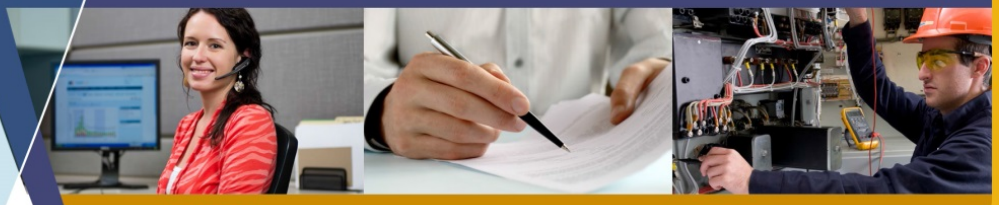
2016-2020 Rate Application



HydroOttawa

MANAGEMENT, DISCUSSION AND ANALYSIS

Please see A2 – Executive Summary.

MANAGEMENT DISCUSSION & EXECUTIVE SUMMARY

1.0 INTRODUCTION

This schedule provides a summary of Hydro Ottawa Limited (" Hydro Ottawa or HOL or the Company", "the utility")'s Custom Incentive Regulation ("Custom IR") rate application for the five year period beginning 2016 and ending in 2020. This schedule describes Hydro Ottawa's business plan and identifies the funding the company requires in order to continue to serve its current and future customers in a manner that allows it to fulfil its mission to deliver safe, reliable, affordable and sustainable electricity to the homes and businesses in the City of Ottawa and the Village of Casselman and to meet the demands of a growing, expansive and complex urban/rural environment while pursuing productivity improvements to benefit the company's ratepayers and an appropriate rate of return for its shareholders. This Executive Summary is guided by the requirements set out in Sections 2.4.1 and 2.4.2 of Chapter 2 of the Ontario Energy Board ("the OEB" or "the Board")'s Filing Requirements for Electricity Distributors Companies' Cost of Service Rate Applications, based on the forward Test Years (the 'Chapter 2 Requirements').

This application represents Hydro Ottawa's assessment of its capital and operational needs and of its commitment to its customers over the next five years. The investments set out in this application are required in order to address the pressures of aging infrastructure, a continuously growing customer base, challenging weather, increasing urban and rural development and modernization, an aging workforce, and a growing customer appetite for innovative leading-edge and technology-based services. Hydro Ottawa's challenge is to finance its operations so that it may continue to provide its customers with a safe and reliable source of electricity, as well as, acceptable customer service levels at reasonable rates.

By way of this application, Hydro Ottawa seeks approval for its five year Custom IR rate application which is based on a rate-setting model wherein Hydro Ottawa's capital

requirements are recovered on a five year forecasted cost of service basis and its operations, maintenance and administrative ("OM&A") requirements are recovered pursuant to an "I-X" formula. Hydro Ottawa seeks approval for final rates for a three year period beginning 2016 and ending 2018 and for its five year forecasted capital requirements. Hydro Ottawa proposes to apply to the Board to adjust its 2019 and 2020 rates to incorporate a revised inflation factor and updated cost of capital parameters. Finally, Hydro Ottawa reserves the right to file Y and Z factor applications during the course of its Custom IR period and proposes to share earnings with its customers based on increasing proportionality scale for earnings that rise above certain thresholds.

Recognizing its significant multi-year capital needs Hydro Ottawa has exercised the option provided to it pursuant to the Report of the Board entitled "Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach" (the "RRFE") to account for its unique capital funding requirements that cannot be accommodated for under the OEB's 4th Generation Incentive Regulation model. In filing a Custom IR application, Hydro Ottawa has applied the key tenants of the RRFE including, but not limited to;

a) By applying for an initial rebasing (financial viability) then applying for a rate setting approach to recover forecasted capital needs but recovers OM&A needs pursuant to an I-X formula (operational effectiveness);
b) By identifying historical and future productivity initiatives to achieve continuous improvement (operational effectiveness);
c) By providing a total cost and reliability econometric benchmarking, as authored by Power System Engineering and based on the OEB's benchmarking approach;
d) By providing a customer engagement strategy to ensure responsiveness to identified customer preferences (customer focus);
e) By providing a comprehensive asset management and infrastructure investment plan that is linked to the capital budget, prioritizes for total bill

impact, is informed by customer consultation and been subject to an independent assessment;

f) By providing an annual reporting mechanism through which Hydro Ottawa can inform the Board of its progress on implementing its capital plan as well as its continuous improvement initiatives.

This application has been prepared and guided by the OEB's requirements set out in the OEB's Filing Requirements for Electricity Distributors Companies' Cost of Service Rate Applications and seeks to align with the OEB's guidance to electricity distributors in its' Renewed Regulatory Framework for Electricity Distributors report ("RRFE"). For further details illustrating how the evidence comprising Hydro Ottawa's application aligns with the Board's RRFE expectations please see section 3.0 below and refer to Exhibit A-2-2.

2.0 ABOUT HYDRO OTTAWA

2.1 General Facts

Hydro Ottawa serves Canada's capital Ottawa and the Village of Cassleman. Ottawa is home to the Parliament of Canada and key departments within the federal public service, is the second largest city in Ontario and the 6th largest city in Canada. Hydro Ottawa is the fourth largest electricity distributor in Ontario serving over 315,000[1] customers and has a service territory of 1,104 square kilometers that includes a complex dense urban core, large areas of suburban development and a vast rural area representing approximately 60%[2] of the company's territory. Hydro Ottawa is the amalgamation of five predecessor utilities: Ottawa Hydro, Kanata Hydro, Gloucester Hydro, Nepean Hydro and Goulbourn Hydro. In 2002, Hydro Ottawa acquired the service territory of Casselman Hydro.

[1] New customer growth is occurring at a rate of approximately 1% per annum.

[2] According to the latest Ontario Energy Board ("OEB" or "Board") Electricity Distributor Yearbook results (2013), Hydro Ottawa has a total service area of 1,104 square kilometers with approximately 60% of the service territory being classified as rural.

2.2 Challenges faced by Hydro Ottawa

Hydro Ottawa operates in a unique market with unique challenges. Among the challenges unique to Hydro Ottawa is its weather. Ottawa winters are cold and they are long. Relative to other large local distribution companies ("LDCs") in Ontario, Hydro Ottawa must contend with longer periods of ground freeze and more significant snow cover. This impacts Hydro Ottawa's operations and its costs in a number of significant ways. First, extended periods of ground freeze and snow cover shortens the infrastructure construction period and lengthens the moratorium period by approximately 4-6 weeks which can reduce the construction seasons by as much as 20%. In addition, snow and ice impedes normal work flow because it increases time to access sites, access equipment safely, and impacts the set-up/take down of a work area. The increase to time spent at each worksite reduces the number of worksites that can be scheduled in a day consequently increasing overall costs from a unit of work perspective. On the capital side, Ottawa's long winters require the municipality to use significant quantities of road salt which has a corrosive effect on ductwork, wires and insulators shortening the effective asset life of Hydro Ottawa assets.

Another challenge that Hydro Ottawa faces stems from the approximately 43% of its workforce that is eligible to retire by 2020 or during the course of Hydro Ottawa's Custom IR rate period. The preponderance of employees eligible to retire are technical and operational staff that require multi-year training and apprenticeship. Details on the measures Hydro Ottawa is undertaking to address the challenges of managing the utility with an aging workforce are set out in its Workforce Planning Strategy available in Exhibit D-1-7.

Like other LDCs, Hydro Ottawa also faces challenges presented by aging infrastructure. Hydro Ottawa estimates that approximately 30% of its assets have reached or exceeded their expected useful life. This is creating increasing pressure on the company to replace aging assets before they fail. See Exhibit B-1-2(A)-(C) for further details. Also, though serving a major urban centre, Hydro Ottawa must contend with intensification of development within its urban core as well as continued suburban growth in the east,

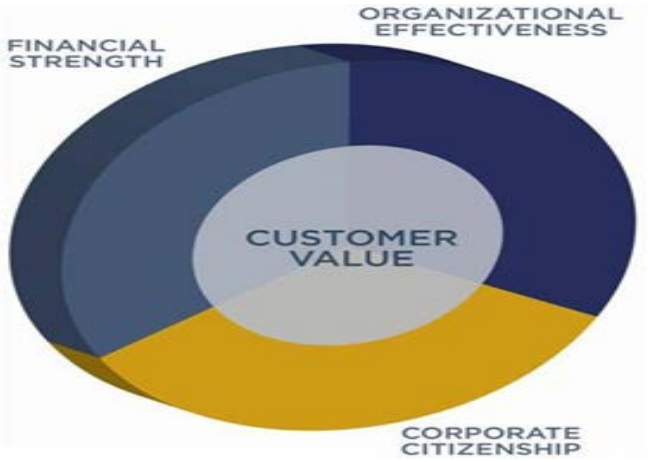
west and southern regions of its service territory. One of the challenges that is unique to Hydro Ottawa to execute its capital construction plans arises from constraints on contractor availability. Despite the City of Ottawa being the second largest city in Ontario, there are an insufficient number of qualified contractors to support Hydro Ottawa's capital plans requiring Hydro Ottawa to pay a premium in order to attract contractors from the Toronto region.

Finally, with raising electricity rates comes rising customer expectations. Hydro Ottawa's customers are expecting new and/or improve services allowing the customer to interface with Hydro Ottawa and obtain information (i.e., billing, time-of-use consumption, appliance consumption, outage alerts, etc.,) on the device or medium of the customers' choice and at a time of the customers' choice. The challenge moving forward is to meet these expectations in an innovative, agile and timely manner within the funding resources provided for and approved by the Board in this application. Hydro Ottawa's ability to be innovative and agile and its ability to respond to industry market changes and customer expectations will become an increasingly important strength over the next five years with the introduction of new technologies, and as legislative and policy modernization take a foothold within the industry to incentivize distributor consolidation.

2.3 Hydro Ottawa Four Strategic Objectives

Hydro Ottawa's four strategic objectives are: a) to deliver customer value; b) to create sustainable growth; c) to achieve performance excellence; d) to contribute to the well-being of the community. As denoted in Figure 1 below, Hydro Ottawa fundamentally believes that delivering customer value is at the core of its mission and that if it can create sustainable growth, achieve performance and contribute to our community, the customer will derive long term value from the company and the activities and initiatives it proposes undertake over the next several years.

Figure 1:



These corporate objectives are consistent with the four performance outcomes set out in the RRFE namely that a) Customer Focus – that services are provided in a manner that responds to identified customer preferences; b) Operational Effectiveness – continuous improvement in productivity and cost performance is achieved and utilities deliver on system reliability and quality objectives; c) Public Policy Responsiveness – that utilities deliver on obligations mandated by government and d) Financial Performance – financial viability is maintained and savings from operational efficiencies are sustainable.

3.0 ALIGNMENT WITH THE RRFE

The design of Hydro Ottawa's Custom IR application and the evidence filed in support of its capital and operational funding requirements seeks to respond to the Board's expectations for Custom IR applications as set out in the RRFE. These expectations and the evidence that Hydro Ottawa relies on to illustrate its compliance are summarized in Exhibit A-2-2 as well as in Table 1 below.

1 **Table 1.**

OEB's RRFE Performance Outcomes		Hydro Ottawa's Corporate Objectives		HOL Evidentiary Alignment with RRFE
Focus	**Objective**	**Focus**	**Objective**	
Customer Focus	Services are provided in a manner that responds to identified customer preferences	**Customer Value**	We will deliver value across the entire customer experience by providing reliable, responsive and innovative services at competitive rates	Exhibit D-1-6 Customer Service Strategy Exhibit A-3-1 – Customer Engagement Plan See Exhibit B-1-2 for HOL's Distribution System Plan.
Operational Effectiveness	continuous improvement in productivity and cost performance is achieved; and utilities deliver on system reliability and quality objectives;	**Organizational Effectiveness**	We will achieve performance excellence by cultivating a culture of innovation and continuous improvement	See Exhibit D-1-5 for an overview of productivity & benchmarking See Exhibit D-1-4 for a discussion of HOL's historical and forward looking productivity initiatives See Exhibit D-1-7 for Hydro Ottawa's Workforce Planning strategy See Exhibit B-1-2 for HOL's Distribution System Plan.
Financial Performance	Financial viability is maintained; and savings from operational effectiveness are sustainable.	**Financial Strength**	We will create sustainable growth in our business and our earnings by improving productivity and pursuing business growth opportunities that leverage our strengths — our core capabilities, our assets and our people	See Exhibit D-1-5 for an overview of Hydro Ottawa's productivity & benchmarking See Exhibit D-1-4 for a copy of Hydro Ottawa's OEB Scorecard. See Exhibit E for details of Hydro Ottawa Cost of Capital and Capital Structure. See Exhibit B-1-2 for HOL's Distribution System Plan.
Public Policy Responsiveness	utilities deliver on obligations mandated by government	**Corporate Citizenship**	We will contribute to the well-being of the community by acting at all times as a responsible and engaged corporate citizen	See Exhibit D-1-9 for details of Hydro Ottawa's Health, Safety & Environment Plan Hydro Ottawa will file at a later date its approved 2015-2020 CDM Plan See Exhibit B-1-2 for HOL's Distribution System Plan.

2

3

4

5

4.0 HYDRO OTTAWA'S CUSTOM IR APPLICATION

4.1 Hydro Ottawa Guiding Principles

Hydro Ottawa proposes a Custom IR rate-setting framework that constrains operational funding increases after rebasing and provides the ability to recover its multi-year capital investments. To facilitate the development of the 2016 to 2020 Custom IR application Hydro Ottawa developed the following guiding principles:

- ✓ Ensure rate increases are as minimal as possible and that rates are timely and commensurate with the cost to provide service.
- ✓ Ensure new customer services can be introduced throughout the term of the plan so that customer expectations are met.
- ✓ Invest in assets which ensure that the distribution system is efficient and reliable in order to meet expectations of both existing customers and new customers during the five-year term.
- ✓ Demonstrate cost containment and control, encourage productivity initiatives, while still providing customers with appropriate service levels.
- ✓ Ensure that capital expenditures earn an appropriate rate of return in a timely manner so that continued investment in capital assets can be afforded and, therefore, meet customer expectation's regarding reliability.

4.2 Principle Drivers Justifying Custom IR

Hydro Ottawa's decision to adopt a Custom IR rate-setting model is justified in light of the significantly large multi-year capital investments needed by Hydro Ottawa to continue to provide a safe and reliable electricity distribution service so that it may continue to meet the needs and expectations of its customers. Hydro Ottawa's capital requirements are the result of investments identified through the Company's asset management planning and network investment planning processes and in particular through its Heath Indexing method used to assess the condition of its assets. A copy of Hydro Ottawa's Asset Management Planning process, its Distribution System Plan and its Grid Transformation Plan can all be found in Exhibit B-1-2.

4.3 Hydro Ottawa's Financial Planning and Budgeting Approach

Hydro Ottawa's approach to its 2016 Custom IR rate application and the financial planning considerations and budgeting were informed by and reflect the guiding principles enunciated above. Hydro Ottawa's financial planning and budgeting approach included a number of interrelated steps which started with the development of a detailed forecast of capital and operations, maintenance and administrative (OM&A) expenditures, for the years 2016 through 2020.

4.3.1 Capital Budget Forecasts

The final detailed forecast of capital expenditures for each year of 2016 through 2020 presented in this application is the result of a number of refinements and several iterations. Initial forecasts included funding requests that were greater than the final forecast, as there was opinion that a higher funding level was required from an asset-needs perspective. That higher funding level was measured against a number of other key factors including rate impacts and resources available and/or required for execution of Hydro Ottawa's capital plans and the company's financial capability to fund investments.

The final, detailed forecast of capital expenditures resulted in a calculation of rate base for each year of 2016 through 2020. With the calculation of rate base for each year, Hydro Ottawa proposes to determine, for rate making purposes, the return on investment on the annual rate base and adjust rates each year to recover this return on investment. This step of the approach addresses a number of the guiding principles above.

1) The final detailed forecast of capital expenditures ensures that a safe and reliable electrical service is provided to the customers of Hydro Ottawa.
2) The final detailed forecast and subsequent budget provides incentives to prioritize pace and effectively manage the annual budgets.
3) The recovery of return on investment for large capital expenditures, on an annual basis, provides customers with timely and appropriate rates for the cost of providing service. This eliminates potential intergenerational rate

increases that arise when the return on large capital expenditures is not incorporated into rates until a subsequent re-basing application.

4) The recovery of return on investment for large capital expenditures, on an annual basis, ensures that those customers who benefit from the service associated with the expenditures are, in fact, the customers paying for the service.
5) The timely recovery of return on investment of the large capital expenditure from 2016 – 2020 ensures Hydro Ottawa is financially capable of continuing to fund large capital expenditures into the future, so safe and reliable electrical service may continue to be provided to the customers of Hydro Ottawa.

Hydro Ottawa's capital expenditure plan for the 2016-2020 period proposes an average gross annual expenditure of $130 million per year. Hydro Ottawa fully expects this level of annual capital expenditure will be sustained, if not increased through the decade from 2020-2030.

The proposed annual expenditure level is significantly greater than annual expenditure levels set out in previous Hydro Ottawa rate applications but is consistent with the 2013-2015 capital spend levels for distribution plant. What's more the annual expenditure levels are necessary to effectively address all the key areas outlined above in order to continue to provide customers with safe, reliable service at a reasonable rate. By comparison, between 2006 and 2009, Hydro Ottawa's average annual net expenditure level was approximately $60 million per year (gross expenditure average was $75 million per year).

To support this level of annual capital expenditure over the five year period, Hydro Ottawa requires a financial sustainability model which provides timely return on invested capital. The financial model under the OEB's 4th generation IRM model does not provide appropriate timing of return on capital expenditures for Hydro Ottawa due to the significant percentage differential between net capital expenditures per year and annual

depreciation expense. In Hydro Ottawa's case, the differential for the years 2016 to 2020 is approximately 245% or approximately $60 million per year. Table 2 below compares Hydro Ottawa's forecasted annual capital expenditure requirements to its annual forecasted depreciation expense to illustrate that Hydro Ottawa's capital requirements are over two times and as much as three and a half times the level of forecasted depreciation. Hydro Ottawa's annual increases in capital expenditures and depreciation outpaces inflationary increases to revenue available under the IRM regime rendering the latter an inappropriate mechanism for recovering Hydro Ottawa's capital needs.

Table 2 – Capital Expenditure vs. Depreciation

($000s)	**2016**	**2017**	**2018**	**2019**	**2020**
Capital Expenditures	$145,430	$149,073	$119,418	$120,982	$119,538
Depreciation	$40,826	$44,145	$47,047	$48,949	$50,295
Multiple	3.5	3.3	2.5	2.4	2.3

4.3.2 OM&A Budget Forecasts

To support Hydro Ottawa's operation, maintenance and administrative proposed expenditures ("OM&A), Hydro Ottawa has put forth a detailed budget and analysis of its OM&A costs for 2016. For the 2016 test year, a budget process was completed in 2014 to identify the OM&A needs of Hydro Ottawa. The budget memo directed division leaders to develop the 2016 OM&A budget under certain parameters for ongoing programs and projects and sought identification by individual divisions of extraordinary or unique programs and projects.

For 2017 through 2020 OM&A costs are calculated based upon a formulaic adjustment mechanism. This formulaic adjustment would result in the costs for OM&A included for rate making purposes being delinked from the actual costs incurred by the Company for OM&A expenses for the same period. Following the establishment of a baseline budget for 2016, Hydro Ottawa has chosen to adjust the 2016 test year OM&A by "I" – "X"

formula for the each year of 2017 through 2020 where "I" refers to inflation and "X" refers to productivity. This formulaic adjustment is consistent with the OEB's policy framework under the RRFE where rates charged to customers are de-linked from the costs of operating the utility.

This approach creates an incentive for the Company to seek out productivity initiatives during this period in order to meet ever growing OM&A costs and pass those benefits of the productivity initiatives on the customer during the Custom IR period and in the subsequent 2021 – 2025 rate timeframe. See below for a discussion of how Hydro Ottawa proposes to define the I-X.

4.3.3 Proposed Rate Adjustments

Hydro Ottawa proposes to establish final rates for 2016, 2017 and 2018, as part of this application and to establish final rates for 2019 and 2020 based on capital requirements plus updated inflation and cost of capital parameters. The proposal is to establish the forecast capital expenditures and resulting rate base for 2016, 2017 and 2018. In addition OM&A costs would be established for 2016 and adjusted by formula for 2017 and 2018, based upon a forecast for inflation and a fixed productivity adjustment. The cost of capital parameters will be updated based upon the OEB's prescribed 2016 rates for deemed short term debt and return on equity ("ROE") with long term debt being a weighted average of embedded and forecast deemed rates calculated as discussed in E-1-1. The cost of capital parameters would not be updated annually for 2017 and 2018.

Hydro Ottawa also proposes to establish final rates for 2019 and 2020 in the fall of 2018, based upon the following parameters:

a) Capital expenditures and rate base – 2019 and 2020 capital expenditures and corresponding rate base will be calculated based upon the capital expenditure forecast and rate base forecast contained in this application.
b) OM&A – OM&A expense will be calculated based upon the updated inflation forecast of the Conference Board of Canada ("CBofC"), released in fall 2018 for 2019 and 2020.

c) Cost of Capital parameters – any adjustment to the cost of capital parameters will be based upon the OEB's prescribed rates for 2019 (short term debt, and ROE) released in the fall of 2018. The OEB prescribed rates for 2019 will also apply to 2020 rates for Hydro Ottawa. Long term debt will be a weighted average of embedded and forecast deemed rate at that time as outlined in E-1-1.

Hydro Ottawa's proposal to fix final rates for three years (2016-2018) then adjust the rates only to update for inflation and cost of capital variables. This is intended to build in rate protection for Hydro Ottawa's customers and to provide operating and business certainty to Hydro Ottawa and its shareholder. Hydro Ottawa recognizes that this is a departure from other Custom IR proposals such as those filed by Horizon and Oshawa that have a built in mechanism through which rates can be adjusted annually but the Company stands by the merits of proposing fixed and final rates for the first three years of its five year Custom IR plan.

4.4 Custom IR Rate-Setting Framework

Consistent with Hydro Ottawa's letter to the Board dated December 22, 2014, Hydro Ottawa has opted to apply for rates based on a Custom IR framework. Hydro Ottawa propose a custom IR framework on the grounds that it must undertake unprecedented infrastructure investments in the near to medium term to avoid risks to system and service reliability.

The Custom IR option is the best option for Hydro Ottawa and its customers to ensure the Company has the financial capacity to increase its investments to replace system assets that have reached the end of their useful life. The other rate making approaches identified by the OEB in the RRFE are deficient insofar as they would not result in sufficient capital funding to support Hydro Ottawa's increasing investment requirements.

4.4.1 Capital Expenditures

For all these reasons, Hydro Ottawa's application proposes to have its capital investment requirements fully funded on a five year forecasted cost of service basis. Refer to Exhibit B-1-2(A)-(C) for details on Hydro Ottawa's capital requirements.

4.4.2 Operations, Maintenance & Administrative (OM&A)

For OM&A, Hydro Ottawa proposes a budget for 2016 and thereafter to adjust the 2016 test year OM&A by "I" – "X" (inflation minus productivity) formula for the each year of 2017 through 2020. This formulaic adjustment is consistent with the OEB's policy framework under the RRFE where rates charged to customers are de-linked from the costs of operating the utility.

For the inflation factor, Hydro Ottawa proposes to use the GDP-IPI forecast from the Conference Board of Canada ("CBofC") for the period of 2017 and 2018. The CBofC only provides a three-year forward forecast for GDP-IPPI or CPI. The CBofC has forecast GDP-IPPI at 2.1% for each of 2017 and 2018. For application purposes, Hydro Ottawa has used the CBofC's 2018 forecast of GDP-IPPI as a placeholder for both 2019 and 2020. Hydro Ottawa will update the forecast for GDP-IPPI for 2017 and 2018 using the CBofC's 2015 fall forecast.

Hydro Ottawa will use the 2017 fall forecast of the CBofC to establish the final inflation adjustment for OM&A for 2019 and 2020.

To derive the productivity factor Hydro Ottawa has relied upon the empirical evidence submitted by expert witnesses in the OEB's Report of the Board entitled *Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors* (EB-2010-0379). In that proceeding, four experts put forth reports on an appropriate X factor to be used by electricity distributors in Ontario. Table 3 provides a summary of final results of each expert.

Table 3 – Summary of X Factor Results

Expert	X Factor
L. Kaufmann, Pacific Economics Group Research, LLC	-0.33 %
S. Fenrick, Power Systems Engineering	-1-10 %
A. Yatchew, University of Toronto	- 0.75 %
F. Cronin,	-2.40 %
Average	-1.145

Hydro Ottawa contends that this is the only empirical evidence of Ontario electricity distributors' productivity trends over the last 10 years that is available to Hydro Ottawa. Hydro Ottawa has chosen to use the average productivity trend number from all of the studies. In this way, Hydro Ottawa has not endorsed any of the recommendations and has given each recommendation equal weight. The productivity adjustment chosen would apply to each year for the period of 2016 to 2020. Please see Exhibit D-1-4 for details on the productivity initiatives of Hydro Ottawa.

Therefore, to determine the annual increase in OM&A for the 2017 through 2020 period, the following Table summarizes Hydro Ottawa's recommendations:

Table 4 – Proposed OM&A Increase for 2017 to 2020

	2017	2018	2019*	2020*
Inflation (GDP-IPPI) (%)	2.1	2.1	2.1	2.1
Productivity (%)	-1.145	-1.145	-1.145	-1.145
Annual OM&A Adjustment (%)	3.245	3.245	3.245	3.245

* Values for 2019 and 2020 are for illustrative purposes

4.4.3 Y Factor

Hydro Ottawa further proposes to introduce a Y factor to recover the costs associated with the construction of its new facilities. The Y factor recovers routine or expected cost changes outside the scope of the annual adjustment mechanism; these are considered to be a cost pass-through. Hydro Ottawa proposes to use a Y factor to pass along to ratepayers the costs associated with the construction of the administrative and operational buildings as outlined in section 3.4.5.3 of the DSP. For further details on Hydro Ottawa's Y Factor proposal refer to Exhibit I, Tab 1, Schedule 2.

4.4.4 Z Factor

Pursuant to the OEB's policies related to the treatment of unforeseen events as set out in *The Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*[3] as may be revised, Hydro Ottawa reserves the right to file a Z factor application to recover costs resulting from events or initiatives having a material impact to Hydro Ottawa's cost or revenue structure.

4.4.5 Earning Sharing Mechanism

Hydro Ottawa proposes to include an earning sharing mechanism as a key feature of its Custom IR Application. Earnings sharing mechanisms are features of incentive regulation frameworks that permit the sharing of utility earnings between its shareholder and/or its customers when earnings rise above or fall below a certain threshold. Earnings sharing is a mechanism through which earnings may be passed along to the customer in the form of rate reductions or rate offsets. Hydro Ottawa is proposing an asymmetrical earning sharing mechanism such that it is only proposing to share earnings that are above a basis point threshold above Hydro Ottawa's return on equity but the company will not impose a corresponding rate adjustment if its earnings fall below a basis point threshold of its return on equity.

Hydro Ottawa proposes the following formula for its earnings sharing mechanism.

Table 5 – Hydro Ottawa's Earnings Sharing Proposal

#	Threshold	Treatment
1	Under Earning	borne entirely by shareholder
2	0 – 150 basis points	fully retained by shareholder
3	151- 250 basis points	50:50 sharing of ratepayer/shareholder
4	251 and above	90:10 sharing of ratepayer/shareholder

[3] Available at http://www.ontarioenergyboard.ca/OEB/_Documents/EB-2007-0673/Report_of_the_Board_3rd_Generation_20080715.pdf

4.4.6 Monitoring and Outcome Measurement

Hydro Ottawa proposes to provide the following information as part of the annual written reporting process to be filed with the OEB:

a) Hydro Ottawa's OEB Scorecard results
b) Annual update on actual capital expenditures by program type, versus, budgeted capital expenditures by program type and appropriate variance analysis;

For further details on Hydro Ottawa's proposed written annual reporting proposals refer to Exhibit A-2-2.

