UtilityPULSE Ontario database (September-December 2013 data)

It is not surprising to see the large number of "Can't say" for three key reasons:

1- Private businesses are often reluctant to talk about the future of their businesses to others.
2- A concern about providing "outsiders" with information that "shareholders" may not have.
3- Respondents to this survey who have operational responsibilities may not have access to the strategic plan & goals of their organization.

For those who did anticipate a change of 5% up or down,

…Could you tell us what might cause this change to electricity consumption…		
	Oshawa PUC	**UP Ontario Database**
Implementing electricity conservation measures	57%	41%
Business is growing	21%	27%
More work (e.g., products and services are being added)	7%	11%
Exporting work to another site	--	3%
Business is falling off	--	2%
Downsizing	--	2%
Other	7%	5%
Don't know	7%	14%

Base: All respondents, and UtilityPULSE Ontario database (September-December 2013 data)

Appendix A: Recommendations for next time

1. Having a verified name or as a minimum a contact name will get better results.
2. Send a pre-notification letter/postcard/email to customers or to a department (if name is unknown) letting them know about the upcoming survey and how they could go about updating their contact information.
3. An option that could be mentioned in the pre-notification letter/postcard is to allow customers to go online and update their information themselves. This can be done through a unique online form on your website.
4. Consider using internal resources (during slower times) and/or using students to update the contact name/information.
5. Consider questions about frequency and quality of on-going and/or emergency communication preferences.

Appendix B: Operational Recommendations:

1- Improve the accuracy of Customer Contact Information – verify the names of persons responsible for interacting with Hydro Ottawa given certain issues i.e., outages, billing, etc. We further recommend that this be done on an annual basis.

2- Consider the possibility of having both a primary and secondary contact for certain Commercial accounts. We believe that for certain, possibly larger accounts, having more than 1 contact name is important.

3- Segmenting Commercial customers beyond amount of electricity used and into facility type would help you tailor your communications and potentially assist in establishing service levels.

4- Consider having LDC representatives go out (pro-actively) to the larger commercial accounts and offer to hold an on-site seminar regarding energy conservation.

5- We are advocates for, and recommend, adopt a formal “big account customer” program. By doing so your utility could analyze and improve various touchpoints and communication processes.

6- Questions and opportunities around Green energy and energy conservation are of interest to Commercial accounts. Targeted information sessions/seminars would be a value-added activity.

7- Update call-centre processes to ensure that when a Commercial customer calls the call-centre their call is routed appropriately.

8- Take a look at your website to determine what “self-service” options can be added or improved e.g., request for connect or disconnect.

9- Consider reaching out to Building Owners and Managers Association (BOMA), [or other building management association] to better understand the issues that building managers face.

10- Though this may be something that you are already doing, we recommend that you run a “mock emergency power outage/restoration” scenario with your largest customers on an annual basis.

11- Recognizing that power quality is an issue for some of your commercial customers, auditing/monitoring/reporting on power quality would be a value-added activity.

12- From a communications and brand perspective we recommend the attributes that need to be improved are: “Provides good value for your money”, “Quickly handles outages”, “Oshawa PUC Reps provide a high level of consistency when interpreting policies and regulations”, “Is efficient at managing the electricity system” and, “Adapts well to changes in customer expectations”. Our sense is, more investment in marketing communications (i.e., around the brand) would help customers to become more connected and secure. Doing the job today is one-thing, but ensuring that your customers know that you can do the job in the future is another.

Method

The findings in this report are based on telephone interviews conducted for Simul Corp./ UtilityPULSE by Greenwich Associates between November 28 – December 09, with respondents have the responsibility to interact with their electric utility when there is an outage.

The sample of phone numbers chosen was drawn randomly to insure that each business or residential phone number on the list had an equal chance of being included in the poll.

Small sizes in this customer segment are very small. As such we recommend interpreting the data as “directional information” only. Small sample sizes have a wider margin of error. UtilityPULSE provides you with its database information to help interpret results.

The margin of error for the sub samples is larger. To see the error margin for subgroups use the calculator at http://www.surveysystem.com/sscalc.htm.

The margin of error refers only to sampling error; other non-random forms of error may be present. Even in true random samples, precision can be compromised by other factors, such as the wording of questions or the order in which questions were asked.

Random samples of any size have some degree of precision. A larger sample is not always better than a smaller sample. The important rule in sampling is not how many respondents are selected but how they are selected. A reliable sample selects poll respondents randomly or in a manner that insures that everyone in the population being surveyed has an equal chance of being selected.

Interviewers completed 51 surveys from the customer list supplied by Oshawa PUC. The customer list was comprised of 182 eligible telephone numbers. Co-operation from respondents, when reached, was excellent.

Simul

UtilityPULSE

Good things happen when work places work. You'll receive both strategic and pragmatic guidance about how to improve Customer satisfaction & Employee engagement with leaders that lead and a front-line that is inspired. We provide: training, consulting, surveys, diagnostic tools and keynotes. The electric utility industry is a market segment that we specialize in. We've done work for the Ontario Electrical League, the Ontario Energy Network, and both large and small utilities. For fifteen years we have been talking to 1000's of utility customers in Ontario and across Canada and we have expertise that is beneficial to every utility.

Culture, Leadership & Performance – Organizational Development	**Focus Groups, Surveys, Polls, Diagnostics**	**Customer Service Excellence**
Leadership development	Diagnostics i.e. Change Readiness, Leadership Effectiveness, Managerial Competencies	Service Excellence Leadership
Strategic Planning	Surveys & Polls	Telephone Skills
Teambuilding	Customer Satisfaction and Loyalty Benchmarking Surveys	Customer Care
Organizational Culture Transformation	Organization Culture Surveys	Dealing with Difficult Customers

Benefit from our expertise in Customer Satisfaction, Leadership development, Strategy development or review, and Front-line & Top-line driven-change. We're experts in helping you assess and then transform your organization's culture to one where achieving goals while creating higher levels of customer satisfaction is important. Call us when creating an organization where more employees satisfy more customers more often, is important.

Your personal contact is:

Sid Ridgley

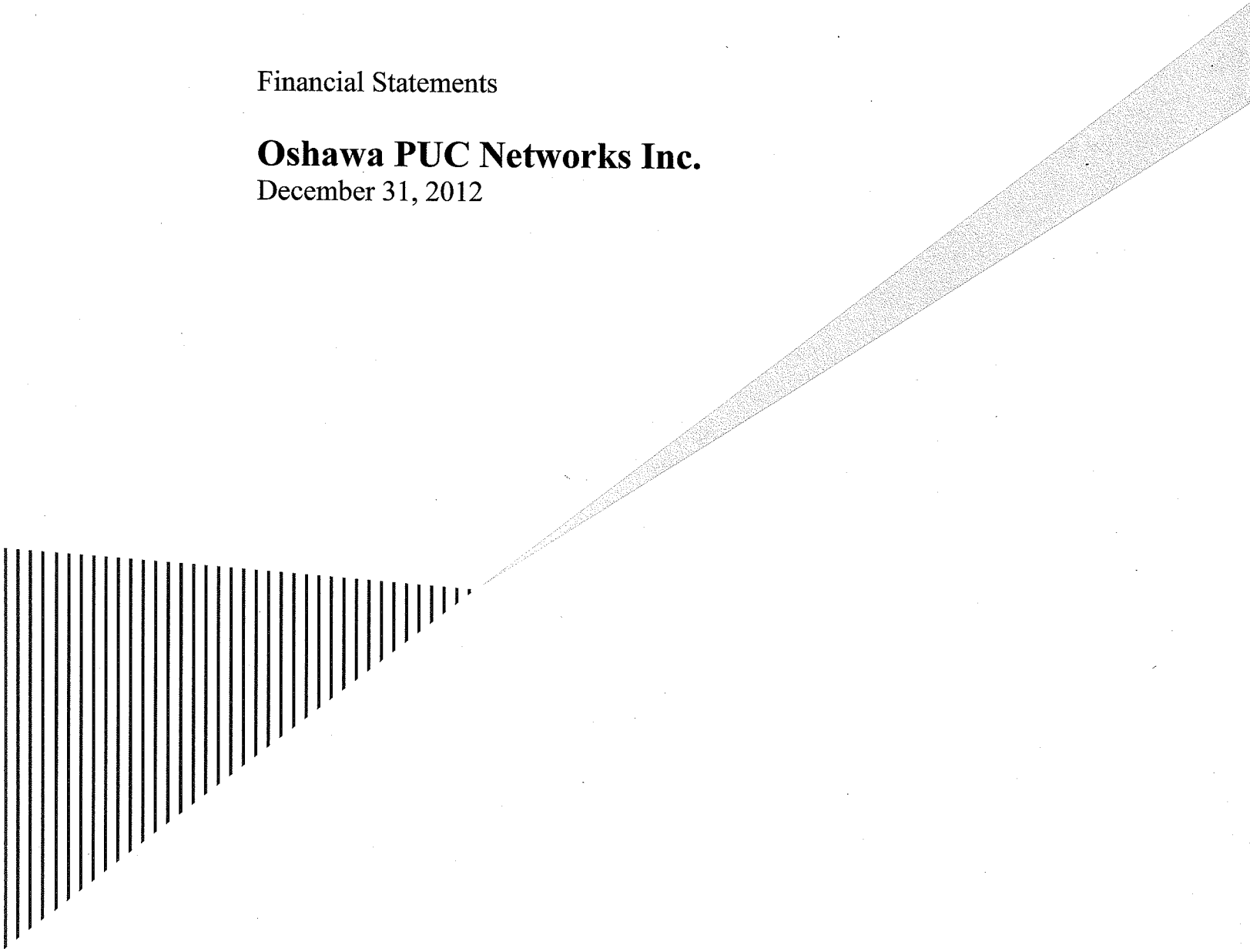
Phone: (905) 895-7900 Fax: (905) 895-7970 E-mail: sidridgley@utilitypulse.com or sridgley@simulcorp.com

UtilityPULSE

Financial Statements

Oshawa PUC Networks Inc.

December 31, 2012



ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Oshawa PUC Networks Inc.

We have audited the accompanying financial statements of **Oshawa PUC Networks Inc.**, which comprise the balance sheet as at December 31, 2012, and the statements of income and retained earnings, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Oshawa PUC Networks Inc.** as at December 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada,
May 16, 2013.

Chartered Accountants
Licensed Public Accountants

Oshawa PUC Networks Inc.

BALANCE SHEET

[in thousands of dollars]

As at December 31

	2012 $	2011 $
ASSETS		
Current		
Cash [including customer deposits in 2012 - $2,613; 2011 - $2,020]	**6,204**	2,356
Government of Canada Treasury bill *[note 16]*	**—**	5,566
Accounts receivable *[note 12]*	**7,615**	7,670
Payments in lieu of corporate income taxes	**145**	904
Unbilled revenue	**12,357**	11,206
Due from affiliates *[note 12]*	**408**	162
Inventory	**239**	188
Prepaid expenses and other	**136**	230
Current portion of regulatory assets *[note 4]*	**586**	—
Total current assets	**27,690**	28,282
Property, plant and equipment *[note 3]*	**70,709**	62,404
Deferred IRU leases *[note 17]*	**474**	505
Future income tax assets *[note 6]*	**8,959**	9,665
Other assets	**248**	227
Total non-current assets	**80,390**	72,801
Total assets	**108,080**	101,083
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable for power - IESO *[note 16]*	**7,552**	7,007
Accounts payable and accrued liabilities	**5,774**	3,643
Customer advance payments	**2,812**	2,296
Current portion of long-term liabilities *[note 5]*	**2,989**	4,150
Total current liabilities	**19,127**	17,096
Note payable to shareholder *[note 9]*	**23,064**	23,064
Long-term debt *[note 10]*	**7,000**	7,000
Unrealized loss on interest rate swaps *[note 15]*	**332**	482
Customer advance deposits	**1,689**	1,459
Post-employment non-pension retirement benefits *[note 8]*	**11,406**	10,756
Regulatory liabilities *[note 4]*	**7,963**	5,655
Total non-current liabilities	**51,454**	48,416
Total liabilities	**70,581**	65,512
Shareholder's equity		
Capital stock *[note 11]*	**23,064**	23,064
Retained earnings	**14,679**	12,863
Accumulated other comprehensive loss	**(244)**	(356)
Total shareholder's equity	**37,499**	35,571
Total liabilities and shareholder's equity	**108,080**	101,083

Commitments and contingencies *[notes 13 and 14]*

See accompanying notes

On behalf of the Board:

Director Director

Oshawa PUC Networks Inc.

STATEMENT OF INCOME AND RETAINED EARNINGS

[in thousands of dollars]

Year ended December 31

	2012 $	2011 $
REVENUE		
Sale of electrical energy	**114,136**	114,440
Cost of electrical energy	**96,182**	94,230
Net revenue from sale of electrical energy	**17,954**	20,210
Other revenue		
Regulated service	**1,585**	1,335
Service	**210**	187
Other	**8**	23
Total other revenue	**1,803**	1,545
Net revenue	**19,757**	21,755
EXPENSES		
Operations, maintenance and administrative	**14,915**	14,224
Allocated to property, plant and equipment and billable jobs	**(3,681)**	(3,903)
Net operations, maintenance and administrative expenses	**11,234**	10,321
Income before the following:	**8,523**	11,434
Depreciation - property, plant and equipment	**(3,036)**	(5,076)
Amortization - deferred IRU leases	**(31)**	(30)
(Loss) gain on disposal of property, plant and equipment	**(75)**	141
Interest income	**102**	144
Interest expense *[note 10]*	**(1,920)**	(1,768)
Non-recurring provision for deferred PILs *[note 4]*	**—**	1,208
Income before payments in lieu of corporate income taxes	**3,563**	6,053
Provision for payments in lieu of corporate income taxes *[note 6]*	**47**	1,637
Net income for the year	**3,516**	4,416
Retained earnings, beginning of year	**12,863**	10,047
Dividends paid	**(1,700)**	(1,600)
Retained earnings, end of year	**14,679**	12,863

See accompanying notes

Oshawa PUC Networks Inc.

STATEMENT OF COMPREHENSIVE INCOME

[in thousands of dollars]

Year ended December 31

	2012 $	2011 $
Net income for the year	**3,516**	4,416
Unrealized losses in fair value of derivatives designated as cash flow hedges, net of income tax	**(44)**	(257)
Gain in fair value of derivatives designated as cash flow hedges, transferred to net income for the year, net of income tax	**156**	156
Comprehensive income	**3,628**	4,315

See accompanying notes

Oshawa PUC Networks Inc.

STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended December 31

	2012 $	2011 $
OPERATING ACTIVITIES		
Net income for the year	**3,516**	4,416
Add (deduct) items not involving cash		
Depreciation	**3,036**	5,076
Future income taxes	**706**	417
Unrealized loss (gain) on interest rate swaps	**(150)**	137
Accumulated other comprehensive income (loss)	**112**	(102)
Loss (gain) on disposal of property, plant and equipment	**75**	(141)
Amortization - deferred IRU leases	**31**	30
Post-employment non-pension retirement benefits	**650**	559
	7,976	10,392
Changes in non-cash working capital balances related to operations		
Decrease in accounts receivable	**55**	633
Decrease (increase) in payments in lieu of corporate income taxes	**759**	(187)
Decrease (increase) in unbilled revenue	**(1,151)**	1,285
Increase in due from affiliates	**(246)**	(104)
(Increase) decrease in inventory	**(51)**	26
Decrease in prepaid expenses and other	**94**	48
Increase in other assets	**(21)**	(138)
Increase (decrease) in accounts payable for power - IESO and accounts payable and accrued liabilities	**2,677**	(2,060)
Increase (decrease) in regulatory liabilities, net of regulatory assets	**318**	(5,624)
Increase in customer advance payments	**516**	981
Cash provided by operating activities	**10,926**	5,252
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(12,838)**	(10,576)
Developer contributions in aid of construction	**1,271**	931
Proceeds from disposal of property, plant and equipment	**151**	141
Government of Canada Treasury bill	**5,566**	(91)
Increase in upstream capital improvement liability	**467**	445
Cash used in investing activities	**(5,383)**	(9,150)
FINANCING ACTIVITIES		
Dividends paid	**(1,700)**	(1,600)
Increase (decrease) in customer advance deposits	**6**	(2,180)
Cash used in financing activities	**(1,694)**	(3,780)
Net increase (decrease) in cash during the year	**3,849**	(7,678)
Cash, beginning of year	**2,356**	10,034
Cash, end of year	**6,205**	2,356
Supplemental cash flow information		
Interest paid [prior to capitalization of interest]	**2,010**	2,013
Payments in lieu of corporate income taxes	**540**	2,145

See accompanying notes

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2012

1. INCORPORATION

Oshawa PUC Networks Inc. [the "Corporation"] was incorporated under the *Business Corporations Act* (Ontario) on October 18, 2000. The incorporation was required in accordance with the provincial government's *Electricity Act*, 1998. The Corporation is a local distribution company ["LDC"] that provides electricity distribution services to businesses and residences in the service area of Oshawa, Ontario.

The Corporation is a wholly owned subsidiary of Oshawa Power and Utilities Corporation, which is wholly owned by the Corporation of the City of Oshawa.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Corporation's financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ["GAAP"], including accounting principles prescribed by the Ontario Energy Board ["OEB"] in the *Accounting Procedures Handbook for Electric Distribution Utilities* ["AP Handbook"], and reflects the significant accounting policies summarized below.

Rate setting and regulation

The OEB has regulatory oversight of electricity matters in the Province of Ontario. The *Ontario Energy Board Act*, 1998 sets out the OEB's powers, including the issuance of distribution licences that must be obtained by any person owning or operating a distribution system under the *Ontario Energy Board Act,* 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and for ensuring that LDCs fulfill obligations to connect and service customers.

As part of its regulation of LDCs, the OEB established a multi-year electricity distribution rate setting plan which indicated that, commencing with 2008 rates, a limited number of LDCs would be identified each year to file a future test year cost of service application. The plan would run for four years, enabling each LDC in the province to rebase its rates once during the four-year plan. For any of the other LDCs seeking approval to change their distribution rates, LDCs would file a mechanistic update to their current rates prescribed under the OEB's incentive regulation mechanism.

In June 2011, the Corporation filed its cost of service application with the OEB to rebase its rates for the four-year period commencing January 1, 2012. On January 10, 2012, the OEB approved the cost of service application filed by the Corporation and issued its Decision and Order for rates effective January 1, 2012.

The OEB has the general authority to include or exclude costs and revenues in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company under Canadian GAAP.

The following regulatory practices relating to regulatory assets and liabilities, and payments in lieu of corporate income taxes, have resulted in accounting treatments which differ from Canadian GAAP for enterprises operating in a non-regulated environment.

Regulatory assets and liabilities
Regulatory assets primarily represent costs that have been deferred because it is probable that they will be recovered in future rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers for electricity services and the costs that the Corporation incurs to purchase and deliver these services. Certain costs and variance account balances are deemed to be "regulatory assets" or "regulatory liabilities" and are reflected in the LDC's balance sheet until the manner and timing of disposition is determined by the OEB.

Payments in lieu of income taxes ["PILs"]
The Corporation provides for PILs using the future income taxes method for its regulated activities as permitted by The Canadian Institute of Chartered Accountants ["CICA"] and the OEB.

Inventory
Inventory, which consists of parts and supplies acquired for internal maintenance or construction, is valued at the lower of cost and net realizable value, with cost being determined on a weighted average basis. Inventory expensed for the year was $85 [2011 - $622].

Property, plant and equipment
Property, plant and equipment purchased or constructed by the Corporation are stated at historic costs and include contracted services, material, labour, engineering and overhead costs. Furthermore, constructed property, plant and equipment include ascribed interest during the period of construction.

Property, plant and equipment also include the cost of certain capital assets partially funded by developers as a contribution in aid of construction to the Corporation. The OEB requires that such contributions, whether in cash or in-kind, be offset against the related asset cost.

When identifiable capital assets are retired or otherwise disposed of, their original cost and accumulated depreciation are removed from the accounts and the related gain or loss is included in the determination of income for the year. Repairs and maintenance expenditures are charged to operations as incurred.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2012

Effective January 1, 2012, the Corporation revised the rate of depreciation applied to property, plant and equipment in order to more closely reflect the period over which they provide economic benefits. The statement of income and retained earnings reflects a decrease in depreciation for the year ended December 31, 2012 by approximately $2,000 as a result of the changes in accounting estimate.

Depreciation is provided on a straight-line basis over the estimated service lives of the property, plant and equipment as follows:

Buildings	1.61% - 2.38%
Transmission, distribution system and meters	1.67% - 10%
Equipment and furniture	5% - 20%
Computer hardware	20%
Vehicle fleet	8.33% - 10%

Construction-in-progress comprises capital assets under construction, capital assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed. These assets are not depreciated until placed into service.