4.4.7 Off Ramps

Hydro Ottawa proposes to apply the OEB's existing policy with respect to off-ramps. The RRFE Report sets out the off ramp trigger which is equal to the annual return on equity review where the dead band equals plus or minus 300 basis points. In the event the 300 basis point dead band is triggered a regulatory review may be initiated.

5.0 SUMMARY OF APPLICATION KEY COMPONENTS

5.1 Capital Expenditures

Hydro Ottawa developed the forecasted capital expenditures for the years 2016 – 2020, based upon a process of identification and analysis of distribution system needs, customer expectations and requirements for general plant capital.

The total capital expenditure forecast underwent a number of iterations to address issues of pace, priority, rate impact, resource capacity and financing capability. For example, a new capital expenditure area relating to Hydro One transmission costs was accommodated to a certain level by reducing other areas of capital expenditure. As well, pacing and prioritization of other capital projects (typically IT expenditures) were adjusted through a number of iterations so that the resource capacity of company could complete the projects in a timely manner and to pace the total expenditures of other capital projects more evenly throughout the 2016 – 2020 timeframe. Please see Exhibits B1-1 and B-1-2 for details.

A detailed capital expenditure for each year from 2016 – 2020 provides the basis of the calculation for rate base. The capital expenditure is detailed by asset type and the corresponding amortization is calculated. Hydro Ottawa has used the half year rule in the calculation of rate base for each year of 2016 -2020. Please see Exhibit B-1-1 for details.

Hydro Ottawa's capital expenditure plan for the 2016-2020 period proposes an average gross annual expenditure of $130 million per year. Forecasted gross capital expenditures for the 2016 test year are approximately $145.4 million which represents an increase of approximately $109 million or 26 % from Hydro Ottawa's last rebasing application in 2012. For the 2016-2020 period, Hydro Ottawa's proposed capital expenditures are as follows:

Table 6 – Summary of Capital Expenditures for Test Years

($000s)	2016	2017	2018	2019	2020
Capital Expenditures	145,430	149,073	119,418	120,982	119,538

Source: table 1.1.1 DSP Exhibit B-1

For greater detail on Hydro Ottawa's 2016-2020 capital funding requirements please refer to Hydro Ottawa's Distribution System plan and associated schedules and appendices in Exhibit B-1-2. The DSP outlines Hydro Ottawa's Asset Management Process and Capital Expenditure Plan, in line with the OEB's Chapter 5 Consolidated Distribution System Plan Filing Requirements, providing evidence for good distributor planning.

5.2 Rate Base

Hydro Ottawa's requested rate base for the 2016 test year is $923,306,000 which represents an increase of approximately $254,244,000 or 28% from the total rate base amount approved by the OEB in Hydro Ottawa's last rebasing application in 2012 (EB2011-0054). Table 7 sets out the rate base requested for each of the test years 2016-2020.

Table 7 – Summary of Rate Base for Test Years

($000s)	2016	2017	2018	2019	2020
Rate Base	923,306	970,582	1,020,297	1,050,724	1,094,270

With respect to costs for renewable energy connections, Hydro Ottawa has provided a historical and forwarding looking forecast of system access costs arising from embedded generations as captured in section 3.4 of the Distribution System Plan available in Exhibit B-1-2.

5.3 Operations, Maintenance and Administrative (OM&A)

Hydro Ottawa's OM&A costs are significantly influenced by its requirement to operate and maintain a safe and reliable distribution grid, provide service levels that are satisfactory to customers while ensuring its continued compliance with all legislative and

regulatory obligations. Among other things, this requires that Hydro Ottawa strategically manage its workforce in a manner that allows it to replace retiring workers with new tradespeople and respond to the changing dynamics of the market and operating environment within which it is tasked with distributing electricity to customers.

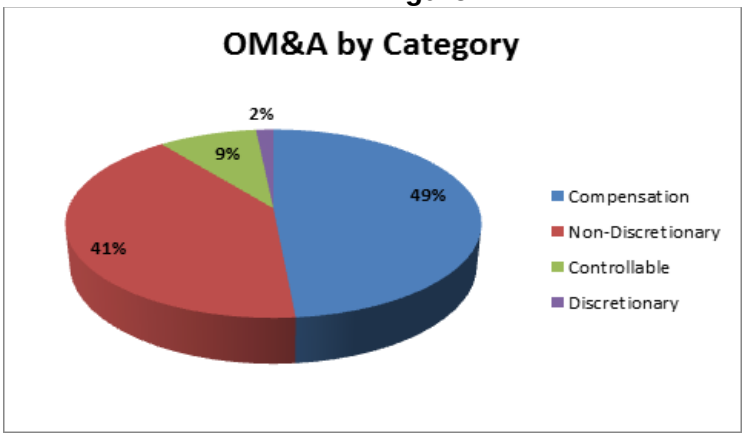
The proposed OM&A costs for the test years range from $87.1 million in the 2016 test year to $99.0 million in the 2020 test year.

Table 8 – Hydro Ottawa's Proposed OM&A Expenditures

($000s)	**2016**	**2017**	**2018**	**2019**	**2020**
OM&A Expenditures	$87,106	$89,932	$92,850	$95,863	$98,974

Hydro Ottawa's OM&A costs arise from four distinct sources, namely compensation, non-discretionary, controllable and discretionary costs. Figure 2 below denotes that compensation costs represent 49% of Hydro Ottawa's OM&A costs while 41% are non-discretionary costs, 9% are controllable and only 2% are discretionary.

Figure 2



Source: Hydro Ottawa 2014 OM&A

For a discussion of the costs captured in each of the categories contained in Figure 2 and for a description of Hydro Ottawa's proposed OM&A costs for each of the 2016-2020 test years and for a discussion of the year over year variances by major category, please refer to Exhibit D-1-2.

Table 9 below provides a summary of the overall OM&A cost drivers and cost trends.

Table 9 – OM&A by Cost Driver

OM&A ($M)	Last Rebasing Year (2012 Actuals)	2013 Actuals	2014 Q2 Forecast	2015 Bridge Year	2016 Test Year
Reporting Basis					
Opening Balance	73.1	73.1	75.8	80.8	83.7
Workforce Planning		-	0.2	0.3	0.4
Collective Agreement/Annual progressions		1.1	1.2	1.3	1.4
Vacancy and Vacancy Allowance		-	(1.6)	(0.5)	(0.1)
Benefits & Pensions		0.1	1.7	(0.3)	1.0
Vegetation Management		0.4	0.3	0.9	(0.4)
Underground Locates		0.2	0.1	0.3	0.3
Changes in Capital and Allocations		(0.6)	0.2	0.1	(0.2)
Postage		(0.1)	0.7	0.2	-
IT Maintenance		0.5	1.2	0.4	0.5
Bad Debts		0.8	(0.4)	(0.3)	0.4
Inventory Scrap recovery reclass out of OMA		-	0.8	$ -	$ -
Inflation		-		0.8	0.8
Other Costs/(Cost reductions)	$ -	0.3	0.6	(0.3)	(0.7)
Closing Balance	73.1	75.8	80.8	83.7	87.1

For a full discussion of Hydro Ottawa's OM&A programs, the costs drivers and year over year variances to the company's OM&A costs, please refer to Exhibit D-1-3.

5.3.1 Inflation Rates and Financial Assumptions

Hydro Ottawa has assumed an inflation rate of 2.13% for 2015 and 2.01% for 2016 for all non-compensation related costs. For the 2017-2020 rate period, an inflation factor of 2.1% is applied to OM&A expenditures consistent with the Conference Board of Canada's GDP IPI.

5.3.2 Compensation Costs

Hydro Ottawa's forecasted total compensation costs for the 2016 test year are $71,944,283. This represents an $11,038,541 increase or an approximate 15% increase over the 2012 Board approved. Labour costs are adjusted to reflect market conditions for non-unionized employees and to align with the collective agreement annual rate adjustment for unionized employees. For more information regarding Hydro Ottawa's compensation strategy please refer to Exhibit D, Tab 1, Schedule 8.

For further details on Hydro Ottawa's OM&A proposals see Exhibits D-1-1, D-1-2 and D-1-3.

5.4 Revenue Requirement

Hydro Ottawa requests approval for service revenue requirement for each of its 2016-2020 Test Years, base revenue requirements for each of its 2016-2020 Test Years and resulting rates and riders based on Hydro Ottawa's forecast capital expenditures, OM&A, depreciation expense, cost of capital, payment in lieu of taxes ("PILS") and revenue from other sources. For the 2016 Test Year, Hydro Ottawa requests a service revenue requirement of $187,269,000 which represents an increase of $18,968,000 or 11% from the service revenue requirement previously approved by the Board in 2012 during Hydro Ottawa's last rebasing.

The main cost drivers underlying Hydro Ottawa's test year revenue requirements are the result of increases to Hydro Ottawa's rate base due to the significant capital investments that Hydro Ottawa must undertake so that it may continue to provide a safe and reliable electricity service to the residents and businesses in the City of Ottawa and Village of Casselman. Other cost drivers impacting Hydro Ottawa's revenue requirement include increases to amortization expense, increase to OM&A expenses, increases in interest and return on equity. For further details regarding Hydro Ottawa's revenue requirement and related cost drivers please refer to Exhibit F-1-1

Table 10 – Hydro Ottawa's Revenue Requirement

	$000	$000	$000	$000	$000
	2016	2017	2018	2019	2020
Return on Rate Base	54,379	58,359	62,148	64,531	67,573
Distribution Expenses (not including amortization)	87,106	89,932	92,850	95,863	98,974
Amortization	40,826	44,145	47,047	48,949	50,295
Payment in Lieu of Taxes	4,958	4,799	6,074	8,473	7,587
Service Revenue Requirement	187,269	197,235	208,120	217,816	224,430
Less Revenue Offsets	11,700	11,565	11,722	11,802	11,898
2012 Base Revenue Requirement	175,570	185,670	196,398	206,014	212,532
Transformer Ownership Allowance	1,125	1,114	1,109	1,106	1,105
Revenue Requirement from Rates	176,694	186,784	197,507	207,120	213,637
Forecasted Load at 2015 Rates	159,358	158,984	159,419	159,975	160,461
Cumulative Revenue Deficiency (over 2015)	**(17,337)**	**(27,800)**	**(38,088)**	**(47,146)**	**(53,176)**
Yearly Revenue Deficiency over 2015	**(17,337)**	**(10,464)**	**(10,288)**	**(9,057)**	**(6,030)**

Amortization expense has been calculated each year based upon the assets in rate base. Each year new assets are incorporated in rate base with their corresponding amortization rate while older assets are retired with their corresponding amortization rate. A new, weighted average amortization rate is calculated for each year. Please see Exhibit D-3-1 for details. Finally, a detailed Payment in Lieu of Taxes ("PILS") calculation has been completed for each year to determine the appropriate cost for PILS to be included in revenue requirement for each year. Please see Exhibit D-4-1 for details.

5.5 Bill Impacts

In developing its initial and test year capital and OM&A budgets Hydro Ottawa was careful to have due regard to the impacts bill increases may have on its customers. Hydro Ottawa's objective was to keep the total bill impacts for each of its customers as minimal as possible.

Hydro Ottawa anticipates that, on average for each of the next five years, the bill impacts resulting from Hydro Ottawa's application as filed (including rate riders associated with Hydro Ottawa's proposed new facilities) will be on average approximately $1.35 per month for residential customers and $4.57 per month for General Service customers.

Table 11 below provides a summary of the total bill impacts for typical customers in all classes. Further details regarding Hydro Ottawa's proposed bill impacts are available in Exhibit H-12-1.

Table 11 – Hydro Ottawa Estimated Bill Impacts

Rate Class		2015 Approved	2016 Proposed	2017 Proposed	2018 Proposed	2019 Proposed	2020 Proposed
Residential (800 kWh)	Distribution Charge	$ 28.39	$ 31.05	$ 32.49	$ 33.78	$ 34.68	$ 35.15
	Change in Distribution Charge		$ 2.66	$ 1.44	$ 1.29	$ 0.90	$ 0.47
	% Distribution Increase		9.37%	4.64%	3.97%	2.66%	1.36%
	% Increase of Total Bill		1.84%	1.06%	0.93%	0.65%	0.34%
General Service <50kW (2000 kWh)	Distribution Charge	$ 58.72	$ 65.95	$ 70.55	$ 74.85	$ 78.95	$ 81.60
	Change in Distribution Charge		$ 7.23	$ 4.60	$ 4.30	$ 4.10	$ 2.65
	% Distribution Increase		12.31%	6.97%	6.09%	5.48%	3.36%
	% Increase of Total Bill		2.11%	1.41%	1.30%	1.22%	0.78%
General Service 50-1,499 kWh (250 KW)	Distribution Charge	$ 1,153.10	$ 1,276.35	$ 1,329.05	$ 1,377.48	$ 1,411.05	$ 1,423.25
	Change in Distribution Charge		$ 123.26	$ 52.70	$ 48.43	$ 33.58	$ 12.20
	% Distribution Increase		10.69%	4.13%	3.64%	2.44%	0.86%
	% Increase of Total Bill		0.55%	0.30%	0.28%	0.19%	0.07%
General Service 1,500-4,999 kWh (2500 KW)	Distribution Charge	$12,915.68	$14,300.50	$15,118.75	$15,850.50	$16,401.75	$16,707.75
	Change in Distribution Charge		$ 1,384.82	$ 818.25	$ 731.75	$ 551.25	$ 306.00
	% Distribution Increase		10.72%	5.72%	4.84%	3.48%	1.87%
	% Increase of Total Bill		0.49%	0.46%	0.41%	0.31%	0.17%
Large Use (7500KW)	Distribution Charge	$40,078.07	$44,383.00	$46,959.50	$49,690.50	$52,139.25	$53,806.00
	Change in Distribution Charge		$ 4,304.93	$ 2,576.50	$ 2,731.00	$ 2,448.75	$ 1,666.75
	% Distribution Increase		10.74%	5.81%	5.82%	4.93%	3.20%
	% Increase of Total Bill		0.74%	0.47%	0.50%	0.44%	0.30%
Sentinel Lighting (0.4 KW)	Distribution Charge	$ 6.63	$ 8.08	$ 8.58	$ 9.02	$ 9.42	$ 9.72
	Change in Distribution Charge		$ 1.44	$ 0.50	$ 0.44	$ 0.40	$ 0.30
	% Distribution Increase		21.73%	6.24%	5.09%	4.43%	3.21%
	% Increase of Total Bill		7.34%	2.41%	2.05%	1.86%	1.34%
Street Lighting (1 KW)	Distribution Charge	$ 4.57	$ 4.99	$ 5.24	$ 5.47	$ 5.63	$ 5.88
	Change in Distribution Charge		$ 0.42	$ 0.24	$ 0.23	$ 0.17	$ 0.24
	% Distribution Increase		9.29%	4.90%	4.36%	3.02%	4.32%
	% Increase of Total Bill		1.53%	0.92%	0.84%	0.61%	0.93%
Unmetered Scattered Load (470 kWh)	Distribution Charge	$ 14.72	$ 16.12	$ 16.89	$ 17.58	$ 18.26	$ 18.69
	Change in Distribution Charge		$ 1.40	$ 0.77	$ 0.69	$ 0.69	$ 0.42
	% Distribution Increase		9.52%	4.74%	4.06%	3.91%	2.32%
	% Increase of Total Bill		1.69%	1.00%	0.87%	0.87%	0.53%

5.6 Budgeting and Accounting Assumptions

See sections 4.2 above for a description of the financial planning and budgeting process used to derive Hydro Ottawa's capital and operational budgets and all the accounting and inflationary assumptions used.

5.7 Load Forecast Summary

Hydro Ottawa's forecasted energy consumption for the 2016 Test year is 7,440,624 kWh. This is 233,334kWh or 3% lower than the 2012 Board Approved kWh forecast. Hydro Ottawa's forecasted number of customers for the 2016 test year is 325,238 representing an increase of 5.6% over the 2012 Board Approved. Table 12 below provides a high level summary of Hydro Ottawa's forecasted load forecast.

Table 21 – Hydro Ottawa's Estimated Load Forecast

Year	Total Sales (GWh)	Total Customers
2016	7,441	325,238
2017	7,380	329,294
2018	7,366	333,321
2019	7,364	337,306
2020	7,364	341,241

Note: Customer number do not include Streetlighling, Sentinel Lights, Unmetered and Standby

Hydro Ottawa has provided a five year detailed class specific weather normalized load forecast and customer connection forecast for each rate class in Exhibit C-1-1. The load forecast incorporates the commitments of Hydro Ottawa for conservation to the Ontario government.

5.8 Cost of Capital

The components of the cost of capital have been determined for each year. Hydro Ottawa has used the following debt/equity ratio for all years – 4% short term debt, 56% long term debt and 40% equity. As part of this application, Hydro Ottawa has used as a placeholder for determination of the deemed short term debt rate, deemed long term

debt rate and the return on equity. The placeholder Hydro Ottawa has used for both of these components is the prescribed rates of the OEB issued on November 20, 2014.

Hydro Ottawa proposes to update short term debt and ROE with the effective OEB-prescribed rates for 2016 which will be announced in fall 2015. The long term debt is a weighted average of embedded and forecast deemed rates calculated as outlined in E-1-1. Hydro Ottawa has incorporated the embedded cost of long term debt in its calculation of cost of capital for that portion of the long term debt that has been issued to third party bondholders.

5.9 Cost Allocation and Rate Design

Hydro Ottawa has prepared a cost allocation model for each of the five Test Years using the Board's cost allocation methodologies and the Board's V3.2 Cost Allocation Model Hydro Ottawa's 2016 base revenue requirement has been allocated to the company's nine rate classes. The resulting revenues-to-cost ratios for each rate class were determined using the total revenues over costs for each test year pursuant to the OEB's guidelines set out in EB-2010-0219.

Hydro Ottawa engaged Elenchus to undertake a Cost Allocation Model study to determine whether refinements were necessary to better reflect the OEB's principle of cost causality in its cost allocation to customers. The result of the consultant's study indicated that some classes of customers fell outside the acceptable revenue to cost range as established by the Board. Hydro Ottawa adjusted two classes that fell outside the acceptable revenue to cost range, namely Sentinel lights and unmetered scattered load. The study also indicated that the Small Commercial classes fixed charge could be increased.

Consistent with the Board policy entitled "A New Distribution Rate Design for Residential Electricity Customers (EB-2012-0410) that seeks to gradually adjust the fixed/variable portions of customer bills, Hydro Ottawa proposes by way of this application increases to the fixed elements of its rates.

5.10 Deferral and Variance Accounts

The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EB-2008-0046) ("EDDVAR") classifies variance and deferral accounts into two groups, namely Group 1 and Group 2. In this application, Hydro Ottawa proposes to clear both Group 1 and Group 2 deferral accounts. The total net DVA balances proposed for disposition are $8.2 million. The proposed disposition period is one year. Disposition for RPP customers is approximately $7.0 million and $1.2 million for non-RPP customers.

Hydro Ottawa Limited ("Hydro Ottawa") is proposing new rate riders to clear a number of Deferral and Variance ("DVAs") balances, including the Lost Revenue Adjustment Mechanism Variance Account ("LRAMVA").

The total net DVA balances proposed for disposition are $8.2 million. The proposed disposition period is one year.

1) Y Factor Deferral and Variance account to record costs to be recovered from the construction of Hydro Ottawa's new head office and operations buildings;
2) Proceeds of Sale of Existing Facilities to capture the after tax gain/loss from the sale of Hydro Ottawa current facilities;
3) Energy East – Trans Canada Pipeline – Hydro Ottawa requests a sub-account be added to US ofA 1508 Other Regulatory Assets deferral account to capture costs associated with consultations regarding the TransCanada Pipeline Limited's Proposed Energy East Pipeline Project;
4) Monthly Billing – Hydro Ottawa requests a deferral account to record costs associated with the transition to monthly billing per EB-2014-0198;
5) Loss on Disposal of Fixed Assets
6) Earnings Sharing Mechanisms to record earnings to be shared above prescribed threshold.

For further information regarding the DVA accounts, the amounts proposed for clearance, proposals for new deferral and variance accounts and other DVA information please refer to Exhibit I, specifically I-1-1, I-1-2 and I-8-1.

6.0 CONCLUSION

Over the next five years, the electricity industry in Ontario will undergo transformative change not only to how the market is structured but predictably to how the market is regulated. The government will continue to implement changes foreseen and unforeseen in the Long Term Energy Plan and new technology and new players in the market risk disrupting the fundamental business models upon which the industry is constructed potentially triggering a review of how distributors are regulated. During the five years of Hydro Ottawa's Custom IR application, it fully expects to see increases to growth of distributed generation and further electrification of transportation such as via the City of Ottawa's light rail initiatives and electric vehicles. Hydro Ottawa further anticipates increased customer and third party demand for system monitoring technologies and more "cloud" based solutions. Against this backdrop is an economy that still recovering from a prolonged economic downturn and governments that are introducing new forward energy related or impacting policies.

It is for these reasons that Hydro Ottawa has structured its Custom IR in a manner that ensures it has the funding necessary to build and harden a safe reliable electricity distribution system and has enough operational funding to manage the known and anticipated requirements leaving the balance to be met through productivity and innovative initiatives and solutions. Table 13 below denotes all the components of its rate application and the treatment of each component for each year before Hydro Ottawa returns in 2017 to have certain components of its rate framework adjusted for 2019 and 2020.

Table 13 – Revenue Requirement Components for 2016 to 2018

	2016	2017	2018
Load forecast	Annual forecast	Annual forecast	Annual forecast
Capital expenditure	Annual forecast	Annual forecast	Annual forecast
Rate base	Annual forecast	Annual forecast	Annual forecast
Amortization	Annual forecast	Annual forecast	Annual forecast
PILS	Annual forecast	Annual forecast	Annual forecast
Inflation factor	CBoC forecast	CBoC forecast	CBoC forecast
Productivity factor	Fixed	Fixed	Fixed
OM&A	Annual forecast	Formulaic	Formulaic
Short Term Debt	Fixed	Fixed	Fixed
Long Term Debt (embedded)	Actual	Actual	Actual
Long Term Debt (deemed)	Annual Forecast	Annual Forecast	Annual Forecast
Return on Equity	Fixed	Fixed	Fixed

By way of this, its Custom IR application, Hydro Ottawa both undertakes certain manageable risks and is incentivized to seek out additional rewards. For these reasons, Hydro Ottawa respectfully requests that the OEB approve this Custom IR application.

ALIGNMENT WITH RRFE

This Schedule sets out how Hydro Ottawa Limited ("Hydro Ottawa" or "the Company")'s Custom IR rate setting application and its supporting evidence aligns with the Ontario Energy Board ("OEB")'s expectations as set out in the Renewed Regulatory Framework for Electricity ("RRFE") as well as the key policies and principles enunciated in the RRFE that are intended to apply to Custom IR rate applications.

1.0 OEB's Principle-Based Rate Setting

The RRFE sets out the Board's vision for evolving the rate setting approaches available to electricity distributors to incorporate balanced incentives and an outcome-based focus consistent with performance based incentive regulation. With respect to the outcomes-based focus, the Board determined that four categories of outcomes were appropriate for distributors namely a) customer focus; b) operational efficiency; c) public policy responsiveness; and d) financial performance. With respect to balanced incentives, the Board determined that distributors could have the flexibility to choose their rate-setting method based on their unique needs and circumstances. Regardless of the rate-setting method adopted, the Board was clear in the RRFE that each rate method should be supported by a) the fundamental principles of good asset management; b) coordinated longer-term optimized planning; c) a common set of performance expectations and benchmarking.[1]

In what follows, Hydro Ottawa demonstrates that it has embraced both the spirit and intent of the RRFE in crafting its Custom IR application and points to numerous Exhibits contained within its supporting evidence that illustrate its alignment with the many requirements set out in the RRFE.

[1] Page 10, RRFE.

2.0 Operational Effectiveness - Asset Management & Network Investment Planning

One of the centerpieces of the RRFE is the symbiotic relationship between asset management planning and network investment planning and the impact that an integrated approach to infrastructure planning has on optimizing investments and prioritizing said investments to manage rate impacts. The Board signaled that a planning horizon of five years is necessary to support integrated planning, to align distributor planning cycles with rate setting cycles and allow distributors to pace and prioritize projects to have regard for total cost impacts and to enhance cost predictability for customer. In the words of the Board:

> [a]n integrated approach to planning will provide a foundation for the setting of distribution rates and lead to optimized investments that support the achievement of the outcomes identified by the Board.[2]

With respect to the relationship between asset management planning and distributor's capital budget, the Board was clear in its direction when it noted:

> The Board needs evidence that a distributor's planning and prioritization process is sufficiently rigorous to support and justify its proposed capital budget. Distributor plans must therefore demonstrate consideration of all relevant factors, including the needs of existing and future customers and the costs to meet them, and that planning has been informed by appropriate consultation with customers, municipalities and neighbouring distributors and transmitters where applicable.[3] and

> The Board sees merit in receiving the evidence of third party experts as part of a distributor's application, or retaining its own third party experts, in relation to the review and assessment of distributor asset management and network investment plans (along with other evidence filed by the distributor).[4]

[2] Page 31, RRFE.
[3] Ibid.
[4] Page 37, RRFE.

To fulfill the Board's evidentiary expectations set out in the RRFE as it relates to asset management planning and network investment planning, Hydro Ottawa has provided a five year Distribution System Plan as well as a copy of the Company's 2014 Asset Planning Report in Exhibit B-1. The Asset Planning Report sets out Hydro Ottawa's Asset Management planning process which is updated annually and covers a twenty year period. The Asset Planning Report is designed to identify resource requirements necessary to meet the demands of growth and aging infrastructure as well as any risks or challenges that will adversely affect Hydro Ottawa's ability to deliver on the company's strategic directives.

Hydro Ottawa's Distribution System Plan provides a consolidated view of the company's planning processes used to identify resource requirements and forecast capital expenditure requirements for System Access, System Renewal, System Service and General Plant investments. The DSP translates the system demographics and needs into specific projects with forecasted expenditure plans. Hydro Ottawa's Distribution System Plan and Asset Planning Report were reviewed by Kinetrics for alignment with the Chapter 5 filing requirements as well as to assess Hydro Ottawa's overall Asset Management process for areas of improvement. Kinetrics third party review letter is provided in Exhibit B-1(D).

For full details of Hydro Ottawa's Distribution System Plan and Annual Planning report refer to Exhibit B-1.

3.0 Operational Effectiveness – Productivity, Benchmarking & Performance Measurement

The RRFE stipulates that one of the principle outcomes sought by the Board is operational effectiveness including the delivery of continuous improvement in productivity and cost performance and achievement of system reliability and quality

objectives.[5] According to the RRFE, a Custom IR application should facilitate the OEB's assessment of "the adequacy of the past and future productivity levels"[6] and the "reasonableness of the distributor's forecasts."[7]

3.1 Productivity

To facilitate the OEB's assessment of the reasonableness of Hydro Ottawa past and future productivity levels and to illustrate Hydro Ottawa's adherence to the three policies comprising the OEB's productivity and benchmarking expectations namely as it relates to rate setting; capital planning and measured performance, Hydro Ottawa provides an overview of its productivity and benchmarking evidence in D-1-5. This overview describes how Hydro Ottawa fulfills the OEB's productivity expectations within its Custom IR rate setting approach, within its asset management planning and capital investment planning processes and finally through measurement of performance outcomes and through benchmarking.

In addition to the productivity specific evidence, Hydro Ottawa's evidence of continuous improvement is embedded throughout its application including in the following Exhibits:

a) Exhibit D-1-4 which provides a detailed discussion of its historical and forward looking productivity initiatives that were, are, or will be implemented as illustration of Hydro Ottawa's continuing commitment to efficiency and long run net efficiency savings for the company's customers;
b) Exhibit D-1-2 Hydro Ottawa's Operating, Maintenance and Administrative ("OM&A") evidence;
c) Exhibit D-1-6 Hydro Ottawa's Customer Service Strategy;
d) Exhibit B-1 Hydro Ottawa's Distribution System Plan for continuous improvement metrics and Annual Planning Report illustrating compliance with system reliability and quality requirements;
e) Exhibit D-1-7 Hydro Ottawa's Workforce Planning Strategy;
f) Exhibit A-3-1 Hydro Ottawa's Customer Engagement Plan.

[5] Page 2, RRFE
[6] Ibid, Page 70.
[7] Ibid, Page 13, Table 1.