Effective January 1, 2012, the Corporation revised its capitalization rate applied to operating costs that are capitalized to property, plant and equipment. The statement of income and retained earnings reflects a decrease of approximately $550, attributable to this capitalization rate revision, in amounts transferred to property, plant and equipment for the year ended December 31, 2012. Management believes this change applies a more appropriate determinant of which items of overhead would be considered directly attributed to a project. The change was accounted for prospectively for regulatory purposes and due to the complex nature of assigning overhead costs to property, plant and equipment, the Corporation could not reasonably quantify the retrospective impact of this change.

In the absence of rate regulation, overhead costs which are not directly attributable to construction activity are not capitalized.

Customer advance deposits

Customer advance deposits represent cash collections from customers that are available to offset the payment of energy bills or other services. Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of securities, these amounts are recorded in the accounts as securities held in respect of customer deposits. Interest is paid on customer balances at rates established by the Corporation in accordance with OEB guidelines.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2012

Pension and other post-employment benefits

The Corporation provides pension benefits for its employees through the Ontario Municipal Employees' Retirement System ["OMERS"] Fund [the "OMERS Fund"], a multi-employer public sector pension fund. The OMERS Fund is a defined benefit pension plan which is financed by equal contributions from participating employers and employees and by the investment earnings of the OMERS Fund. Although the plan is a defined benefit plan, sufficient information is not available to the Corporation to account for it as such because it is not possible to attribute the fund assets and liabilities between the various employers who contribute to the fund. Accordingly, contributions payable as a result of employee service are expensed when incurred as part of operating costs.

Employee future benefits, other than pensions provided by the Corporation, include supplemental health, dental and life insurance. These plans provide benefits to retired employees, their spouses and surviving spouses when the employees are no longer providing active service. Retiree benefits expense is recognized in the period during which the employees render services.

The liability for employee future benefits other than pensions is recorded on an accrual basis. The Corporation actuarially determines the cost of post-employment benefits offered to employees and retirees, including their spouses and surviving spouses, using the projected benefit method, pro-rated on service and based on management's best estimates. Under this method, the projected post-retirement benefits are deemed to be earned on a pro-rata basis over the employee's years of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits.

The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered during the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gains or losses over 10% of the accrued benefit obligation is amortized as an expense or income on a straight-line basis over the average remaining service period of active employees to full eligibility. As at December 31, 2012, there was a net unamortized actuarial gain of $666 [2011 - net unamortized actuarial loss of $2,448] not reflected in the post-employment non-pension benefits liability.

Financial instruments

Financial instruments are measured at fair value on initial recognition. After initial recognition, financial instruments are measured at fair value, except for financial assets classified as held-to-maturity, or loans and receivables, and other financial liabilities, which are measured at cost or amortized cost using the effective interest rate method. The Corporation has made the following classifications:

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2012

Investments
Investments consist of Government of Canada Treasury bills and are classified as held-to-maturity. Investments classified as held-to-maturity are recorded at amortized cost, which upon initial recognition is considered equivalent to fair value. Under this classification, the Corporation recognizes impairments to income when there is objective evidence that the investment is impaired and there is a decline in the fair value below amortized cost that is other than temporary.

Accounts receivable and unbilled revenue
Accounts receivable and unbilled revenue are classified as loans and receivables and are recorded at amortized cost, which upon their initial measurement is equal to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities, customer advance deposits and long-term debt
Accounts payable and accrued liabilities, customer advance deposits and long-term debt are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Derivative financial instruments and hedge accounting

Derivative financial instruments in the form of interest rate swap contracts are used to manage exposure to fluctuations in interest rates on the Corporation's long-term debt. The Corporation does not enter into derivative agreements for speculative purposes.

These contracts are designated as hedges, and therefore any gain or loss is included in other comprehensive income. Any gain or loss would not be expected to affect net income as management intends to hold the interest rate swap contracts to maturity.

Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date. The Corporation has elected to apply hedge accounting for its interest rate swap contract and it is designated as a cash flow hedge. For cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognized in accumulated other comprehensive income, net of income taxes. The ineffective portion of the fair value changes is recognized in net income for the year. Amounts charged to accumulated other comprehensive income are reclassified in the statement of income and retained earnings when the hedged transaction affects the financial instrument.

All hedging relationships are formally documented, including the risk management objective and strategy. On an ongoing basis, an assessment is made as to whether the designated derivative financial instruments continue to be effective in offsetting changes in cash flows of the hedged transaction.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2012

Investments

Investments included a Government of Canada Treasury bill amounting to $5,566 as at December 31, 2011. The Treasury bill, which bore an annual interest rate of 0.8%, matured in September 2012 and was not renewed. The Treasury bill was pledged to the Independent Electricity System Operator ["IESO"] as collateral support for energy amounts as determined by and payable to the IESO. An Irrevocable Standby Letter of Credit in the amount of $7,000 was issued in October 2012 in favour of the IESO as collateral support for energy amounts as determined by and payable to the IESO.

Deferred indefeasible right of use ["IRU"] leases

Deferred IRU leases are lump-sum payments made by the Corporation to lease the IRU of the dark fibre optics networks from its affiliate, Oshawa PUC Services Inc. These payments are amortized over the contracted term of 20 years.

Customer advance payments

Customer advance payments consist of both the Equal Payment Plan and customer advance payments.

Revenue recognition

Revenue from the sale of electricity represents actual revenue attributable to its sale and delivery. Revenue includes an estimate of unbilled revenue, which represents electricity delivered and consumed by customers since the date of each customer's last billing.

Regulated service revenue represents charges to energy customers for services such as late payments, collection fees, account set-up fees, pole attachment charges, and reconnect and disconnect charges. Regulated service revenue is recognized as services are rendered.

Service revenue primarily includes duct rental revenue and is recognized as services are rendered.

Other revenue and interest are recognized as services are rendered, projects completed or when interest is earned.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Certain estimates are necessary since the regulatory environment in which the Corporation operates requires amounts to be recorded at estimated values until finalization and adjustment pursuant to subsequent regulatory decisions or other regulatory proceedings. Due to inherent

uncertainty involved in making such estimates, actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Ministry of Energy and Infrastructure or the Ministry of Finance.

PILs

Under the *Electricity Act*, 1998, and effective October 1, 2001, the Corporation incurred PILs that are remitted to the Ministry of Finance. These payments are calculated in accordance with the rules for computing income and taxable capital, and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario) as modified by the *Electricity Act*, 1998 and related regulations. Payments remitted to Ontario Electricity Financial Corporation are designated to be applied against the stranded debt of Ontario Power Generation, formerly Ontario Hydro.

The regulated electricity distribution business of the Corporation provides for PILs using the future income taxes method. Under the future income taxes method, provisions are made for future income taxes as a result of temporary differences between the tax bases of assets and liabilities and their carrying amounts for accounting purposes. When future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the customers of the Corporation at that time.

The OEB's Electricity Distribution Rate Handbook provides for the recovery of PILs by LDCs through annual distribution rate adjustments as permitted by the OEB.

The method that has been used to set the PILs portion of the Corporation's rates for 2012 is consistent with the approach used in past periods.

Upstream capital improvement liability

The provision for an upstream capital improvement liability levied under the *Development Charges Act*, 1997, and/or predecessor legislation, is earmarked for specific property, plant and equipment related to estimated growth that may occur in the future. Upstream capital improvement liability balances are reduced as expenditures occur.

Asset retirement obligations

The Corporation follows the CICA Handbook which requires the recording of the fair value of the future expenditures required to settle legal obligations associated with asset retirements. As at December 31, 2012, the Corporation has determined that there are no material asset retirement obligations associated with transmission, distribution and generation systems.

Future accounting policies

Transition to new Canadian financial reporting standards

Effective January 1, 2011, publicly accountable enterprises in Canada were required to apply International Financial Reporting Standards ["IFRS"], with the exception of qualifying entities with rate-regulated activities.

On September 10, 2010, the Canadian Accounting Standards Board ["AcSB"] issued its decision to allow qualifying entities with rate-regulated activities ["RRA"] the option to defer the adoption of IFRS for a period of one year. On March 30, 2012, the AcSB announced a further one-year deferral of the mandatory IFRS changeover date for entities with qualifying RRA in light of discussions it has had with the International Accounting Standards Board ["IASB"].

The IASB decided in September 2012 to restart its comprehensive project on RRA with a discussion paper rather than an exposure draft for a final standard. Given the time needed to develop a final standard, the IASB decided in December 2012 to develop an interim standard to provide temporary guidance on accounting for RRA for first-time adopters of IFRS. In September 2012, the AcSB extended the deferral of the mandatory IFRS changeover date for entities with qualifying RRA by one year to January 1, 2014, in anticipation of an interim standard. In February 2013, the AcSB further extended the deferral to January 1, 2015.

On the amendment of the CICA Handbook, the effective mandatory date for qualifying entities with RRA to adopt IFRS will be January 1, 2015. The Corporation qualifies for the deferral options and has elected to defer the adoption of IFRS and will, therefore, continue to prepare its financial statements in accordance with existing Canadian GAAP [i.e., Part V of the CICA Handbook] for all interim and annual periods ending on or before December 31, 2014.

With the amendment, effective January 1, 2015, the Corporation will no longer be permitted to use Part V of the CICA Handbook in the presentation of its financial statements, at which time the transition to a new set of accounting standards will be required. The Corporation, as an organization part of the public sector and defined as a government business enterprise, will be adopting IFRS. The Corporation is currently assessing the financial reporting impacts of adopting IFRS.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2012

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2012			2011		
	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $
Transmission and distribution						
Underground distribution	**38,894**	**17,158**	**21,736**	38,122	17,075	21,047
Overhead distribution	**18,688**	**9,308**	**9,380**	17,904	9,486	8,418
Poles, towers and fixtures	**30,606**	**14,023**	**16,583**	29,047	14,157	14,890
Transformers	**50,434**	**29,256**	**21,178**	48,927	29,612	19,315
Station equipment	**19,172**	**7,524**	**11,648**	15,695	8,120	7,575
Meters	**9,864**	**3,195**	**6,669**	9,624	2,524	7,100
Total transmission and distribution	**167,658**	**80,464**	**87,194**	159,319	80,974	78,345
Total construction-in-progress	**1,226**	**—**	**1,226**	1,964	—	1,964
Other property, plant and equipment						
Vehicle fleet	**4,335**	**2,097**	**2,238**	3,073	2,140	933
Equipment and furniture	**6,300**	**4,546**	**1,754**	5,791	3,778	2,013
Computer hardware	**3,472**	**2,711**	**761**	2,884	2,490	394
Buildings	**709**	**374**	**335**	709	362	347
Land	**294**	**—**	**294**	294	—	294
	15,110	**9,728**	**5,382**	12,751	8,770	3,981
Property, plant and equipment before contributions in aid of construction	**183,994**	**90,192**	**93,802**	174,034	89,744	84,290
Contributions in aid of construction	**(30,629)**	**(7,536)**	**(23,093)**	(29,386)	(7,500)	(21,886)
Property, plant and equipment	**153,365**	**82,656**	**70,709**	144,648	82,244	62,404

Prior year comparatives have been reclassified to reflect changes arising from componentization of property, plant and equipment in 2012, as mandated by the OEB.

For the year ended December 31, 2012, ascribed interest capitalized to property, plant and equipment as prescribed by the OEB amounted to $91 [2011 - $245]. In the absence of rate

regulation, property, plant and equipment would have been $91 lower [2011 - $245 lower] and interest expense would have been $91 higher [2011 - $245 higher].

The Company's rate application was approved with an effective date of January 1, 2012. The OEB authorized the Company to adjust the cost of the property, plant and equipment for changes to capitalized overhead costs and depreciation rates effective January 1, 2012. An amount of $1,250 was credited to the regulatory account approved by the OEB to record this adjustment.

4. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities consist of the following:

	2012 $	2011 $
Regulatory liabilities (assets)		
Retail settlement variance – power	**(248)**	(147)
Retail settlement variance – global adjustment	**(175)**	64
Retail settlement variances – other	**621**	485
Smart meter variance	**(1,605)**	(2,145)
Regulatory Asset Recovery Account ["RARA"]	**(1,105)**	640
Deferred PILs	**—**	(1,208)
Future income taxes to be paid to customers	**8,871**	9,538
IFRS-CGAAP transitional PP&E account	**1,013**	—
Regulatory asset – other	**5**	(168)
Net regulatory liabilities	**7,377**	7,059
Add (deduct) current portion	**586**	(1,404)
Net regulatory long-term liabilities	**7,963**	5,655

The smart meter variance account includes $1,421 to be recovered through rates for meters stranded upon being replaced with smart meters.

On January 10, 2012, the Corporation received approval from the OEB for the disposition of certain regulatory account balances, excluding future income taxes to be paid to customers. The disposition is to be adjusted through customer rates effective January 1, 2012. As future income tax assets are realized, the liability for future income taxes to be paid to customers will be settled.

Retail settlement variances

The retail settlement variances relate to charges the Corporation has incurred for transmission services, generation and wholesale market operations from the IESO that were not settled with customers during the period through approved rates. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time and are reported at period-end dates in accordance with rules prescribed by the OEB. Under rate regulation, the

variances which would be recorded as revenue or expense when incurred under Canadian GAAP are deferred until collected or repaid through future rates. The Corporation has accrued interest on the regulatory asset and liability balances, as directed by the OEB.

Retail settlement variance – power
The retail settlement variance – power account is established for the purpose of recording the net difference in energy cost only. Net difference refers to the difference between the amount charged by the IESO on the settlement invoice for the energy cost and the amount billed to customers for the energy cost.

Retail settlement variance – global adjustment
The global adjustment variance account is established for the purpose of recording the net difference in the global adjustment attributable to customers. Net difference refers to the difference between the amount charged or credited by the IESO for the global adjustment and the amount billed to customers for the global adjustment.

The global adjustment arises due to a difference between the spot price charged by the IESO to market participants and the blended price paid by the IESO under the various contracts with electricity generators and suppliers.

Retail settlement variances – other
This item refers to a set of accounts that will separately capture information relating to wholesale market service charges, non-recurring wholesale market service charges, retail transmission network service charges and retail transmission connection service charges. Retail settlement variances – other is used to record the net difference between the amount paid in the month to the IESO for the services listed above and the amount billed to customers and retailers in the month based on OEB approved rates.

Smart meter variance
The provincial government mandated the installation of smart meters for all residential and small business customers in Ontario by December 31, 2010. The smart meter variance account is used to record expenditures made by the Corporation under the smart meter program; the carrying value of meters replaced and stranded by the installation of smart meters; and amounts received from customers under approved OEB rates, for advances used to fund the installation of smart meters.

On January 10, 2012, the Corporation received approval of the costs incurred under the program and was granted a rate rider to recover the balance in the smart meter variance account which is the excess of costs incurred [including the carrying value of stranded meters] less amounts received from customers.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2012

RARA

Effective May 2006, the RARA was approved by the OEB. Included in the RARA are retail settlement variances, pre-market opening energy variances, qualifying transition costs and carrying charges, less recoveries accumulated to April 30, 2006. Permission was granted by the OEB to include a regulatory rate rider that is charged to each customer class effective May 1, 2006, for the collection of RARA balances over three years. The balance remaining as at December 31, 2012 represents the difference between the opening balance approved for recovery and the amount collected. Recovery of the balance remaining at December 31, 2011 is included in the approved rate rider effective January 1, 2012.

Future income taxes to be paid to customers

An offset to future income tax assets relating to the regulated business has been recorded in the accounts as a regulatory liability. As future income tax assets are realized, the liability for future income taxes to be paid to customers will be settled through lower OEB approved rates.

Deferred PILs

The OEB approved distribution rates for PILs recovery are based on estimated consumption volumes. The difference between actual billings that relate to the recovery of PILs and the OEB approved PILs amount is tracked by the Corporation as a deferred tax amount in accordance with OEB guidelines for regulatory assets and liabilities, and with the criteria set out in the AP Handbook. The Corporation had recorded a deferred PILs asset in the amount of $826, which is offset by a deferred PILs liability, as required by the OEB, in an equivalent amount.

On August 12, 2011, the OEB issued revised guidelines for the calculation and recovery of deferred PILs. On January 10, 2012, the Corporation received approval to recover from customers a revised amount of $1,208, and was granted a rate rider effective January 1, 2012 for this purpose. The amount of $1,208 was recognized in revenue in the consolidated financial statements of the prior year, and the provision for recovery of deferred PILs was reversed.

IFRS-CGAAP Transitional PP&E Account

The Company's rate application was approved with an effective date of January 1, 2012. The rate application included adjustments to the cost of the property, plant and equipment which was to approximate the adjustments otherwise required to account for costs in accordance with IFRS standards. The increase in the costs of the property, plant and equipment in the amount of $1,250 were recorded effective January 1, 2012. The regulatory liability "IFRS-CGAAP Transitional PP&E account" was authorized under the AP Handbook to record these differences.

Regulatory accrued interest

Interest is earned or charged on regulatory assets and liabilities at OEB prescribed rates and are recorded to the related regulatory account.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2012

5. CURRENT PORTION OF LONG-TERM LIABILITIES

The current portion of long-term liabilities consists of the following:

	2012 $	2011 $
Regulatory liabilities *[note 4]*	—	1,404
Customer advance deposits	**924**	1,148
Upstream capital improvement liability *[note 7]*	**2,065**	1,598
	2,989	4,150

6. PILs

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and effective tax rates is provided as follows:

	2012 $	2011 $
Income before PILs	**3,563**	6,053
Combined Canadian federal and Ontario statutory income tax rate	**26.50%**	28.25%
Expected provision for PILs at statutory tax rates	**944**	1,710
Pre 2006 provision reversed	**(346)**	—
Property, plant and equipment	**(721)**	85
Post-employment non-pension benefits	**166**	140
Scientific Research and Experimental Development credit not accrued	—	(80)
Re-assessment 2009	—	(88)
Other	**28**	(61)
Cost allocations	**(24)**	(69)
Provision for PILs	**47**	1,637
Effective tax rates	**1.32%**	27.05%
Components of provision for PILs		
Current PILs	**47**	1,637
Future PILs	**667**	453
Future PILs transferred to regulatory assets	**(667)**	(453)
Provision for PILs	**47**	1,637

During the year, the Corporation recorded $8,871 in regulatory liabilities and a corresponding offset to future income tax assets [2011 - $9,538], for the amount of future income taxes expected to be paid to customers in future electricity rates.

	2012 $	2011 $
Components of future income tax assets		
Property, plant and equipment	**4,759**	5,878
Employee post-employment non-pension benefits	**4,112**	3,660
Accumulated other comprehensive loss	**88**	127
Future income tax asset	**8,959**	9,665

7. UPSTREAM CAPITAL IMPROVEMENT LIABILITY

The upstream capital improvement liability account represents amounts received from developers for improvements to system capacity not yet needed to be constructed. Improvements may include capital contributions for transformer stations and construction of new municipal substations.

	2012 $	2011 $
Current portion balance	**2,065**	1,598

8. EMPLOYEE BENEFITS

Pension costs

The Corporation makes contributions to OMERS, which is a multi-employer plan. The plan is a defined benefit plan which specifies the amount of retirement benefits to be received by the employees based on length of service and rates of pay. Current and future contributions are dependent upon the results of the OMERS plan as actuarially determined from time to time.

For the year ended December 31, 2012, the Corporation's OMERS current service pension costs were $577 [2011 - $450]. OMERS contribution rates were 8.3% up to the year's maximum pensionable earnings ["YMPE"] and 12.8% over the YMPE for normal retirement age ["NRA"] of 65 [2011 - 7.4% up to YMPE and 10.7% over YMPE for NRA of 65].

Post-employment non-pension benefits

The Corporation provides post-employment benefits, principally supplemental health and dental coverage, for employees who retire from active employment.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2012

Accrued benefit obligations

The Corporation measures its accrued benefit obligations as at December 31 of each year. The latest actuarial valuation was performed as of December 31, 2012.

	2012 $	2011 $
Accrued benefit obligations, beginning of year	**13,204**	12,752
Employer current service cost	**287**	271
Interest on obligation	**739**	714
Benefits paid	**(496)**	(533)
Actuarial gain recognized at the end of the year	**(3,020)**	—
Accrued benefit obligations, end of year	**10,714**	13,204

Reconciliation of the accrued benefit obligations to post-employment non-pension retirement benefits	**2012** $	**2011** $
Accrued benefit obligations	**10,714**	13,204
Unamortized net actuarial gains (losses)	**666**	(2,448)
Post-employment non-pension retirement benefits	**11,380**	10,756

Changes in post-employment non-pension retirement benefits	**2012** $	**2011** $
Post-employment non-pension retirement benefits, beginning of year	**10,756**	10,197
Net periodic benefits cost accrued	**1,120**	1,092
Benefits paid	**(496)**	(533)
Post-employment non-pension retirement benefits, end of year	**11,380**	10,756

Components for net periodic benefit costs	**2012** $	**2011** $
Current service cost	**287**	272
Imputed interest cost	**739**	714
Amortization of actuarial gains	**94**	106
Net periodic benefit cost accrual for the year	**1,120**	1,092

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2012

Significant assumptions	2012 $	2011 $
Discount rate applied to the calculation of future benefits	**4.00**	5.60
Rate of compound compensation increase used in determining future costs	**3.0**	3.0

The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered during the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gains or losses over 10% of the accrued benefit obligations is amortized as an expense or income on a straight-line basis over the average remaining service period of active employees to full eligibility. As at December 31, 2012, there was an actuarial gain of $666 [2011 - $2,448 actuarial loss] not reflected in the post-employment non-pension retirement benefits liability.

The actuarial valuation as at December 31, 2012 assumed health care costs would increase 8% [2011 - 6%] in the year following the valuation, graded down to 4% after six years [2011 - 3% after 20 years], and dental costs are assumed to increase by 6% [2011 - 4%] after one year, graded down to 4% after six years [2011 - 3.5% after 10 years and 3% after 20 years]. The dispensing fee portion of health care costs is limited to twelve dollars and ninety-nine cents, the current maximum allowed under the benefits plan.

Sensitivity analysis

Assumed interest rates have a significant effect on the amounts reported for the total accrued benefit obligations and expense. A one-percentage-point change in assumed interest rates would have the following effects for 2012:

	Increase $	Decrease $
Accrued benefit obligations, as at December 31, 2012	**(1,452)**	1,849
Estimated expense for fiscal 2012	**(6)**	3

9. NOTE PAYABLE TO SHAREHOLDER

The note payable to the shareholder of $23,064 [2011 - $23,064] has an interest rate of 7.25% per annum and is due on demand.

The Corporation does not anticipate that the note will be called upon within one year and, accordingly, the note remains classified as a long-term liability.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2012

In 2012, the Corporation made interest payments of $1,672 [2011 - $1,672] to the shareholder.

10. DEBT

The Corporation's long-term and short-term borrowing facilities are as follows:

Long-term facilities

The Corporation incurred debt in the amount of $7,000 with The Toronto-Dominion Bank [the "Bank"] due in one repayment obligation at maturity in December 2012. In September 2011, this term was extended for seven years. This facility was drawn down in December 2005 and structured with a seven-year interest rate swap agreement with the Bank, effectively converting the Corporation's obligations to a fixed interest rate of approximately 4.9%. Subject to payment of any unwinding costs or receipt of benefits for unwinding the interest rate swap agreement, the Corporation has the flexibility of pre-paying the debt at its option.

On October 12, 2011, the Corporation entered into a new seven-year interest rate swap agreement with the Bank, effectively converting the Corporation's obligations to a fixed interest rate of approximately 3.6%. The effective start date of this agreement is December 2012, to coincide with the expiry of the existing swap agreement. Subject to payment of any unwinding costs or receipt of benefits for unwinding the interest rate swap agreement, the Corporation has the flexibility of pre-paying the debt at its option.

Short-term facilities

The Corporation has an operating line of credit for a maximum amount of $10,000 to assist with its working capital requirements. During the year, no amounts were drawn under this facility.

The above borrowing facilities are subject to financial tests and other covenants. These financial covenants are to be tested quarterly. In addition, these facilities are subject to other customary covenants and events of default, including an event of cross-default [for non-payment of other debts] of amounts in excess of $5,000. Non-compliance with such covenants could result in accelerated payments of amounts due under the facilities and their termination. The Corporation was in compliance with the above-mentioned covenants at December 31, 2012.

Net of interest capitalized on construction-in-progress, interest expense charged to the statement of income and retained earnings amounted to $1,920 during the year [2011 - $1,768].

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2012

11. CAPITAL STOCK

Capital stock consists of the following:

	2012 $	2011 $
Authorized		
Unlimited common shares		
Issued		
1,000 common shares	**23,064**	23,064

12. RELATED PARTY TRANSACTIONS

The Corporation transacts business with Corporation of the City of Oshawa and its affiliates in the normal course of business at commercial rates. These transactions are summarized below:

	2012 $	2011 $
REVENUE		
Facilities	**2,668**	2,671
Streetlights	**1,807**	1,754
	4,475	4,425
Streetlight maintenance and construction services	**126**	103
EXPENSES		
Net rent - 100 Simcoe Street South	**287**	264
Property taxes	**149**	144
ACCOUNTS RECEIVABLE		
Facilities and streetlights	**326**	380
Streetlight maintenance and construction services	**16**	3

The Corporation receives management support from its parent, Oshawa Power and Utilities Corporation. During the year, the Corporation paid $480 [2011 - $480] to its parent.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2012

As at December 31, 2012, the amounts owed to the Corporation from affiliated companies consists of $26 from Oshawa PUC Energy Services Inc. [2011 - $10], $2 from Oshawa PUC Services Inc. [2011 - nil] and $380 from 2252112 Ontario Inc. [2011 - $152].

13. LEASE COMMITMENTS

The Corporation leases its premises under a net operating lease with the Corporation of the City of Oshawa. The Corporation entered into a new lease in 2012, which expires March 31, 2017. This lease replaced the previous agreement signed in 2007, which expired March 31, 2012.

	100 Simcoe Street South $
2013	290
2014	290
2015	290
2016	290
2017	290

14. CONTINGENCIES

Insurance claims

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ["MEARIE"], which was created on January 1, 1987. A reciprocal insurance exchange is an Ontario group formed for the purpose of exchanging reciprocal contracts of indemnity of inter-insurance with each other. MEARIE provides general liability insurance to its member utilities.

Insurance premiums charged to each Municipal Electrical Utility consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each electric utility's claims experience.

The Corporation refers any claims received to MEARIE under the provisions of this plan. No provision has been recorded in these financial statements in respect of these matters as the Corporation has not received any claim that is not adequately covered by its insurance.

Income taxes

The tax returns filed by the Corporation are subject to review and reassessment by the Ministry of Finance for a period of up to five years from the date of filing. Any reassessment may result in a revision to previously determined tax obligations.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2012

15. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Corporation has designated its financial instruments as follows:

	2012		2011	
	Carrying value $	**Estimated fair value** $	**Carrying value** $	**Estimated fair value** $
Held-to-maturity				
Treasury bill - Government of Canada	—	—	5,566	5,566
Loans and receivables				
Accounts receivable	**7,615**	**7,615**	7,670	7,670
Due from affiliates	**408**	**408**	162	162
Unbilled revenue	**12,357**	**12,357**	11,206	11,206
Other financial liabilities (assets)				
Accounts payable and accrued liabilities	**13,327**	**13,327**	10,650	10,650
Payments in lieu of corporate income taxes	**(145)**	**(145)**	(904)	(904)
Customer advance payments	**2,812**	**2,812**	2,296	2,296
Note payable to shareholder	**23,064**	**23,064**	23,064	23,064
Long-term debt	**7,000**	**6,614**	7,000	7,026

The fair value of the Government of Canada Treasury bill was approximately equal to its carrying value due to the short-term financial nature of this financial instrument.

The Corporation has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. Considerable judgment is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments as well as related interest rate and credit and liquidity risks are described below.

Investments, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, and customer advance deposits

The carrying values of Government of Canada Treasury bill, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, and customer advance deposits approximate their fair values due to the short period to maturity of these financial instruments.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2012

Note payable to shareholder
The fair value of the note payable to shareholder is indeterminable.

Long-term debt
The fair value of the Corporation's long-term debt is estimated using present value techniques based on a borrowing rate of 4.5% for debt with similar terms and maturities. Long-term debt is shown net of unamortized debt issue costs.

Credit risk
Certain of the Corporation's financial assets are exposed to credit risk.

Cash consists of deposits with major commercial banks.

The Corporation, in the normal course of business, is exposed to credit risk from its customers. These accounts receivable are subject to normal industry credit risks. The Corporation provides for an allowance for doubtful accounts to absorb its credit losses. The Corporation also has insurance against certain of the receivables.

The Corporation is also exposed to credit risk from the potential default of any of its counterparties on its interest rate swap agreements. The Corporation mitigates this credit risk by dealing with counterparties who are major financial institutions and which the Corporation anticipates will satisfy their obligations under the contracts.

Interest rate risk
Long-term debt is at fixed interest rates thereby minimizing cash flow and interest rate fluctuation exposure.

The Corporation enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Corporation does not enter into derivatives for speculative purposes. The fair value of the interest rate swap agreements represents an approximation of the amounts the Corporation would have paid to or received from the counterparty to unwind its positions as at December 31, 2012.

The Corporation estimates that a loss of approximately $332 [2011 - loss of $482] would be realized if the contract was terminated on December 31, 2012. This contract is designated as a hedge and therefore this loss has been included in other comprehensive income. This loss is not expected to affect income as management intends to hold the interest rate swap contract to maturity.

Liquidity risk
The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest expense. The Corporation monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

16. COLLATERAL

As part of its electricity purchase agreement with the IESO, an Irrevocable Standby Letter of Credit in the amount of $7,000 was issued in October 2012, in favour of the IESO, as collateral support for energy amounts as determined by and payable to the IESO. This replaced the Treasury bill in the amount of $5,566 pledged by the Corporation in 2011, to the IESO, as collateral support for its energy purchase obligations.

17. INTANGIBLE ASSETS

Intangible assets consist of deferred IRU lease charges. Amortization is charged on a straight-line basis over the term of the IRU.

	2012 $	2011 $
Deferred IRU lease	**606**	606
Less accumulated amortization	**132**	101
Net book value	**474**	505

18. CAPITAL MANAGEMENT

The Corporation defines capital as shareholder's equity. The Corporation's objectives when managing capital are to:

- Ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans;
- Maintain financial capacity and access to capital to support future development of the business while taking into consideration current and future industry, market and economic risks and conditions; and
- Utilize short-term funding sources to manage its working capital requirements.

Oshawa PUC Networks Inc.

SCHEDULE OF SUMMARY OF NET INCOME

[in thousands of dollars]

Year ended December 31

	2012	2011	2010	2009	2008	2007	2006	2005	2004
	$	$	$	$	$	$	$	$	$
REVENUE									
Sale of electrical energy	**114,136**	114,440	110,135	104,201	101,087	102,206	99,044	99,903	98,627
Cost of electrical energy	**96,182**	94,230	91,168	85,808	83,068	84,573	81,724	83,185	81,987
Net revenue from sale of electrical energy	**17,954**	20,210	18,967	18,393	18,019	17,633	17,320	16,718	16,640
Other revenue									
Regulated service	**1,585**	1,335	1,578	1,457	1,428	1,245	823	395	367
Service	**210**	187	135	234	493	456	360	296	831
Other	**8**	23	156	15	39	67	57	21	90
Total other revenue	**1,803**	1,545	1,869	1,706	1,960	1,768	1,240	712	1,288
Net revenue	**19,757**	21,755	20,836	20,099	19,979	19,401	18,560	17,430	17,928
EXPENSES									
Operations, maintenance and administrative	**14,915**	14,224	13,335	13,361	14,046	13,886	13,024	12,718	12,175
Allocated to property, plant and equipment and billable jobs	**(3,681)**	(3,903)	(4,227)	(4,217)	(4,738)	(4,547)	(4,464)	(4,182)	(3,736)
Net operations, maintenance and administrative expenses	**11,234**	10,321	9,108	9,144	9,308	9,339	8,560	8,536	8,439
Income before the following	**8,523**	11,434	11,728	10,955	10,671	10,062	10,000	8,894	9,489
Depreciation - property, plant and equipment	**(3,036)**	(5,076)	(4,574)	(4,400)	(4,258)	(3,908)	(3,659)	(3,545)	(3,339)
Amortization - deferred IRU leases	**(31)**	(30)	(30)	(30)	(11)	—	—	—	—
(Loss) gain on disposal of property, plant and equipment	**(75)**	141	—	4	—	37	48	35	—
Non-recurring provision for deferred PILs	**—**	1,208	—	—	—	—	—	—	—
Interest income	**102**	144	96	151	531	762	830	632	722
Interest expense	**(1,920)**	(1,768)	(1,928)	(1,840)	(1,819)	(1,824)	(1,943)	(1,534)	(1,485)
Income before provision for payments in lieu of corporate income taxes	**3,563**	6,053	5,292	4,840	5,114	5,129	5,276	4,482	5,387
Provision for payments in lieu of corporate income taxes	**47**	1,637	1,885	1,924	1,666	1,968	1,888	2,007	2,107
Net income for the year	**3,516**	4,416	3,407	2,916	3,448	3,161	3,388	2,475	3,280

Financial Statements

Oshawa PUC Networks Inc.

December 31, 2013

Building a better working world

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Oshawa PUC Networks Inc.

We have audited the accompanying financial statements of **Oshawa PUC Networks Inc.**, which comprise the balance sheet as at December 31, 2013, the statements of income and retained earnings, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Oshawa PUC Networks Inc.** as at December 31, 2013 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada,
April 17, 2014.

Chartered Accountants
Licensed Public Accountants

Oshawa PUC Networks Inc.

BALANCE SHEET

[in thousands of dollars]

As at December 31

	2013 $	2012 $
ASSETS		
Current		
Cash [including customer deposits in 2013 - $2,574; 2012 - $2,613]	**3,427**	6,204
Accounts receivable *[note 12]*	**9,972**	7,615
Payments in lieu of corporate income taxes	**451**	145
Unbilled revenue	**13,081**	12,357
Due from affiliates *[note 12]*	**—**	408
Inventory	**51**	239
Prepaid expenses and other	**97**	136
Current portion of regulatory assets *[note 4]*	**586**	586
Total current assets	**27,665**	27,690
Property, plant and equipment *[note 3]*	**77,504**	70,709
Deferred IRU leases *[note 17]*	**444**	474
Future income tax assets *[note 6]*	**7,935**	8,959
Other assets	**175**	248
Total non-current assets	**86,058**	80,390
Total assets	**113,723**	108,080
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable for power - IESO *[note 16]*	**11,728**	7,552
Accounts payable and accrued liabilities	**6,526**	5,774
Due to affiliates *[note 12]*	**2,554**	—
Customer advance payments	**2,511**	2,812
Current portion of long-term liabilities *[note 5]*	**2,899**	2,989
Total current liabilities	**26,218**	19,127
Note payable to shareholder *[note 9]*	**23,064**	23,064
Long-term debt *[note 10]*	**7,000**	7,000
Unrealized loss on interest rate swaps *[note 15]*	**66**	332
Customer advance deposits	**1,664**	1,689
Post-employment non-pension retirement benefits *[note 8]*	**11,678**	11,406
Regulatory liabilities *[note 4]*	**5,135**	7,963
Total non-current liabilities	**48,607**	51,454
Total liabilities	**74,825**	70,581
Shareholder's equity		
Capital stock *[note 11]*	**23,064**	23,064
Retained earnings	**15,882**	14,679
Accumulated comprehensive loss on interest rate swaps	**(48)**	(244)
Total shareholder's equity	**38,898**	37,499
Total liabilities and shareholder's equity	**113,723**	108,080
Commitments and contingencies *[notes 13 and 14]*		

See accompanying notes

On behalf of the Board:

Director Director

Oshawa PUC Networks Inc.

STATEMENT OF INCOME AND RETAINED EARNINGS

[in thousands of dollars]

Year ended December 31

	2013 $	2012 $
REVENUE		
Sale of electrical energy	**120,085**	114,136
Cost of electrical energy	**102,012**	96,182
Net revenue from sale of electrical energy	**18,073**	17,954
Other revenue		
Regulated service	**1,476**	1,585
Service	**236**	210
Other	**130**	8
Total other revenue	**1,842**	1,803
Net revenue	**19,915**	19,757
EXPENSES		
Operations, maintenance and administrative	**15,206**	14,915
Allocated to property, plant and equipment and billable jobs	**(4,001)**	(3,681)
Net operations, maintenance and administrative expenses	**11,205**	11,234
Income before the following:	**8,710**	8,523
Depreciation - property, plant and equipment	**(3,653)**	(3,036)
Amortization - deferred IRU leases	**(30)**	(31)
Loss on disposal of property, plant and equipment	**(208)**	(75)
Interest income	**48**	102
Interest expense *[note 10]*	**(1,802)**	(1,920)
Income before payments in lieu of corporate income taxes	**3,065**	3,563
Provision for payments in lieu of corporate income taxes *[note 6]*	**162**	47
Net income for the year	**2,903**	3,516
Retained earnings, beginning of year	**14,679**	12,863
Dividends paid	**(1,700)**	(1,700)
Retained earnings, end of year	**15,882**	14,679

See accompanying notes

Oshawa PUC Networks Inc.

STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended December 31

	2013 $	2012 $
OPERATING ACTIVITIES		
Net income for the year	**2,903**	3,516
Add (deduct) items not involving cash		
Depreciation	**3,653**	3,036
Future income taxes	**1,024**	706
Unrealized gain on interest rate swaps	**(266)**	(150)
Accumulated other comprehensive income	**196**	112
Loss on disposal of property, plant and equipment	**208**	75
Amortization - deferred IRU leases	**30**	31
Post-employment non-pension retirement benefits, net of cash payments	**272**	650
	8,020	7,976
Changes in non-cash working capital balances related to operations		
Decrease (increase) in accounts receivable	**(2,357)**	55
Decrease (increase) in payments in lieu of corporate income taxes	**(306)**	759
Increase in unbilled revenue	**(724)**	(1,151)
Decrease (increase) in due from affiliates	**408**	(246)
Decrease (increase) in inventory	**188**	(51)
Decrease in prepaid expenses and other	**39**	94
Decrease (increase) in other assets	**73**	(21)
Increase in accounts payable for power - IESO and accounts payable and accrued liabilities	**4,928**	2,677
Increase in due to affiliates	**2,554**	—
Increase (decrease) in regulatory liabilities, net of regulatory assets	**(2,828)**	318
Increase (decrease) in customer advance payments	**(301)**	516
Cash provided by operating activities	**9,694**	10,926
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(12,339)**	(12,838)
Developer contributions in aid of construction	**1,683**	1,270
Proceeds from disposal of property, plant and equipment	**—**	151
Government of Canada Treasury bill	**—**	5,566
Increase (decrease) in upstream capital improvement liability	**(77)**	467
Cash used in investing activities	**(10,733)**	(5,384)
FINANCING ACTIVITIES		
Dividends paid	**(1,700)**	(1,700)
Increase (decrease) in customer advance deposits	**(38)**	6
Cash used in financing activities	**(1,738)**	(1,694)
Net increase (decrease) in cash during the year	**(2,777)**	3,848
Cash, beginning of year	**6,204**	2,356
Cash, end of year	**3,427**	6,204
Supplemental cash flow information		
Interest paid [prior to capitalization of interest]	**1,909**	2,010
Payments in lieu of corporate income taxes	**240**	540

See accompanying notes

Oshawa PUC Networks Inc.

STATEMENT OF COMPREHENSIVE INCOME

[in thousands of dollars]

Year ended December 31

	2013 $	2012 $
Net income for the year	**2,903**	3,516
Unrealized gain (loss) in fair value of derivatives designated as cash flow hedges, net of income taxes	**123**	(44)
Gain in fair value of derivatives designated as cash flow hedges, transferred to net income for the year, net of income taxes	**73**	156
Comprehensive income	**3,099**	3,628

See accompanying notes

Oshawa PUC Networks Inc.

SCHEDULE OF SUMMARY OF NET INCOME

[in thousands of dollars]

Year ended December 31

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	$	$	$	$	$	$	$	$	$	$
REVENUE										
Sale of electrical energy	**120,085**	114,136	114,440	110,135	104,201	101,087	102,206	99,044	99,903	98,627
Cost of electrical energy	**102,012**	96,182	94,230	91,168	85,808	83,068	84,573	81,724	83,185	81,987
Net revenue from sale of electrical energy	**18,073**	17,954	20,210	18,967	18,393	18,019	17,633	17,320	16,718	16,640
Other revenue										
Regulated service	**1,476**	1,585	1,335	1,578	1,457	1,428	1,245	823	395	367
Service	**236**	210	187	135	234	493	456	360	296	831
Other	**130**	8	23	156	15	39	67	57	21	90
Total other revenue	**1,842**	1,803	1,545	1,869	1,706	1,960	1,768	1,240	712	1,288
Net revenue	**19,915**	19,757	21,755	20,836	20,099	19,979	19,401	18,560	17,430	17,928
EXPENSES										
Operations, maintenance and administrative	**15,206**	14,915	14,224	13,335	13,361	14,046	13,886	13,024	12,718	12,175
Allocated to property, plant and equipment and billable jobs	**(4,001)**	(3,681)	(3,903)	(4,227)	(4,217)	(4,738)	(4,547)	(4,464)	(4,182)	(3,736)
Net operations, maintenance and administrative expenses	**11,205**	11,234	10,321	9,108	9,144	9,308	9,339	8,560	8,536	8,439
Income before the following	**8,710**	8,523	11,434	11,728	10,955	10,671	10,062	10,000	8,894	9,489
Depreciation - property, plant and equipment	**(3,653)**	(3,036)	(5,076)	(4,574)	(4,400)	(4,258)	(3,908)	(3,659)	(3,545)	(3,339)
Amortization - deferred IRU leases	**(30)**	(31)	(30)	(30)	(30)	(11)	—	—	—	—
(Loss) gain on disposal of property, plant and equipment	**(208)**	(75)	141	—	4	—	37	48	35	—
Non-recurring provision for deferred PILs	**—**	—	1,208	—	—	—	—	—	—	—
Interest income	**48**	102	144	96	151	531	762	830	632	722
Interest expense	**(1,802)**	(1,920)	(1,768)	(1,928)	(1,840)	(1,819)	(1,824)	(1,943)	(1,534)	(1,485)
Income before provision for payments in lieu of corporate income taxes	**3,065**	3,563	6,053	5,292	4,840	5,114	5,129	5,276	4,482	5,387
Provision for payments in lieu of corporate income taxes	**162**	47	1,637	1,885	1,924	1,666	1,968	1,888	2,007	2,107
Net income for the year	**2,903**	3,516	4,416	3,407	2,916	3,448	3,161	3,388	2,475	3,280

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

1. INCORPORATION

Oshawa PUC Networks Inc. [the "Corporation"] was incorporated under the *Business Corporations Act* (Ontario) on October 18, 2000. The incorporation was required in accordance with the provincial government's *Electricity Act*, 1998. The Corporation is a local distribution company ["LDC"] that provides electricity distribution services to businesses and residences in the service area of Oshawa, Ontario.