3.2 Benchmarking

To fulfill the Board's benchmarking expectations, Hydro Ottawa has provided a total cost and reliability econometric benchmarking, as authored by Power System Engineering which is available in Attachment C to Exhibit D-1-5.

3.3 Performance Measurement

Finally, the RRFE indicates the Board's intent to use a rigorous performance reporting and monitoring process to ensure distributors are responding to performance incentives and customer interests are protected. Among the performance outcomes to be measured and reported annually are the OEB scorecard results and the progress on implementing the Distribution System Plan.

To fulfill the OEB's RRFE expectations, Hydro Ottawa proposes to provide the following information as part of the annual written reporting process to be filed with the OEB:

a) Hydro Ottawa's OEB Scorecard results;
b) Annual update on actual capital expenditures by program type, versus, budgeted capital expenditures by program type and appropriate variance analysis.

4.0 Customer Focus - Customer Engagement on Proposed Capital Investments

A second key focus of the RRFE emerges from the customer focus outcome and the need to provide value for money and respond to identified customer needs. At page 31 of the RRFE the Board is specific in its direction that distributor plans must "demonstrate consideration of all relevant factors, including the needs of existing and future customers and the costs to meet them, and that planning has been informed by appropriate consultation with customers, municipalities and neighbouring distributors and transmitters where applicable.[8]

[8] Page 31, RRFE

To fulfill this requirement, Hydro Ottawa held a customer engagement process to collect its customers' opinions on planned expenditures and outcomes identified in the proposed 2016 rate application. Detailed results of Hydro Ottawa's Custom IR Application consultation and the five engagement options, through which the company gathered feedback, are provided in the *Customer Consultation Report* produced by Innovative Research Group Inc. which is provided in Exhibit A, Tab 3, Schedule 1, Attachment (A).

In addition to the customer consultation conducted specifically in relation to Hydro Ottawa's planned capital expenditures and distribution system plan, the Company engages in ongoing customer engagement through a variety of feedback vehicles from a number of sources. Each of these is specified in detail in Exhibit A-3-1.

5.0 Financial Performance – Custom IR Rate Setting Framework

Table 1 on page 13 of the RRFE provides an overview of the rate setting elements expected for each of the three rate setting methods. Among other things the rate setting framework for Custom IR applications stipulates that the coverage be comprehensive of capital and OM&A requirements and that there is one or more mechanisms for sharing benefits with customers. As discussed in Exhibit A-2-1, Hydro Ottawa opted to structure its five year rate application using the Custom IR approach in order to recover its significant capital needs. Like many other electricity distributors in Ontario whose infrastructure was built in the 60s, 70s and 80s large parts of Hydro Ottawa's distribution system are approaching or exceeding anticipated end of life. Hydro Ottawa's Custom IR application seeks to generate necessary levels of cash flow to finance its capital and operational investment requirements. For further details on Hydro Ottawa capital requirements, rate base, and revenue requirements please refer to Exhibit B-1-2, B-1-1 and F-1-1 and to E-1-1 for details on working capital requirements.

According to the RRFE, the rate setting framework is intended to incorporate balanced incentives including benefits sharing mechanisms. For Custom IR applicants, the rate

setting framework is expected to include a productivity factor and, as determined on a case by case basis, a stretch factor or other benefits sharing construct.

To fulfill the Board's requirements to build in a benefits sharing mechanism, Hydro Ottawa has proposed a Custom IR rate setting framework that treats capital separate from its OM&A expense where the capital requirements are recovered on a five year forecasted cost of service basis and its operations, maintenance and administrative ("OM&A") requirements are recovered pursuant to an "I-X" formula. An explicit productivity factor is built into the forecast that adjusts OM&A expenses and in so doing provides a year over year obligation on the company to find efficiency savings the results of which is a guaranteed consumer benefit. In addition to the explicit productivity factor, Hydro Ottawa proposes to introduce an earnings sharing mechanism to share benefits with its customers. Details of Hydro Ottawa's proposed Custom IR rate setting framework is available in Exhibit A-2-1.

Hydro Ottawa notes that generally within incentive regulation regimes benefits sharing is generally not limited to that captured within the rate setting mechanism such as the productivity factor, the stretch factor or via an earnings sharing mechanism. Hydro Ottawa believes that there are productivity and efficiency benefits that can be derived from long term budget forecasting that are not readily quantifiable. Similarly, Hydro Ottawa believes that the benefits that some productivity initiatives produce may be qualitative and intangible and consequently may not produce results that are monetarily quantifiable.

Hydro Ottawa's Custom IR rate setting framework is designed to achieve the Board's stated focus on balancing incentives within the outcomes based incentive regulation model and, most importantly, to ensure that Hydro Ottawa maintains financial viability throughout the course of the five year rate plan. This means that any operational efficiency built in to Hydro Ottawa's plan are sustainable and do not result in the company funding significant capital requirements towards the end of its rate plan and cause rate shock to its customers.

Financial viability is one of the key outcomes of the RRFE and as the business environment within which distributors operate becomes more complex and demanding this is not an outcome that should take a back seat to all other RRFE outcomes. It is for these reasons that Hydro Ottawa's Custom IR rate setting framework is designed to balance the interests and incentives for both Hydro Ottawa ratepayers and Hydro Ottawa's shareholder to ensure the company's financial viability is to the benefit of all.

6.0 Public Policy Responsiveness

Finally, the RRFE requires that as an outcome-based focus of the electricity distributors is to "deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board)."[9]

To fulfill the Board's RRFE requirements for public policy responsiveness, Hydro Ottawa complies with regulations and directives emanating from the federal, provincial and municipal levels of government. Recent examples of important public policy initiatives include the Ministry of Energy's conservation first program, recent health and safety obligations as well as the Board's Low Income Energy Assistance (LEAP) program. Looking to the future, Hydro Ottawa is not in a position to reasonably anticipate new legislative or regulatory requirements that may be implemented nationally, provincially or municipally. It is for these reasons that Hydro Ottawa has built in to its Custom IR rate setting framework a Z factor allowing it to recover the costs imposed by new legislative or regulatory obligations of which the Company cannot reasonably be expected to anticipate over the five year period of its Custom IR term. If and when such events should occur, Hydro Ottawa will evaluate its costs against the Board's criteria for causation, materiality and prudence as set out in *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*. See Exhibit A-2-1 for details.

[9] Page 2 & 57, RRFE Report

7.0 Conclusion

In crafting its Custom IR application Hydro Ottawa was mindful to address in its evidence the expectations set out in the Board's RRFE. Particular attention was paid to not only the four stipulated outcomes but also to how these outcomes were further defined within the RRFE and the interrelatedness between some of the objectives. Hydro Ottawa also ensured that its application captured the balanced incentives inherent to incentive regulation regimes. While Hydro Ottawa recognizes that there remains no set filing requirements for Custom IR applications, the RRFE stipulates that the material in the cost of service filing requirements will be relevant for Custom IR filers. As is discernible from Hydro Ottawa's evidence the Board's Cost of Service filing requirements formed the foundation upon which it supplemented evidence prescribed in the RRFE as captured above.

CUSTOMER ENGAGEMENT

1.0 INTRODUCTION

Hydro Ottawa recognizes customer engagement as an essential part of doing business and, as a result, has placed the customer at the centre of everything Hydro Ottawa does by weighing customer impacts in every decision. As reflected in Hydro Ottawa's "*2012 – 2016 Strategic Direction: Creating Long-Term Value",* stakeholder engagement is a guiding principle of Hydro Ottawa's strategic direction. Hydro Ottawa "is committed to taking into account the concerns and interests of all stakeholders including employees, customers, suppliers, our shareholder and the communities and environment in which Hydro Ottawa operates. Hydro Ottawa will continue to operate with the interests of these groups in mind and will actively encourage their participation in shaping the future of the company[1]."

The key Divisions within Hydro Ottawa that are primarily responsible for customer outreach are Customer Service, Distribution Operations, Asset Management, Conservation and Demand Management ("CDM") and Corporate Communications. Customer needs and expectations are diverse and dynamic. To ensure Hydro Ottawa aligns its services to effectively meet evolving customer expectations Hydro Ottawa has undertaken many customer engagement activities related to all areas of the distribution company. Customers also have the option to proactively engage with Hydro Ottawa, through a variety of social media platforms. These activities and their findings are detailed within.

As of December 31st, 2014, Hydro Ottawa serviced 319,736 customers over a 1,104km^2 service territory, within the City of Ottawa and Village of Casselman. Of those customers 291,816 were residential; 24,149 were General Service <50kW; 3,617 were General

[1] Strategic Direction 2012-2016: Creating Long-Term Value, Page 40.

Service >50kW and 11 were Large Users. Further, as the nation's capital, Hydro Ottawa provides service in both official languages.

According to more recent demographic trends, the City of Ottawa's population is expected to grow by 36.5 % over the next 25 years, from 962,088 in 2014 to over 1.3M in 2039. The most significant demographic force will be an aging population. Diversity will continue to be a predominant feature of Ottawa's population.[2] The need for and value in engaging customers ensures that Hydro Ottawa's business initiatives continue to align with the needs and expectations of its rapidly growing and diverse rural and urban customer base.

2.0 ONGOING CUSTOMER ENGAGEMENT

2.1 Distribution Operations and Asset Management Divisions

2.1.1 System Planning Activities

With respect to distribution operations and management of the physical system, Hydro Ottawa strives to understand the customer's needs, ranging from reliability and servicing needs, to meeting expectations during construction activities. As discussed in Section 2.2.1, the annual customer satisfaction survey provides customer feedback and insight regarding reliability, duration of outages and willingness to spend more for increased service levels. The related survey measures and results are outlined in the Distribution System Plan, Exhibit B-1-2, Sections 3.1.10 and 3.2.4 of the Distribution System Plan, insights gained from customer feedback have informed the development of Hydro Ottawa's system planning and servicing activities.

2.1.2 Major Project Customer Consultations

As an example of ongoing customer engagement, Hydro Ottawa hosts major project customer consultations when large distribution system renewal projects have the

[2] The Strategic Council, Customer Persona Presentation, May 2013.

potential to physically impact customers, such as, cable replacement projects or transformer replacement projects. For example, there were four open houses relating to cable replacement projects in 2014. This process involves, first, informing the impacted customers of the pending work, well in advance, which is then followed by a customer open house aimed at creating an open dialogue between Hydro Ottawa and the impacted customers. During these open house sessions, Hydro Ottawa staff informs customers of the scope of work, the tentative schedule and the equipment and processes involved in performing the work, as well as, the site restoration plans once the work is completed. It is also a venue for customers to provide their feedback and voice their concerns, which staff attempt to immediately address. By engaging customers early in the process, they have opportunity to positively influence the project. In some instances, these dialogues have led to design and scheduling improvements. Further, customer inquiries and escalations have been reduced. These open houses originated from positive feedback received by customers of similar projects in the past and have proven to be productive and positive undertakings, leading to successful outcomes from the perspective of both customers and Hydro Ottawa.

2.1.3 Participation with Electrical Contractors Association

Hydro Ottawa actively engages with the Electricity Contractor Association ("ECA") of Ottawa to ensure timely and effective communications are maintained between Hydro Ottawa and the numerous contractors that work in Ottawa. This need was identified by the ECA as part of the customer persona research program which Hydro Ottawa initiated in 2013 and is referred to in section 2.2.1 of this Exhibit. As a result, Hydro Ottawa ensures all ECA concerns or inquiries are responded to in a timely manner and new information is actively communicated. For example, matters of mutual interest, such as revisions to Hydro Ottawa's Conditions of Service are outlined and discussed to ensure related requirements and processes are clearly understood.

2.1.4 Conditions of Service Stakeholder Outreach

Hydro Ottawa revises its Conditions of Service ("COS") approximately every two (2) years. Version updates are facilitated by an internal, cross-functional team, or, working group ("COSWG"). In addition to updating COS content and in keeping with Hydro Ottawa's strategic priorities, the COSWG recognized the need to make COS Version 5 more customer-centric. In order to move forward, the COSWG first needed to understand how both internal and external stakeholders utilized the document and to what extent it satisfied their needs. And most importantly, what enhancements were desired. Hydro Ottawa recognizes the important role of the Conditions of Service with respect to delivering services and meeting customer expectations.

In order to engage both internal and external stakeholders, surveys were developed and posted on both Hydro Ottawa's corporate website and intranet. Responses to the surveys were followed up with professionally-led focus groups and one-on-one interviews with key staff, stakeholders and customers.

While the participation rate from internal and external stakeholders (i.e., Hydro Ottawa customers, developers, retailers and contractors) was limited, insight was gained from this initiative as reflected in the follow-up report "Improving the Reader Experience, Hydro Ottawa – Conditions of Service, Janet Leblanc & Associates Inc." Specifically, customers and staff shared their impressions of the COS document, identifying both its' strengths and weaknesses[3], as well as, its effectiveness in reaching intended audiences[4]. In follow-up, focus groups consisting of survey and interview respondents were established to brainstorm COS design improvements. A number of stakeholder recommendations, as outlined in the report[5], have been incorporated into COS V5 and/or will be embodied in future COS revisions. Further information on COS V5 is provided in Exhibit A-6-6.

[3] Janet Leblanc & Associates, "Improving the Reader Experience: Hydro Ottawa - Conditions of Service," October 2014, pages 8-9.
[4] Ibid, Page 15.
[5] Ibid, Page 23.

In addition to the recommended COS document enhancements, the COSWG gained valuable insight with respect to increasing the profile and utilization of the COS, as well as, recommended approaches to promote the engagement of internal and external stakeholders in the ongoing change management process.[6]

The results of this initiative highlight the immediate and long-term value of stakeholder engagement for both the distributor and customer(s).

2.2 Customer Service

2.2.1 Customer Persona Research

In September, 2012, Hydro Ottawa embarked on a major, leading edge Customer Persona Research Program to complement the customer feedback obtained through annual and monthly customer satisfaction surveys, as outlined in Section 2.2.2. Detailed results from the Customer Persona Research Program are provided in Attachment D-1(D).

The key objectives of the Customer Persona Research Program were to identify:

- Who are Hydro Ottawa's customers?
- How do they segment?
- How do they want to interact with Hydro Ottawa?
- What messages resonate with them?

Over a six-month period, Hydro Ottawa engaged over 2,500 customers and stakeholders in surveys, focus groups and one-on-one interviews in order to establish customer segments. Segments were based upon customer demographics, lifestyles, general attitudes, technological use, perceptions of Hydro Ottawa, cost sensitivities and environmental and energy conservation views.

[6] Ibid, Page 24 and 25

Once identified, customer segments were further classified as either primary or secondary targets, based upon the following criteria:

- Level of trust in Hydro Ottawa;
- Willingness to engage;
- Openness to information and communications;
- Extent to which customers view Hydro Ottawa as a credible source for information;
- Potential for Hydro Ottawa to shape future behaviours (e.g., conservation interest; interest in saving money and stage-of-life/point of entry marketing;
- How the segment might change over time (e.g., trend data).

The segmentation exercise identified the following customer segments, within each customer classification and key stakeholder group:

Within the residential classification, six (6) key segments emerged which were categorized as:

- Penny Pinched
- Greg Greene Sam Simplify
- Salwa Swamped
- Chris Critical
- Rick Frugal

Based upon the highest percentages within these residential segments, Penny Pinched, Greg Greene and Sam Simplify were chosen as primary targets, whereas, Salwa Swamped, Chris Critical and Rick Frugal were considered secondary targets.

Within the commercial classifications, the following six (6) themes emerged:

- Motivated to partner with Hydro Ottawa to strengthen business goals;
- Need direction to understand and pursue mutual business opportunities;
- All about cost and feeling valued by Hydro Ottawa;
- Disengaged; don’t interact with Hydro Ottawa;

- Off the radar; not knowledgeable about hydro and would like face-to-face advice ;
- Show me; conserving but bills are increasing – would be open to face-to-face advice.

Of the commercial segments, Motivated, Need Direction and All About Cost were chosen as primary targets; whereas, Disengaged, Off the Radar and Show Me were deemed secondary targets. The primary targets were based upon the highest percentages.

Within the key account group (e.g., large users and major accounts), the customer feedback received was dependent upon the level of interaction the customer had with Hydro Ottawa's key account team. The following themes were derived from this unique customer group:

- Conservation is an important priority for all key accounts, driven mostly by reducing costs;
- All are highly receptive to ideas and programs for reducing energy consumption;
- Capital costs are the largest barrier to conservation; incentive programs are valued.

Hydro Ottawa's business interactions with contractors and developers have a direct impact on customer service delivery outcomes, costs and satisfaction levels. These key stakeholders offered the following recommendations:

- Communicate, more effectively, changes that could impact a project (i.e., technical specifications, etc.);
- Provide more details about pricing and related costs;
- Offer pricing guarantees (i.e., fixed cost quotes);
- Extend working hours in the field;
- Increase capability to support peak demands for service (i.e., engineering, field inspectors, etc.);
- Be accountable for unplanned work plan changes;
- Improve scheduling practices and develop strategies to decrease lag times (i.e., waiting for equipment);

- Simplify easement registration process;
- Dedicate a section on the corporate website for developers and contractors.

The Customer Persona Research Program is one of the most comprehensive customer engagement programs ever undertaken by Hydro Ottawa. The insight obtained from this initiative has been and will continue to be utilized to guide business planning and investment priorities across the organization. Specifically, the customer personas enable staff to increase their awareness of Hydro Ottawa's customer base, their diversity, what's important to them and what's unacceptable to them. This is critical towards becoming a customer-centric organization. The personas also act as a filter in the design of new products, services and programs. One size does not fit all; therefore, the intended customer value may be targeted to the appropriate end user(s) for maximum effectiveness.

The Customer Persona Research Program further informed the development of Hydro Ottawa's Customer Experience Strategy. Over a two-day planning session with members of Hydro Ottawa's management team, a strategy was developed to engrain a customer-centric focus throughout the organization. The Customer Experience Vision that emerged was for Hydro Ottawa to be viewed as:

- Easy to do business with;
- Caring;
- Knowledgeable;
- Efficient.

To achieve this vision, a five-year customer experience strategy and action plan was developed in Q4, 2013 and anchored by the following strategic imperatives:

- Establish and commit to a clear Customer Experience vision;
- Understand, measure and improve customer value;
- Engage and enable employees;
- Interact and enhance our ability to communicate with customers.

At outlined in the 2016-2020 Customer Service Strategy (ref: Exhibit B-1-12) Hydro Ottawa's customers are becoming more engaged and centric in the business priorities of Hydro Ottawa. Customers have increasingly more options available in which to interact with Hydro Ottawa, as well as, offer comments on the services that they value and those they do not.

2.2.2 Customer Service Surveys

Since 2004, Hydro Ottawa has been continuously surveying its customers to measure customer service satisfaction levels, as well as, to compare results across the Ontario and external markets.

A random sample of Hydro Ottawa customers participate in an "in-depth" Customer Satisfaction Telephone Survey each year, referred to as the Simul survey. This random sample approach encompasses two customer segments – 85% Residential and 15% Commercial and is conducted through telephone interviews with respondents who pay or manage their electricity bills from Hydro Ottawa. The Annual Simul / Utility Pulse Electric Utility Customer Satisfaction Survey results provide Hydro Ottawa with insight of common universal and provincial trends and benchmarks. These results are computed by formulas which map the attributes of corporate image to customer satisfaction and loyalty.

Results of the 2014 Annual Electric Utility Customer Satisfaction Survey indicated the national and Ontario benchmark has been impacted negatively, but, that a customer can "dislike" the industry and still respect their LDC. Customers regard Hydro Ottawa as a trustworthy company that deals professionally and quickly to resolve customer issues.

Hydro Ottawa also surveys a sampling of customers each month through a Touch Logic survey. For two days each month, each customer that telephones Hydro Ottawa is contacted and prompted to rate their experience with Hydro Ottawa's Customer Service. The first question asks the purpose of the call (Billing, Collections, Disconnection Notice,

or Other) while the subsequent questions request a rating of one through five, with five being the highest level of satisfaction. These questions are related to satisfaction with:

- Speed of Call Answer;
- Courtesy;
- Knowledge;
- First Call Resolution; and
- Overall Satisfaction.

Through analysis and monitoring of these results, Hydro Ottawa is able to focus on the identified areas, seeking ways to improve and enhance the customer experience when they contact Customer Service. The targeted nature of this survey enables Hydro Ottawa to adapt processes and procedures in a timely manner in response to changing customer needs and expectations.

2.2.3 Customer Service Strategy

The 2016-2020 Customer Service Strategy is a continuation and evolution of the Customer Service Strategy introduced in 2009[7] and the Customer Experience Strategy developed in Q4, 2013. Between the years 2009 and 2014, a dedicated team of experienced customer service staff have actioned customer-centric strategies, first, by establishing a project management team and, subsequently, by forming a cross-functional Customer Experience function within the Customer Service Division.

The 2016-2020 Customer Service Strategy identifies six (6) foundational components for customer experience management, of which three (3) relate specifically to customer engagement, as follows:

- Measuring customer value utilizing an online survey of residential and commercial customers to rate Hydro Ottawa's performance across the end-to-end experience and to identify what customers value most;

[7] Customer Service Strategy, Presentation to Enterprise Executive Team, September 15, 2010,

- Customer Experience Journey Mapping which identifies the steps our customers go through to engage with Hydro Ottawa (e.g., all the touch points, actions, pain and pleasure points);
- Transactional surveys using a short online survey (5-8 questions) after a customer interacts with one of Hydro Ottawa's touch points (e.g., service desk, outage management, website, etc.).

Delivering excellent customer service and value relies upon flawless service delivery, throughout the entire process. The above measures are intended to illuminate unintended and, potentially, undetected weaknesses in service delivery processes. This innovative approach to measuring outcomes will enable Hydro Ottawa to view itself from the customer's perspective. This unique insight will ensure that follow-up solutions effectively align with customer needs and expectations.

On several occasions, Hydro Ottawa has been awarded for its customer service and customer communications initiatives. Hydro Ottawa is considered an industry leader in Customer Service, within and beyond the Ontario market.

2.2.4 Key Accounts Program

As outlined in Section 2.2.1, page 7, through the customer persona research initiative, key account customers, developers and contractors offered a number of recommendations and insights.

This stakeholder feedback subsequently informed the work of an internal team ("the team") tasked with the development of a Key Accounts Program focused on the needs of major accounts, as well as, developers and contractors.

In April, 2014, the team proposed a Key Accounts, Developer and Contractor Strategy, which reflected many of the recommendations provided from customers and stakeholders.

The research undertaken identified ten (10) common attributes of leading account management organizations as:

- Being proactive;
- Having segmented customer groups;
- Utilizing account plans;
- Being disciplined;
- Having measurements;
- Striving to be centers of excellence;
- Providing services;
- Utilizing customer relationship management tools ("CRM");
- Being visible;
- Having robust selection and training programs.

Consultations were also undertaken with internal and external stakeholders/agencies, as well as, through an online survey to guide priorities, from the perspective of stakeholders.

As a result of the aforementioned consultation work, Hydro Ottawa embarked on the development of five (5) account management best practices, namely:

- Enhance Service Offerings
- Provide Personal Contact
- Improve Communications
- Provide an Added Value
- Be Accessible.

As a result of the aforementioned effort, a Key Account Program emerged. As a recent example of Hydro Ottawa's new Key Account Program in action, staff delivered a presentation to a business development team at Invest Ottawa. Invest Ottawa is an arms-length organization primarily supported by the City of Ottawa. The goal of this presentation was to update business development staff on the services and benefits Hydro Ottawa can offer prospective companies considering operations in Ottawa. As a

result of this opportunity, Hydro Ottawa has established itself as a credible and reliable ally to businesses promoting economic development.

To enable Hydro Ottawa to meet the diverse needs of key accounts, developers and contractor, often within tight timelines, staffing within the Customer Service Group increased from one (1) to two (2) full-time key account coordinators in 2014.

As outlined in the 2016-2020 Customer Service Strategy (ref: Exhibit D, Tab 1, Schedule 6), Hydro Ottawa is transitioning from a reactive form of account management to a proactive one, through its plans to implement a robust customer relationship management system ("CRM"). While not yet a fully, technically-integrated solution, key internal Divisions utilize a shared folder in which key account contacts are maintained and shared for Hydro Ottawa's key account portfolio.

The Key Accounts Program focuses on segmenting the Key Account customers by like characteristics and needs, supported by a dedicated Key Account coordinator for each of the customers designated as a Key Account customer, as identified in the Account Management Strategy, dated November 13, 2013. This enables the coordinator to ensure the account plan for each Key Account customer is tailored and executed to the customer's satisfaction. Key Account coordinators also deliver presentations and participate in customer site meetings, which are collaborative and constructive. Further, Hydro Ottawa's key account coordinators now sit on the Builder Trade Council, which meets monthly and represents 85 percent of new developments in Ottawa.

In 2015 a Key Account customer symposium is planned. This initiative will focus on the further evolution of Hydro Ottawa's Key Account Program, by collaborating with Key Account customers to determine Hydro Ottawa's key account priorities, from the perspective of key account customers.

2.3 Communications and Public Affairs Group

Hydro Ottawa Limited's Communications and Public Affairs Group deploys a variety of communication tools to inform, raise levels of understanding and encourage customer feedback. This includes communicating across a variety of platforms, both online and traditional, and in both official languages to suit our customer needs.

Customer input provides the organization with insight into our customers' needs, pain-points, level of understanding and expectations. This, ultimately, establishes communications priorities and informs planning and key decision making in order to successfully engage with customers in a way that is both timely and relevant.

2.3.1 Social Media

Overseen by the Communications and Public Affairs Group, Hydro Ottawa has a cross-functional Social Media Team that contributes social media content from their respective groups. The content is tailored specifically for our customers, with the goal of satisfying common customer inquiries, gaps in understanding and to encourage engagement.

Hydro Ottawa regularly seeks to engage with customers on its social media channels, values both positive and negative feedback equally in order to understand what is working and what improvements need to be made. Customer feedback indicates users appreciate the real-time replies to their inquiries, particularly during power outages, storms and in times of crisis. The result has seen significant uptake in the company's relatively young social media channels, specifically Twitter thanks to its real-time urgency.

Social media platforms also provide self-help options to customers, such as Hydro Ottawa's YouTube channel. Videos inform and educate customers on various facets of Hydro Ottawa's business, including power outages, infrastructure and investment requirements, rates, careers, residential and commercial conservation programs, community involvement initiatives focused on youth and partner agencies working to help those that are homeless or at risk of homelessness. A CDM Program Officer at Hydro Ottawa hosts a series of "*Ask the Energy Coach"* videos, which have resulted

from customer inquiries on a wide-range of conservation topics. Through YouTube, customers can also provide input and feedback in the comments section of the video sharing site. This helps Hydro Ottawa understand customer sentiment and identify gaps in awareness or content. Hydro Ottawa recognizes the value digital media content provides its customers and is working to develop more video content in its communications plans.

2014 highlights from Hydro Ottawa's Social Media channels:

- 2,746 new Twitter Followers in 2014, bringing Hydro Ottawa's total Follower count to 7,547.
- Hydro Ottawa received 3,306 mentions on Twitter in 2014.
- Links included in Hydro Ottawa's tweets were accessed a total 6,851 times by customers in 2014.
- In February 2014, Hydro Ottawa launched its Facebook account to connect with customers. Currently Hydro Ottawa has 349 Followers.
- LinkedIn helps Hydro Ottawa stay connected to area businesses and professionals in terms of our corporate culture, initiatives, careers and our suite of business programs that are of relevance to them. Since April, Hydro Ottawa's LinkedIn has grown to 1,373 Followers.
- Since 2010, 114 videos have been viewed nearly 27,000 times on Hydro Ottawa's corporate YouTube channel.

2.3.2 Website

Hydro Ottawa's website is a key forum for communicating with our customers and capturing customer feedback through the use of a comment box on each page. For quick, general impressions, clickable 'thumbs up' and 'thumbs down' icons are available. This provides an easy way to gather general sentiment about the design and content of Hydro Ottawa's web pages so improvements can be made.

In correlation with Google analytics data and based upon feedback received from customers, there were a number of enhancements made to our website in 2014, such as making Hydro Ottawa's Outage Map more accessible and customer friendly. Visitors can now type in their address or click on the new "Current Location" button to zoom in on their GPS position. This helps customers quickly discover if their neighbourhood is being affected by an ongoing outage and may conveniently retrieve details about it. Clicking on an outage will then display a pop-up box with information that includes the area or City Councillor ward, number of affected customers, status of Hydro Ottawa's crew and estimated restoration time.

Understanding what devices our customers are utilizing to reach our website enhanced our website initiative by ensuring the design was compatible for multiple screen sizes and the information architecture was simplified to reduce clicks to get to the desired information.

Recognizing that all feedback is valuable to improving the customer experience, there are often minor comments on a daily basis with suggestions to improve the design or revise content for clarity, if unclear. This feedback also gives Hydro Ottawa an indication of what pages customers care about. This combined with usage analytics helps Hydro Ottawa focus on those customer priorities.

As a key customer interface, Hydro Ottawa performs regular audits of its website to ensure the information presented remains up-to-date, secure, user friendly, performs robustly and is fully accessible to a diverse range of customer needs. For example, the website is accessible to visually-impaired customers with screen readers, as part of a major website upgrade undertaken in 2014, which incorporated the compliance requirements of the "Accessibility for Ontarians with Disabilities Act" Regulation in advance of the 2021 deadline

2.3.3 Media and Stakeholder Relations

Hydro Ottawa engages with its shareholder, the City of Ottawa, in numerous ways. Regular communications keep the Mayor and City Council updated with news, plus invite feedback and questions. The company's monthly shareholder update newsletter was recently revised from a PDF format to a shareable, HTML format based on feedback we received from City Councillors asking how they prefer to be communicated with. This online format enables the organization to track what stories are most often read, and to tailor content in future issues, accordingly, to ensure we provide value.

In response to feedback provided by City Council, a direct email was developed to fast-track customer inquiries received by City Councillors. The process ensures a timely response to customers.

With regards to timely notification of power outages, Councillors and local media are invited to sign-up to receive power outage email alerts. These emails provide details such as the area and ward where the outage is occurring, restoration time and cause, if known. This enables us to leverage their channels and audiences to help assist in spreading the word in real-time.

2.4 Conservation & Demand Management ("CDM")

Hydro Ottawa has been engaging customers in both the development, implementation and assessment phases of its CDM programs, since 2005. Customer engagement enables Hydro Ottawa to tailor local CDM programs to meet the expressed needs of its customers. In fact, customer outreach activities have also been successful in identifying projects customers are independently pursuing (primarily the commercial class), which may be incorporated into Hydro Ottawa's CDM program offerings and leveraged to other customers. Hydro Ottawa further engages customers in post-implementation program evaluation activities, which has often led to further program refinements and improvements. The customer experience offers a unique and invaluable perspective of program effectiveness.

Customers influence Hydro Ottawa's CDM programs in a number of ways. For example:

As a result of Hydro Ottawa's Fridge Bounty program promotions, residential customers started asking how they could measure the amount of electricity their appliances were using. In response, Hydro Ottawa sourced a Kill-A-Watt meter that could be placed between the appliance and the outlet to record the electricity being consumed by the appliance. Hydro Ottawa approached the Ottawa Public Library and made 150 Kill-A-Watt meters available for loan to anyone with a library card. Customers were able to use the meters to identify where they were using a lot of electricity in their homes. When Hydro Ottawa added freezers to the program, a note was received from a customer wishing to get rid of his very large, old freezer, when he discovered it was costing him a fortune to operate. Hydro Ottawa also ran a feature in its Currents newsletter on this customer experience. The Kill-A-Watt meters continue to be in demand and available from the Ottawa Public Library.

As one example of proactive customer engagement, Hydro Ottawa hosted a breakfast event on November 25, 2014 for business customers entitled "Doing More with Less". The event, attended by 200 people, included a presentation from an engineer focused on identifying and implementing greater savings when undertaking conservation retrofit projects. Those in attendance appreciated the opportunity to network with colleagues and speak with the Hydro Ottawa sales team about their projects and opportunities. During all engagement events, business customers are encouraged to reach out to the Hydro Ottawa sales team about their projects and ideas. Hydro Ottawa makes every effort to include viable projects in its programming. An example of this is the 'Free Air' project that was brought to our attention by Quickie Convenience Stores ("Quickie"). Quickie approached Hydro Ottawa with the concept and new product that made use of the cold outside air in the winter to refrigerate walk-in coolers. We were able to assist Quickie with retrofit incentives to implement 'Free Air'. Quickie experienced a drop in energy use for their cold air refrigeration systems for their walk-in coolers by 80%. Now other customers are taking advantage of this product.

As another example, Hydro Ottawa recently participated in "*Idea Jam"* hosted by HUB Ottawa ("The HUB"). The HUB is about the power of innovation through collaboration. HUB Ottawa is a community-based collaboration network comprised of innovators, artists, professionals and entrepreneurs, whom collectively strive to create and promote innovations that create a positive social impact. The HUB is a local and global collaboration platform that provides access to a vibrant global community of 7,000 individuals leading social innovation in over 45 cities worldwide. "*Idea Jam"* brought together a group of people from the community with a wide variety of skill sets from data programmers and developers, interaction designers, customer service professionals, sustainability leaders, communicators and marketers - with an interest in energy conservation. It was the first time this type of event collaboration had taken place at the HUB Ottawa. The participants spent a day developing and presenting ideas to promote customer engagement in the development of conservation programs within our community. Many of the ideas generated were not new to Hydro Ottawa, however, there were a few new elements identified that may be considered for future CDM program plans. Hydro Ottawa's participation in this event was received positively by stakeholders.

Finally, in terms of ongoing, normal-course customer engagement, Hydro Ottawa's Conservation Event Team participates at over 100 community and customer events annually. This allows for interactions that assist customers improve their understanding of the conservation programs by addressing any misconceptions or misinformation that they may have. It is a great platform to start talking about trends, such as the transition from CFL to LED lighting. During these face-to-face opportunities, Hydro Ottawa also promotes service offerings, such as e-billing, MyHydroLink, power outage notifications, etc. As a result, further insight is gained into the evolving needs of customers, which inform future service offerings and delivery.

Customer engagement has been integral in the successful development and deployment of CDM programs at Hydro Ottawa and will continue to be, as new CDM programs are developed and implemented.

3.0 CUSTOM IR APPLICATION CONSULTATION

In accordance with the customer focus outcome identified in the *Renewed Regulatory Framework for Electricity Distributors: A Performance Based Approach ("RRFE")*[8], Hydro Ottawa initiated a customer engagement process to gather customer opinion on planned expenditures and outcomes identified in the proposed 2016 rate application. Detailed results of Hydro Ottawa's Customer IR Application consultation are provided in the *Customer Consultation Report* ("Report") produced by Innovative Research Group Inc. ("Innovative"), which is referred to as Attachment A-3(A).

In collaboration with Innovative, Hydro Ottawa designed, tested and implemented a customer engagement strategy in Fall 2014 and Winter 2015. In order to maximize the effectiveness of the customer engagement process, five key principles were adopted:

1. Ensure all Hydro Ottawa customers have an opportunity to be heard;
2. Ensure a representative sample of customers engage;
3. Create an open, voluntary process to allow any customer the opportunity to provide comment;
4. Focus on the key outcomes and customer preferences;
5. Inform customers about the distribution system and electricity industry.

Prior to implementation, a customer focus group was invited to provide feedback. A majority of participants supported the proposed customer engagement strategy and offered valuable suggestions.

Hydro Ottawa's consultation focused on three key stages:

1. Think: Develop key supporting material and questions

[8] A Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012, Pg. 2.

2. Identify: Maximize customer engagement opportunities
3. Quantify: Draw conclusions from customer feedback

Hydro Ottawa deployed five customer engagement options, which included:

1. An online workbook available to all customers;
2. General service and residential consultation focus groups;
3. Mid-market workshops (e.g., general service customers over 50 kW);
4. Key account validation interviews; and
5. Random telephone surveys.

3.1 Summary of Results

3.1.1 Customer Needs and Preferences

Overall, customers were generally satisfied with the service provided by Hydro Ottawa, that being *very* or *somewhat* satisfied. Suggestions for improvement primarily focused upon reducing rates and, to a lesser degree, reducing power outages.

With respect to reliability of service, a majority of customers supported maintaining system reliability, even if doing so increased their monthly electricity bill by a few dollars over the next few years. Customers also indicated that new technology and infrastructure were important priorities, as was ensuring employees have the equipment and tools necessary to manage the distribution system efficiently and effectively.

In terms of affordability, while a majority of customers indicated that electricity costs have a major impact on their finances, a larger majority stated that they were willing to pay a bit more because investing in the system is money well spent.

3.1.2 Customer Reaction to Proposed Rate Increase

When customers were asked about the extent to which they felt the proposed rate increase was reasonable (referred to as social permission), there were variations among

the consultation mediums. The focus groups and telephone surveys rendered the highest levels of social permission, while the mid-market workshops and online survey resulted in lower levels of social permission. Mid-market workshop participants expressed frustration that some of their questions had not been answered to their satisfaction. The telephone surveys garnered the most support (66 to 70 percent across customer classes) for the proposed rate increase, although somewhat reluctantly. As the Report indicates, reluctant acceptance highlights the challenges customers can face when choosing between reliability and price. That said Hydro Ottawa customers favour a proactive approach to system reliability.

It is worth noting that during the consultation period, there was significant local media coverage, including callers on a "talk radio" program that was primarily negative in tone. Results indicate that lower levels of social permission were received after the media coverage began. Hydro Ottawa was also active in the media, as CEO, Bryce Conrad participated in a related radio interview during this period. Survey participation by Hydro Ottawa customers exceeded that of participation rates of similar surveys in other jurisdictions.

3.1.3 Online Workbook

Hydro Ottawa's online workbook and survey was available in both official languages between February 23 and March 20, 2015. The online workbook was promoted through print and online advertising with local media outlets, social media, bill inserts and e-bills, as well as, Hydro Ottawa's website. There were 4,745 residential and 55 commercial customer respondents. Respondent profiles and sample comments are provided on pages 15 to 17 of the Report. Customer feedback on their familiarity and satisfaction with Hydro Ottawa; system reliability; investment planning and cost drivers, Hydro Ottawa's plan, acceptance of the proposed rate increase and the workbook itself are provided on pages 18 to 36 of the Report. A copy of Hydro Ottawa's workbook is also appended to the Report.

3.1.4 General Service and Residential Customer Consultation

Hydro Ottawa held consultation sessions in Ottawa on March 17 and 18, 2015. A total of 34 general service and residential customers participated, who were recruited from a randomly generated list provided by Hydro Ottawa. Eligible customers were those who either managed or oversaw their business' electricity bill. All consultation sessions were video recorded and ran for approximately two hours.

The consultation sessions were structured around the themes of the workbook noted in Section 3.1.3. With a facilitator, the participants were led through the workbook and asked to independently respond to the questions therein.

The outcomes of this consultation activity are provided in pages 41 to 52 of the Report.

3.1.5 Mid-Market Workshop

A workshop was held with the mid-market, general service *greater than* 50 kW customers in Ottawa on March 18, 2015. A total of 16 mid-market customers participated in this session. Again, customers were randomly selected and screened. The workshop began with a two-hour presentation and Q&A from Hydro Ottawa explaining the operational and financial impacts of the proposed rate application. As noted previously, this consultation session was video recorded.

After the presentation, customers were divided into equal-size groups and taken to breakout rooms to begin moderator-led focus group discussions, for approximately one hour. Similarly, an information workbook was provided to the participants as an educational tool. Participants were then asked to independently respond to the questions therein.

The outcomes of this consultation activity are provided in pages 57 to 67of the Report.

3.1.6 Key Account Validation Interviews

In follow-up to nine, one-on-one key account consultation sessions with Hydro Ottawa staff, Innovative conducted six follow-up interviews in order to verify that the customer

had the information they needed in order to provide informed feedback on Hydro Ottawa's proposed Distribution System Plan. The key account customers represented a diverse range of interests from a cross-section of manufacturing, public works and property management. These sessions were held the last three weeks of March, 2015.

The outcomes of this consultation activity are provided in pages 72 to 74 of the Report.

3.1.7 Customer Telephone Surveys

In order to validate the statistical significance of the previous research phases, randomly selected telephone surveys were conducted among 1,036 residential and 200 general service customers between April 1 and April 12, 2015. The ten-minute questionnaire simulated the workbook by including elements of customer education, customer knowledge of the distribution system and their values, in terms of system reliability and bill impacts.

The outcomes of this final consultation activity are provided in pages 77 and 117 of the Report.

File Number: EB-2015-0004
Exhibit: A
Tab: 3
Schedule: 1
Page:

Date: ORIGINAL

Appendix 2-AC
Customer Engagement Activities Summary

Provide a list of customer engagement activities	Provide a list of customer needs and preferences identified through each engagement activity	Actions taken to respond to identified needs and preferences. If no action was taken, explain why.
REFER TO EXHIBIT A-3-1	REFER TO EXHIBIT A-3-1	REFER TO EXHIBIT A-3-1

Note: Use "ALT-ENTER" to go to the next line within a cell

Innovative Research Group, Inc.
Toronto • Vancouver

Customer Consultation Report

2016 Rate Application Review

April 2015

Prepared for:

Hydro Ottawa Limited
3025 Albion Rd. N., Box 8700
Ottawa, Ontario
K1G 3S4

Customer Consultation Report

2016 Rate Application Review

April 2015

This report has been prepared by Innovative Research Group Inc. for Hydro Ottawa Limited.

The conclusions drawn and opinions expressed are those of the authors.

Innovative Research Group Inc.
56 The Esplanade, Suite 310
Toronto ON | M5E 1A7
Tel: 416.642.6340
Fax: 416.640.5988
www.innovativeresearch.ca

Table of Contents

Introduction 1

About this Consultation 1

Customer Consultation Overview 2

Workbook Development 5

Executive Summary 7

Customer Needs & Preference 7

Customer Reaction to Proposed Rate Increase 9

Online Workbook 11

Summary 11

Methodology 12

About the Online Workbook 12

Local Media Coverage 15

Respondent Profiles 16

Customer Feedback 18

Familiarity and Satisfaction 18

System Reliability 21

Investment Planning & Cost Drivers 25

Response to Hydro Ottawa's Plan 30

Acceptance of Rate Increase 34

Customer Feedback on Online Workbook 36

Customer Consultation Groups 37

Summary 37

Methodology 39

About the General Service and Residential Customer Consultation 39

Participant Feedback 41

General Service under 50 kW Rate Class 41

Residential Rate Class 45

Questionnaire Results 48

Mid-Market Workshop 53

Summary 53

Methodology **55**
About the Mid-Market GS Workshop Consultation 55
Participant Feedback **57**
Mid-Market (GS Over 50 kW) Rate Class 57
Questionnaire Results **62**
Key Account Validation Interviews **68**
Summary **68**
Methodology **70**
Key Account Consultation Process **71**
Participant Feedback **72**
Validation Interview Questionnaire Results **73**
Customer Telephone Surveys **75**
Summary **75**
Methodology **77**
Respondent Feedback **83**
Familiarity and Satisfaction 83
Electricity Bill Knowledge 89
System Reliability 91
System Challenges and Priorities 99
Reaction to Customer Consultation Feedback 106
Overall Assessment of Plan 110
Appendix: Hydro Ottawa's Customer Workbook **118**

Introduction

About this Consultation

Innovative Research Group Inc. (INNOVATIVE) was commissioned by Hydro Ottawa Limited (Hydro Ottawa) to help the utility design, collect feedback and document its customer engagement and consultation process as part of its 2016 Custom Incentive Rate-setting (CIR) application.

Hydro Ottawa's customer consultation is a key element of its distribution cost of service rate application. The outcome of this application will determine Hydro Ottawa's electricity distribution rates for a five year period– beginning January 1, 2016 and ending December 31, 2020.

The Ontario Energy Board's (OEB) new "consumer-centric" approach to rate applications as detailed in the *Renewed Regulatory Framework for Electricity Distributors (RRFE)* requires distributors to demonstrate that services are provided in a manner that responds to identified customer needs and preferences[1]. Distributors are required to provide an overview of customer engagement activities that they have undertaken with respect to its plans and how customer needs and preferences have been reflected in the distributor's application. This initiative sought to bring customers directly into the process of finding the right balance between cost and reliability in Hydro Ottawa's 2016 rate application with the OEB.

This process of identifying and reacting to customer needs and preferences towards Hydro Ottawa's system plan development and execution, as it relates to rate applications, is relatively new to Ontario's distributors. Aside from a few distributors who have had their rates approved under the RRFE, there are few established practices of engaging customers to identify their needs and preferences. That said, there are a number of options available to distributors to engage with their customers. The following section explains Hydro Ottawa's approach to its customer engagement related specifically to its rate application.

Effective and Meaningful Customer Engagement

INNOVATIVE's past experience with engaging customers in meaningful consultation has documented a number of challenges. The reality of most consultation processes is that they start out aiming to collect the views of the average person, but end up collecting the views of organized advocacy groups.

Many customers feel they do not know enough to contribute to the consultation process. Others fear the combative nature of some public processes or prefer not to risk offending friends and neighbours by taking positions on issues that are sometimes controversial. Moreover, many customers simply do not pay attention and remain unaware of particular consultations that they would participate in if they had have been aware.

Facilitating a customer consultation for distributors has an additional challenge – the lack of familiarity with the distribution system; including how it is funded, regulated and the nature of its

[1] OEB Renewed Regulatory Framework for Electricity Sections 2.4.2, 5.0, and 5.0.4.

challenges. This is well documented in the OEB's publicly available consumer research and in INNOVATIVE's own experience.

Considering both the challenge of engaging a representative group of customers and the challenge of lack of knowledge, we developed a process built on five key principles:

1. Ensure all Hydro Ottawa customers have an opportunity to be heard.
2. Use random-sampling research elements to ensure a representative sample of customers are engaged.
3. Create open voluntary processes that allow anyone who wants to be heard an opportunity to express themselves.
4. Focus on fundamental value choices. Look for questions that ask people to choose between key outcomes rather than focus on the technical questions of how to reach those outcomes.
5. Create an opportunity for the public to learn the basics of the distribution system so they can provide a more informed point of view.

Since this was the first time Hydro Ottawa so explicitly engaged customers in the development of their distribution system planning, a specific effort was made to collect participant comments on the process itself. Most customers felt this approach to engagement was effective at soliciting their feedback on Hydro Ottawa's investment and spending plan.

Customer Consultation Overview

Based on the principles outlined above, INNOVATIVE worked with Hydro Ottawa staff to design a multifaceted customer engagement program which included a combination of qualitative and quantitative research elements. This consultation was designed to engage various rate classes and collect feedback on needs and preferences as they relate Hydro Ottawa 2016 Rate Application Review.

There were three stages in the development and implementation of Hydro Ottawa's consultation:

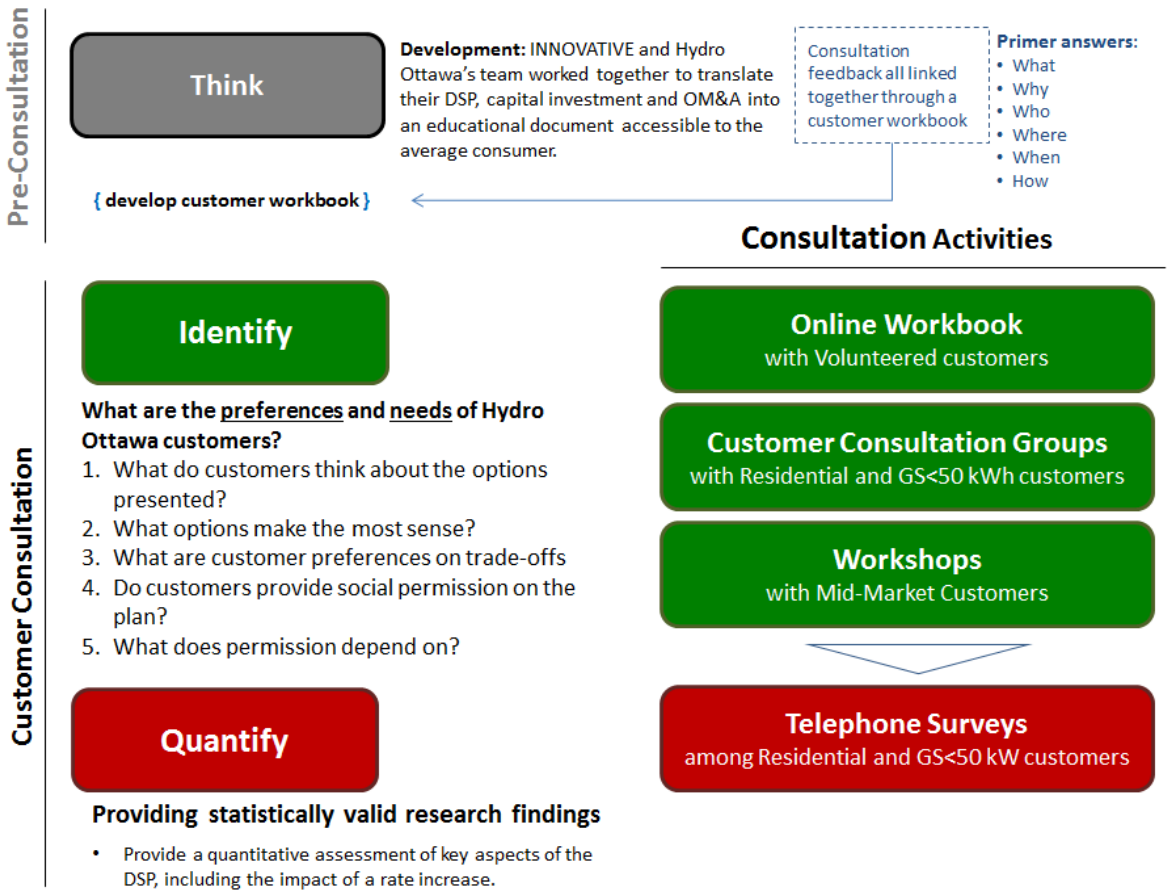
- **Think**: The first stage was to develop the core background material and key questions for the workbook. INNOVATIVE and Hydro Ottawa worked together to review the utilities system plan, capital investments and OM&A spending. Potential questions were identified that would allow customers to share their needs and preferences. Then a workbook was developed that would provide the information needed to allow customers with varying levels of knowledge to find answers to those questions.
- **Identify**: The second step was to find out the range of views held by Hydro Ottawa's customers regarding the system plan through qualitative elements of the process. This included an open access online workbook to collect customer feedback and a series of customer discussion groups among randomly recruited residential and General Service (GS) customers.
- **Quantify**: The third step was quantitative – a randomly recruited telephone surveys of residential and GS customers. Randomly recruited surveys allow for generalizable

conclusions that can be applied to the broader population of Hydro Ottawa's customers. The surveys were developed based on the feedback from the qualitative research.

Hydro Ottawa's consultation encompassed five core elements of customer engagement.

1. **Online Workbook**: The online workbook was promoted through print and online advertising with local media outlets, social media, inserts in customer bills and e-bills, as well as Hydro Ottawa's website. This first phase of the consultation was available to any Hydro Ottawa customer who wanted to participate.
2. **General Service and Residential Consultation Focus Groups:** Similar to the online workbook, this qualitative phase of the consultation was designed to educate customers, assess their preferences and priorities, gauge reaction to proposed rate changes, and ultimately inform the quantitative phases of the consultation. The customer focus groups were randomly recruited and held at a focus group facility in downtown Ottawa. A workbook was used to provide the participants with core information customers about both the provincial and local electricity system, Hydro Ottawa's proposed capital investment and operating spend to maintain system reliability, as well as the rate impact for each respective rate classes. The groups were catered and participants were provided with an incentive in recognition of their time commitment and to help ensure participation from across Hydro Ottawa's diverse customer base.
3. **Mid-Market Workshops**: General Service customers over 50 kW (GS > 50kW) were engaged through a randomly recruited workshop. This workshop included a presentation delivered by Hydro Ottawa's regulatory and engineering staff on the utility's DSP and rate implication for this rate class, a Q&A session with Hydro Ottawa staff, and "breakout style" discussion groups lead by INNOVATIVE staff. Participants were provided incentives in recognition of their time commitment and to help ensure diverse participation among Hydro Ottawa's mid-market customers.
4. **Key Account Validation Interviews**: Key Accounts were consulted on the proposed 5-Year plan by Hydro Ottawa staff. INNOVATIVE followed-up by telephone with large users after their consultation session to validate the process and to verify that Hydro Ottawa provided these customers with the information they needed to provide informed feedback on the proposed plan.
5. **Random Telephone Surveys**: INNOVATIVE conducted telephone surveys among residential and general service (GS < 50 kW) customers to provide a generalizable assessment of Hydro Ottawa's system plan and rate implications. Customers were randomly selected by INNOVATIVE from lists provided by Hydro Ottawa.

An overview of Hydro Ottawa's consultation roadmap is illustrated in the diagram below.



The consultation was designed so any customer who is interested would have an opportunity to participate in the process through the online workbook. However, in our approach, we distinguish between responses from the opinion research discipline (random recruits and scientific polls) and responses from an "open invitation" consultation discipline.

The small group results are presented as numeric counts to help readers remember that qualitative research only identifies points of view; it does not project the incidence of that point of view in the broader public.

The results from the online workbook and random surveys are presented as percentages due to the larger numbers involved.

- Readers are cautioned that the online workbook results represent the views of volunteers. The online workbook sample is not randomly selected and cannot be generalized to the broader Hydro Ottawa customer base.
- The telephone surveys are based on random samples so we can reliably project the incidence to the broader population of Hydro Ottawa's customers.
- In some instances, the quantitative total may be greater than 100% due to rounding. This is in keeping with standard research practice.

Workbook Development

As we noted earlier, a key challenge in getting customer feedback on Hydro Ottawa's rate application is the lack of knowledge customers have toward Ontario's electricity system and Hydro Ottawa's role as the local distributor within the system. Hydro Ottawa's proposed distribution system plan, capital investment plan and Operations, Maintenance and Administration (OM&A) budget are all very detailed and extensive documents that use technical language. Hydro Ottawa's challenge was to briefly cover these key issues and frame meaningful questions about customer needs and preferences.

The process of developing the consultation workbook began in the fall of 2014. INNOVATIVE and Hydro Ottawa staff began the process of developing the workbook by reviewing the utility's draft DSP. After developing a draft workbook, INNOVATIVE conducted two nights of focus groups in early February 2015 with randomly selected Residential and General Service customers to ensure the workbook was deemed accessible by a diverse cross section of customers with varying degrees of electricity system knowledge and to ensure the questions concerning value trade-offs were balanced and deemed appropriate. Customer feedback from focus groups was then incorporated into the final design of the consultation workbook.

The workbook was divided into key sections that explained Hydro Ottawa' electric system, the challenges facing the system, and how Hydro Ottawa intended to meet those challenges over time.

There are nine themes, or sections, within the workbook:

1. ***Have Your Say*** invites customers to participate in the survey by providing a short background on why the customer consultation is taking place, and its role within the rate-setting process.
2. ***Electricity 101*** begins with an explanation of the three main components (generation, transmission and distribution) of the electricity system and provides a short description of each.
3. ***About Your Bill*** describes the breakdown of customer electricity bills, explaining that distribution services represents only a small portion of the total bill.
4. ***How Are Your Electricity Rates Determined?*** gives a brief summary of how electricity rates are determined.
5. ***Hydro Ottawa's Distribution Network Today*** provides facts and figures regarding the Hydro Ottawa system, and addresses topics like aging infrastructure and reliability. The primary goal of this section is to educate customers about the volume of aging assets currently in the system as well as how these aging assets and other factors contribute to reliability issues.
6. ***Reliability*** details the primary causes of power outages, and provides data on average frequency and duration of outages
7. ***Challenges Facing Hydro Ottawa*** sets out forecasted capital spending plans for 2016 to 2020 and provides some details on the four key investment areas: replacing aging infrastructure, serving a growing city, improving the power system, and buildings and equipment.
8. ***Finding Efficiencies and Cost Savings*** outlines the four cost saving initiatives that Hydro Ottawa is focusing on, namely: using innovative techniques, leveraging technology to improve reliability, programs to improve productivity, and effective planning.