The Corporation is a wholly owned subsidiary of Oshawa Power and Utilities Corporation, which is wholly owned by the Corporation of the City of Oshawa [the "City"].

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Corporation's financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ["GAAP"], including accounting principles prescribed by the Ontario Energy Board ["OEB"] in the *Accounting Procedures Handbook for Electric Distribution Utilities* ["AP Handbook"], and reflects the significant accounting policies summarized below.

Rate setting and regulation

The OEB has regulatory oversight of electricity matters in the Province of Ontario. The *Ontario Energy Board Act*, 1998 sets out the OEB's powers, including the issuance of distribution licenses that must be obtained by any person owning or operating a distribution system under the *Ontario Energy Board Act,* 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and for ensuring that LDCs fulfill obligations to connect and service customers.

As part of its regulation of LDCs, the OEB established a multi-year electricity distribution rate setting plan which indicated that, commencing with 2008 rates, a limited number of LDCs would be identified each year to file a future test year cost of service application. The plan would run for four years, enabling each LDC in the province to rebase its rates once during the four-year plan. For any of the other LDCs seeking approval to change their distribution rates, LDCs would file a mechanistic update to their current rates prescribed under the OEB's incentive regulation mechanism.

In June 2011, the Corporation filed its cost of service application with the OEB to rebase its rates for the four-year period commencing January 1, 2012. On January 10, 2012, the OEB approved the cost of service application filed by the Corporation and issued its Decision and Order for rates effective January 1, 2012.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

The OEB has the general authority to include or exclude costs and revenues in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company under Canadian GAAP.

The following regulatory practices relating to regulatory assets and liabilities, and payments in lieu of corporate income taxes, have resulted in accounting treatments which differ from Canadian GAAP for enterprises operating in a non-regulated environment.

Regulatory assets and liabilities
Regulatory assets primarily represent costs that have been deferred because it is probable that they will be recovered in future rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers for electricity services and the costs that the Corporation incurs to purchase and deliver these services. Certain costs and variance account balances are deemed to be "regulatory assets" or "regulatory liabilities" and are reflected in the LDC's balance sheet until the manner and timing of disposition is determined by the OEB.

Payments in lieu of income taxes ["PILs"]
The Corporation provides for PILs using the future income taxes method for its regulated activities as permitted by The Chartered Professional Accountants of Canada ["CPA Canada"] and the OEB.

Inventory

Inventory, which consists of parts and supplies acquired for internal maintenance or construction, is valued at the lower of cost and net realizable value, with cost being determined on a weighted average basis.

Property, plant and equipment

Property, plant and equipment purchased or constructed by the Corporation are stated at historic costs and include contracted services, material, labour, engineering and overhead costs. Furthermore, constructed property, plant and equipment include ascribed interest during the period of construction.

Property, plant and equipment also include the cost of certain capital assets partially funded by developers as a contribution in aid of construction to the Corporation. The OEB requires that such contributions, whether in cash or in-kind, be offset against the related asset cost.

When identifiable capital assets are retired or otherwise disposed of, their original cost and accumulated depreciation are removed from the accounts and the related gain or loss is included in the determination of income for the year. Repairs and maintenance expenditures are charged to operations as incurred.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

Depreciation is provided on a straight-line basis over the estimated service lives of the property, plant and equipment as follows:

Buildings	1.61% - 2.38%
Transmission, distribution system and meters	1.67% - 10%
Equipment and furniture	5% - 20%
Computer hardware	25%
Vehicle fleet	8.33% - 12.50%

Construction-in-progress comprises capital assets under construction, capital assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed. These assets are not depreciated until placed into service.

In the absence of rate regulation, overhead costs which are not directly attributable to construction activity are not capitalized.

Customer advance deposits

Customer advance deposits represent cash collections from customers that are available to offset the payment of energy bills or other services. Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of securities, these amounts are recorded in the accounts as securities held in respect of customer deposits. Interest is paid on customer balances at rates established by the Corporation in accordance with OEB guidelines.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

Pension and other post-employment benefits

The Corporation provides pension benefits for its employees through the Ontario Municipal Employees' Retirement System ["OMERS"] Fund [the "OMERS Fund"], a multi-employer public sector pension fund. The OMERS Fund is a defined benefit pension plan which is financed by equal contributions from participating employers and employees and by the investment earnings of the OMERS Fund. Although the plan is a defined benefit plan, sufficient information is not available to the Corporation to account for it as such because it is not possible to attribute the fund assets and liabilities between the various employers who contribute to the fund. Accordingly, contributions payable as a result of employee service are expensed when incurred as part of operating costs.

Employee future benefits, other than pensions provided by the Corporation, include supplemental health, dental and life insurance. These plans provide benefits to retired employees, their spouses and surviving spouses when the employees are no longer providing active service. Retiree benefits expense is recognized in the period during which the employees render services.

The liability for employee future benefits other than pensions is recorded on an accrual basis. The Corporation actuarially determines the cost of post-employment benefits offered to employees and retirees, including their spouses and surviving spouses, using the projected benefit method, pro-rated on service and based on management's best estimates. Under this method, the projected post-retirement benefits are deemed to be earned on a pro-rata basis over the employee's years of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits.

The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered during the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gains or losses over 10% of the accrued benefit obligation is amortized as an expense or income on a straight-line basis over the average remaining service period of active employees to full eligibility. As at December 31, 2013, there was a net unamortized actuarial gain of $1,137 [2012 - net unamortized actuarial gain of $666] not reflected in the post-employment non-pension benefits liability.

Financial instruments

Financial instruments are measured at fair value on initial recognition. After initial recognition, financial instruments are measured at fair value, except for financial assets classified as held-to-maturity, or loans and receivables, and other financial liabilities, which are measured at cost or amortized cost using the effective interest rate method. The Corporation has made the following classifications:

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

Accounts receivable and unbilled revenue

Accounts receivable and unbilled revenue are classified as loans and receivables and are recorded at amortized cost, which upon their initial measurement is equal to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities, customer advance deposits and long-term debt

Accounts payable and accrued liabilities, customer advance deposits and long-term debt are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Derivative financial instruments and hedge accounting

Derivative financial instruments in the form of interest rate swap contracts are used to manage exposure to fluctuations in interest rates on the Corporation's long-term debt. The Corporation does not enter into derivative agreements for speculative purposes.

These contracts are designated as hedges, and therefore any gain or loss is included in other comprehensive income. Any gain or loss would not be expected to affect net income as management intends to hold the interest rate swap contracts to maturity.

Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date. The Corporation has elected to apply hedge accounting for its interest rate swap contract and it is designated as a cash flow hedge. For cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognized in accumulated other comprehensive income, net of income taxes. The ineffective portion of the fair value changes is recognized in net income for the year. Amounts charged to accumulated other comprehensive income are reclassified in the statement of income and retained earnings when the hedged transaction affects the financial instrument.

All hedging relationships are formally documented, including the risk management objective and strategy. On an ongoing basis, an assessment is made as to whether the designated derivative financial instruments continue to be effective in offsetting changes in cash flows of the hedged transaction.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

Investments

An Irrevocable Standby Letter of Credit in the amount of $7,000 was issued in October 2012, and renewed in October 2013, in favour of the Independent Electricity System Operator ["IESO"] as collateral support for energy amounts as determined by and payable to the IESO.

Deferred indefeasible right of use ["IRU"] leases

Deferred IRU leases are lump-sum payments made by the Corporation to lease the IRU of the dark fibre optics networks from its affiliate, Oshawa PUC Services Inc. These payments are amortized over the contracted term of 20 years.

Customer advance payments

Customer advance payments consist of both the Equal Payment Plan and customer advance payments.

Revenue recognition

Revenue from the sale of electricity represents actual revenue attributable to its sale and delivery. Revenue includes an estimate of unbilled revenue, which represents electricity delivered and consumed by customers since the date of each customer's last billing.

Regulated service revenue represents charges to energy customers for services such as late payments, collection fees, account set-up fees, pole attachment charges, and reconnect and disconnect charges. Regulated service revenue is recognized as services are rendered.

Service revenue primarily includes duct rental revenue and is recognized as services are rendered.

Other revenue and interest are recognized as services are rendered, projects completed or when interest is earned.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Certain estimates are necessary since the regulatory environment in which the Corporation operates requires amounts to be recorded at estimated values until finalization and adjustment pursuant to subsequent regulatory decisions or other regulatory proceedings. Due to inherent uncertainty involved in making such estimates, actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Ministry of Energy and Infrastructure or the Ministry of Finance.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

PILs

Under the *Electricity Act*, 1998, and effective October 1, 2001, the Corporation incurred PILs that are remitted to the Ministry of Finance. These payments are calculated in accordance with the rules for computing income and taxable capital, and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario) as modified by the *Electricity Act*, 1998 and related regulations. Payments remitted to Ontario Electricity Financial Corporation are designated to be applied against the stranded debt of Ontario Power Generation, formerly Ontario Hydro.

The regulated electricity distribution business of the Corporation provides for PILs using the future income taxes method. Under the future income taxes method, provisions are made for future income taxes as a result of temporary differences between the tax bases of assets and liabilities and their carrying amounts for accounting purposes. When future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the customers of the Corporation at that time.

The OEB's Electricity Distribution Rate Handbook provides for the recovery of PILs by LDCs through annual distribution rate adjustments as permitted by the OEB.

The method that has been used to set the PILs portion of the Corporation's rates for 2013 is consistent with the approach used in past periods.

Upstream capital improvement liability

The provision for an upstream capital improvement liability levied under the *Development Charges Act*, 1997, and/or predecessor legislation, is earmarked for specific property, plant and equipment related to estimated growth that may occur in the future. Upstream capital improvement liability balances are reduced as expenditures occur.

Asset retirement obligations

The Corporation follows the CPA Canada Handbook which requires the recording of the fair value of the future expenditures required to settle legal obligations associated with asset retirements. As at December 31, 2013, the Corporation has determined that there are no material asset retirement obligations associated with transmission, distribution and generation systems.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

Future accounting policies

Transition to new Canadian financial reporting standards

Effective January 1, 2011, publicly accountable enterprises in Canada were required to apply International Financial Reporting Standards ["IFRS"], with the exception of qualifying entities with rate-regulated activities ["RRA"].

On the amendment of the CPA Canada Handbook, the effective mandatory date for qualifying entities with RRA to adopt IFRS will be January 1, 2015. The Corporation qualifies for the deferral options and has elected to defer the adoption of IFRS and will, therefore, continue to prepare its financial statements in accordance with existing Canadian GAAP [i.e., Part V of the CPA Canada Handbook] for all interim and annual periods ending on or before December 31, 2014.

With the amendment, effective January 1, 2015, the Corporation will no longer be permitted to use Part V of the CPA Canada Handbook in the presentation of its financial statements, at which time the transition to a new set of accounting standards will be required. The Corporation, as an organization part of the public sector and defined as a government business enterprise, will be adopting IFRS. The Corporation is currently assessing the financial reporting impacts of adopting IFRS.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2013			2012		
	Cost $	**Accumulated depreciation** $	**Net book value** $	**Cost** $	**Accumulated depreciation** $	**Net book value** $
Transmission and distribution						
Underground distribution	**40,814**	**17,675**	**23,139**	38,894	17,158	21,736
Overhead distribution	**19,701**	**9,056**	**10,645**	18,688	9,308	9,380
Poles, towers and fixtures	**34,766**	**14,168**	**20,598**	30,606	14,023	16,583
Transformers	**52,112**	**29,019**	**23,093**	50,434	29,256	21,178
Station equipment	**18,413**	**7,084**	**11,329**	19,172	7,524	11,648
Meters	**10,406**	**3,915**	**6,491**	9,864	3,195	6,669
Total transmission and distribution	**176,212**	**80,917**	**95,295**	167,658	80,464	87,194
Total construction-in-progress	**1,296**	—	**1,296**	1,226	—	1,226
Other property, plant and equipment						
Vehicle fleet	**4,135**	**2,181**	**1,954**	4,335	2,097	2,238
Equipment and furniture	**6,504**	**4,982**	**1,522**	6,300	4,546	1,754
Computer hardware and software	**4,092**	**3,175**	**917**	3,472	2,711	761
Buildings	**709**	**388**	**321**	709	374	335
Land	**294**	—	**294**	294	—	294
	15,734	**10,726**	**5,008**	15,110	9,728	5,382
Property, plant and equipment before contributions in aid of construction	**193,242**	**91,643**	**101,599**	183,994	90,192	93,802
Contributions in aid of construction	**(32,314)**	**(8,219)**	**(24,095)**	(30,629)	(7,536)	(23,093)
Property, plant and equipment	**160,928**	**83,424**	**77,504**	153,365	82,656	70,709

For the year ended December 31, 2013, ascribed interest capitalized to property, plant and equipment as prescribed by the OEB amounted to $107 [2012 - $91]. In the absence of rate regulation, additions to property, plant and equipment would have been $107 lower [2012 - $91 lower] and interest expense would have been $107 higher [2012 - $91 higher].

The Company's rate application was approved with an effective date of January 1, 2012. The OEB authorized the Company to adjust the cost of the property, plant and equipment for changes to capitalized overhead costs and depreciation rates effective January 1, 2012. An amount of $1,250 was credited to the regulatory account approved by the OEB to record this adjustment.

4. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities consist of the following:

	2013 $	2012 $
Regulatory liabilities (assets)		
Retail settlement variance – power	**(1,853)**	(248)
Retail settlement variance – global adjustment	**(1,070)**	(175)
Retail settlement variances – other	**722**	621
Smart meter variance	**(1,075)**	(1,605)
Regulatory Asset Recovery Account ["RARA"]	**(883)**	(1,105)
Future income taxes *[note 6]*	**7,918**	8,871
IFRS-CGAAP transitional PP&E account	**814**	1,013
Regulatory asset – other	**(24)**	5
Net regulatory liabilities	**4,549**	7,377
Add current portion	**586**	586
Net regulatory long-term liabilities	**5,135**	7,963

The smart meter variance account includes $964 [2012 - $1,421] to be recovered through rates for meters stranded upon being replaced with smart meters.

On January 10, 2012, the Corporation received approval from the OEB for the disposition of certain regulatory account balances, excluding future income taxes to be paid to customers. The disposition is to be adjusted through customer rates effective January 1, 2012. As future income tax assets are realized, the liability for future income taxes to be paid to customers will be settled.

Retail settlement variances

The retail settlement variances relate to charges the Corporation has incurred for transmission services, generation and wholesale market operations from the IESO that were not settled with customers during the period through approved rates. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time and are reported at period-end dates in accordance with rules prescribed by the OEB. Under rate regulation, the variances which would be recorded as revenue or expense when incurred under Canadian GAAP are deferred until collected or repaid through future rates. The Corporation has accrued interest on the regulatory asset and liability balances, as directed by the OEB.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

Retail settlement variance – power
The retail settlement variance – power account is established for the purpose of recording the net difference in energy cost only. Net difference refers to the difference between the amount charged by the IESO on the settlement invoice for the energy cost and the amount billed to customers for the energy cost.

Retail settlement variance – global adjustment
The global adjustment variance account is established for the purpose of recording the net difference in the global adjustment attributable to customers. Net difference refers to the difference between the amount charged or credited by the IESO for the global adjustment and the amount billed to customers for the global adjustment.

The global adjustment arises mainly due to a difference between the spot price charged by the IESO to market participants and the blended price paid by the IESO under the various contracts with electricity generators and suppliers.

Retail settlement variances – other
This item refers to a set of accounts that will separately capture information relating to wholesale market service charges, non-recurring wholesale market service charges, retail transmission network service charges and retail transmission connection service charges. Retail settlement variances – other is used to record the net difference between the amount paid in the month to the IESO for the services listed above and the amount billed to customers and retailers in the month based on OEB approved rates.

Smart meter variance
The provincial government mandated the installation of smart meters for all residential and small business customers in Ontario by December 31, 2010. The smart meter variance account is used to record expenditures made by the Corporation under the smart meter program; the carrying value of meters replaced and stranded by the installation of smart meters; and amounts received from customers under approved OEB rates, for advances used to fund the installation of smart meters.

On January 10, 2012, the Corporation received approval of the costs incurred under the program and was granted a rate rider to recover the balance in the smart meter variance account which is the excess of costs incurred [including the carrying value of stranded meters] less amounts received from customers.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

RARA

Effective May 2006, the RARA was approved by the OEB. This account is used to record the disposition of deferral and variance account balances, by means of a rate rider, for which approval to recover (or refund) has been granted by the OEB as part of the regulatory process. The balance remaining as at December 31, 2013 represents the difference between the opening balance approved for recovery and the amount collected.

Future income taxes to be paid to customers

An offset to future income tax assets relating to the regulated business has been recorded in the accounts as a regulatory liability. As future income tax assets are realized, the liability for future income taxes to be paid to customers will be settled through lower OEB approved rates.

IFRS-CGAAP Transitional PP&E Account

The Company's rate application was approved with an effective date of January 1, 2012. The rate application included adjustments to the cost of the property, plant and equipment which was to approximate the adjustments otherwise required to account for costs in accordance with IFRS standards. The increase in the costs of the property, plant and equipment in the amount of $1,250 was recorded effective January 1, 2012, and expected to be amortized over four years. The regulatory liability ″IFRS-CGAAP Transitional PP&E account″ was authorized under the AP Handbook to record these differences.

Regulatory accrued interest

Interest is earned or charged on regulatory assets and liabilities at OEB prescribed rates and are recorded to the related regulatory account.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

5. CURRENT PORTION OF LONG-TERM LIABILITIES

The current portion of long-term liabilities consists of the following:

	2013 $	2012 $
Customer advance deposits	**910**	924
Upstream capital improvement liability *[note 7]*	**1,989**	2,065
	2,899	2,989

6. PILs

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and effective tax rates is provided as follows:

	2013 $	2012 $
Income before PILs	**3,065**	3,563
Combined Canadian federal and Ontario statutory income tax rate	**26.50%**	26.50%
Expected provision for PILs at statutory tax rates	**812**	944
Pre 2006 provision reversed	**—**	(346)
Property, plant and equipment	**(680)**	(721)
Post-employment non-pension benefits	**78**	166
Other	**(20)**	28
Cost allocations	**(28)**	(24)
Provision for PILs	**162**	47
Effective tax rates	**5.28%**	1.32%
Components of provision for PILs		
Current PILs	**162**	47
Future PILs	**953**	667
Future PILs transferred to regulatory assets	**(953)**	(667)
Provision for PILs	**162**	47

During the year, the Corporation recorded $7,918 in regulatory liabilities and a corresponding offset to future income tax assets [2012 - $8,871], for the amount of future income taxes expected to be paid to customers in future electricity rates.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

	2013 $	2012 $
Components of future income tax assets		
Property, plant and equipment	**3,708**	4,759
Employee post-employment non-pension benefits	**4,210**	4,112
Accumulated other comprehensive loss	**17**	88
Future income tax assets	**7,935**	8,959

7. UPSTREAM CAPITAL IMPROVEMENT LIABILITY

The upstream capital improvement liability account represents amounts received from developers for improvements to system capacity not yet needed to be constructed. Improvements may include capital contributions for transformer stations and construction of new municipal substations.

	2013 $	2012 $
Current portion balance	**1,989**	2,065

8. EMPLOYEE BENEFITS

Pension costs

The Corporation makes contributions to OMERS, which is a multi-employer plan. The plan is a defined benefit plan which specifies the amount of retirement benefits to be received by the employees based on length of service and rates of pay. Current and future contributions are dependent upon the results of the OMERS plan as actuarially determined from time to time.

For the year ended December 31, 2013, the Corporation's OMERS current service pension costs were $674 [2012 - $577]. OMERS contribution rates were 9.0% up to the year's maximum pensionable earnings [″YMPE″] and 14.6% over the YMPE for normal retirement age [″NRA″] of 65 [2012 – 8.3% up to YMPE and 12.8% over YMPE for NRA of 65].