9. ***The Dollars and Cents*** details the rate impact of the proposed plan for both residential and small commercial customers.

As customers progressed through the consultation workbook they were prompted with questions relating to system reliability, system challenges, and preferences on the direction of Hydro Ottawa's proposed system plan, capital investment and operating spend. In developing the questions, we looked for those that could also work on the telephone, without requiring all of the information in the workbook.

Identifying customer *needs*. We started with a basic satisfaction question and then asked an open-ended question about how Hydro Ottawa could improve its services. We let customers discuss whatever topics they wanted to without boundaries. Later in the workbook we probed satisfaction with the number and length of power service interruptions and subsequently the impacts of those outages.

Identifying customer *preferences*. We were looking for value choices rather than technical issues. Preference questions included understanding the investment and spending priorities and which areas should have more or less priority.

The final substantive question asked about the cost of the plan and the outcomes it planned to achieve. Sometimes this questions is asked with a simple support or oppose response scale, but previous research has demonstrated that this type of scale does not effectively capture customer sentiment as it relates to distributor rate increases. Instead, customers were given three options, as well as a "don't know" option:

- The rate increase is reasonable and I support it
- I don't like it, but I think the rate increase is necessary
- The rate increase is unreasonable and I oppose it
- Don't know

Note: Throughout this report the term "**social permission**" is used in place of "support" in reference to Hydro Ottawa's proposed rate increase. In this context, it's not so much that customers *support* a rate increase so much as they accept that it is necessary. It is less likely that customers will *support* a rate increase because it means more money coming out of their pockets, however they may acknowledge that there is a *need* for a rate increase and so they give it social permission.

The workbook concluded with a final set of five questions to assess the workbook and process itself.

The customer workbooks can be found in the **Appendix** of this report.

Executive Summary

Subsequent sections of this report will present detailed findings on the needs and preferences of Hydro Ottawa's residential and general service customers. In this section, we provide an overall summary of Hydro Ottawa customers' needs and preferences.

This executive summary includes findings from both the *qualitative* and *quantitative* customer engagement activities that were included in this consultation exercise.

Customer Needs & Preference

A Satisfied Customer Base

Customers are generally satisfied with the service they receive from Hydro Ottawa. Across all consultation activities, most customers indicated that they are either *very* or *somewhat* satisfied with their service.

Overall Satisfaction across Consultation Activities

Response	Directional (Focus Groups)		Directional (Online)[2]	Directional (Workshop)	Generalizable (Telephone Surveys)	
	General Service	Residential	Residential	GS > 50 kW	General Service	Residential
Very satisfied	1	6	48%	6	31%	38%
Somewhat satisfied	9	2	42%	9	50%	46%
Not very satisfied	0	1	6%	0	10%	8%
Not satisfied at all	0	0	3%	0	7%	5%
Don't know / Refused	0	1	1%	1	3%	3%
TOTAL	**n=10**	**n=10**	**n=4,745**	**n=16**	**n=200**	**n=1,036**

Asked what Hydro Ottawa could do to improve service, almost half of those who took part in the online survey did not provide a response, suggesting (in conjunction with the high level of stated satisfaction) that they are already satisfied with Hydro Ottawa's service. Those who did give suggestions for improved service focused primarily on reducing rates; reducing power outages was also mentioned, but to a much lesser degree.

This trade-off between rates and system reliability is a dynamic that we explored in all customer consultations. In additional to getting a sense of customers' experiences with power outages, customers were also asked about the extent to which they feel Hydro Ottawa should be investing in

[2] Business respondents are not included as only n=55 completed the online workbook.

order to address the current frequency and duration of power outages – should the goal be to reduce or maintain current levels, or would customers prefer to keep costs down?

Reliability of Service

In the consultation groups and workshops, customers were for the most part satisfied with the number of outages they are experiencing. While a few experienced more, most experienced few if any outages. The impact of these outages varied widely from those who were not inconvenienced at all to small business and GS > 50kW customers who were greatly impacted in the form of lost productivity and revenue.

The telephone survey built on this input and quantified the extent to which customers are impacted by service outages.

About a third in each customer group (35% residential; 34% general service) did not experience any outages in the past twelve months. Among those who did experience at least one outage, many reported that their most recent outage lasted for less than an hour (47% residential; 39% general service). Business customers (50%) are much more likely than residential customers (12%) to consider their most recent outage a "major inconvenience".

Regarding the number of power outages:

- Almost one quarter (23%) of residential customers think Hydro Ottawa should be spending what is needed to reduce the number of power outages. Most (55%) would prefer that they spend what is need to maintain the current level of outages, while only one-in-ten (11%) are willing to accept more outages in order to keep customer costs from rising.
- The result is similar among general service customers: 27% want Hydro Ottawa to spend what is needed to reduce the number of power outages, 56% want them to spend what is needed to maintain the current level. Fewer than one-in-ten (8%) small business customers are prepared to accept more outages to keep customer costs from rising.

Regarding the length of power outages:

- Half (51%) of residential customers would like Hydro Ottawa to spend what is needed to maintain the current length of power outages, while another 22% would like them to spend what is needed to reduce the current length. Fewer than two-in-five (18%) prefer to accept longer outages in order to keep customer costs from rising.
- Likewise, half (51%) of general service customers would like Hydro Ottawa to spend to maintain, while another 27% would like them to spend to reduce the current length of outages. Significantly fewer (15%) are prepared to accept longer outages in exchange for keeping customer costs down.

Survey respondents were informed of Hydro Ottawa's proposed capital investment required to maintain system reliability and then asked to think about reliability in terms of bill impact.

- 56% of residential customers and 57% of general service customers say Hydro Ottawa should invest what it takes to replace the system's aging infrastructure to maintain system reliability; even if that increases their monthly electricity bill by a few dollars over the next few years.

- 57% of residential customers and 61% of general service customers think the benefits of new technology and infrastructure are important and should be a priority for Hydro Ottawa.
- 66% of residential customers and 61% of general service customer feel that, while Hydro Ottawa should be wise with its spending, it is important that its staff have the equipment and tools they need to manage the system efficiently and reliably.

Affordable Electricity

While some residential customers report feeling financially strained by their electricity bills, even more say they are willing to pay more for their electricity:

- 51% agree that *"the cost of my electricity bill has a major impact on my finances and requires that I do without some other important priorities"*. Yet, larger proportions agree that *"I can personally afford to pay more for electricity, but I am worried about the impact a rate increase will have on others"* (62%) and that *"I'm willing to pay a bit more for my electricity because investing in upgrading the system is money well spent"* (62%).

Among general service customers there is a more balanced picture:

- 64% agree that *"the cost of my electricity has a major impact on the bottom line of my organization and results in some important spending priorities and investments being put off"*.
- 63% agree that *"I'm willing to pay a bit more for y electricity because investing in the system is money well spent"*
- 61% agree that *my organization can afford to pay more for electricity, but I'm worried about the impact a rate increase will have on others"*

Customer Reaction to Proposed Rate Increase

As a rule, customers don't want to pay more than they are currently paying for the same product or service. Therefore, we don't ask customers whether they support or oppose a rate increase - it is not realistic to expect that anyone would *support* paying more. Rather, we asked customers about the extent to which they feel the rate increase is reasonable in order to get a measure of "social permission". For the purposes of this analysis, we define social permission as those who find the rate increase reasonable and support it, in addition to those who don't like the rate increase but think it is necessary.

Social Permission Across Consultation Activities

Response	Directional (Focus Groups)		Directional (Online)[3]	Directional (Workshop)	Generalizable (Telephone Surveys)	
	General Service	Residential	Residential	GS > 50 kW	General Service	Residential
The rate increase is reasonable and I support it	3	1	10%	0	22%	23%
I don't like it, but I think the rate increase is necessary	4	8	40%	5	44%	47%
The rate increase is unreasonable and I oppose it	3	1	45%	8	32%	27%
Don't know / Refused	0	0	5%	3	3%	3%
Social Permission	7	9	50%	5	66%	70%
TOTAL	n=10	n=10	n=4,745	n=16	n=200	n=1,036

There was some variation across consultation activities on the social permission question. The level of social permission was highest in the consultation focus groups and the telephone survey, while lower in the mid-market workshop and the online survey. It is worth noting that in the second week of the online survey, there was significant local media coverage that was primarily negative in tone. As shown in the detailed report for the online survey, those who completed the survey prior to the media coverage were more likely to give social permission than those who completed the survey after the media coverage had begun.

Similarly, participants in the mid-market workshop expressed frustration that some of the questions they had asked during the introductory presentation had not been answered to their satisfaction. This may or may not have impacted their feelings about the rate increase.

The most reliable social permission measure comes from the telephone survey, which is statistically valid and is generalizable to the entire residential and general service <50 kW population. Two-thirds (66%) of residential customers and 70% of general service customers are prepared to give social permission to the rate increase, albeit mostly reluctantly.

This level of reluctant acceptance for a rate increase is indicative of the struggle customers face when having to choose between reliability and price. Despite their reluctance regarding a rate increase, it is clear (as detailed in this report) that customers favour a proactive approach to system maintenance in order to maintain reliability.

[3] Business respondents are not included as only n=55 completed the online workbook.

Online Workbook

Online Workbook
with Volunteered customers

PURPOSE: To inform customers on the details of Hydro Ottawa's plan, obtain feedback on the proposed options, and collect input for subsequent telephone survey design.

Summary

The following summary highlights key findings from the online workbook and survey that was conducted between February 23rd and March 20th, 2015.

Familiarity and Satisfaction

- At the outset of the online survey, respondents report high levels of familiarity (94%) and satisfaction (90%) with Hydro Ottawa. When asked if there is anything Hydro Ottawa can do to improve its service, 2,301 of 4,745 respondents did not provide a response, suggesting that they do not have suggestions for improvements. Of those who did provide a response 19% mention reduced rates, while 17% say there is nothing Hydro Ottawa can do because they are already satisfied.

System Reliability

- One quarter (24%) report not having any power outages in the past year. This figure ranges from 47% in Ottawa Centre to only 5% in Goulbourn. Almost all (95%) are satisfied with the reliability of electricity services provided by Hydro Ottawa.
- With regard to addressing the *number* of customer power outages, 49% say Hydro Ottawa should spend what is needed to maintain the current level of outages.
- Similarly, when asked how they should address the *length* of power outages, 50% say Hydro Ottawa should spend what is needed to maintain the current length of outages.

Investment Planning & Cost Drivers

- Half (50%) feel Hydro Ottawa should invest what it forecasts is required to replace the system's aging infrastructure, even if that increases their monthly electricity bill by a few dollars over the next few years.
- Half (52%) feel that, while Hydro Ottawa should be wise with its spending, it is important that its staff have the equipment and tools they need to manage the system efficiently and reliably.
- Most (87%) feel they understand the cost drivers that Hydro Ottawa is responding to, and more than half (53%) think Hydro Ottawa is doing well at managing these cost drivers while meeting customer expectations.

- Just under half (45%) are satisfied with the efforts of Hydro Ottawa to find efficiencies and cost savings.

Response to Hydro Ottawa's Plan

- Almost two thirds (63%) say Hydro Ottawa's investment plan seems like it is going in the right direction.
- Three quarters (75%) say the plan covers the topics they expected, and two thirds (67%) think Hydro Ottawa is doing well at planning for the future.

Acceptance of Rate Increase

- Half (50%) of respondents are prepared to accept the proposed rate increase, though most of this group (40% overall) do so reluctantly – they don't like the increase, but they feel it is necessary. Conversely, 45% feel the rate increase is unreasonable and they oppose it.

Methodology

About the Online Workbook

Beginning in December of 2014, Hydro Ottawa and INNOVATIVE collaborated on the development of an informative workbook geared toward residential and general service < 50 kW customers. This workbook was designed for use in the customer consultation groups and it served as the basis of the "Have Your Say" online customer survey.

The goal of the workbook was to provide customers with background information regarding Hydro Ottawa and its role within the provincial electrical system; what the Hydro Ottawa system looks like today; and the challenges it is facing in the future. Throughout the workbook, there are embedded questions to gather customer feedback on issues like overall satisfaction and reliability, investment options and Hydro Ottawa's plans for the future. The final question ascertains the extent to which customers are willing to accept Hydro Ottawa's proposed rate increase.

While INNOVATIVE provided examples of other (publicly available) workbooks and guidance throughout the development process, creation of this workbook was handled primarily by Hydro Ottawa, who had final say on its content and design.

NOTE: Results contained within this section of the report are based on self-selected or volunteered participation and therefore should not be interpreted as a representative sample of Hydro Ottawa customers.

Recall, the purpose of the online workbook is to identify potentially unique issues, concerns, needs and preferences that relate to Hydro Ottawa's investment and spending plan and use this customer feedback to help design the generalizable telephone survey in the subsequent phase of the consultation.

Online Workbook Design

The content and questions contained within the online workbook were based primarily on the workbook that was used in the customer consultation groups, with some slight modifications, and to make it user-friendly in an online environment.

There are nine themes, or sections, within the workbook:

10. ***Have Your Say*** invites customers to participate in the survey by providing a short background on why the customer consultation is taking place, and its role within the rate-setting process.
11. ***Electricity 101*** begins with an explanation of the three main components (generation, transmission and distribution) of the electricity system and provides a short description of each.
12. ***About Your Bill*** describes the breakdown of customer electricity bills, explaining that distribution services represents only a small portion of the total bill.
13. ***How Are Your Electricity Rates Determined?*** gives a brief summary of how electricity rates are determined.
14. ***Hydro Ottawa's Distribution Network Today*** provides facts and figures regarding the Hydro Ottawa system, and addresses topics like aging infrastructure and reliability. The primary goal of this section is to educate customers about the volume of aging assets currently in the system as well as how these aging assets and other factors contribute to reliability issues.
15. ***Reliability*** details the primary causes of power outages, and provides data on average frequency and duration of outages
16. ***Challenges Facing Hydro Ottawa*** sets out forecasted capital spending plans for 2016 to 2020 and provides some details on the four key investment areas: replacing aging infrastructure, serving a growing city, improving the power system, and buildings and equipment.
17. ***Finding Efficiencies and Cost Savings*** outlines the four cost saving initiatives that Hydro Ottawa is focusing on, namely: using innovative techniques, leveraging technology to improve reliability, programs to improve productivity, and effective planning.
18. ***The Dollars and Cents*** details the rate impact of the proposed plan for both residential and small commercial customers.

There are a total of 16 feedback questions contained within the workbook, as well as a series of five "final thoughts" questions which invite respondents to share their opinions on the workbook and the customer consultation process.

Field Dates

The online workbook was accessible to Hydro Ottawa customers from February 23rd to March 20th 2015.

Promoting the Online Workbook

The online workbook survey was promoted to customers using a variety of print and electronic media:

- Print Newspaper: 1/3 page ads during the weeks of February 23rd, March 2nd and March 9th in the Ottawa Citizen, Le Droit, Metroland, Ottawa Sun, and Metro Ottawa
- Online Newspaper: a total of 352,000 impressions February 23rd to March 15th, on OttawaCitizen.com, LeDroit.com, OttawaSun.com and MetroNews.ca/News/Ottawa
- Bill inserts
- A notice on www.HydroOttawa.com with links to the English and French survey sites
- Social media

Promotions included mention of a prize draw. All participants who completed the entire survey were eligible to enter a draw to win one of three Apple™ iPad™ Air 2 Wi-Fi 16GB.

NOTE: See section below – Local Media Coverage – for details on unplanned promotion of the online workbook.

Publishing the Workbook Online

The workbook was available in both official languages and was hosted by INNOVATIVE. The English version was available at www.hydroottawa.com/survey and the French version was available at www.hydroottawa.com/sondage.

The website prevented customers from completing the survey multiple times. Upon completion, the site was no longer accessible at the web address given.

Note that INNOVATIVE does not ever link to the personal information submitted on the website. All responses were kept anonymous and confidential.

Validating Customer Responses

Customers who filled out the workbook were tagged with an identification number based on their postal code and their response as a residential or business customer of Hydro Ottawa. Postal codes were checked against a list of FSAs (Forward Sortation Area) provided by Hydro Ottawa for validity and those deemed invalid were removed from the final sample. IP addresses were also used to verify that responses were unique and human.

Sample Characteristics

The breakdown of online workbook responses are as follows:

- 11,709 unique visitors came to the landing page.
- 118 surveys were deemed invalid according to postal code and were removed from the final data set. Of note, most of these individuals provided Orleans postal codes, so it is likely they are Hydro One customers who mistakenly believe they are Hydro Ottawa customers.
- 4,800 customers (including 55 business respondents) completed the entire online workbook.

The workbook was made available in both official languages. A total of 152 respondents completed the French version (149 residential customers and 3 business customers).

The information provided by customers was aggregated anonymously and used only for exploratory analysis in this report.

Business Respondents

Since only 55 business customers finished the workbook out of a total of 4,800 respondents, the focus of the online workbook report will be on the views and opinions of residential customers.

Local Media Coverage

While Hydro Ottawa executed several planned promotional notices regarding the workbook, there was also extensive local media coverage including callers on a "talk radio" program the week of March 2nd, 2015. This unplanned earned media coverage continued for several days, and included a radio interview with Hydro Ottawa's CEO, Bryce Conrad.

It is reasonable to assume this media coverage had an impact in terms of drawing customers to the survey site as there was a noticeable jump in responses during and immediately following the coverage. Furthermore, while similar surveys have been carried out in other jurisdictions, none have had such a high response rate.

There is anecdotal evidence to suggest that much of the attention the survey received in the media was negative in tone as is apparent in the samples of customer emails and customer calls into a talk radio program provided below. Much of the negativity was focused on the feeling that Hydro Ottawa should be funding maintenance and repairs out of its profit, rather than paying a dividend to the city.

To get a sense of the impact of this coverage on survey responses, we have used the timestamp that was applied to each survey to divide them into Pre- and Post-media coverage categories. In the end, a total of 963 surveys were completed prior to the start of local media coverage on March 2nd, 2015, while most (3,782) were completed *after* the media coverage began. Significant variations between the two groups are highlighted in this report.

Sample Comments from Hydro Ottawa Customers:

> *For a number of years Hydro Ottawa has paid a dividend to the city of Ottawa. Now is the time to ask for the money to be returned for the above reasons. Where is Hydro Ottawa's reserve fund to pay for the above equipment replacements and upgrades?*
>
> *Did a monopoly seriously just commission a research firm to conduct a survey? What a waste of public funds.*
>
> *I am not in favour of rate increases - I think that any improvements to your network should come from the millions of dollars in profits that you give to the City of Ottawa!*
>
> *Why can't the company use part of the $32 000 000 profit they made first? Obviously the company is really over charging us. It's called GREED!*

What would be a really good thing to put in [the survey] would be that every year we take your money, we set aside a certain amount for maintenance and upgrading. And if they haven't been doing that on an ongoing basis, what the hell are they doing?

I'm just a little put out with Hydro, because I have had occasion to read in the newspaper that they pay out a substantial – I think they call it a dividend instead of a profit – to the city of Ottawa every year. If they are asking for more money, they are already making a profit. What are they doing with that besides giving it back to the city so they can throw it out somewhere else?

Respondent Profiles

The following chart displays a breakdown of the residential respondents by region, household size, and living situation. The subsequent chart presents the breakdown of commercial respondents in terms of business operations and monthly spending on electricity.

Figure A1: Residential Respondent Profile

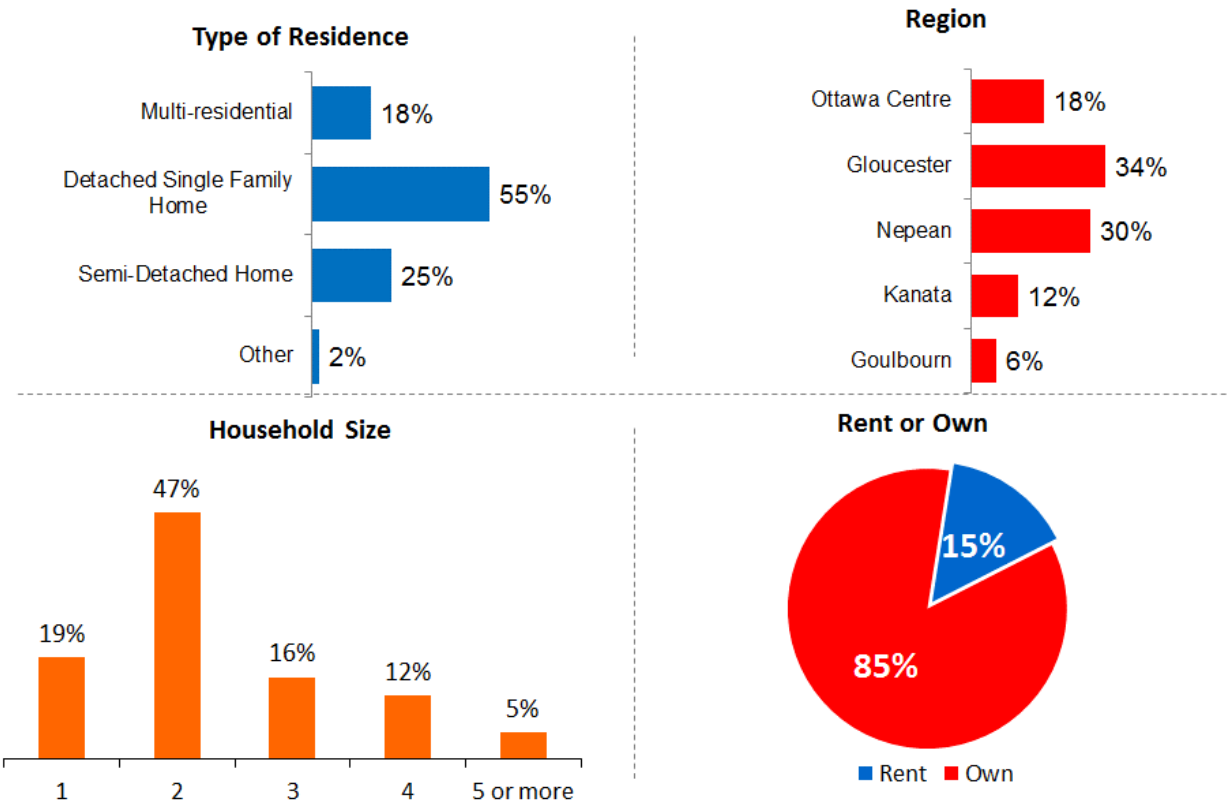
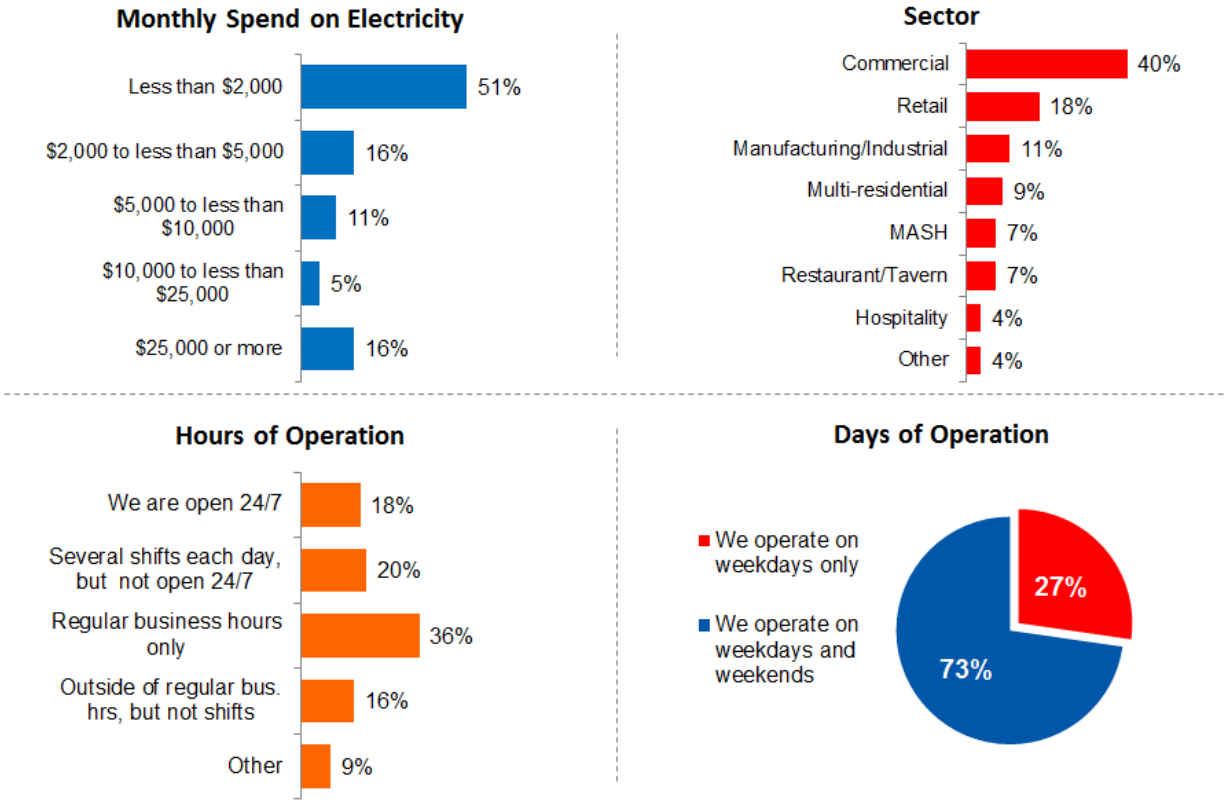


Figure A2: Business Respondent Profile



Customer Feedback

In total, 4,800 respondents answered questions to the end of the workbook (including 55 business respondents). Note that the number of responses will vary on the open-ended questions as respondents were not required to provide a response. The sample sizes for residential respondents and business respondents are indicated separately.

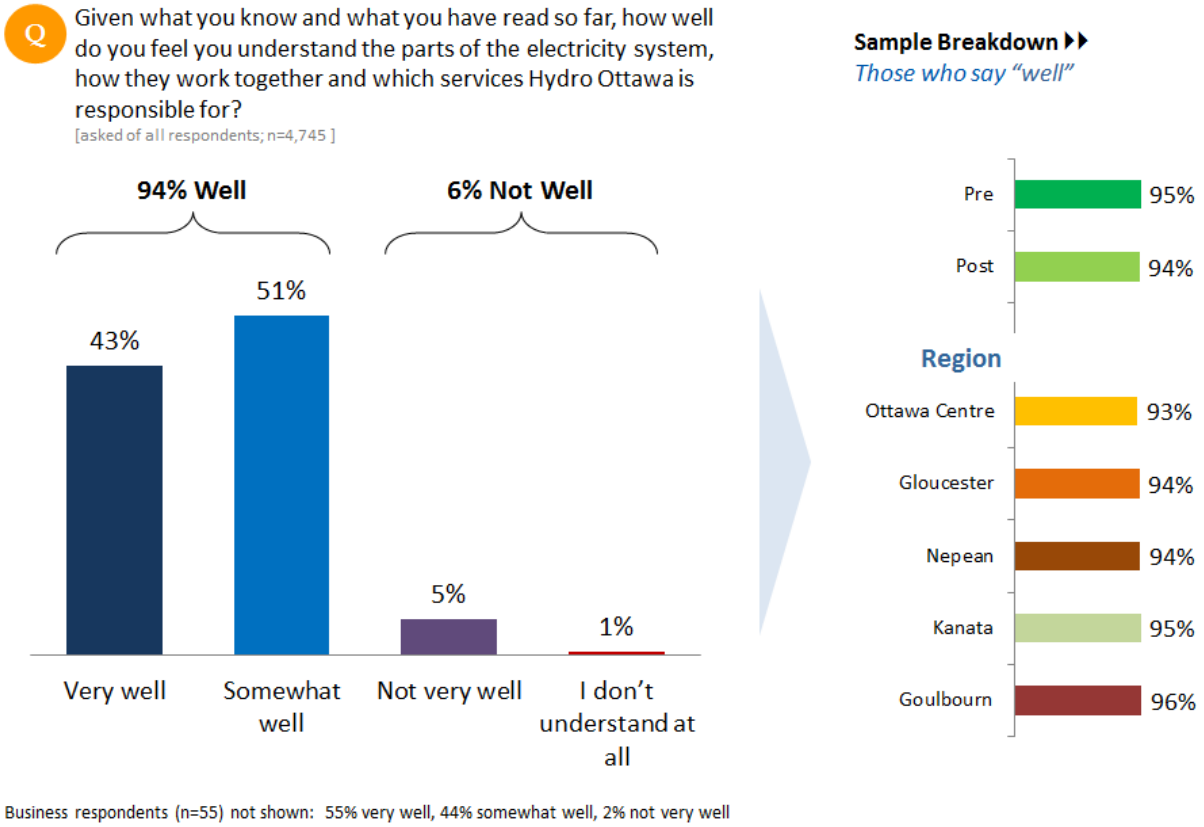
Familiarity and Satisfaction

The first series of questions asks customers how familiar they are with the electricity system and which services Hydro Ottawa is responsible for, how satisfied customers are with the service they receive from Hydro Ottawa, and suggestions for improvement.