Post-employment non-pension benefits

The Corporation provides post-employment benefits, principally supplemental health and dental coverage, for employees who retire from active employment.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

Accrued benefit obligations

The Corporation measures its accrued benefit obligations as at December 31 of each year. The latest actuarial valuation was performed as of December 31, 2013.

	2013 $	2012 $
Accrued benefit obligations, beginning of year	**10,714**	13,204
Employer current service cost	**189**	287
Interest on obligation	**426**	739
Benefits paid	**(346)**	(496)
Actuarial gain recognized at the end of the year	**(471)**	(3,020)
Accrued benefit obligations, end of year	**10,512**	10,714

Reconciliation of the accrued benefit obligations to post-employment non-pension retirement benefits	2013 $	2012 $
Accrued benefit obligations	**10,512**	10,714
Unamortized net actuarial gains	**1,137**	666
Post-employment non-pension retirement benefits	**11,649**	11,380

Changes in post-employment non-pension retirement benefits	2013 $	2012 $
Post-employment non-pension retirement benefits, beginning of year	**11,380**	10,756
Net periodic benefits cost accrued	**615**	1,120
Benefits paid	**(346)**	(496)
Post-employment non-pension retirement benefits, end of year	**11,649**	11,380

Components for net periodic benefit costs	2013 $	2012 $
Current service cost	**189**	287
Imputed interest cost	**426**	739
Amortization of actuarial gains	**-**	94
Net periodic benefit cost accrual for the year	**615**	1,120

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

Significant assumptions	2013 %	2012 %
Discount rate applied to the calculation of future benefits	**4.75**	4.00
Rate of compound compensation increase used in determining future costs	**3.0**	3.0

The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered during the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gains or losses over 10% of the accrued benefit obligations is amortized as an expense or income on a straight-line basis over the average remaining service period of active employees to full eligibility. As at December 31, 2013, there was an actuarial gain of $1,137 [2012 - $666 actuarial gain] not reflected in the post-employment non-pension retirement benefits liability.

The actuarial valuation as at December 31, 2013 assumed health care costs would increase 8% [2012 - 8%] in the year following the valuation, graded down to 4% after six years [2012 - 4% after 6 years], and dental costs are assumed to increase by 6% [2012 - 6%] after one year, graded down to 4% after six years [2012 - 4% after 6 years]. The dispensing fee portion of health care costs is limited to twelve dollars and ninety-nine cents; the current maximum allowed under the benefits plan.

Sensitivity analysis

Assumed interest rates have a significant effect on the amounts reported for the total accrued benefit obligations and expense. A one-percentage-point change in assumed interest rates would have the following effects for 2013:

	Increase $	Decrease $
Accrued benefit obligations, as at December 31, 2013	**(1,351)**	1,713
Estimated expense for fiscal 2013	**(11)**	10

9. NOTE PAYABLE TO SHAREHOLDER

The note payable to the shareholder of $23,064 [2012 - $23,064] has an interest rate of 7.25% per annum and is due on demand.

The Corporation does not anticipate that the note will be called upon within one year and, accordingly, the note remains classified as a long-term liability.

In 2013, the Corporation made interest payments of $1,672 [2012 - $1,672] to the shareholder.

10. DEBT

The Corporation's long-term and short-term borrowing facilities are as follows:

Long-term facilities

The Corporation incurred debt in the amount of $7,000 with The Toronto-Dominion Bank [the "Bank"] due in one repayment obligation at maturity in December 2012. In September 2011, this term was extended for seven years. This facility was drawn down in December 2005 and structured with a seven-year interest rate swap agreement with the Bank, effectively converting the Corporation's obligations to a fixed interest rate of approximately 4.9%. Subject to payment of any unwinding costs or receipt of benefits for unwinding the interest rate swap agreement, the Corporation has the flexibility of pre-paying the debt at its option.

On October 12, 2011, the Corporation entered into a new seven-year interest rate swap agreement with the Bank, effectively converting the Corporation's obligations to a fixed interest rate of approximately 3.6%. The effective start date of this agreement is December 2012, to coincide with the expiry of the existing swap agreement. Subject to payment of any unwinding costs or receipt of benefits for unwinding the interest rate swap agreement, the Corporation has the flexibility of pre-paying the debt at its option.

Short-term facilities

The Corporation has an operating line of credit for a maximum amount of $10,000 to assist with its working capital requirements. During the year, no amounts were drawn under this facility.

The above borrowing facilities are subject to financial tests and other covenants. These financial covenants are to be tested quarterly. In addition, these facilities are subject to other customary covenants and events of default, including an event of cross-default [for non-payment of other debts] of amounts in excess of $5,000. Non-compliance with such covenants could result in accelerated payments of amounts due under the facilities and their termination. The Corporation was in compliance with the above-mentioned covenants at December 31, 2013.

Net of interest capitalized on construction-in-progress, interest expense charged to the statement of income and retained earnings amounted to $1,802 during the year [2012 - $1,920].

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

11. CAPITAL STOCK

Capital stock consists of the following:

	2013 $	2012 $
Authorized		
Unlimited common shares		
Issued		
1,000 common shares	**23,064**	23,064

12. RELATED PARTY TRANSACTIONS

The Corporation transacts business with Corporation of the City of Oshawa ["City"] and its affiliates in the normal course of business at commercial rates. These transactions are summarized below:

	2013 $	2012 $
REVENUE		
City facilities	**3,071**	2,668
Streetlights	**1,744**	1,807
	4,815	4,475
Streetlight maintenance and construction services	**59**	126
EXPENSES		
Net rent - 100 Simcoe Street South	**292**	287
Property taxes	**152**	149
ACCOUNTS RECEIVABLE		
Facilities and streetlights	**154**	326
Streetlight maintenance and construction services	**23**	16

The Corporation receives management support from its parent, Oshawa Power and Utilities Corporation. During the year, the Corporation paid $480 [2012 - $480] to its parent.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

As at December 31, 2013, the amounts owed to the Corporation from affiliated companies consists of $43 from Oshawa PUC Energy Services Inc. [2012 - $26], and $381 from 2252112 Ontario Inc. [2012 - $380]. Amounts owed to affiliated companies by the Corporation consists of $999 to Oshawa PUC Services Inc. [2012 - owed to Corporation $2], and $1,979 to Oshawa Power and Utilities Corporation [2012 - $0].

13. LEASE COMMITMENTS

The Corporation leases its premises under a net operating lease with the Corporation of the City of Oshawa. The Corporation entered into a new lease in 2012, which expires March 31, 2017. This lease replaced the previous agreement signed in 2007, which expired March 31, 2012. The Corporation entered into a contractual agreement to lease office equipment over a period of 66 months, expiring June 30, 2019.

	100 Simcoe Street South	**Office Equipment**	**Total Lease Commitments**
	$	$	$
2014	290	11	**301**
2015	290	11	**301**
2016	290	11	**301**
2017	72	11	**83**
2018	—	11	**11**
Thereafter	—	5	**5**
	942	60	**1,002**

14. CONTINGENCIES

Insurance claims

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ["MEARIE"], which was created on January 1, 1987. A reciprocal insurance exchange is an Ontario group formed for the purpose of exchanging reciprocal contracts of indemnity of inter-insurance with each other. MEARIE provides general liability insurance to its member utilities.

Insurance premiums charged to each Municipal Electrical Utility consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each electric utility's claims experience.

The Corporation refers any claims received to MEARIE under the provisions of this plan. No provision has been recorded in these financial statements in respect of these matters as the Corporation has not received any claim that is not adequately covered by its insurance.

Income taxes
The tax returns filed by the Corporation are subject to review and reassessment by the Ministry of Finance for a period of up to five years from the date of filing. Any reassessment may result in a revision to previously determined tax obligations.

15. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Corporation has designated its financial instruments as follows:

	2013		2012	
	Carrying value $	**Estimated fair value** $	**Carrying value** $	**Estimated fair value** $
Loans and receivables				
Accounts receivable	**9,972**	**9,972**	7,615	7,615
Due (to) from affiliates	**(2,554)**	**(2,554)**	408	408
Unbilled revenue	**13,081**	**13,081**	12,357	12,357
Other financial liabilities (assets)				
Accounts payable and accrued liabilities	**18,254**	**18,254**	13,326	13,326
Payments in lieu of corporate income taxes	**(451)**	**(451)**	(145)	(145)
Customer advance payments	**2,511**	**2,511**	2,812	2,812
Note payable to shareholder	**23,064**	**23,064**	23,064	23,064
Long-term debt	**7,000**	**6,662**	7,000	6,614

The Corporation has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. Considerable judgment is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments as well as related interest rate and credit and liquidity risks are described below.

Oshawa PUC Networks Inc.

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

December 31, 2013

Investments, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, and customer advance deposits
The carrying values of accounts receivable, unbilled revenue, accounts payable and accrued liabilities, and customer advance deposits approximate their fair values due to the short period to maturity of these financial instruments.

Note payable to shareholder
The fair value of the note payable to shareholder is indeterminable.

Long-term debt
The fair value of the Corporation's long-term debt is estimated using present value techniques based on a borrowing rate of 4.5% for debt with similar terms and maturities. Long-term debt is shown net of unamortized debt issue costs.

Credit risk
Certain of the Corporation's financial assets are exposed to credit risk.

Cash consists of deposits with major commercial banks.

The Corporation, in the normal course of business, is exposed to credit risk from its customers. These accounts receivable are subject to normal industry credit risks. The Corporation provides for an allowance for doubtful accounts to absorb its credit losses. The Corporation also has insurance against certain of the receivables.

The Corporation is also exposed to credit risk from the potential default of any of its counterparties on its interest rate swap agreements. The Corporation mitigates this credit risk by dealing with counterparties who are major financial institutions and which the Corporation anticipates will satisfy their obligations under the contracts.

Interest rate risk
Long-term debt is at fixed interest rates thereby minimizing cash flow and interest rate fluctuation exposure.

The Corporation enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Corporation does not enter into derivatives for speculative purposes. The fair value of the interest rate swap agreements represents an approximation of the amounts the Corporation would have paid to or received from the counterparty to unwind its positions as at December 31, 2013.

The Corporation estimates that a loss of approximately $66 [2012 - loss of $332] would be realized if the contract was terminated on December 31, 2013. This contract is designated as a

hedge and therefore this loss has been included in other comprehensive income. This loss is not expected to affect income as management intends to hold the interest rate swap contract to maturity.

Liquidity risk
The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest expense. The Corporation monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

16. COLLATERAL

As part of its electricity purchase agreement with the IESO, an Irrevocable Standby Letter of Credit in the amount of $7,000 was issued in October 2012, in favour of the IESO, as collateral support for energy amounts as determined by and payable to the IESO.

17. INTANGIBLE ASSETS

Intangible assets consist of deferred IRU lease charges. Amortization is charged on a straight-line basis over the term of the IRU.

	2013	**2012**
	$	$
Deferred IRU lease	**606**	606
Less accumulated amortization	**162**	132
Net book value	**444**	474

18. CAPITAL MANAGEMENT

The Corporation defines capital as shareholder's equity. The Corporation's objectives when managing capital are to:

- Ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans;
- Maintain financial capacity and access to capital to support future development of the business while taking into consideration current and future industry, market and economic risks and conditions; and
- Utilize short-term funding sources to manage its working capital requirements.

MATERIALITY THRESHOLD

Section 2.4.5 of *Filing Requirements For Electricity Distribution Rate Applications – 2014 Edition for 2015 Rates Applications* – (Filing Requirements) sets out the methodology for calculating the materiality threshold that distributors are to use to explain year over year variances exceeding this threshold for rate base, capital expenditures and OM&A.

The Filing Requirements state the relevant default materiality threshold as "0.5% of operating revenue for distributors with a revenue requirement greater than $10 million and less than or equal to $200 million." The same materiality threshold applies to OPUCN in respect of z-factor qualification.[1]

OPUCN's revenue requirement exceeds $10 million and is less than $200 million and as such the materiality threshold is calculated as 0.5% of the Company's operating revenue. OPUCN has calculated a materiality threshold ranging from $107,000 to $130,000 for the proposed Custom IR Plan period, as set out in the following table:

	At Board-Approved Rates				Test Years at Proposed Rates				
	2012 Board-Approved	2012 Audited	2013 Audited	2014 Bridge Year	2015	2016	2017	2018	2019
Total Distribution Revenue	20,043,142	19,842,114	19,859,729	19,503,876	22,901,583	25,054,593	26,022,430	27,057,622	27,711,474
Other Distribution Revenue	-1,792,057	-2,030,035	-1,934,649	-1,390,271	-1,336,319	-1,506,940	-1,631,192	-1,452,379	-1,517,631
Operating Revenue	18,251,085	17,812,079	17,925,081	18,113,604	21,565,264	23,547,653	24,391,239	25,605,243	26,193,843
Materiality Threshold Rate	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Materiality Threshold	91,255	89,060	89,625	90,568	107,826	117,738	121,956	128,026	130,969

For consistency of representation, OPUCN has used a materiality threshold of $100,000 throughout this Application.

[1] Filing Requirements, section 3.2.7, incorporating Board's Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, July 14, 2008, page 36.

ADDITIONAL INFORMATION REQUIREMENTS

This exhibit addresses the information requirements of section 2.4.6 of the Board's *Filing Requirements for Electricity Distribution Rate Applications – 2014 Edition for 2015 Rates Applications* which are not addressed in the OPUCN's Notice of Application, Executive Summary (Exhibit 1, Tab C) or elsewhere in the Exhibit 1 materials filed. Also addressed is the status of OPUCN's Smart Meter and CDM initiatives.

Description of OPUCN's Service Area

OPUCN owns and operates a distribution network that currently serves approximately 55,400 customers (excluding street light connections) in the City of Oshawa and the Region of Durham. Of the total customers, there are approximately 50,500 residential, 4,000 small commercial (general service < 50 kW) and 500 industrial (general service > 50kW) customers. The remainder are in the unmetered scattered load and sentinel lighting customer classes.

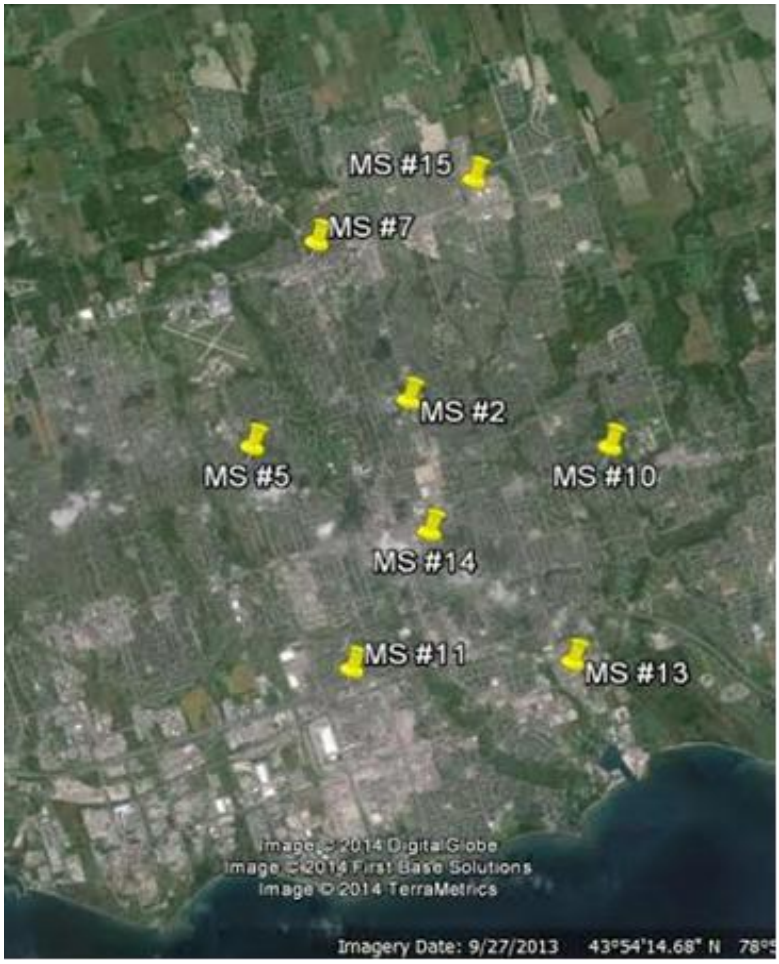
The service territory of OPUCN covers 149 square kilometers consisting of 78 square kilometres of rural service area and 71 kilometres of urban service area. OPUCN's distribution system consists of:

- 8 municipal substations with 16 substation power transformers;
- 495 kilometres of overhead primary lines;
- 411 kilometres of underground primary cables;
- 11,397 poles of which 10,914 are wood, 463 are concrete and 20 are steel; and
- 6,571 distribution transformers.

OPUCN receives power from Hydro One Transmission at 44kV from two Hydro One transmission stations (TS): (i) Wilson TS – located at 698 Wilson Rd. North (North of Rossland Rd. East); and (ii) Thornton TS – located at 386 Thornton Rd. South (South of Gibb St).

There are eight 44kV feeders that leave Wilson TS and four 44 kV feeders that leave Thornton TS. This high voltage is stepped down from 44 kV to 13.8 kV at OPUCN's eight distribution or municipal substations, the locations of which are shown on the map included as Figure 1, below.

Figure 1: OPUCN Distribution Substations



Each distribution substation is equipped with two 44kV/13.8 kV power transformers, each protected by a 44 kV circuit breaker. Each station houses a metal clad switchgear that contains two transformer breakers and one bus tie breaker between two 13.8kV buses that are each equipped with 13.8kV circuit breakers to protect outgoing 13.8kV feeders.

OPUCN operates a primary “loop distribution” system which offers flexibility in switching operations to minimize outage durations and impact.

Maps of OPUCN’s Distribution Service Territory and Schematic diagrams of OPUCN’s distribution system are included as Schedule 1 to this exhibit (Exhibit 1, Tab G, Schedule 1).

List of Neighbouring Utilities

OPUCN’s neighbouring utilities are:

1. Whitby Hydro Electric Corporation to the west.
2. Hydro One Networks Inc. to the north and east.

Host/Embedded Utilities

OPUCN is not a host to any embedded utilities. OPUCN is not embedded within any other utility’s service area.

Corporate Mission and Mandate

OPUCN’s Mission Statement reads as follows:

> *We develop and provide innovative energy services to meet the needs of our customers.*

OPUCN’s strategic objectives include:

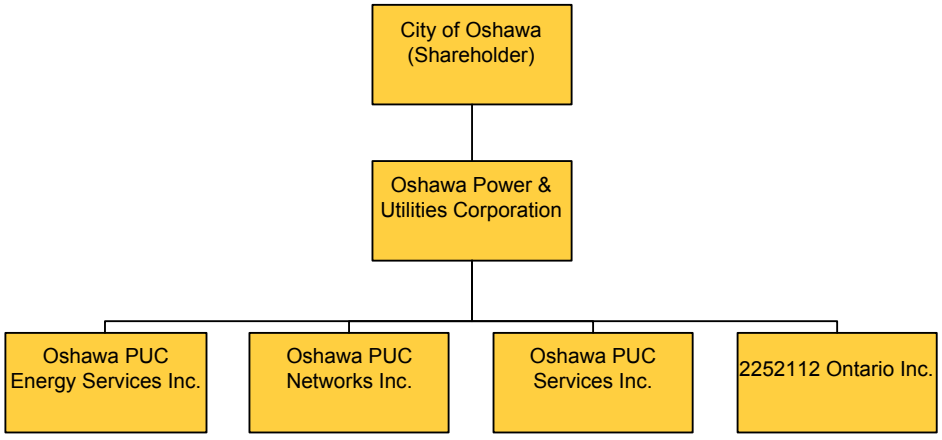
- Providing a safe and reliable electricity distribution system with appropriate and sufficient capacity to meet the expectations of our customers and support local economic growth.
- Promoting and practicing excellence in safety.
- Committing to excellence in customer satisfaction.

- Maintaining the lowest electricity delivery rates possible for customers while preserving the financial integrity of the corporation, providing a reasonable rate of return for our shareholder and achieving corporate strategic plans to ensure the long term success of the organization.

Corporate and Utility Organizational Structure

OPUCN is a wholly-owned subsidiary of Oshawa Power and Utilities Corporation (Oshawa Power) which is 100% owned by the Corporation of the City of Oshawa (City of Oshawa). Oshawa Power also wholly-owns Oshawa PUC Energy Services Inc., Oshawa PUC Services Inc. and 2252112 Ontario Inc.

The following chart illustrates the corporate relationships:



In general, OPUCN shares certain services with its affiliates in functional areas such as accounting and information technology. These services are shared in accordance with Services Agreements between the affiliates. The shared services and revenues received have been identified and reported in Exhibit 4 – OM&A Costs.

OPUCN provides services to its affiliates and purchases services from certain affiliates. In addition, OPUCN pays a fee to its parent company, Oshawa Power and Utilities Corporation, for its proportionate share of management services and Board of Directors governance.

OPUCN uses a cost based pricing methodology for shared services, with the exception of rent paid to the City of Oshawa for its facilities which is market based.