Familiarity and Understanding of the System

Residential customers feel they understand the parts of the electricity system and which services Hydro Ottawa is responsible for, with almost all (94%) saying they understand it either *very* (43%) or *somewhat* well (51%). At 91% overall, the level of understanding is lowest among single-person households.

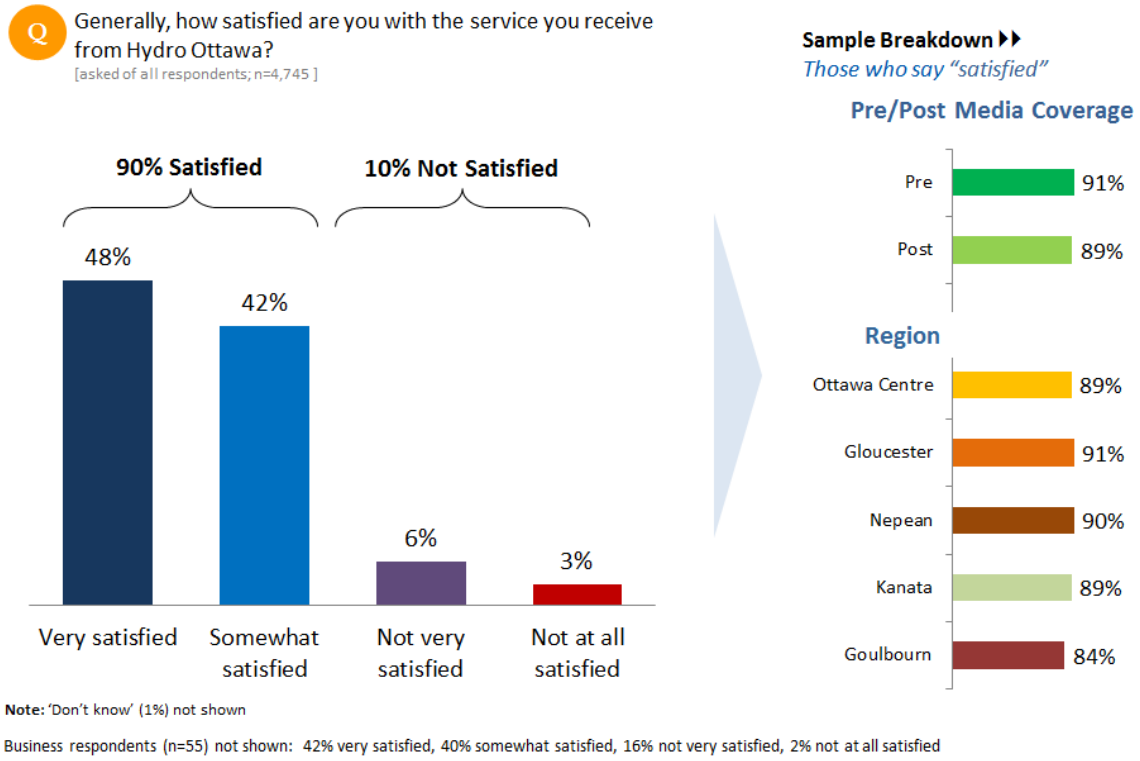
Figure 1: Familiarity with Electricity Distribution System



Business respondents (n=55) not shown: 55% very well, 44% somewhat well, 2% not very well

In addition to feeling they have a good understanding of the services Hydro Ottawa is responsible for, a solid majority (90%) are satisfied with the service they receive from Hydro Ottawa. Almost half (48%) are *very* satisfied. Only ten percent are not satisfied. Residents of Goulbourn are slightly less satisfied with Hydro Ottawa than residents of other regions, though the majority (84%) there are satisfied.

Figure 2: Satisfaction with Hydro Ottawa



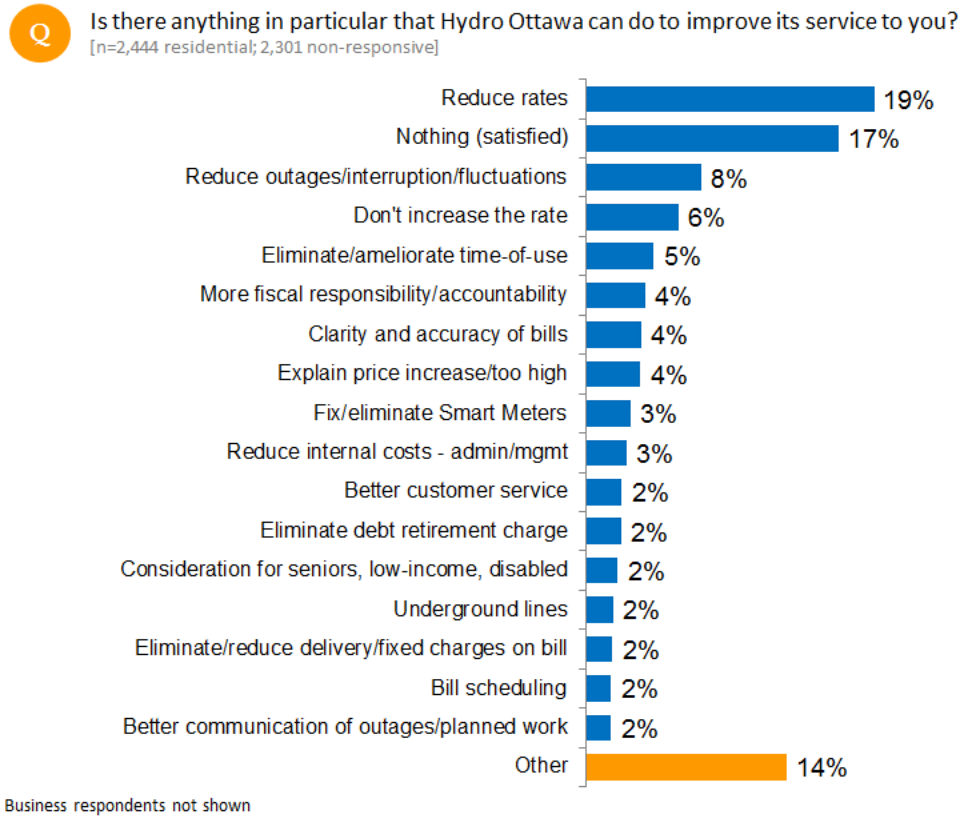
Note: 'Don't know' (1%) not shown

Business respondents (n=55) not shown: 42% very satisfied, 40% somewhat satisfied, 16% not very satisfied, 2% not at all satisfied

When asked if there is anything Hydro Ottawa can do to improve its service, one-in-five (19%) mention reduced rates, while almost as many (17%) say there is nothing Hydro Ottawa can do because they are already satisfied. Almost half (n=2,301) of respondents did not provide a response to this open-ended question, suggesting that they, too, are already satisfied with the service they receive.

Less frequently cited suggestions for improvement include reducing outages (8%), don't increase the rate (6%) and eliminate/ameliorate time-of-use (5%).

Figure 3: Improving Customer Service



System Reliability

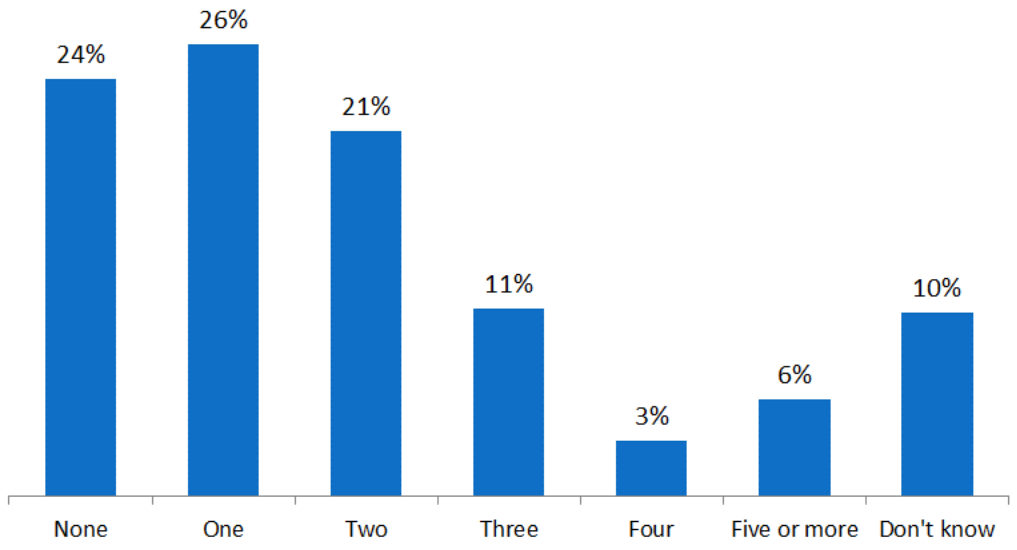
This series of questions addressed customers' current level of satisfaction with system reliability, and asked customers what they feel the goal should be with regard to outage frequency and duration: reduce current levels, maintain current levels, or accept more and longer outages?

A quarter (24%) of Hydro Ottawa customers report they have not experienced any power outages in the past year. Almost half have experienced one (26%) or two (21%) outages, while 19% have experienced three or more. Looking across the service territories, only 5% in Goulbourn report not having had any power outages, compared to 13% in Kanata, 16% in Nepean, 25% in Gloucester, and 47% in Ottawa Centre.

Those living in multi-residential units are much more likely to report an absence of outages than those living in a detached or semi-detached residence (41% versus 19%, respectively).

Figure 4: Outages Experienced

Q When averaged across the entire customer population, a Hydro Ottawa customer experiences 1.1 power outages per year. Do you recall how many outages you experienced in the past year?
[asked of all respondents; n=4,745]

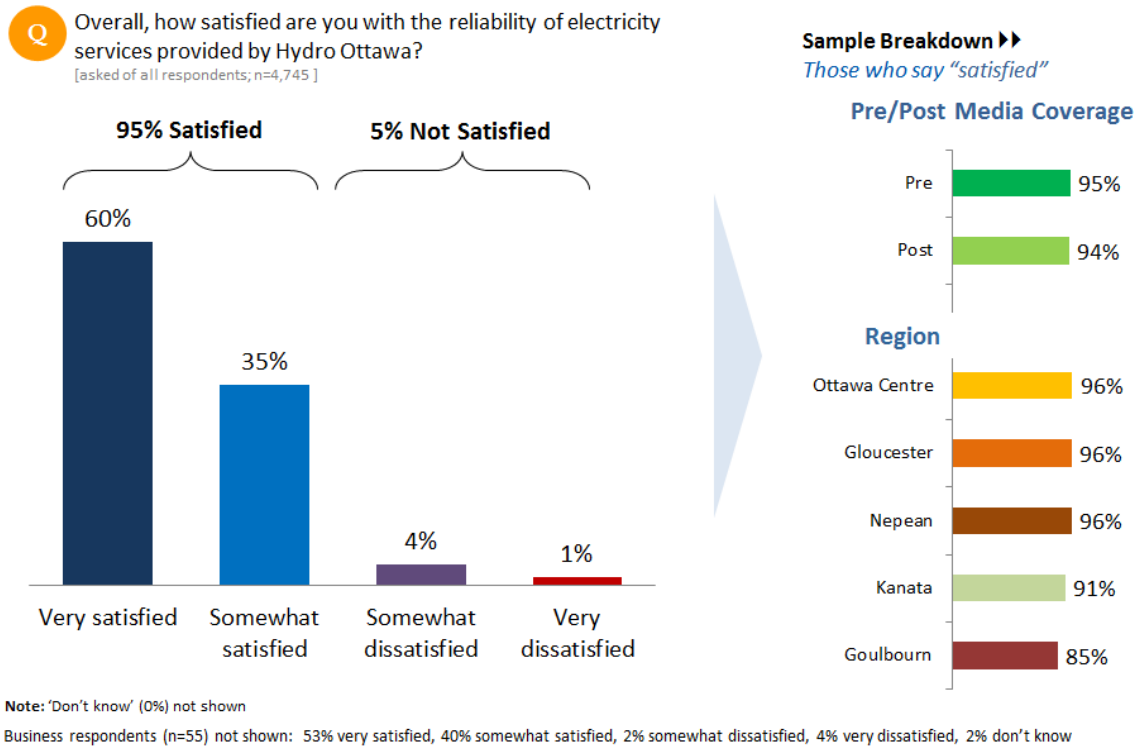


Business respondents (n=55) not shown: 24% none, 25% one, 15% two, 13% three, 0% four, 4% five or more, 20% don't know

A majority (60%) are *very* satisfied with the reliability of electricity services provided by Hydro Ottawa, and an additional 35% are *somewhat* satisfied. Not surprisingly, the proportion who are *very* satisfied in each of the five service areas reflects the frequency of reported power outages: 37% are *very* satisfied in Goulbourn, 47% in Kanata, 58% in Nepean, 63% in Gloucester and 71% in Ottawa Centre.

Along a similar vein, residents of multi-unit buildings are more likely to be *very* satisfied with the reliability of their electricity than those living in detached or semi-detached buildings (67% versus 58%).

Figure 5: Satisfaction with Reliability of Service



Note: 'Don't know' (0%) not shown

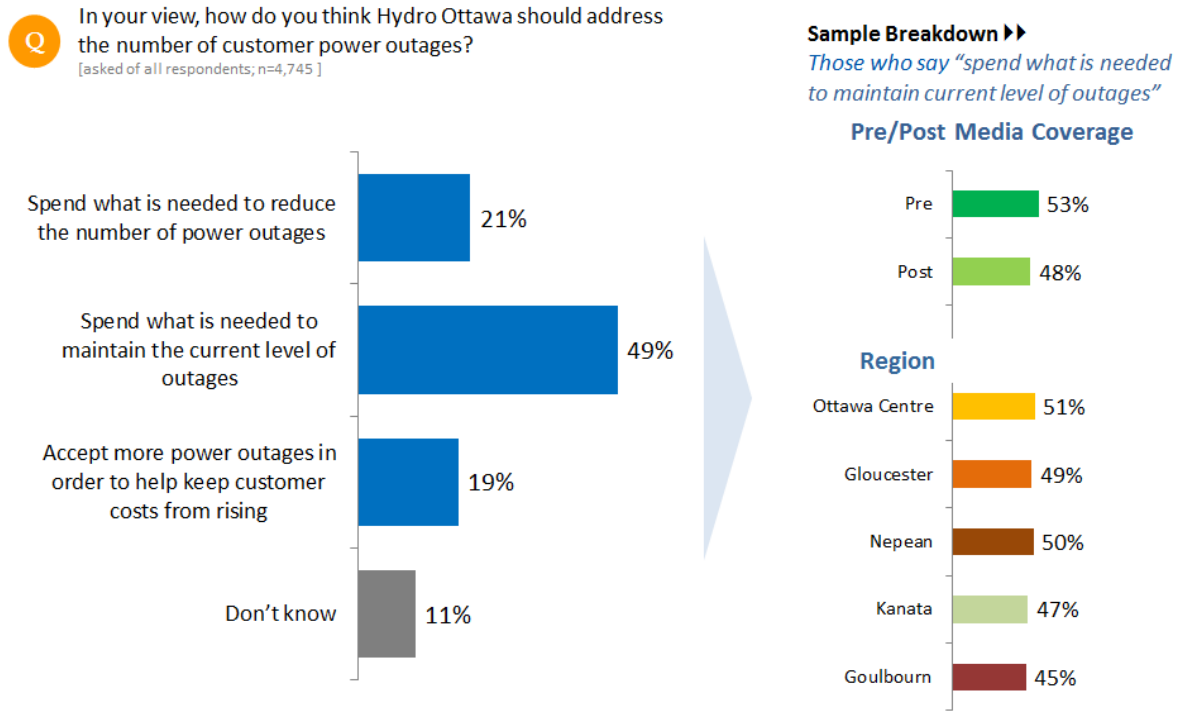
Business respondents (n=55) not shown: 53% very satisfied, 40% somewhat satisfied, 2% somewhat dissatisfied, 4% very dissatisfied, 2% don't know

Half (49%) of residential customers feel Hydro Ottawa should spend what is needed to *maintain* the current level of customer outages. One-in-five (21%) feel they should spend what is needed to *reduce* the number of outages, and slightly fewer (19%) would prefer to *accept more outages* in order to keep customer costs from rising.

Customers who responded in the first week of the survey – prior to any local media coverage – are more likely to vote for spending what is needed to *maintain* the current level of outages than those who responded after the media coverage had begun (53% versus 48%, respectively).

Likely a reflection of the lower number of reported outages, residents of Ottawa Centre are less likely than residents of other regions to want Hydro Ottawa to spend what is needed to reduce the current number of outages (18% compared to 21% to 24% in other regions).

Figure 6: Addressing the Number of Customer Outages

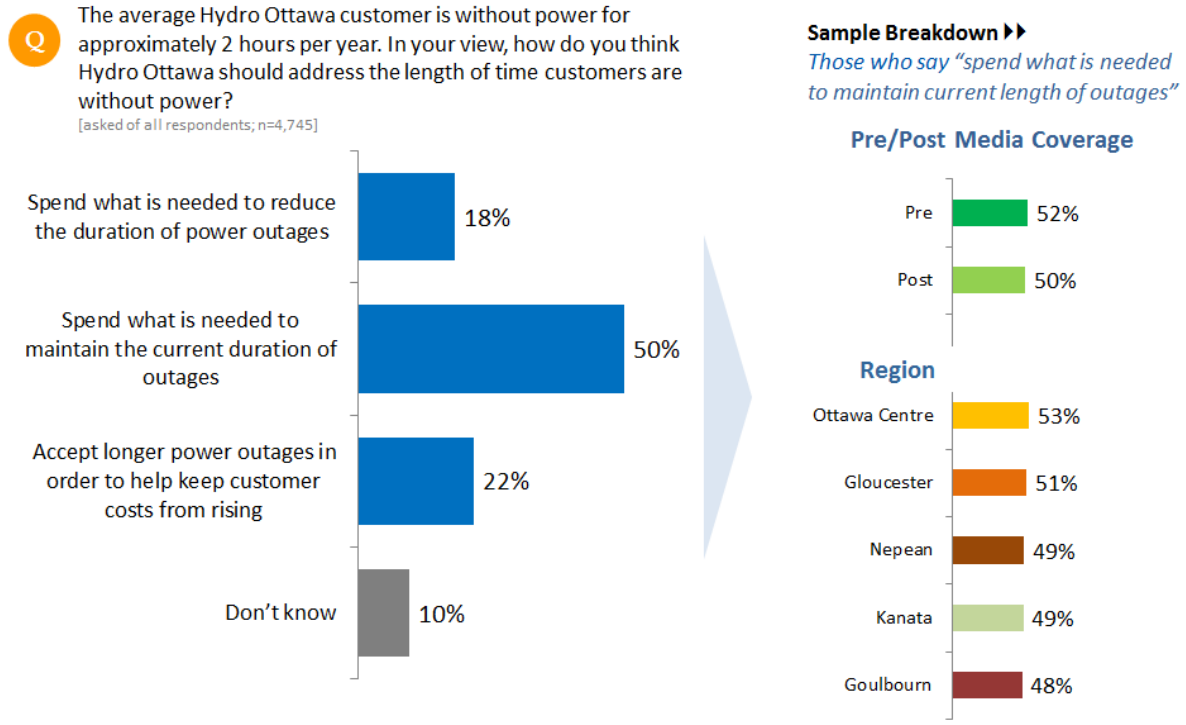


Business respondents (n=55) not shown: 15% spend what is needed to reduce the number of power outages, 55% spend what is needed to maintain the current level of outages, 13% accept more power outages in order to help keep customer costs from rising, 18% don't know

When it comes to addressing the current length of outages, half (50%) think Hydro Ottawa should spend what is needed to *maintain* the current length of outages. More than one-in-five (22%) are willing to *accept longer outages* if it will keep customer costs from rising, while 18% would like Hydro Ottawa to spend what is needed to *reduce* the current length of power outages.

Customers living in Ottawa Centre are least likely to want Hydro Ottawa to spend what is needed to reduce the current length of power outages (15%, compared to 18% to 21%).

Figure 7: Addressing the Length of Customer Outages



Business respondents (n=55) not shown: 11% spend what is needed to reduce the duration of power outages, 56% spend what is needed to maintain the current duration of outages, 18% accept longer power outages in order to help keep customer costs from rising, 15% don't know

Investment Planning & Cost Drivers

This section looks at customer preferences for spending on capital expenses, as well as looking at how well customers feel they understand Hydro Ottawa's cost drivers and how well they are managing them while meeting customer expectations. The survey questions followed a description of Hydro Ottawa's forecasted capital spending for 2016-2020, and how they work to find efficiencies and cost savings in the system.

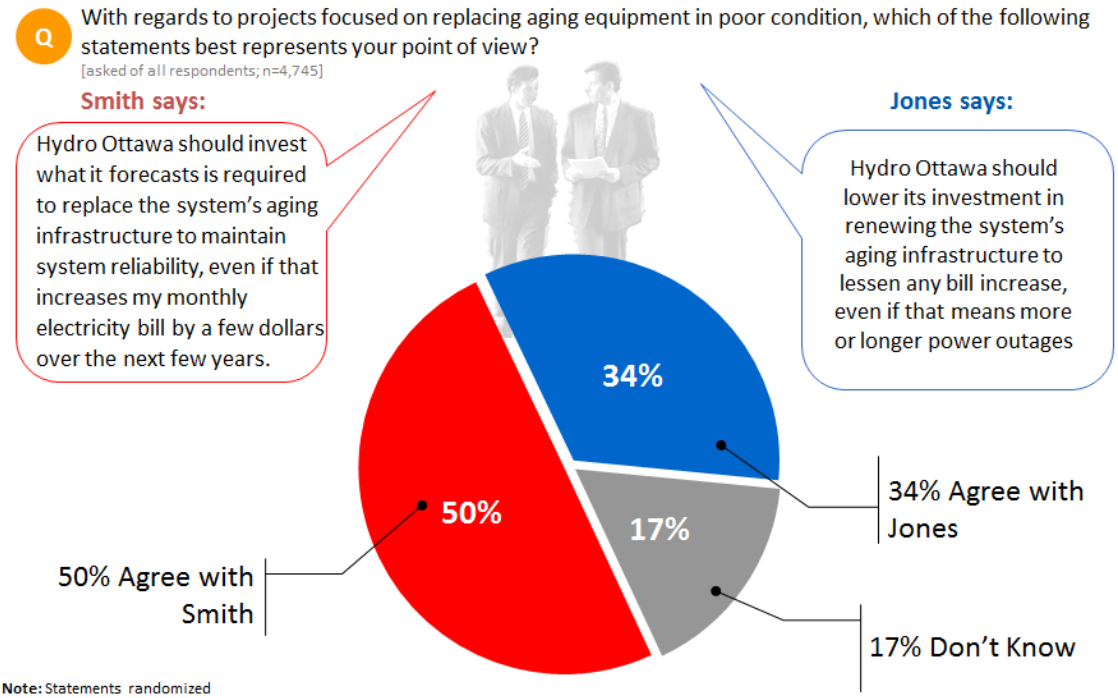
When it comes to investing in the system's aging infrastructure, half (50%) feel that Hydro Ottawa should invest what it forecasts is required to replace the system's aging infrastructure in order to maintain system reliability – even if that means a bill increase of a few dollars over the next few years. One third (34%) say Hydro Ottawa should lower its investment in renewing the aging infrastructure to lessen any bill increase – even if that means more or longer power outages. Almost one-in-five (17%) don't know which option they prefer.

Customers who completed the survey prior to the local media coverage are more likely to say Hydro Ottawa should spend what it forecasts is required than those who responded after the media coverage had begun (55% versus 49%).

At 56%, customers living in Ottawa Centre are more likely to share this view than those living in any other region (50% in Gloucester, 49% Nepean, 48% Kanata, 40% Goulbourn).

Customers living in two-person households are more likely than any other household size to feel Hydro Ottawa should invest what it thinks is required (54%, compared to 40% to 50%).

Figure 8: Investing in Infrastructure



Note: Statements randomized

Business respondents (n=55) not shown: 53% Hydro Ottawa should invest what it forecasts is required to replace the system's aging infrastructure to maintain system reliability, even if that increases my monthly electricity bill by a few dollars over the next few years, 35% Hydro Ottawa should lower its investment in renewing the system's aging infrastructure to lessen any bill increase, even if that means more or longer power outages, 13% don't know

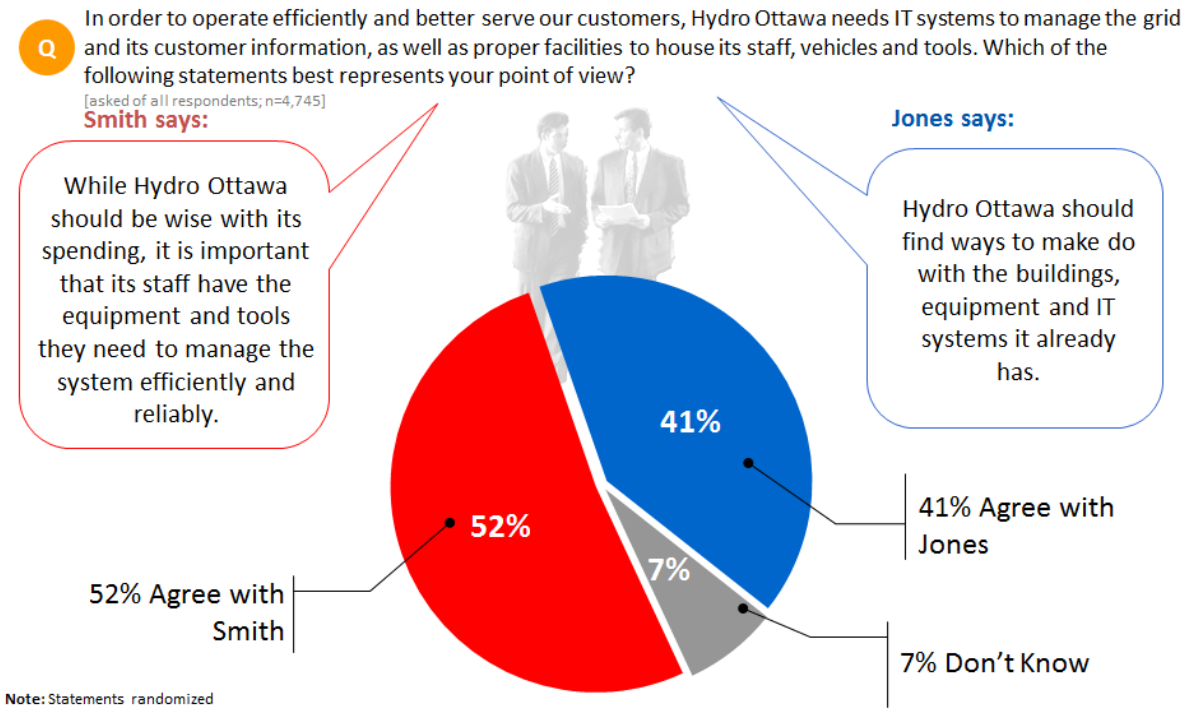
Turning to general plant assets, half (52%) feel that, while Hydro Ottawa should be wise with its spending, it is important that its staff have the equipment and tools they need to manage the system efficiently and reliably. Two-in-five (41%) think Hydro Ottawa should find ways to make do with the buildings, equipment and IT systems it already has, and the remaining 7% don't know.

Customers who completed the survey after the local media coverage had begun are more likely to say Hydro Ottawa should make do with its current general plant assets than those who completed the survey before the local media coverage began (42% versus 38%, respectively).

Respondents in Ottawa Centre are least likely to prefer this option at 36%, compared to 41% in Gloucester, 42% in Nepean, 43% in Kanata, and 47% in Goulbourn.

Customers living in single (39%) or two-person (38%) households are less likely to say Hydro Ottawa should find ways to make do with its current assets than those living in larger households.

Figure 9: General Plant Investment



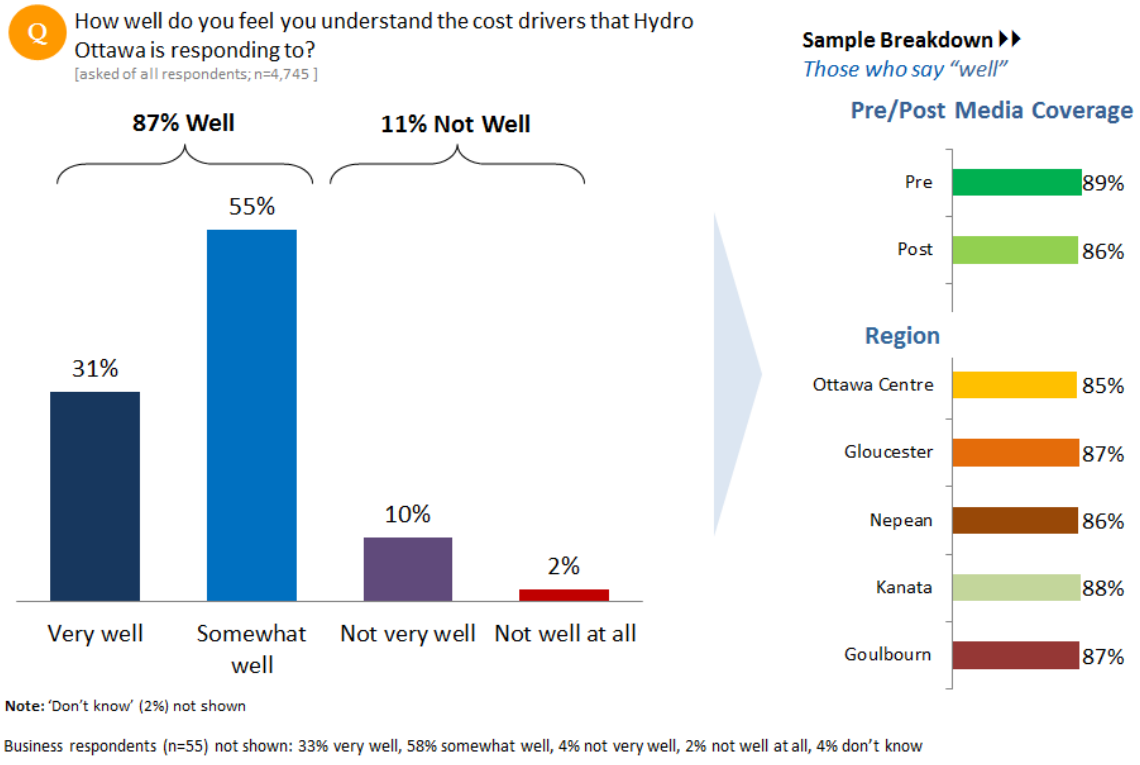
Business respondents (n=55) not shown: 62% While Hydro Ottawa should be wise with its spending, it is important that its staff have the equipment and tools they need to manage the system efficiently and reliably, 31% Hydro Ottawa should find ways to make do with the buildings, equipment and IT systems it already has, 7% don't know.

While a majority (87%) feel they understand well the cost drivers that Hydro Ottawa is responding to, most (55%) only understand them *somewhat* well. One-in-ten (10%) feel they understand these cost pressures *not very well*, while only 2% describe their level of understanding as *not well at all*.

Earlier respondents are more likely to say they understand the cost drivers than those who completed it after the local media coverage began on week two of the data collection period (89% versus 86%, respectively).

Residents of detached or semi-detached homes are more likely to say they understand Hydro Ottawa's cost drivers than those who live in a multi-unit building (88% versus 82%, respectively).

Figure 10: Understanding Cost Drivers



Note: 'Don't know' (2%) not shown

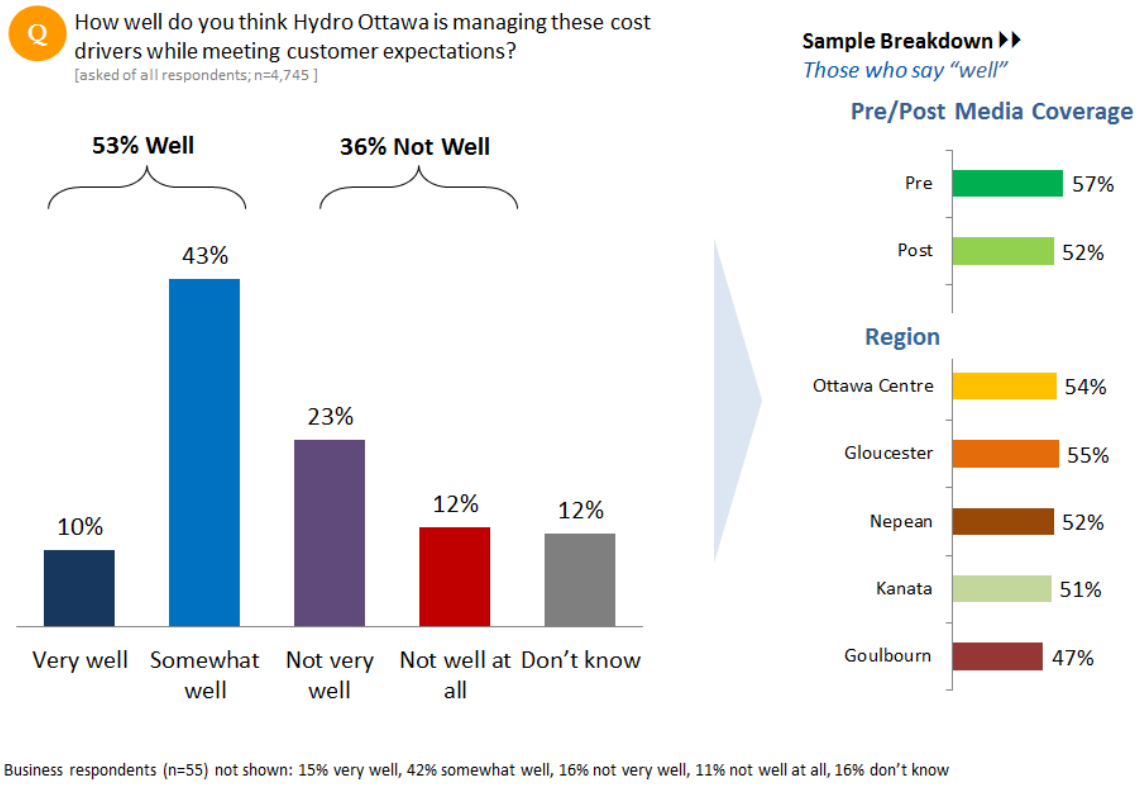
Business respondents (n=55) not shown: 33% very well, 58% somewhat well, 4% not very well, 2% not well at all, 4% don't know

Just over half (53%) feel Hydro Ottawa is managing their cost drivers either *very* (10%) or *somewhat* (43%) well. About a third (36%) say they are not managing their cost drivers well, and the remaining 12% *don't know*.

Those who responded prior to local media coverage are more likely to feel Hydro Ottawa is responding well to its cost drivers than those who answered after the media coverage had begun (57% versus 52%, respectively).

At 47%, customers living in Goulbourn are *least* likely to say Hydro Ottawa is managing their cost drivers well (compared to 51% to 55% in other regions). Those living in a household with one other person are slightly *more* likely than any other household sizes to feel Hydro Ottawa is doing well at responding to their cost drivers (55%).

Figure 11: Managing Cost Drivers



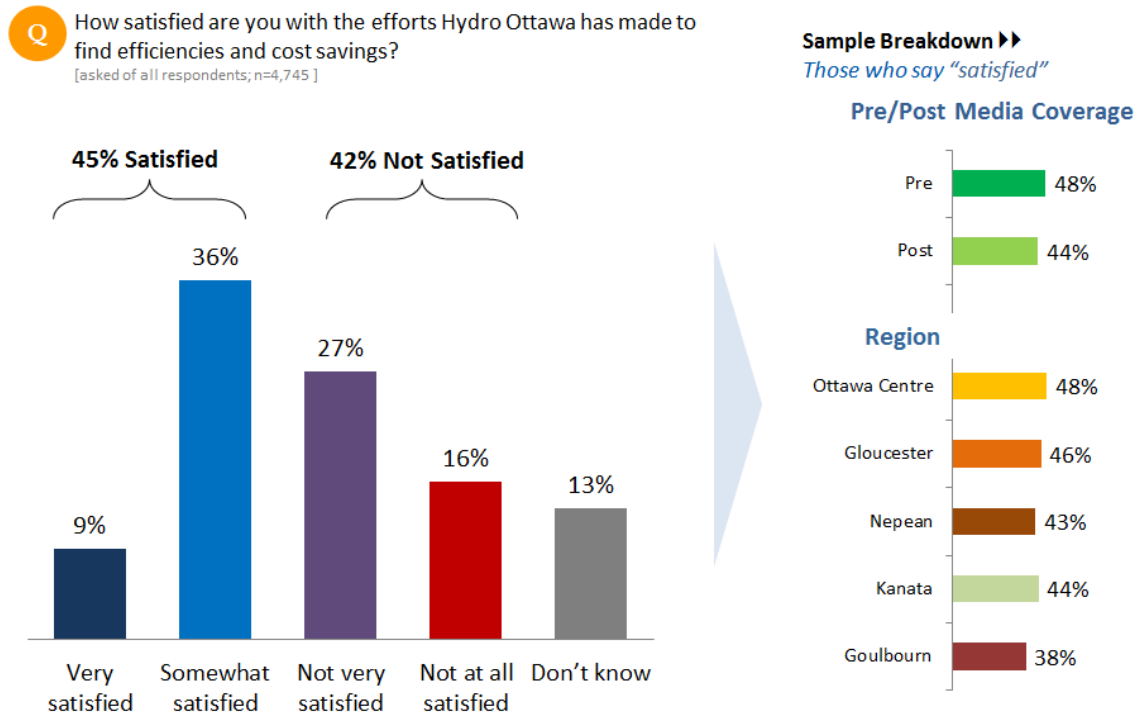
Business respondents (n=55) not shown: 15% very well, 42% somewhat well, 16% not very well, 11% not well at all, 16% don't know

Respondents are fairly evenly divided when it comes to their level of satisfaction with Hydro Ottawa's efforts to find efficiencies and cost savings: 45% say they are satisfied, while 42% are not satisfied. Of note is that almost twice as many respondents are *not at all satisfied* (16%) as are *very satisfied* (9%).

Fewer than two-in-five (38%) in Goulbourn are satisfied with Hydro Ottawa's efforts to find efficiencies and cost savings; compared to 43% in Nepean, 44% in Kanata, 46% in Gloucester and 48% in Ottawa Centre.

Consistent with previous findings that suggest a more critical mindset among those who completed the online survey after the local media coverage had started, 48% of pre-media coverage respondents are satisfied with efforts at finding efficiencies and cost savings, compared to 44% of post-media coverage respondents.

Figure 12: Finding Efficiencies and Cost Savings



Business respondents (n=55) not shown: 15% very satisfied, 36% somewhat satisfied, 18% not very satisfied, 16% not at all satisfied, 15% don't know

Response to Hydro Ottawa's Plan

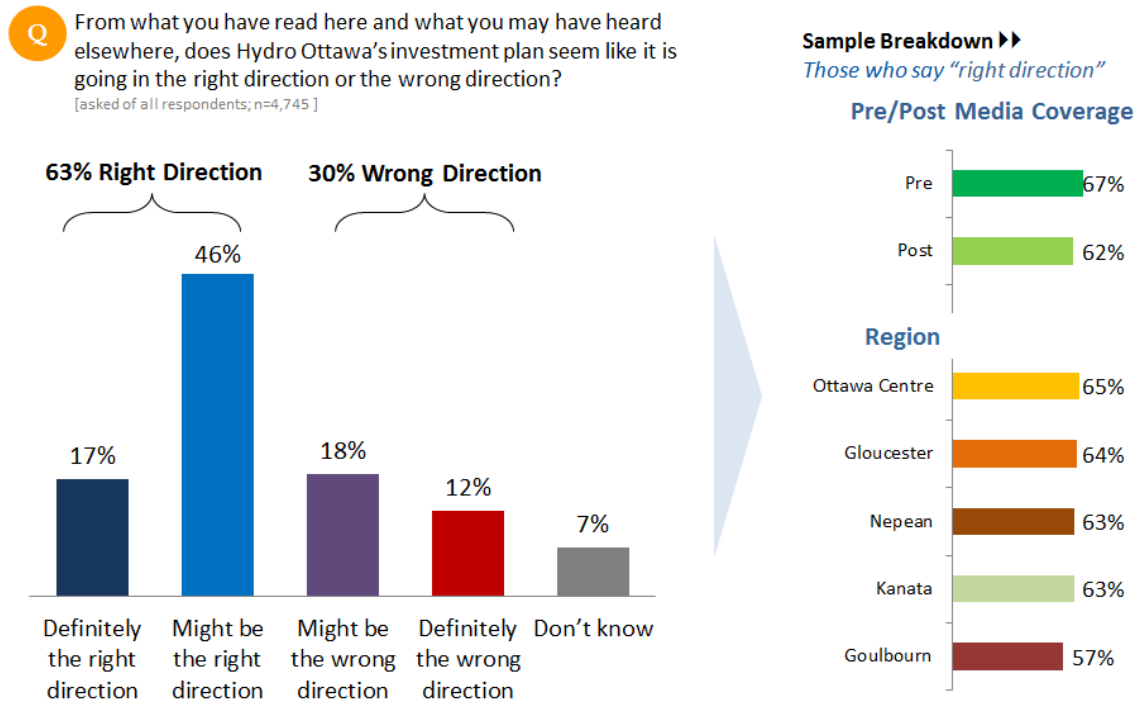
Based on what they read in the online workbook and what they may have heard elsewhere, almost two thirds (63%) feel that Hydro Ottawa's investment plan is headed in the right direction. Most of this group (46%) say it *might be* headed in the right direction, while only 17% are prepared to say it is *definitely* headed in the right direction. Just over one-in-ten (12) feel the investment plan is *definitely* going on the wrong direction.

Two thirds (67%) of pre-media coverage respondents feel the investment plan is headed in the right direction, compared to 62% of those who completed the survey after the media coverage had begun.

At the regional level, customers living in Goulbourn are *least* likely (at 57%) to feel the plan is headed in the right direction, compared to 63% to 65% among customers living in the other four regions.

Customers living in single (62%) or two-person (68%) households are more likely to feel Hydro Ottawa's investment plan is going in the right direction than those living in larger households.

Figure 13: Hydro Ottawa's Investment Plan

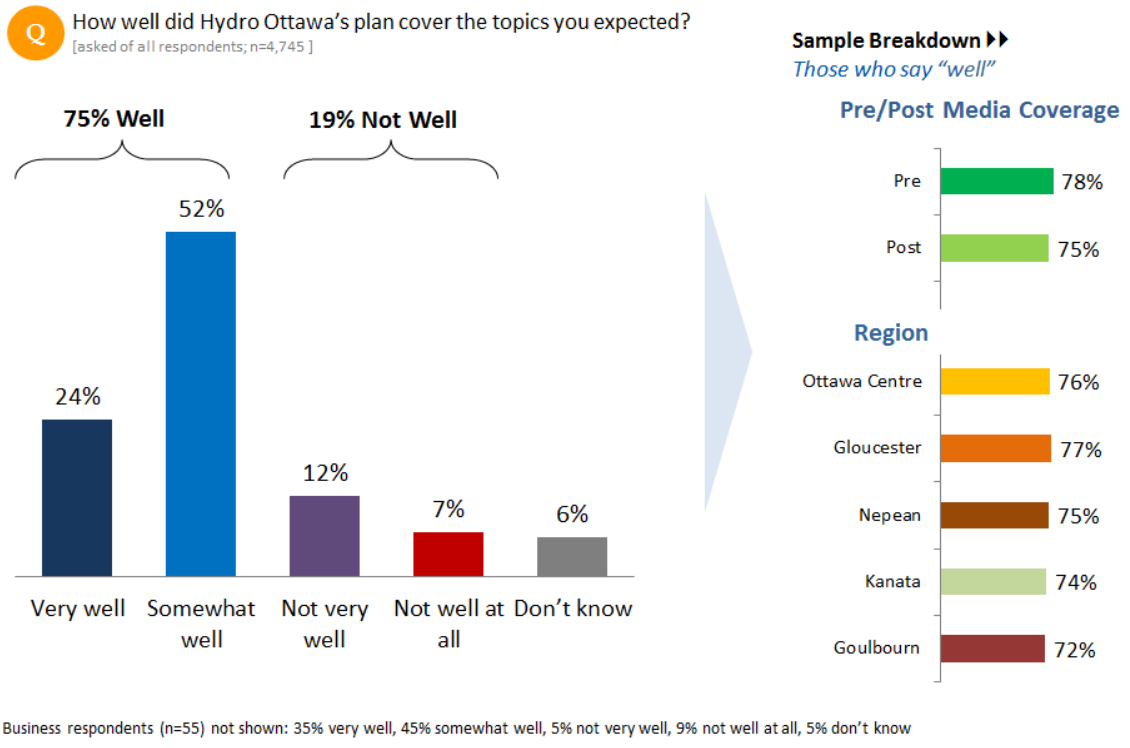


Business respondents (n=55) not shown: 31% definitely the right direction, 42% might be the right direction, 11% might be the wrong direction, 11% definitely the wrong direction, 5% don't know

Three quarters of respondents feel Hydro Ottawa's plan covered the topics they expected either *very* (24%) or *somewhat* (52%) well. One-in-five (19%) say the plan did not cover the topics they expected well.

At 70%, residents in households of five or more are *least* likely to say the plan covered the topics they expected well.

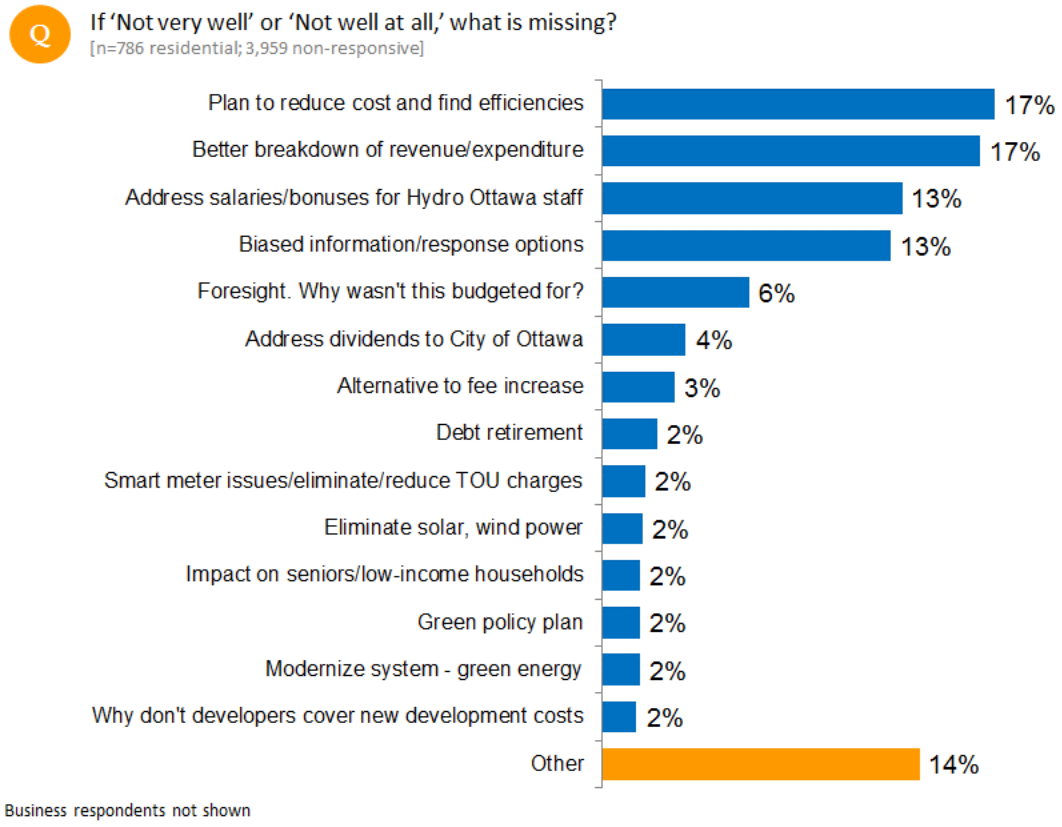
Figure 14a: Coverage of Topics



Business respondents (n=55) not shown: 35% very well, 45% somewhat well, 5% not very well, 9% not well at all, 5% don't know

Those who said the plan did not cover the topics they expected were asked what was missing. About one-in-six (17%) wanted more information on plans to reduce costs and find efficiencies, and as many (17%) wanted a better breakdown of revenue/expenditures. Slightly fewer (13%) wanted information on salaries/bonuses for Hydro Ottawa staff. Over one-in-ten (13%) felt the information and question response options were biased.

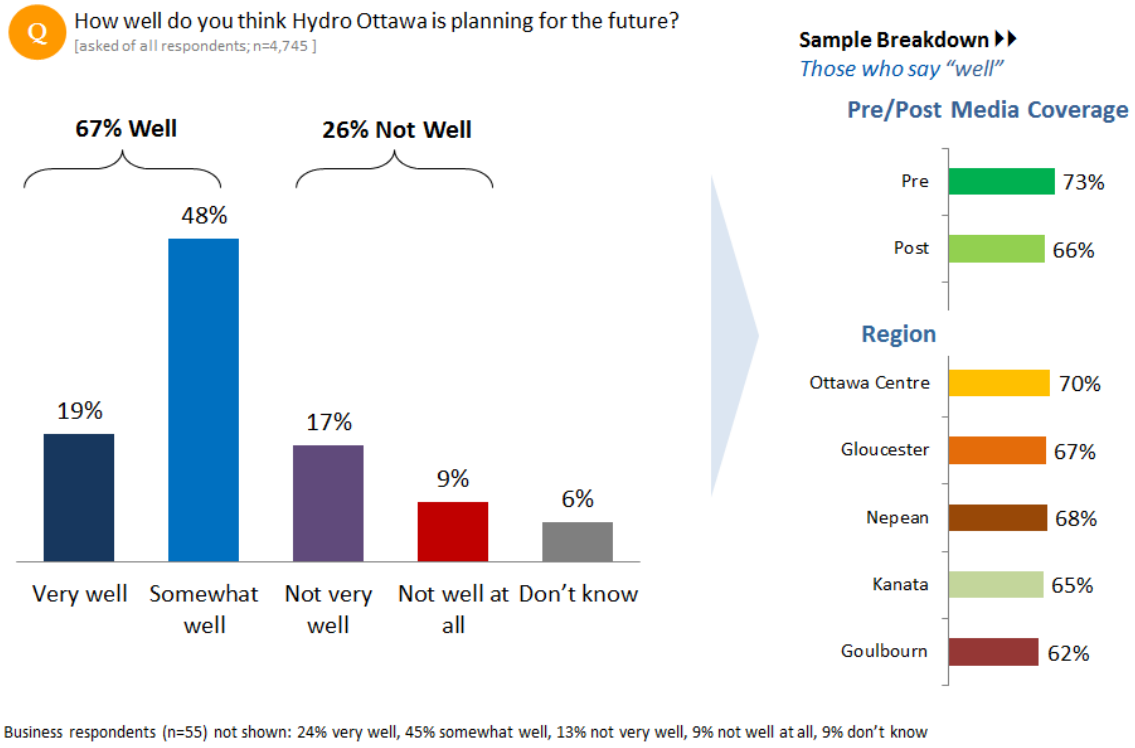
Figure 14b: Coverage of Topics: What Was Missing?



Two thirds (67%) feel Hydro Ottawa is doing well when it comes to planning for the future, with one-in-five (19%) saying they are planning *very* well and almost half (48%) saying they are planning *somewhat* well. Only a quarter (26%) feel Hydro Ottawa is not planning well for the future.

Those who responded prior to the media coverage are more likely to say Hydro Ottawa is planning well for the future than those who responded later (73% versus 66%, respectively). Customers in Goulbourn (62%) are less likely than those living in Ottawa Centre (70%) to say Hydro Ottawa is planning well.

Figure 15: Planning for the Future



Business respondents (n=55) not shown: 24% very well, 45% somewhat well, 13% not very well, 9% not well at all, 9% don't know

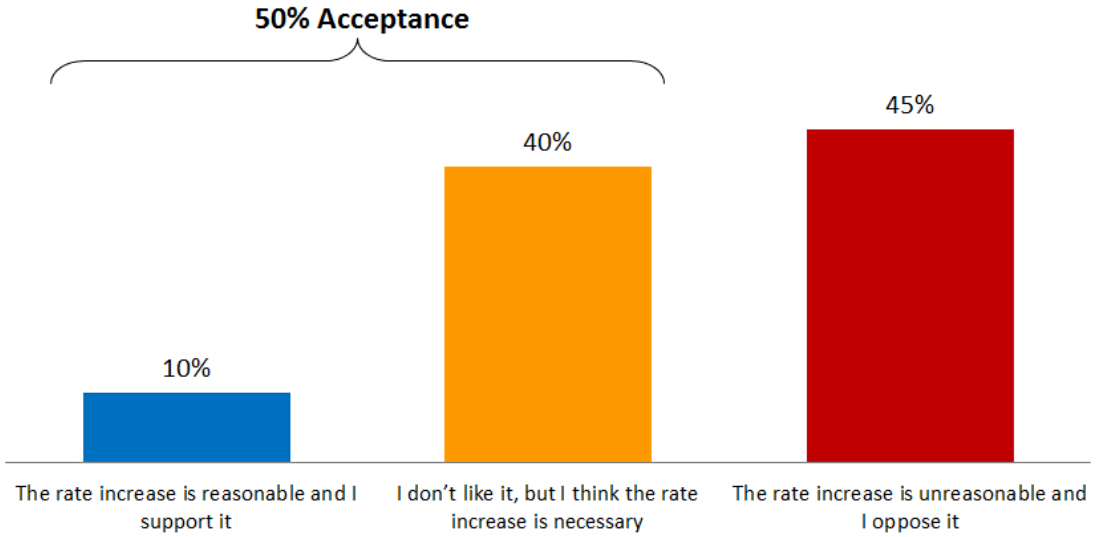
Acceptance of Rate Increase

At the end of the workbook – and after they have been informed of what the rate impact will be – customers are asked the extent to which they accept the proposed rate increase.

Half (50%) of residential customers indicate that they are prepared to accept the rate increase, although most of this group (40%) say they don't like it, but feel a rate increase is necessary. Only 10% feel the rate increase is reasonable and they support it. Almost half (45%) feel the rate increase is unreasonable and they oppose it.

Figure 16a: Acceptance of Rate Increase - Overall

Q Considering what you know about Hydro Ottawa's plan, which of the following best represents your point of view?
[asked of all respondents; n=4,745]



Note: 'Don't know' (5%) not shown

Business respondents (n=55) not shown: 9% the rate increase is reasonable and I support it, 44% I don't like it but I think the rate increase is necessary, 38% the rate increase is unreasonable and I oppose it, 9% don't know

Looking across the various regions, acceptance of the rate increase is highest in Ottawa Centre at 56%, and is lowest in Goulbourn at 41% overall.

Figure 16b: Acceptance of Rate Increase – Region

	Total	Ottawa Centre	Gloucester	Nepean	Kanata	Goulbourn
The rate increase is reasonable and I support it	10%	12%	10%	9%	9%	6%
I don't like it, but I think the rate increase is necessary	40%	44%	40%	41%	37%	35%
The rate increase is unreasonable and I oppose it	45%	39%	45%	47%	48%	51%
Overall Acceptance	**50%**	**56%**	**50%**	**50%**	**45%**	**41%**

Note: 'Don't know' not shown
Residential respondents only

There is a significant difference in willingness to accept the rate increase depending on when respondents completed the survey in relation to the local media coverage. Of those who responded pre-media coverage, 57% accept the rate increase. This, compared to 48% among those who completed the survey after the media coverage began.