OPUCN and the City of Oshawa have the following relationships:

- The City of Oshawa is not an energy services provider.
- OPUCN rents land and buildings at market rates from the City of Oshawa.
- OPUCN remits property taxes to the City of Oshawa.
- Both entities have complete and separate financial records and books of account.
- Neither entity shares information technology services, human resources or management between one another.
- There is no access to confidential information.

OPUCN and Oshawa Power have the following relationships:

- Oshawa Power is not an energy service provider.
- Both entities have separate financial records and books of accounts.
- OPUCN provides Accounting and Information Technology to Oshawa Power and recovers its costs under an Affiliate Services Agreement.
- Oshawa Power has no access to confidential information maintained by OPUCN.
- OPUCN has eight board members comprised of three independent board members and five board members that also serve on the board of Oshawa Power.
- Oshawa Power charges a fee to OPUCN for its proportionate share of management services and Board of Directors governance.
- OPUCN has a note payable to Oshawa Power for approximately $23 million bearing interest at a rate of 7.25% per annum.

OPUCN and Oshawa PUC Services Inc. (Oshawa Services) have the following relationships:

- Oshawa Services is not an energy service provider.

- Both entities have separate financial records and books of accounts.
- OPUCN provides Accounting and Information Technology to Oshawa Services and recovers its costs under an Affiliate Services Agreement.
- Oshawa Services has no access to confidential information maintained by OPUCN.
- Oshawa Services operates a fibre communications network and OPUCN purchases services at market rates from Oshawa Services.
- Five of OPUCN's board members that also serve on the board of Oshawa Services.

OPUCN and Oshawa PUC Energy Services Inc. (Oshawa Energy) have the following relationships:

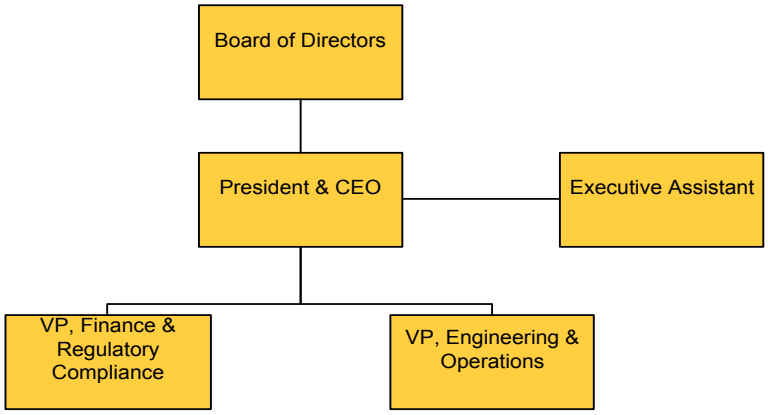
- Oshawa Energy is an energy service provider to the University of Ontario Institute of Technology and Durham College, and owns generation assets.
- Both entities have separate financial records and books of accounts.
- OPUCN provides Accounting and Information Technology to Oshawa Services and recovers its costs under an Affiliate Services Agreement.
- Oshawa Services has no access to confidential information maintained by OPUCN.
- Five of OPUCN's board members also serve on the board of Oshawa Services.

OPUCN and 2252112 Ontario Inc. (2252112) have the following relationships:

- 2252112 constructs and operates rooftop solar panel energy generation projects under agreements with the Ontario Power Authority.
- Both entities have separate financial records and books of accounts.
- OPUCN provides Accounting and Information Technology to 2252112 and recovers its costs under an Affiliate Services Agreement.

- 2252112 has no access to confidential information maintained by OPUCN.
- Five of OPUCN's board members that also serve on the board of 2252112.

Executive and Board Organization Structure



Independence of the Board

The current board of directors of OPUCN consists of 8 directors, of whom none are officers or employees of OPUCN or of any of its affiliates or elected members of the Oshawa City Council. Of the 8 directors, 5 are also directors of Oshawa Power and its affiliates as noted above.

The Shareholder Declaration, as amended in 2014, permits up to 9 directors of OPUCN, and up to 6 directors of Oshawa Power and the other corporate affiliates. While no explicit policy has been set as to the number or proportion of independent directors, the City as the shareholder considers the requirements of the OEB, including specifically the ARC, in specifying the maximum number of directors for OPUCN and its affiliates, and these numbers are established in order to ensure the ability to comply with the OEB's requirements.

Qualifications for the Board

The foundation of the ability of OPUCN's Board to exercise independent judgment rests in their personal and professional competence, and knowledge of the electricity distribution business and the community.

Section 5.1 of the Shareholder Declaration establishes the required qualifications for the directors as follows:

> *Qualifications of Directors – In addition to sound judgement and personal integrity, the qualifications of candidates for the HoldCo [Oshawa Power] Board or the board of directors of any Subsidiary may include:*
>
> *a) Awareness of public policy issues related to the Corporation or a Subsidiary, as applicable;*
>
> *b) Business experience;*
>
> *c) Corporate board of director experience;*
>
> *d) Financial, engineering, legal, marketing or human resources experience;*
>
> *e) Regulated industry knowledge, including but not limited to, knowledge of municipal electric utilities; and*
>
> *f) A broad base of community awareness.*

On the OPUCN board:

- All directors are experienced leaders in business, the professions, or academia.
- Of the current complement of 8 directors, 2 have served on the OPUCN board since OPUCN was incorporated, and therefore have more than a decade of experience in the issues and specific challenges of the industry. One director brings knowledge and experience acquired through a career culminating in positions of senior management responsibility in the sector.
- The individuals bring a complementary variety of backgrounds in business management, teaching and the professions, so that their input to decisions is informed by a range of training and perspective.

The directors have no relationships with OPUCN, or with one another, that might inhibit their independent judgment.

- The directors do not benefit financially from their relationship with OPUCN, except as to their director fees, and have no relationship with OPUCN that might affect their judgment (i.e. they or their employers are not suppliers of goods or services to OPUCN, do not receive significant donations or other benefits from OPUCN, and are not relatives of the senior management of OPUCN).

- The directors are not connected with one another by employment, family, or directorships of other corporations.

Nomination and Selection of Directors

OPUCN is proud to have an outstanding record of retention of its directors. Of the current directors, 2 have served since OPUCN was incorporated. The recent process of selection of 4 new directors for OPUCN involved replacement of 2 directors who retired after 13 years of service. Retention of experienced directors allows direct mentorship to be part of the process by which new directors learn about the industry and their roles.

In order to meet the challenge of recruiting replacements for highly experienced directors, the Board formed a nominating committee consisting of the Chair and two other directors.[1] In order to ensure compliance with best practices in search for, and selection of, senior decision-makers, the nominating committee prequalified a short list of leading executive search firms and conducted interviews with firms interested in the assignment. Based on an assessment of qualifications, experience and cost effectiveness the committee selected the firm of Caldwell Partners to undertake the search.

The nominating committee worked with Caldwell Partners to develop a skills and competency matrix for pre-qualifying potential candidates. Selection criteria were

[1] OPUCN's current Governance Committee has now assumed responsibility for identification and hiring of directors as required in the future.

identified in three categories: (a) functional competencies in the key activities and strategic decision areas relevant to an electricity distributor; (b) successful experience in a position of responsibility in a related sector; and (c) additional characteristics considered to enhance contribution to the board. The functional competencies included: risk management; human resources, labour relations and compensation; project financing and the financial markets; accounting and auditing; deal-making, mergers and acquisitions; governance; general management; engineering; safety; legal; communications; crisis management; customer relations and service; and government policy. Desirable sector experience included legal, entrepreneurial, regulatory, energy and utility, and the public sector. Additional desirable characteristics included: diversity; belonging to the Oshawa community through residence or work; experience on other boards; and experience on committees.

Through advertising in the regional media and drawing from a data base of potential candidates, Caldwell Partners presented the nominating committee with a potential list of twenty-eight candidates. From that list, the committee identified a short list of candidates that Caldwell Partners could approach to determine their interest. From those who indicated an interest, the nominating committee interviewed five candidates. Given the high caliber of the candidates and the committee's assessment of their suitability, four where offered the position subject to shareholder approval.

The committee's recommended appointments were presented to the City of Oshawa Council, and the recommendations were approved on May 20, 2014. The result was the appointment of four new directors to the OPUCN board, of whom two were also appointed as directors of Oshawa Power.

The board selects a Chair and Vice Chair and establishes committees from among the directors.

The following presents selected relevant information from the biographies of the current OPUCN directors, illustrating their qualifications for their positions.

Terry Caputo

Mr. Caputo has been a resident and active community member in Durham Region since 1994. After university he articled with Deloitte and Touche in Oshawa and achieved his Chartered Accountant designation in 1997. He brings both breadth and depth of experience as a leader. He has had over 14 years of experience as a senior financial leader in the region, including two years at General Motors, seven years at Durham College & UOIT and five years at Lakeridge Health. Creative and innovative problem-solving, planning and working directly with a boards has been an essential part of his career.

Mr. Caputo also brings with him several years of service on various boards. He was a charter member of the Courtice Rotary Club, serving as their Treasurer. He also served as the President of the Durham Chapter of the Leukemia and Lymphoma Society and Clarington Board of Trade. For the last 9 years he has dedicated much of his time to coaching his children's rep soccer teams in Darlington. For the past two years he has held the position of Treasurer of the Rotary Club of Whitby Sunrise and was recently confirmed as the president-elect.

He attended the University of Western Ontario and the University of Windsor graduating with degrees in finance & economics and honours commerce.

Denise Carpenter

Denise Carpenter is currently President and Chief Executive Officer of the Canadian Association of Chain Drug Stores (CACDS) in January 2013. CACDS is the national association advocating for community pharmacy in Canada. Prior to joining CACDS, Carpenter served as President and CEO of The Canadian Nuclear Association from 2009 - 2012. In that capacity, she led the development and implementation of a multi-year Strategic Plan to support a renewed vision of growth for Canada's nuclear industry — to seize the opportunity presented by the global nuclear renaissance by building and sustaining a strong, vibrant and expanding nuclear-based industry. Earlier in her career, she was Senior Vice President, Public and Government Affairs, with EPCOR Utilities Inc., where she was responsible for the company's positioning, reputation strategy and communications.

She has been honoured by Global TV as a Woman of Vision; by the YWCA with a Woman of Distinction Award; and has twice been named one of Alberta's 50 most influential people by Alberta Venture magazine.

Jeff Coles

Mr. Coles brings a decade of experience in a series of positions of increasing responsibility with Schindler Elevator Corporation in the United States and Canada. After serving as a District Manager, then Director, National Accounts, and then as National Director, Sales & Marketing, for Canada, he is now the company's President for Canada, leading operational and strategic direction with full responsibility for top and bottom line results, quality objectives, human resource planning, customer satisfaction and employee satisfaction in an organization of 800 employees.

Mr. Coles' background, although in a different industry, has exposed him to many issues that are common to the electricity distribution sector, including key customer relationship management, management in a bargaining unit environment, and health and safety management. His board of directors experience includes the National Elevator and Escalator Association and Schindler Canada.

Mr. Coles holds an MBA degree from the University of Ottawa.

Bruce A. Fenton

In addition to his role in OPUCN, Mr. Fenton is Chairman of Maracle Press Ltd., a commercial printing company established in 1920, specializing in the manufacture of financial and educational print materials. Mr. Fenton was one of a group that purchased the company in 1993, and served as its President from 2000 to 2010. From 1984 through 1994, he was with Zenon Environmental Inc., holding the positions of General Manager, Zenon Water Systems Inc., Chief Financial Officer, and VP, Business Development. An experienced business leader, entrepreneur and manager, his successes include a variety of innovative technology projects and financings. Mr. Fenton started his career as an engineer with a municipal government. He holds an MBA degree from the University of Western Ontario.

Donna Kingelin

Donna Kingelin is a lifelong resident of Durham Region. Donna is a Senior Executive who has dedicated her career to serving the elderly. She has held the position of Chief Operating Officer of Revera where she provided oversight to 26,000 employees and over 200 seniors' residences including long term care homes, skilled nursing facilities, assisted living residences, independent retirement residences and was accountable for the home care division.

In her most recent position as Managing Director for Holiday Corporation she was responsible for the Canadian portfolio of independent retirement communities. In these roles she provided leadership in human resources, operations, financial management, program development, capital investment and quality improvement.

Donna is currently a Partner at Kingswood Consulting which provides services to the senior housing industry. Donna is a member of the Institute of Corporate Directors. Her passion is to create high performance teams and deliver quality service and produce great results.

Louis P. Meehan

Mr. Meehan is President of Sunnyside Capital Canada Inc., "Sunnyside" a financial intermediary since 1995, endeavouring to finance mid-sized companies, improving operations; reorganizing management and operations, enhancing value and quite often investing in such companies. Previously, he served as CFO for United Co-operatives of Ontario, reorganizing its businesses and divesting businesses on behalf of creditors, and as president of an investment holding company. Earlier in his career, he was an partner with Clarkson, Gordon & Co., a major accounting firm. A Chartered Accountant (CPA), he has taught courses in accounting and financial topics at University of Toronto, York University and Osgoode Hall. Over his career, Mr. Meehan has held seven directorships in addition to his role at OPUCN.

Marc A. Rosen

Dr. Rosen holds a PhD in Mechanical Engineering from the University of Toronto, and is a Professor, Faculty of Engineering and Applied Science, Univ. of Ontario Institute of Technology, Oshawa. Prior to that, he was Professor, Dept. of Mechanical, Aerospace and Industrial Engineering, Ryerson Polytechnic Univ., Toronto. As well as teaching students, Dr. Rosen is a leader in the education of engineers in Canada, having served as a director and department chair at Ryerson, and as Dean (founding) in the Faculty of Engineering and Applied Science, and in the School of Manufacturing Engineering, and Univ. of Ontario Institute of Technology, Oshawa.

He has served on several industrial and academic advisory committees, including Canadian Representative on the International Energy Agency Experts Group on Cogeneration/District Cooling, and as editor-in-chief or editor of publications related to energy technologies, and has published numerous articles on related subjects.

Ron Stewart

Mr. Stewart is an accomplished executive with extensive experience in Ontario's electricity industry. This experience includes corporate leadership, general management, operations, finance, labour relations and marketing. Ron has been at the forefront of the restructuring of the electricity industry in Ontario. Recognized as a strong, innovative and visionary leader, Mr. Stewart has successfully managed several major utility transformations leading to significant operational efficiencies, productivity improvements and creation of shareholder value.

From 2000 until his retirement in 2005, Mr. Stewart served as President and CEO of Hydro Ottawa. He led the merger of five utilities into one corporate entity – Hydro Ottawa. He was responsible for all aspects of the operations of Hydro Ottawa, a local distribution company with $500 million in assets and serving 250,000 residential and business customers; Telecom Ottawa, a telecommunications company providing broadband services throughout Ottawa and eastern Ontario; and Energy Ottawa, a power generation company that produces green power.

Prior to Hydro Ottawa, Mr. Stewart was Chief Operating Officer, Ontario Hydro Services Company (now Hydro One), where he was responsible for all operations of the company's transmission and distribution networks, investment planning, business plans, capital projects, operation and maintenance programs, and customer care. Ron has also served in a range of senior management roles at Ontario Hydro, including Executive Vice President and Managing Director of Ontario Hydro's Retail Company, General Manager of Customer Solutions, and Director, Corporate Planning. He was also General Manager of Sudbury Hydro, where he was credited for successfully turning around the fortunes of the utility through significant improvements in financial results, labour relations, customer and community relations and capital improvements.

Mr. Stewart is currently a Board Member of Brantford Power Incorporated and is currently the Chair, Oshawa Power and Utilities Corporation. He also serves on the Advisory Board for CLEAResult. In the past he has served as a Board Member of the Ottawa-Carleton Research and Innovation Centre. He is past Vice Chair of the Canadian Electricity Association and past Board member of several other industry organizations, including the Association of Municipal Electric Utilities of Ontario and Power Smart Inc.

Mr. Stewart received the C.Dir designation from the Directors college (a joint venture of McMaster University and the Conference Board of Canada) in 2009. Ron obtained his CGA designation in 1972 (membership lapsed).

Mandate of the Board of Directors

The board's understanding of its roles and responsibilities is derived from the Shareholder Declaration of the City, dated November 24, 2000, from generally accepted principles of corporate governance and the responsibilities of directors, and where applicable, from legislation and regulation. The Declaration sets out in Section 4.2 a series of principles to be followed by the OPUCN Board and the board of any subsidiary including OPUCN. These principles include:

(a) Conducting the affairs of the corporation "on a commercially prudent basis, recognizing the best interest of the public and in accordance with the financial objectives of the City".

(b) Providing *"a reliable, effective and efficient electricity distribution system"*.

(c) Operating *"with an emphasis on customer service"*.

(d) Operating *"in a safe and environmentally-responsible manner"*.

The declaration then firmly establishes the mandate of the Board as follows:

> *"The board of directors of the Corporation is responsible for determining and implementing the appropriate balance among the foregoing principles and for causing the Corporation and the Subsidiaries to conduct their affairs in accordance with the same."*

A copy of the Shareholder Declaration is filed as Schedule 2 to this evidence [Exhibit 1, Tab G, Schedule 2].

Orientation and Continuing Development of Directors.

Because of the appointment of new members in May, 2014, the board held an orientation session on July 10, 2014.

Directors of OPUCN have the opportunity and are encouraged to attend industry events. The briefing publications of associations such as EDA, of law firms, and of other organizations are commonly circulated. Annually, the board holds an off-site strategic

meeting, in which some sessions are devoted to high level issues of the industry.

Board Meetings

In the most recent full calendar year (2014) the board scheduled and held 9 meetings, including 8 regular meetings and one off-site strategic review meeting, in accordance with its regular practice. The following chart identifies the schedule and provides the relevant attendance information:

	January	February	April	May	June	July	September Retreat	October	November
Bruce Fenton	✓	✓	✓	✓	✓	✓	✓	✓	✓
Lou Meehan	✓	✓	✓	✓	✓	✓	✓	✓	✓
Jay Swartz	✓	✓	✓	✓	✓	Resigned	n/a	n/a	n/a
Bernie Schroder	✓	x	✓	By phone	✓	Resigned	n/a	n/a	n/a
Marc Rosen	✓	✓	✓	✓	x	✓	✓	✓	✓
Ron Stewart	✓	✓	✓	✓	✓	✓	✓	x	✓
Donna Kingelin	-	-	-	-	✓	✓	✓	✓	✓
Denise Carpenter	-	-	-	-	X	✓	✓	✓	✓
Jeff Coles	-	-	-	-	✓	✓	✓	✓	✓
Terry Caputo	-	-	-	-	✓	✓	✓	By phone	✓

Standard of Ethical Business Conduct

The principle of ethical conduct of the Board is set out in the Shareholder Declaration, section 4.1 and requires the directors to “act honestly and in good faith with a view to the best interests of the Corporation or the Subsidiary respectively.”

Committees and Committee Membership

The Committees of the OPUCN boards are established by authority of the Shareholder Declaration, as follows:

> *"Committees: The Holdco [Oshawa Power] Board and boards of directors of any Subsidiary may establish such committees which in their discretion are required, which committees shall include, at a minimum, an Audit and Finance Committee which shall oversee the performance of the auditors and the preparation of the financial statements of the Corporation."*

The OPUCN Board has established the following Board committees:

- Audit Committee
- Capital Committee
- HR/Compensation Committee
- Governance Committee

Audit Committee: The role of the Audit Committee is to provide assistance to the board in fulfilling its oversight responsibility to the shareholder, its customers and other stakeholders relating to the integrity of OPUCN's financial statements, the effectiveness of the company's internal control over financial reporting, OPUCN's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence, and the safeguarding of the company's assets and capital requirements.

The Audit Committee is composed of:

- Mr. Meehan, who is a Chartered Accountant (CPA), with more than 30 years of experience that includes public practice accounting with a major firm and also positions of senior financial responsibility with companies and independent financial advisory roles. He has also taught financial and accounting-related courses to students at University of Toronto, York University and Osgoode Hall.

- Mr. Fenton, who holds an engineering degree and an MBA, has served as a chief financial officer, and as president of a company specializing in the manufacture of financial and educational print materials.

- Mr Caputo, who is a Chartered Accountant (CPA) with over 14 years of experience as a senior financial leader in the community, including two years at General Motors, seven years at Durham College & UOIT and five years at Lakeridge Health.

Capital Committee: The role of the Capital Committee is to review status of OPUCN's distribution system assets and management's plans to address the need for investment in sustainment, growth, and technology advances. Review of OPUCN's Distribution System Plan is part of the mandate of this committee.

The Capital Committee is composed of:

- Mr. Coles, who brings a decade of experience in a series of senior management positions including his current position as President for Schindler Elevator Corporation (Canada), leading operational and strategic direction with full responsibility for top and bottom line results, quality objectives, human resource planning, customer satisfaction and employee satisfaction in an organization of 800 employees.

- Mr. Meehan, who also chairs the Audit Committee.

- Dr. Rosen, an exceptionally well qualified engineer involved in the development of new technologies.

HR/Compensation Committee: The role of the HR/Compensation Committee includes reviewing the goals and objectives relevant to senior management's compensation, evaluating the performance of senior management in light of such goals and objectives, and making recommendations to the Board on senior management's compensation.

The HR/Compensation Committee is composed of:

- Ms. Kingelin, who has held a number of senior management positions with large organizations including the position of Chief Operating Officer of a leading provider of seniors accommodation, care and services where she provided oversight to 26,000 employees.

- Dr. Rosen who is qualified by his experience in developing and leading organizations in the academic community.

Governance Committee: The purposes of the Governance Committee are to:

- Assist the board in developing and implementing the company's corporate governance guidelines
- Identify individuals qualified to become board members.
- Determine the composition of the board and its committees.
- Determine the directors' remuneration for board and committee service.
- Develop and oversee a process to assess the board Chair, the board, board committees, Chairs of committees, and individual directors.
- Oversee the corporation's policies concerning business conduct, ethics, public disclosure of material information and other matters.

The Governance Committee is composed of:

- Ms. Carpenter, who has held a number of senior management positions including President and Chief Executive Officer of the Canadian Association of Chain Drug Stores, President and CEO of The Canadian Nuclear Association and Senior Vice President, Public and Government Affairs with EPCOR Utilities Inc.
- Mr. Caputo, who is also a member of the Audit Committee.

Conditions of Service

An up to date version of OPUCN's Conditions of Service are publicly available at www.opuc.on.ca.

Compliance with Uniform System of Accounts

OPUCN has followed the accounting principles and main categories of accounts as stated in the OEB's *Accounting Procedures Handbook* (the APH) and the *Uniform System of Accounts* (USoA) in the preparation of this Application.

In connection with OPUCN's cost of service application for 2012 rates (EB-2011-0073), OPUCN adopted modified International Financial Reporting Standards (IFRS) in compliance with the Board's letter dated March 15, 2011. For financial reporting, OPUCN prepares its financial statements in accordance with Canadian Generally Accepted Accounting Principles (GAAP). OPUCN successfully aligned the Board's modified IFRS in accordance with GAAP meaning its audited financial statements do not require modification for the purpose of reporting to the Board. OPUCN plans to adopt IFRS beginning on January 1, 2015.

OPUCN has filed trial balances, financial statements, pro forma financial statements, forecasted results for its 2014 Bridge Year, and results for all preceding years in accordance with GAAP. [See Exhibit 1, Tab E]

Pro forma financial statements and forecasted results for OPUCN's Test Years 2015 through 2019 are reported in accordance with IFRS.

Status of OPUCN's Smart Meter and CDM Initiatives

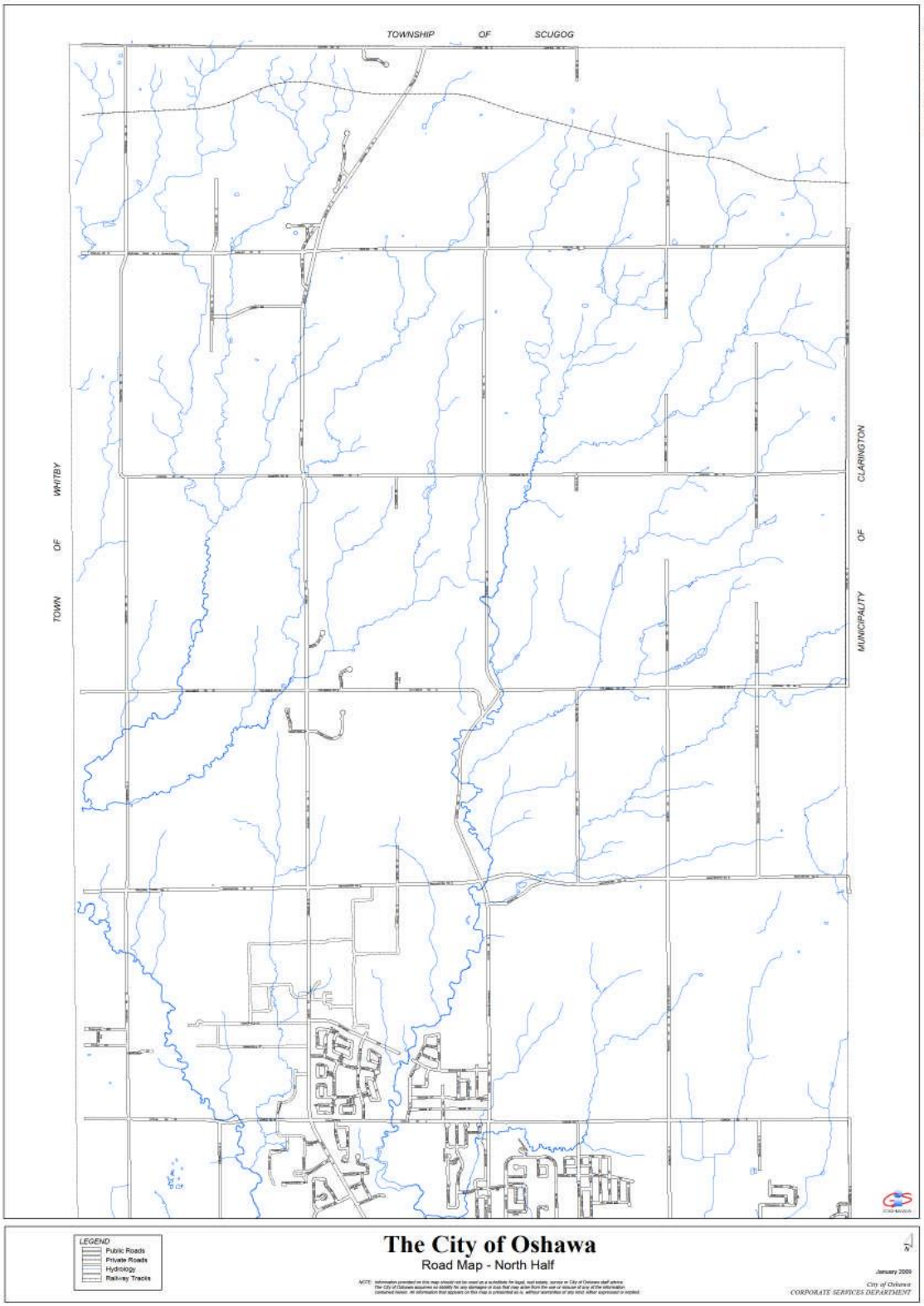
On June 23, 2004, the Ontario government mandated that all Residential and General Service < 50 kW customers have a smart meter installed by the target date of December 31, 2010 to facilitate time-of-use billing. OPUCN completed the installation of smart meters for virtually all qualified customers in these classes and began billing under time-of-use billing determinants early in 2011. OPUCN disposed of its smart meter deferral accounts in connection with its cost of service application for 2012 rates. For the purpose of this Custom IR Plan application, smart meter costs are included in OPUCN's rate base.

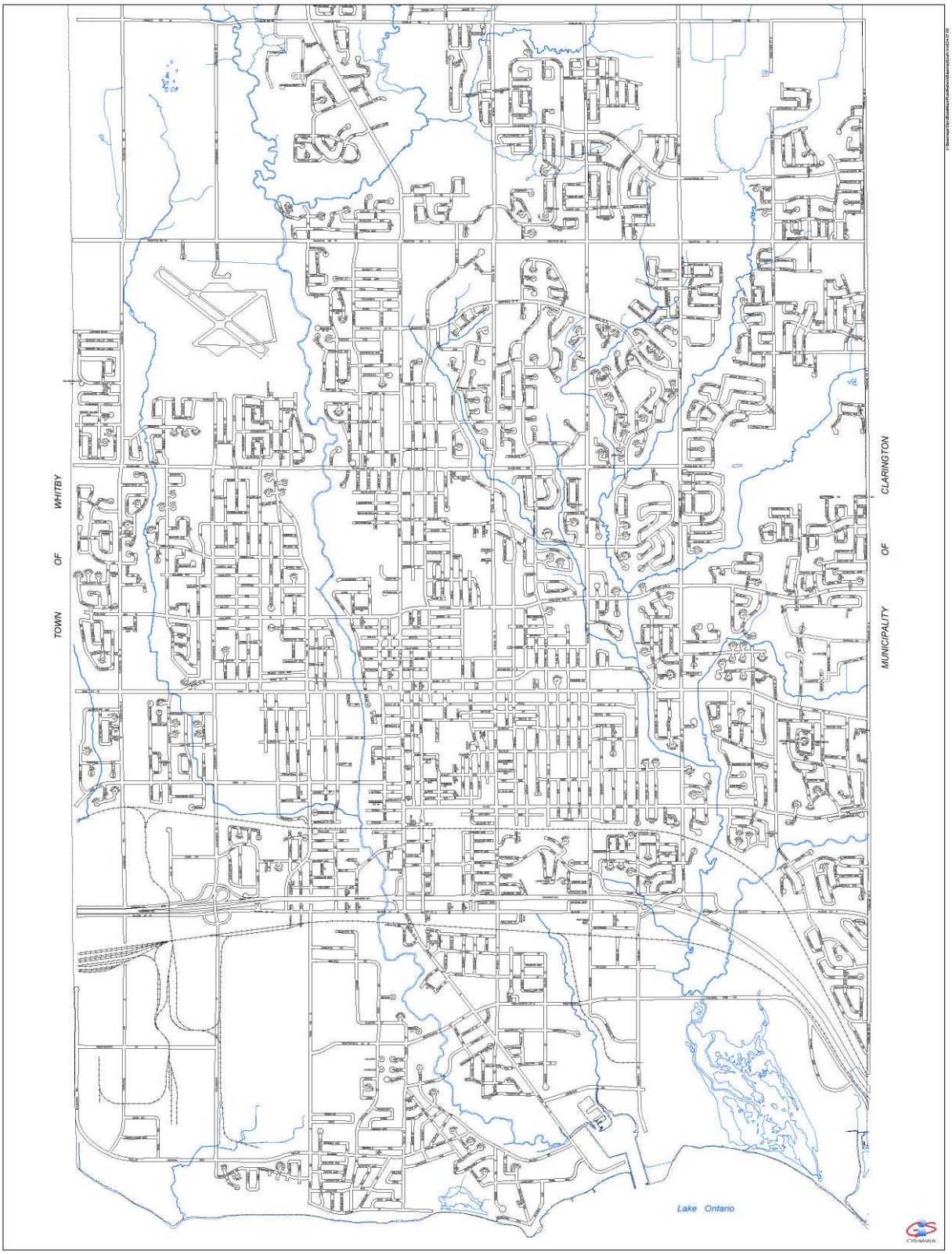
The Board assigned CDM targets for electricity distributors as a condition of licence on November 12, 2010. OPUCN's targets for 2011 through 2014 are 52.24 GWh of cumulative energy and 12.52 MW of demand savings. OPUCN has achieved an estimated 2.8 MW in peak demand savings and 33.3 GWh in estimated energy savings, which represents 22.3% and 63.8% of its 2011 – 2014 targets, respectively based upon

the *Final 2013 Verified Results Report* from the Ontario Power Authority (OPA). Currently, OPUCN is estimating that it will reach 40% of its target for annual peak demand savings and 70% of its target for energy savings.

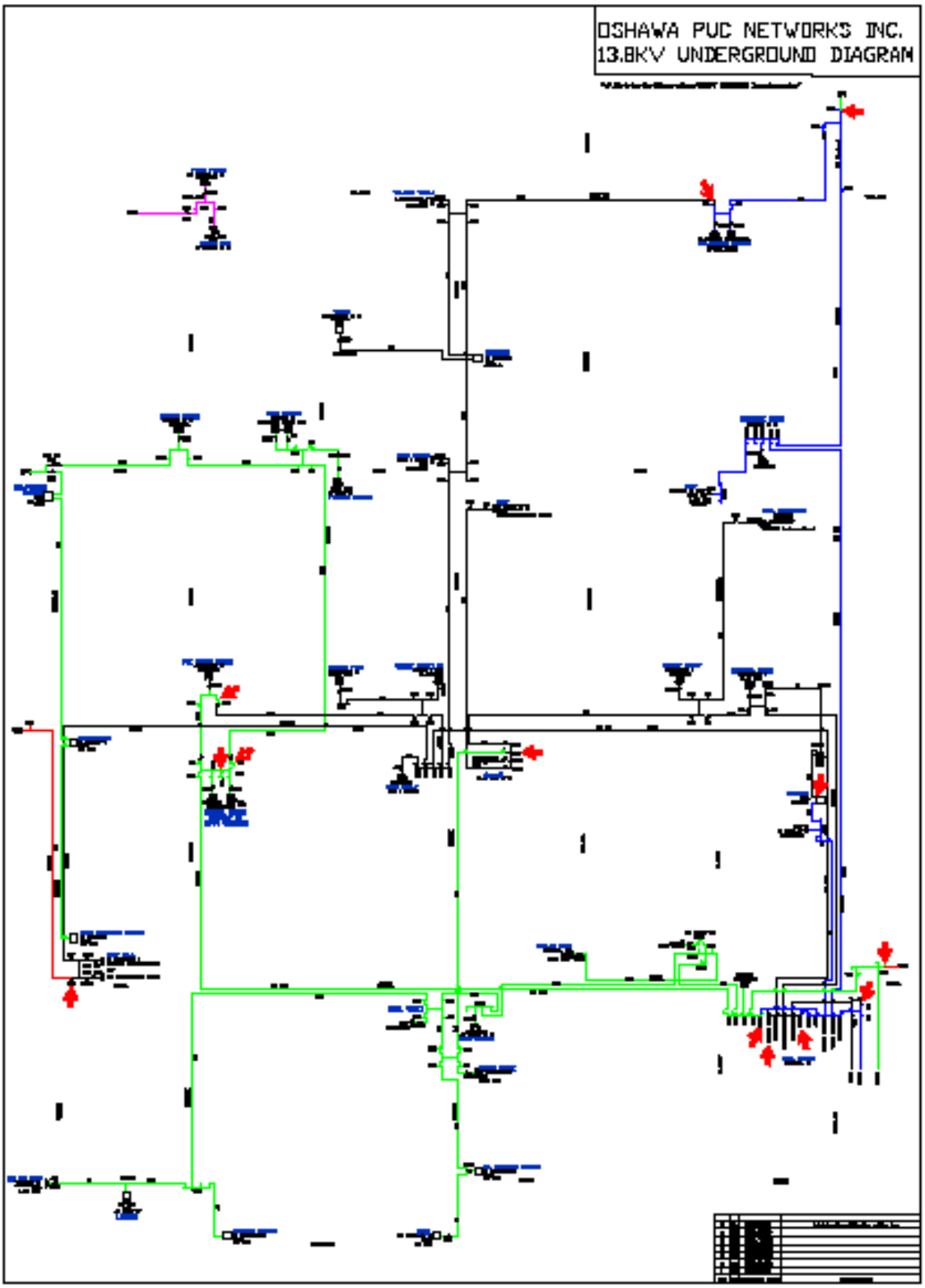
Distributors have been confronted with a number of challenges which will contribute to OPUCN not meeting its targets. Such challenges include: delays experienced with the OPA in reviewing and granting approvals for large scale industrial load displacement projects; program design constraints impacting the engagement of OPUCN's commercial and industrial customers; and there are only a few Board approved (Tier 2 and 3) CDM Programs available in market for customers.

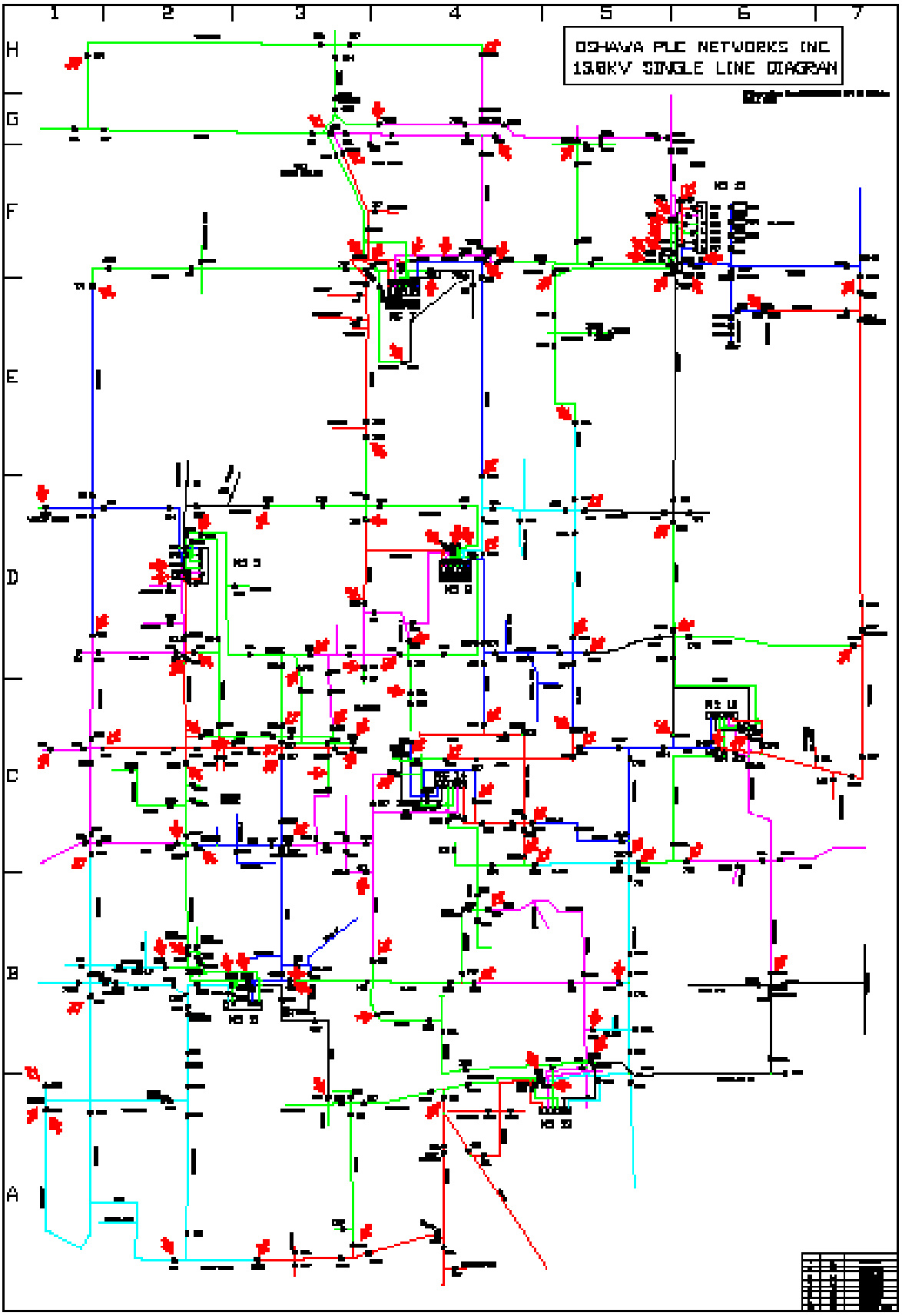
MAPS & SCHEMATIC SYSTEM DIAGRAMS




TOWN OF WHITBY
MUNICIPALITY OF CLARINGTON
Lake Ontario
LEGEND
Public Roads
Private Roads
Hydrology
Railway Tracks
The City of Oshawa
Road Map - South Half
NOTE: Information provided on this map should not be used as a substitute for legal, real estate, survey or City of Oshawa staff advice. The City of Oshawa assumes no liability for any damages or loss that may arise from the use or misuse of any of the information contained herein. All information that appears on this map is presented as is, without warranties of any kind, either expressed or implied.
January 2009
City of Oshawa
CORPORATE SERVICES DEPARTMENT

DISTRIBUTION SYSTEM




OSHAWA PUC NETWORKS INC.
13.8KV SINGLE LINE DIAGRAM
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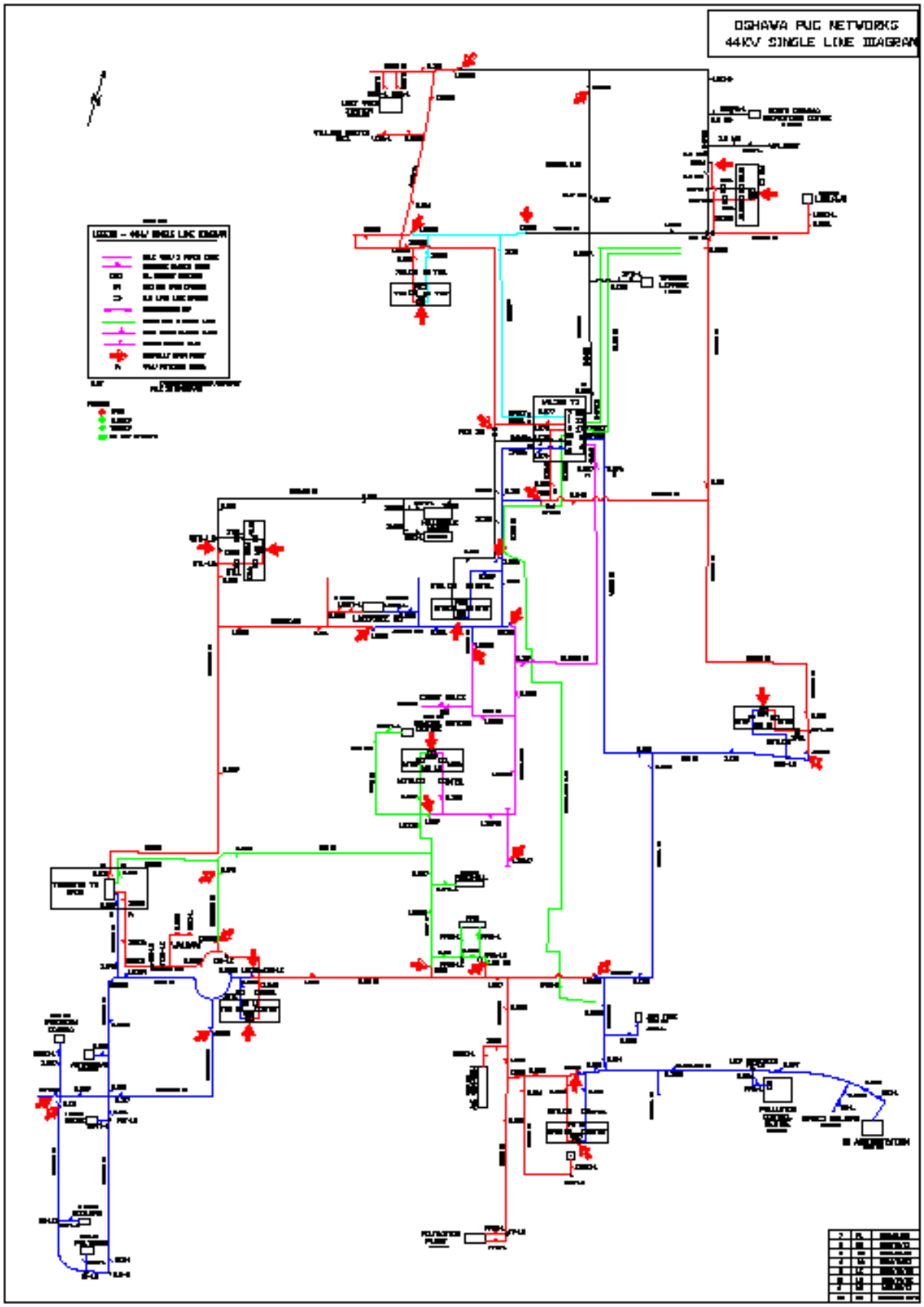
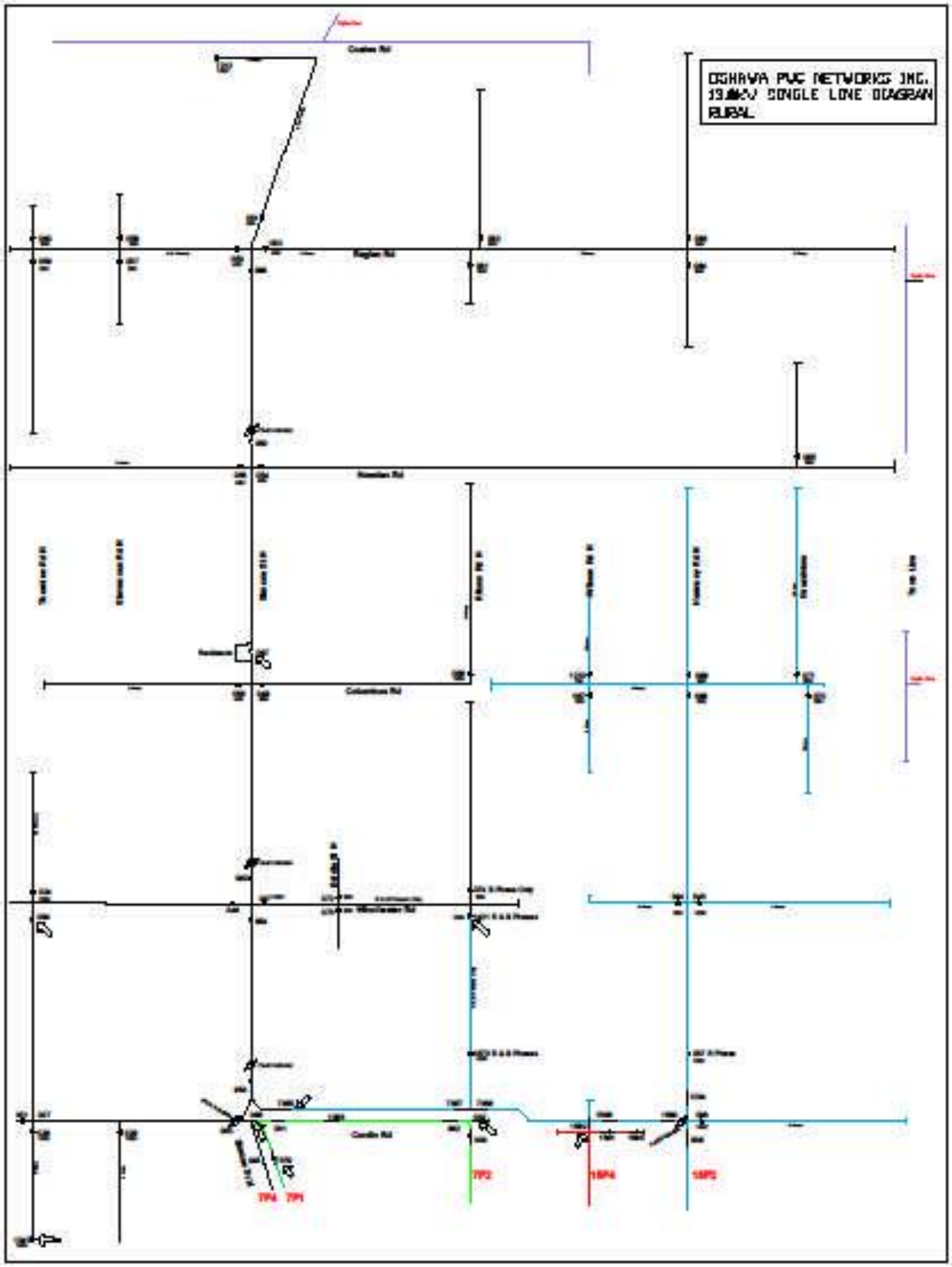

OSHAWA PUC NETWORKS
44KV SINGLE LINE DIAGRAM


OSHAWA PUC NETWORKS INC.
SINGLE LINE DIAGRAM
RURAL

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CITY OF OSHAWA

SHAREHOLDER DECLARATION

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CORPORATION OF THE CITY OF OSHAWA

SHAREHOLDER DECLARATION

1. *Definition and Interpretation Section*

1.1 Whenever used in this Shareholder Declaration, unless the context requires otherwise, the following words and terms shall have the respective meanings ascribed to them below.

"Act" means the *Energy Competition Act, 1998* (Ontario).

"Affiliate" shall have the meaning as defined in the OBCA.

"City" means The Corporation of the City of Oshawa.

"City Manager" means the Manager of the City.

"Clerk" means the Clerk of the City.

"Commission" means the Oshawa Public Utilities Commission.

"Corporation" means Oshawa Power and Utilities Corporation, incorporated pursuant to Section 142 of the Act.

"Council" means the elected council of the City.

"Family Member" means a parent, spouse, same-sex partner or child as such terms are defined in the *Municipal Conflict of Interest Act* (Ontario) as amended.

"HoldCo Board" means the board of directors of the Corporation.

"IMO" means the Independent Electricity Market Operator.

"Mayor" means the Mayor of the City.

"OBCA" means the *Business Corporations Act* (Ontario) and all regulations thereunder.

"OEB" means the Ontario Energy Board.

"OEB Act" means the *Ontario Energy Board Act, 1998* (Ontario) and all regulations thereunder.

"Shareholder" means The Corporation of the City of Oshawa.

"Shareholder Declaration" means this shareholder declaration.

"Shareholder Representative" shall have the meaning set out in Subsection 12.1.

"Subsidiaries" means the subsidiary corporations (as defined in the OBCA) of the Corporation and includes WiresCo.

"WiresCo" means Oshawa PUC Networks Inc., incorporated pursuant to Section 142 of the Act.

"WiresCo Board" means the board of directors of WiresCo.

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2. *Purpose*

2.1 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, in some cases, WiresCo and any other Subsidiaries. Except as provided in Sections 12 and 15, this Shareholder Declaration is not intended to constitute a unanimous shareholder declaration under the OBCA or to formally restrict the exercise of the powers of the HoldCo Board or the board of directors of any Subsidiary.

3. *Permitted Business Activities*

3.1 Subject to the restrictions in Section 15, the Corporation and the Subsidiaries may engage in the business activities which are permitted by any law applicable to the Corporation and the Subsidiaries from time to time, including the Act and as the HoldCo Board or the boards of directors of the Subsidiaries may authorize. In so doing, the Corporation and its Subsidiaries shall conform to all requirements of the OEB, the IMO and all other applicable regulatory or governmental authorities.

4. *Standards of Governance*

4.1 Duty of Care, Diligence and Skill - As required by the OBCA, the HoldCo Board and the board of directors of any Subsidiary shall supervise the management of the business and affairs of the Corporation and any Subsidiary respectively, and, in so doing, shall act honestly and in good faith with a view to the best interests of the Corporation or the Subsidiary respectively and shall exercise the same degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

4.2 Statement of Principles - The Shareholder expects the HoldCo Board and the board of directors of any Subsidiary to observe any statement of principles which may be issued by

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the Shareholder, from time to time. Without limiting the generality of the foregoing, the Shareholder expects the following principles to be followed by the HoldCo Board and the board of directors of any Subsidiary:

(a) The operation of the Corporation and the Subsidiaries is integral to the well-being and the infrastructure of the City. The Corporation recognizes that it is in the best interests of the City and the community that the Corporation and its subsidiaries conduct their affairs on a commercially prudent basis, recognizing the best interest of the public and in accordance with the financial objectives of the City as set out herein.

(b) The Corporation will provide, through WiresCo a reliable, effective and efficient electricity distribution system.

(c) Distribution rates applicable to customers of WiresCo will be set by the board of directors of WiresCo in accordance with the rates allowed by the OEB from time to time.

(d) The conduct of the business of the Corporation and the Subsidiaries is at all times subject to such licences, codes, policies, rules, orders, interim orders, approvals, consents and other actions of any regulator.

(e) The Corporation and the Subsidiaries will operate with an emphasis on customer service.

(f) The Corporation and the Subsidiaries will operate in a safe and environmentally-responsible manner.

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(g) The board of directors of the Corporation is responsible for determining and implementing the appropriate balance among the foregoing principles and for causing the Corporation and the Subsidiaries to conduct their affairs in accordance with the same.

5. *General Qualifications for Directors*

5.1 Qualifications of Directors - In addition to sound judgement and personal integrity, the qualifications of candidates for the HoldCo Board or the board of directors of any Subsidiary may include:

(a) awareness of public policy issues related to the Corporation or a Subsidiary, as applicable;

(b) business experience;

(c) corporate board of director experience;

(d) financial, engineering, legal, marketing or human resources experience;

(e) regulated industry knowledge including, but not limited to, knowledge of municipal electric utilities; and

(f) a broad base of community awareness.

5.2 Residency - In selecting the members of the HoldCo Board or board of directors of any Subsidiary, the Shareholder shall not give preference to residents of Oshawa, but shall recruit the most qualified candidates available.

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5.3 Chair and Vice-Chair Positions

(a) Chair - The first Chair of the HoldCo Board and the first Chair of the board of directors for WiresCo shall be appointed by the Shareholder. Other than the first Chair to be appointed by the Shareholder, the HoldCo Board may elect its own Chair and the board of directors of WiresCo may elect its own Chair.

(b) Vice-Chair - The HoldCo Board may elect its own Vice-Chair and the board of directors of WiresCo may elect its own Vice-Chair.

6. *Board of Directors of the Corporation*

6.1 Number of Directors - The Corporation shall be governed by the HoldCo Board which shall consist of three (3) members to be appointed by the Shareholder from among the members of the WiresCo Board.

6.2 Interim HoldCo Board - The first HoldCo Board shall consist of the Mayor, Irv Harrell and the current Chair of the Commission (the "Interim HoldCo Board") which shall hold office until December 31, 2000 or until such earlier time as the Shareholder shall have appointed new directors to replace the Interim HoldCo Board.

7. *Boards of Directors of Subsidiaries*

7.1 WiresCo Board - Except for the Interim WiresCo Board as provided in Subsection 7.2, WiresCo shall be governed by a board of directors which shall consist of five (5) members who are not serving members of Council or any Family Member of a serving member of Council, to be appointed by the Shareholder.

7.2 Interim WiresCo Board - The first WiresCo Board (the "Interim WiresCo Board") shall consist of the following five (5) individuals: (i) the Mayor; (ii) Irv Harrell; (iii) the City Manager; (iv) the current Chair of the Commission and (v) the current Vice-Chair of the Commission. The Interim WiresCo Board shall hold office until December 31, 2000 or until such earlier time as the Shareholder shall have appointed new directors to replace the Interim WiresCo Board.

7.3 Composition of the Board for Other Subsidiaries - The number, composition, term and membership of the board of directors for any Subsidiaries other than WiresCo shall be determined by HoldCo in its capacity as shareholder of the Subsidiaries.

8. *Term of Directors*

8.1 Term - Except for the Interim HoldCo Board and Interim WiresCo Board, the term for the members of the HoldCo Board and WiresCo Board shall be as follows:

(a) The members of the first WiresCo Board appointed to replace the Interim WiresCo Board are to be appointed for the following terms: one (1) director for a one (1) year term, and two (2) directors for a two (2) year term and two (2) directors for a three (3) year term;

(b) All other future members of the WiresCo Board are to be appointed for a three (3) year term;

(c) The members of the HoldCo Board are to be appointed for a term to be coincident with their term as a member of the WiresCo Board;

(d) Any director may serve for successive terms as determined by the Shareholder; and

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(e) The Shareholder may perform an annual review of the performance of the HoldCo Board and the WiresCo Board, and may remove a director at any time during such director's term in accordance with the provisions of the OBCA.

9. *Board of Director Committees*

9.1 Committees - The HoldCo Board and boards of directors of any Subsidiary may establish such committees which in their discretion are required, which committees shall include, at a minimum, an Audit and Finance Committee which shall oversee the performance of the auditors and the preparation of the financial statements of the Corporation.

10. *Directors' Compensation*

10.1 Maximum Compensation - The Shareholder shall approve the maximum compensation for directors of the Corporation and any other Subsidiary. The compensation for directors of the Corporation and any Subsidiary shall be determined by the respective board of directors of the Corporation and the Subsidiaries within the maximum approved by the Shareholder.

10.2 No Additional Compensation - Members of the HoldCo Board or the board of directors of any Subsidiary, shall not receive additional compensation for also being a member of the board of directors of any Affiliate.

11. *Policies*

11.1 Policies - The Shareholder expects that as soon as possible after the date of this Shareholder Declaration:

(a) Capital Structure - the WiresCo Board will establish policies to develop and maintain a prudent financial and capitalization structure consistent with sound financial principles and established on the basis that WiresCo is expected to provide the Shareholder with a reasonable rate of return;

(b) Distribution Rates - the WiresCo Board shall determine distribution rates for the regulated distribution business of WiresCo within the range of distribution rates permitted by the OEB;

(c) Returns - the WiresCo Board will establish a policy to enhance Shareholder value by generating a reasonable return:

(i) as permitted by the OEB pursuant to the OEB Act;
(ii) through the payment of dividends, interest or otherwise; and
(iii) consistent with a prudent financial and capitalization structure;

(d) Conflict of Interest - the Board and the boards of directors of the Subsidiaries will establish a policy regarding conflicts of interest of directors; and

(e) Risk Management - the WiresCo Board will establish a policy to manage all risks related to the business it conducts, through the adoption of appropriate risk management strategies and internal controls consistent with industry norms.

12. *Decisions of the Shareholder & Shareholder Representative*

12.1 The Shareholder hereby designates the Mayor and the Clerk together as the legal representatives of the Shareholder (the "Shareholder Representatives") for purposes of communicating to the Board pursuant to Subsection 12.2, any consent or approval required by this Shareholder Declaration or by the OBCA or otherwise.

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12.2 Approvals or decisions of the Shareholder required pursuant to this Shareholder Declaration or the OBCA shall require a resolution or by-law of Council passed at a meeting of Council and shall be communicated in writing to the Board and signed by both of the Shareholder Representatives.

13. ***Reporting to Shareholder***

13.1 Quarterly Reports - the City Manager shall receive quarterly financial and other reports from the HoldCo Board with respect to the operations of the Corporation, WiresCo and any other Subsidiary and the City Manager shall review such reports and provide an appropriate synopsis to the Shareholder to be treated as confidential information.

13.2 Information to Shareholder - the City Manager shall receive copies of all business plans, long range strategic plans, operating budgets, cash flow budgets and capital budgets prepared by the Corporation, WiresCo and any other Subsidiary and the City Manager shall review such information and provide an appropriate synopsis to the Shareholder to be treated as confidential information.

13.3 Annual Financial Statements - the City Manager shall receive the audited annual financial statements of the Corporation, WiresCo and any other Subsidiary. Such annual financial statements shall be provided by the City Manager to the Shareholder, for its approval, as required by the OBCA.

14. ***Reporting on Major Developments***

14.1 The HoldCo Board shall report to Council in a timely manner on major business developments or materially significant or adverse results as the HoldCo Board, in its discretion, considers appropriate and such reports may be received and considered by the

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Shareholder at an in camera meeting of Council in accordance with the *Municipal Act* (Ontario).

15. *Matters Requiring Shareholder Approval*

15.1 Without Shareholder approval given in accordance with Section 12, the Corporation, WiresCo or any other Subsidiary shall not:

Statutory Approval Rights

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

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

(c) take or institute proceedings for any winding up, arrangement, or dissolution of the corporation;

(d) apply to continue as a corporation under the laws of another jurisdiction;

Additional Approval Rights

(e) 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; and

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(f) enter into any transaction, including the acquisition or sale of assets, mergers, amalgamations or other agreements which would result in a material change to the business of the corporation.

15.2 Notwithstanding the provisions in Subsection 15.1(f) of this Shareholder Declaration, the WiresCo Board may approve any strategic alliance without the prior approval of the Shareholder.

16. *Revisions to this Declaration*

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 HoldCo Board prior to completing any revisions and will promptly provide the HoldCo Board with copies of such revisions.

DATED at Oshawa, Ontario this 24th day of ~~October~~ November, 2000

THE CORPORATION OF THE CITY OSHAWA

By: _____
Nancy L. Diamond
Mayor

By: _____
Brian Suter
Clerk

THE CORPORATION OF THE CITY OF OSHAWA

SHAREHOLDER DECLARATION AMENDMENT NO. 1

1. ***Definition and Interpretation Section***

1.1. Whenever used in this Shareholder Declaration Amendment No. 1, unless the context requires otherwise, the words and terms set out in section 1.1 of City of Oshawa Shareholder Declaration dated November 24, 2000 authorized by City By-law 80-2000 ("Shareholder Declaration") shall have the respective meanings ascribed to them in the said section 1.1 of the Shareholder Declaration.

2. ***Purpose***

2.1. This Shareholder Declaration Amendment No. 1 amends the Shareholder Declaration.

3. ***Amendment***

3.1. Subsection 7.1 of the Shareholder Declaration is amended by deleting the first word, "Except", and by substituting therefore the phrase, "Subject to subsection 7.2.1 and except" so that subsection 7.1, as amended, reads as follows:

> "WiresCo Board – Subject to subsection 7.2.1 and except for the Interim WiresCo Board as provided in Subsection 7.2, WiresCo shall be governed by a board of directors which shall consist of five (5) members who are not serving members of Council or any Family Member of a serving member of Council, to be appointed by the Shareholder."

3.2. The Shareholder Declaration is amended by adding a new subsection 7.2.1 as follows:

"Effective October 22, 2010, WiresCo shall be governed by a board of directors which shall consist of eight (8) members who are not serving members of Council or any Family Member of a serving member of Council, to be appointed by the Shareholder."

3.3. The Shareholder Declaration is amended by adding a new paragraph 8.1(b.1) as follows:

"The first three (3) additional members of the WiresCo Board contemplated by subsection 7.2.1 are to be appointed for a one (1) year term. Thereafter, the appointment of each future such additional member shall be for such term or terms as the Shareholder may determine."

Dated at Oshawa, Ontario this 22nd day of October, 2010

THE CORPORATION OF THE CITY OF OSHAWA

By: _____
J. Gray, Mayor

By: _____
S. Kranc, City Clerk

WITNESS CVs

To follow.

EXPERT FORM As

To follow.