Figure 16c: Acceptance of Rate Increase – Pre/Post Media Coverage

	Total	PRE Media Coverage	POST Media Coverage
The rate increase is reasonable and I support it	10%	12%	9%
I don't like it, but I think the rate increase is necessary	40%	44%	39%
The rate increase is unreasonable and I oppose it	45%	38%	47%
Overall Acceptance	**50%**	**57%**	**48%**

Note: 'Don't know' not shown
Residential respondents only

Customer Feedback on Online Workbook

In the appendix, respondents were asked a series of questions to give feedback on the workbook; their impression of the workbook itself, the volume of information, the depth of coverage, and suggestions for future consultations.

Overall Impression

- Among those who provided a response, 47% described the workbook as "good/well done/informative", while about half as many (22%) found it "biased/in favor of hydro/misleading"
- One-in-four (24%) did not provide a response to this question

Volume of Information

- Of those who provided a response, more than half (56%) said the volume of information was "right amount/adequate/informative/not bad/just enough"
- Some (14%) found there was "not enough/irrelevant/needed more", while others (13%) felt there was "too much"
- 29% did not provide a response to this question

Content Covered

- Asked if there was any content missing that they would like to have seen, one-in-four (24%) said "none"
- One-in-ten (11%) wanted to see information about executive salaries/bonuses
- More than a third (35%) did not provide a response to this question

Outstanding Questions

- More than one-in-four (26%) indicated that they did not have any outstanding questions, and 42% did not provide a response at all
- Of those who did have outstanding questions, 7% wanted a breakdown of management salaries/bonuses, and another 7% wanted to know how profits are being invested or used to cover the cost of system improvements

Suggestions for Future Consultations

- Almost half (48%) did not make any suggestions regarding future consultations
- Of those who did provided input, 35% said they would like things done "the same way", and 18% would like to see the use of "internet/email/social media"

Customer Consultation Groups

Customer Consultation Groups
with Residential and General Service customers

PURPOSE: To gain qualitative input on Hydro Ottawa's plan from residential and GS < 50 kW customers and to help inform the design of the subsequent telephone surveys.

Summary

General Satisfaction

Both general service and residential customers are generally satisfied with the service that they currently receive from Hydro Ottawa. Hydro Ottawa, which was frequently compared to Hydro One and other service providers such as Rogers and Bell, fares well in terms of customer service and response times to various customer inquiries.

While satisfaction is generally high, knowledge of Hydro Ottawa's role in the electricity system is somewhat low amongst both general service and residential customers. Generally, both rate classes had little pre-existing knowledge regarding the amount of their overall bill that was remitted to Hydro Ottawa.

System Reliability

Satisfaction with system reliability was high amongst both general service and residential customers. Many customers in both rate classes felt that they had not experienced the average number/length of outages over the past 12 months, as laid out in the workbook.

System reliability was generally not a big concern for residential customers, while business customers approached the issue from a lost productivity and revenue angle. Some customers in the general service rate class requested compensation from Hydro Ottawa when outages occurred.

Impact of Outages

The impact of outages varied based on rate class. Many general service customers found that outages were manageable, however, some reported significant losses when the power is out. For general service customers, outage impacts can result in legal, safety, monetary and productivity issues.

Residential customers generally expressed fewer concerns when it came to outage impacts. For most customers in this rate class, an outage is more of an inconvenience than anything else. In fact, some customers found outages were a positive experience where they could "disconnect and spend time with family". That being said, some customers showed concern regarding potential outages during winter months, where they would be more than merely an inconvenience. Some customers wondered whether Hydro Ottawa would be able to quickly restore power if an outage occurred in the depths of winter.

Areas for Improvement

In both rate classes, there were three central areas in which customers believe that Hydro Ottawa can improve.

Many residential and general service customers believe that Hydro Ottawa could improve communication during outages. Some general service customers feel that better communicating estimated recovery times would drastically improve their ability to react to both planned and unplanned outages.

Second, some customers in both rate classes believe that Hydro Ottawa should be responsible for improving the readability of the bills. Despite being told that they are OEB mandated, customers generally feel that the bills are overly complicated, and leave them unsure as to exactly what they are paying for, and how much it is costing them.

Finally, some customers, mostly in the residential rate class, believe that the only area improvement for Hydro Ottawa is rates. These customers felt that the rates are too high, and if Hydro Ottawa wants to improve, they must find a way to make the distribution rates lower.

Hydro Ottawa's Proposed Plan and Rate Impact

In general, both general service and residential customers felt that Hydro Ottawa's proposed rate increase was necessary. Although the majority of customers do not like it, they understand that there are improvements that need to be made, and therefore, the proposed increase was seen as reasonable for many.

Many customers fear that this is only the first step in a series of rate increases, ultimately making it difficult to keep up with rising costs. Despite this sentiment being held by some, other customers found the rate increase to be quite reasonable, and really not something that would affect them all that much.

In addition to being concerned that this is the first step in a series of rate increases, a number of customers felt that they needed more information regarding Hydro Ottawa's proposed plan in order to make a more informed decision. For instance, some general service customers wanted to understand how these investments over the next five years would improve their specific company's reliability.

How Could the Consultation Process be Improved?

The consultation process was generally well received by customers in both rate classes. Some residential customers, however, felt that the workbook was only presenting one side of an "argument", and in order to make a well informed decision, they wanted to hear the other side. In addition to wanting the "other side", some residential and general service customers felt that more information was needed overall.

Methodology

About the General Service and Residential Customer Consultation

In the first phase of the customer consultation research program for Hydro Ottawa, INNOVATIVE conducted focus groups with general service under 50 kW and residential customers. The purpose of these focus groups was to provide customers with some education about their local distribution system, and then to gather their feedback on Hydro Ottawa's proposed investment plan for 2016-2020.

The consultation sessions were held in Ottawa on March 17th and 18th, 2015. A total of 34 general service and residential customers participated in these consultation sessions.

General Service under 50 kW Rate Class	18 participants
Residential Rate Class	16 participants

Recruiting Consultation Participants

All customer recruitment lists were randomly generated and provided to INNOVATIVE by Hydro Ottawa.

Customers were then contacted by telephone and screened to determine whether or not they were appropriate participants for the consultation. General service customers in the under 50 kW rate class qualified for the consultation if they managed or oversaw their business' electricity bill. Residential customers were screened to ensure that they are the person in the household who is primarily responsible for paying the electricity bill. The screening criteria were designed to ensure participants were at least somewhat knowledgeable of their electricity costs and could have an informed discussion on the impact of the proposed rate increases.

An incentive of $100 was provided to all general service and $80 to all residential customers who participated in the consultation sessions.

All consultation sessions were video recorded to verify participant feedback and verbatim quotes.

Consultation Session Structure

As a primary tool for the customer consultations, INNOVATIVE and Hydro Ottawa developed an informational workbook to provide research participants with an overview of the electricity system, Hydro Ottawa's role within it and their challenges, efficiencies, investment plans and impact on distribution rates. The consultation sessions were structured around the themes contained in this workbook, which was developed in the fall of 2014.

The workbook themes included the following:

1. Have Your Say
2. Electricity Grid 101
3. About Your Bill

4. How are your Electricity Rates Determined?
5. Hydro Ottawa's Distribution Network Today
6. Reliability
7. Challenges Facing Hydro Ottawa
8. Finding Efficiencies and Cost Savings
9. The Dollars and Cents

Each focus group began with an overview explaining the purpose of the consultation and why Hydro Ottawa is seeking feedback from general service and residential customers.

After explaining the purpose of the consultation, the facilitator distributed hardcopy workbooks to act as a guide for the rest of the session. The workbooks contained questions to gather feedback from customers on specific aspects of the system, Hydro Ottawa's investment plan, and resulting impact on rates.

The facilitator then led participants through the workbook section by section to ensure they understood the information and to answer any questions they had about the content.

Participants were asked to independently respond to the questions within the workbook. The facilitator then led a group discussion on the answers participants provided and what the various issues meant for their household or business.

The hardcopy workbooks were collected from the participants at the conclusion of each consultation session.

Each consultation session ran for approximately 2 hours.

Informing the Consultation Process

In addition to identifying customer needs and preferences as they relate to the proposed distribution system plan, feedback collected from this phase of the consultation was used to inform the design of the telephone survey consultation phase of Hydro Ottawa's customer engagement program.

NOTE: Results contained within this report are based on a limited sample and should be interpreted as directional only.

Participant Feedback

The following participant feedback was gathered from the consultations on March 17th and 18th with general service customers.

General Service under 50 kW Rate Class

General Satisfaction

In general, customers in this rate class are satisfied with the service that they receive from Hydro Ottawa. When compared to other similarly perceived companies, such as, Hydro One, Bell and Rogers, Hydro Ottawa fares well in terms of general satisfaction. Due to proximity and relatability, Hydro One was used frequently as a point of reference when talking about satisfaction.

> *"I've always been pretty impressed with Hydro Ottawa. I've found them to be extremely responsible"*
>
> *"Speaking from a former Hydro One customer, I would take Hydro Ottawa any day"*
>
> *"Hydro Ottawa is generally seen as much better than Hydro One"*

Understanding of Hydro Ottawa's Role in the Electricity System

There was a limited understanding of Hydro Ottawa's role within the electricity system. Many general service customers approached this consultation with cynicism and questioned the merits of the electricity system as a whole.

It seems that many general service customers have a difficult time separating Hydro Ottawa's role in the distribution system from the generation and transmission aspects of the electricity system. As such, very few had prior knowledge that only roughly 20 per cent of their bill went to Hydro Ottawa.

> *"It's amazing that the transmission costs are way in excess of the actual electricity usage"*
>
> *"I can only buy it from Hydro Ottawa and Hydro Ottawa can only buy it from the mismanaged Hydro One? Sounds like a monopoly"*

Hydro Ottawa Profits and Stakeholders

A central part of the discussion with general service customers was with regards to Hydro Ottawa's profits, saving for the future, and providing a return to the municipality. Many customers felt that Hydro Ottawa should be able to create a "savings fund" in order to help plan financially for necessary future investments.

Additionally, general service customers repeatedly compare Hydro Ottawa to their own businesses, expressing that they are not able to charge more for their product or service when they have to make improvements to their business.

> *"The reality is that we go through the same things as businesses. You either lose money or you find ways to be more efficient"*

Finally, some felt that Hydro Ottawa should not be remitting profits to the municipality, and that those profits should be spent on making improvements to the system. Hydro Ottawa was often referred to as the government, and therefore garners the same mistrust.

> *"I don't trust the government with my money!"*

System Reliability

General service customers were generally satisfied with Hydro Ottawa's system reliability. In fact, a plurality of customers had experienced no outages of the past year. Altogether, both Hydro Ottawa's service and system reliability are seen very positively.

> *"I don't think we've actually ever had to close for the day because of a power outage"*
>
> *"I don't recall going down at all, flashes, but not extended power outages at all"*
>
> *"The number of outages has been pretty minimal. I have been there ten years and I don't remember ever having to shut down"*

For those customers who had experienced outages in the past year, some felt that they should be compensated for the lost wages and productivity that they experience as a result of Hydro Ottawa's lack of reliability.

> *"With all the downtime that customers are facing, that's a big cost that customers have to bear. How do we get that money back?"*

Impact of Outages

Within the general service rate class, there was noticeable variation regarding the impact of outages on businesses. Some businesses express experiencing substantial losses to revenue and productivity during an outage. For instance, in the food services industry, an outage exceeding one hour might result in having to send employees home. In cases like this, an outage directly effects the company's bottom line.

On the other hand, a number of businesses find outages to be merely an inconvenience. For one participant who operates a printing business, an outage might result in having to work later, but is not necessarily a major concern. Altogether, some businesses are substantially effected by outages, while others see them more as an inconvenience.

> *"I can absorb it with no issues at all"*
>
> *"It's pretty minor. We stay open as long as necessary. For us, it's just a disruption, it means we have to stay at work later. The impact for me is just largely psychological"*
>
> *"After 30 or 40 minutes we have to start sending everybody home"*

While many felt that the impact of outages was somewhat manageable, other companies reported more severe losses to productivity during shorter outages under five minutes. For some businesses, short outages, or "blips" can cause their computer systems to shut down, which can be costly.

> *"I think the main thing that happens during an outage is our computer systems go down. Sometimes they even have to bring in crews to get things working again"*
>
> *"For me, if the power is out for more than a few minutes, it's a big inconvenience"*

Other customers noted that outages of various length can cause health and safety concerns. Although these instances were more isolated, they nonetheless posed a concern for some general service customers.

> *"We have to close, it's dark and we're a really large store. It's a safety issue. The doors automatically get locked"*

Duration vs. Frequency of Outages

For most general service customers, the length of an outage is more important than the frequency. As was noted in the previous section, many customers find short outages manageable, however, when outage duration increases, so do potential loses in productivity and product. Again, while some customers found any outage to be unacceptable, others found outage duration to be the more important factor.

Communication During Outages

When it comes to outages, many customers suggested improved communication as a means to mitigate potentially negative impacts. Knowing an estimated time of recovery would help many businesses decide whether to send their employees home or stay open during an outage. Furthermore, some customers felt that the communication tools were inadequate for their needs and that improving these methods should be a priority, especially during outages. Again, being able to prepare for the duration of an outage can help a business make difficult cost-saving decisions.

> *"I'm good as long as I have some sort of guess how long it's going to be"*
>
> *"I would say that [Hydro Ottawa's] estimated times of restoration are very off"*
>
> *"You call when there's an outage and you don't get an answer, you get an automated recording"*

Direction of Plan

Many general service customers found it difficult to say whether Hydro Ottawa's proposed investment plan was going in the right direction. While some might have understood their goals, there was little understanding or clarity regarding how they plan to get there.

> *"I know the goals, but I just don't understand the plan itself"*

As many business customers have a more advanced understanding of Hydro Ottawa's role in the electricity system, they often requested more information to contextualize the proposed rate increase compared to current and previous investment plans. In order to understand where Hydro Ottawa is going, many customers wanted a deeper understanding of where they have been, and even where they are today.

> *"I think that it's at such a high level that it's hard to say whether they're going in the right direction or not"*
>
> *"I don't think you can say [if it's the right direction] without knowing what the current investment plan is"*

In addition to understanding what has happened in the past, some customers also want to know what will happen at the end of this five-year investment plan. Will the rate increases stop here, or continue beyond five years? If in fact these proposed investments are made, many customers want to know what the state of the system will look like, compared to what it is today.

> *"At the end of this five year period, where are we going to be? What's going to be the state of the infrastructure?"*

Hydro Ottawa's Proposed Rate Impact

While most might not like it, the majority of general service customers believe that this proposed rate increase is necessary. General service customers understand that Hydro Ottawa's system is in need of maintenance and improvements, and overall, the proposed rate increase is seen to be manageable.

Again, although most customers believe that the proposed rate increase is necessary, many fear the combination of increases on all portions of the electricity bill. The proposed rate increase on the distribution portion of the bill might be manageable, but many believe that if everything increases steadily, their company's electricity bills will become gradually more difficult to afford.

> *"If 20 per cent of our bill is going to go up, what will happen to the rest of the bill?"*

Finally, many customers wanted more concrete examples of how the money will be used should the proposed rate increase be approved. Simply put, how will service improve if this money is spent?

> *"If I'm agreeing to 182 million dollars, what does that get me?"*

Residential Rate Class

General Satisfaction

Residential customers are generally satisfied with the service that they receive from Hydro Ottawa. Customer-facing aspects were seen positively by many, as they had experienced quick response times to requests and overall satisfaction with customer service.

> *"To me, the service we are getting is fantastic"*

In lieu of general satisfaction, many customers felt that they do not have a choice one way or another, they need electricity, and Hydro Ottawa is their only option. They often compare rates to that of their neighbours in Quebec, and wonder why it is so much more expensive in Ottawa.

> *"I have no choice. I have to pay my electricity bill"*

With regards to satisfaction, some residential customers approached this consultation and rate application somewhat skeptically. These customers felt as if the rates are going to go up regardless, and whatever they say will have little impact.

> *"They're going to raise the rates anyway, they are just trying to figure out how to make it palatable"*

While customers were widely satisfied, they had almost no pre-existing knowledge that Hydro Ottawa was only responsible for operating and maintaining the distribution system. Additionally, very few customers knew that 20 per cent of their bills went to Hydro Ottawa. Because of this, a number of residential customers had a difficult time focusing the discussion on Hydro Ottawa's investment plan.

System Reliability

As with general satisfaction, residential customers are mostly satisfied with Hydro Ottawa's system reliability. About half have experienced zero outages in the past 12 months, and altogether electricity reliability is not seen to be an overly big concern. In fact, many customer felt that they did not experience the "average" length of outages over the past year.

> *"I think service is pretty good. Is it possible to maybe bury some of the lines underground?"*

> *"I think that the infrastructure is old, and I think that there are more power outages in certain parts of the city. I'm surprised that I didn't get any power outages this year"*

Outage Impacts

When it comes to outage impacts, most residential customers felt that it was more of an inconvenience than anything. Because only a few customers had experienced more than one outage in the past year, very few expressed impacts more than "re-setting the clocks" or "not being able to watch TV".

> *"What is convenient is that the outage I had happened during the night, you only have to reset your clocks"*

> *"When the power last went out, it was fun. The TV wasn't on, there was no music playing, there were no computers on and everyone just got centred again"*

"When I was a student working on an assignment and the power went out, it would affect me that way"

While the outages that they had experience were an inconvenience, a number of customers fear the potential impacts of prolonged outages during the winter. Although no customer had experienced a prolonged outage in the winter, they were concerned that Hydro Ottawa will not be able to respond quickly enough should such an outage occur.

"I'm more worried about outages when we get lots of snow and there are back-to-back minus days"

"In the summertime it's okay, but if it went off in the winter for seven or eight hours, that would be a different story"

It was widely held that Hydro Ottawa should spend in order to maintain the current level of reliability. Because few residential customers saw reliability as a major concern, and even fewer expressed having experienced the average number/duration of outages, maintaining the current reliability is seen to be more than adequate.

Customer Billing

Many residential customers felt that the bills were overly confusing. Almost nobody was aware of the portion of the bill that is remitted to Hydro Ottawa, and they felt that this lack of understanding caused them further confusion when reviewing their bills. Because most were generally unaware of the different components of the electricity system, they found it difficult to understand the various lines on the bill, and who exactly the money was going to.

"[The bills] are overly confusing"

"It feels like they're trying to trick you to convince you that your hydro bill is less"

Additionally, there was some desire amongst residential customers to make bills more easily accessible. Some suggested making bills more easily accessible online, while others simply want a better explanation of the different components.

"They should make the bill a little bit easier to access"

Areas for Improvement & Additional Services

In general, residential customers found very few areas in which Hydro Ottawa could improve or provide additional services. Because satisfaction is high, and reliability concerns are low, customers in these groups generally felt that they were receiving the quality of service that they wanted.

"In terms of improving the system as it serves me, I can't think of anything"

One improvement that several customers pointed to was reduced rates. Again, many customers feel that their overall electricity bill has become too high, and the one suggested improvement that was heard throughout the groups was reduced rates.

"Cheaper electricity, but that's not going to happen"

Hydro Ottawa's Proposed Rate Impact & Plan

For the most past, residential customers believe that the proposed rate impact is necessary. Customers generally understood that there is a need to invest in aging infrastructure and new equipment, and while they might not like the rate increase, they see that it is necessary to maintain current reliability.

For some customers, while they might not necessarily like the proposed rate increase, when put in perspective, the total increase to their monthly bill will not be something that they can't afford. Altogether, it's not ideal, considering other aspects of electricity will also be increasing, but the proposed rate increase is not unreasonable for most.

> *"I spend more than that on my cup of coffee in the morning"*

How Could the Consultation Process be Improved?

A number of residential customers felt that they did not have adequate information to provide a response to Hydro Ottawa's proposed investment plan. Because they didn't have anything to compare the plan to, some customers felt that they were only hearing "one side of the argument" and this left some feeling like they were being "told, not consulted".

> *"Right now we're hearing one side of the debate and we still need to hear the other"*

> *"I can't really say because I don't know what is backing up those numbers [in the workbook]. Is it really a reasonable number? I don't know"*

> *"It's as if they wrote [the workbook] for a really general audience, but they underestimated the general audience. I'm looking for supplementary information at the back – an index"*

Despite this sentiment, which was held by some customers, a number of participants felt that this consultation process was useful, and nearly everybody expressed having left with more information regarding Hydro Ottawa and the system that they operate.

Questionnaire Results

1. Given what you know and what you have read so far, how well do you feel you understand the parts of the electricity system, how they work together and which services Hydro Ottawa is responsible for?

Response	GS	Res	Total
Very well	7	5	**12**
Somewhat well	11	7	**18**
Not very well	0	3	**3**
I don't understand at all	0	0	**0**
Missing value	0	1	**1**
TOTAL	**18**	**16**	**34**

2. Generally, how satisfied are you with the service you receive from Hydro Ottawa?

Response	GS	Res	Total
Very satisfied	4	9	**13**
Somewhat satisfied	14	4	**18**
Not very satisfied	0	1	**1**
Not at all satisfied	0	0	**0**
Don't know	0	1	**1**
Missing value	0	1	**1**
TOTAL	**18**	**16**	**34**

4. When averaged across the entire customer population, a Hydro Ottawa customer experiences 1.1 power outages per year. Do you recall how many outages you experienced in the past year?

Response	GS	Res	Total
None	4	8	**12**
One	2	4	**6**
Two	4	2	**6**
Three	2	0	**2**
Four	2	0	**2**
More than four	2	2	**4**
Don't know	2	0	**2**
TOTAL	**18**	**16**	**34**

5. Overall, how satisfied are you with the reliability of electricity services provided by Hydro Ottawa?

Response	GS	Res	Total
Very satisfied	7	13	**20**
Somewhat satisfied	8	3	**11**
Somewhat dissatisfied	2	0	**2**
Very dissatistied	0	0	**0**
Don't know	1	0	**1**
TOTAL	**18**	**16**	**34**

6. In your view, how do you think Hydro Ottawa should address the number of customer power outages?

Response	GS	Res	Total
Spend what is needed to reduce the power of outages	3	3	**6**
Spend what is needed to maintain the current level of outages	13	9	**22**
Accept more power outages in order to help keep customer costs	1	3	**4**
Don't know	1	1	**2**
TOTAL	**18**	**16**	**34**

7. The average Hydro Ottawa customer is without power for approximately 2 hours per year. In your view, how do you think Hydro Ottawa should address the length of time customers are without power?

Response	GS	Res	Total
Spend what is needed to reduce the duration of power outages	3	1	**4**
Spend what is needed to maintain the current duration of outages	12	9	**21**
Accept longer power outages in order to help keep customer costs from rising	1	4	**5**
Don't know	2	2	**4**
TOTAL	**18**	**16**	**34**

8. With regards to projects focused on replacing aging equipment in poor condition, which of the following statements best represents your point of view?

Response	GS	Res	Total
Hydro Ottawa should invest what it forcasts is required to replace the system's aging infrastructure to maintain system reliability, even if that increases my monthly electricity bill by a few dollars over the next few years	12	10	**22**
Hydro Ottawa should lower its investment in renewing the system's aging infrastructure to lessen any bill increase, even if that means more or longer power outages	5	2	**7**
Don't know	1	2	**3**
Missing value	0	2	**2**
TOTAL	**18**	**16**	**34**

9. In order to operate efficiently and better serve our customers, Hydro Ottawa needs IT systems to manage the grid and its customer information, as well as proper facilities to house its staff, vehicles and tools. Which of the following statements best represents your point of view?

Response	GS	Res	Total
While Hydro Ottawa should be wise with its spending, it is important that its staff have the equipment and tools they need to manage the system efficiently and reliably	11	11	**22**
Hydro Ottawa should find ways to make do with the buildings, equipment and IT systems it already has	6	1	**7**
Don't know	1	2	**3**
Missing value	0	2	**2**
TOTAL	**18**	**16**	**34**

10. How well do you feel you understand the cost drivers that Hydro Ottawa is responding to?

Response	GS	Res	
Very well	4	3	**7**
Somewhat well	10	6	**16**
Not very well	4	4	**8**
Not well at all	0	0	**0**
Don't know	0	1	**1**
Missing value	0	2	**2**
TOTAL	**18**	**16**	**34**

11. How well do you feel you think Hydro Ottawa is managing these cost drivers while meeting customer expectations?

Response	GS	Res	Total
Very well	2	1	**3**
Somewhat well	6	6	**12**
Not very well	5	1	**6**
Not well at all	2	1	**3**
Don't know	3	5	**8**
Missing value	0	2	**2**
TOTAL	**18**	**16**	**34**

12. How satisfied are you with the efforts Hydro Ottawa has made to find efficiencies and cost savings?

Response	GS	Res	Total
Very satisfied	0	1	**1**
Somewhat satisfied	7	6	**13**
Not very satisfied	4	1	**5**
Not at all satisfied	3	1	**4**
Don't know	4	5	**9**
Missing value	0	2	**2**
TOTAL	**18**	**16**	**34**

13. From what you have read here and what you may have heard elsewhere, does Hydro Ottawa's investment plan seem like it is going in the right direction or the wrong direction?

Response	GS	Res	Total
Definitely the right direction	2	0	**2**
Might be the right direction	10	13	**23**
Might be the wrong direction	2	1	**3**
Definitely the wrong direction	0	1	**1**
Don't know	3	1	**4**
Missing value	1	0	**1**
TOTAL	**18**	**16**	**34**

14. How well did Hydro Ottawa's plan cover the topics you expected?

Response	GS	Res	Total
Very well	2	0	**2**
Somewhat well	11	9	**20**
Not very well	3	4	**7**
Not well at all	1	2	**3**
Don't know	1	1	**2**
TOTAL	**18**	**16**	**34**

15. How well do you think Hydro Ottawa is planning for the future?

Response	GS	Res	Total
Very well	3	3	**6**
Somewhat well	11	7	**18**
Not very well	1	2	**3**
Not well at all	0	0	**0**
Don't know	3	4	**7**
TOTAL	**18**	**16**	**34**

16. Considering what you know about the local distribution system, which of the following best represents your point of view?

Response	GS	Res	Total
The rate increase is reasonable and I support it	4	1	**5**
I don't like it, but I think the rate increase is necessary	10	10	**20**
The rate increase is unreasonable and I oppose	4	2	**6**
Don't know	0	3	**3**
TOTAL	**18**	**16**	**34**

Mid-Market Workshop

Mid-Market Workshop
with General Service customers

PURPOSE: To gain qualitative input on Hydro Ottawa's plan from GS > 50 kW customers and to obtain feedback on the proposed options.

Summary

Understanding Customer Bills

Understanding customer bills was a central part of the discussion in both breakout groups. There was a distinct focus on this area because, in general, customers had a difficult time understanding the various components of their electricity bills. Customers had a limited understanding of how much was remitted to Hydro Ottawa, and as such, many customers pointed to the "ridiculous" billing as a source of frustration and confusion.

Overall Satisfaction

Overall, customers are generally satisfied with the service that they receive from Hydro Ottawa. Although breakout discussions focused more on outage impacts and the proposed rate increase, customers were quite vocal in their overall satisfaction. That being said, there was an apparent desire for improved communication between Hydro Ottawa and its mid-market customers. Many of these customers want help understanding their bills, as well as what they can do to reduce them. Again, while overall satisfaction was high, customers generally believe that there is room for improvement, particularly with regard to reducing bills.

Impact of Outages

Much of the discussion in the breakout groups was focused on outage impacts. Mid-market customers generally respond to outages with great variation. For certain customers, an outage can be extremely costly; causing food spoilage, lost wages and productivity. For other customers, an outage is more of an inconvenience.

It is difficult to paint a broad picture of the impact of outages on mid-market customers, as the severity is dependent on a number of factors. Factors which dictate severity of impact include; nature of business, time of outage, security/safety precautions and number of employees.

Because there is variation of severity within the rate class, customers were generally divided on whether Hydro Ottawa should improve or maintain reliability. For those who see significant losses during an outage, improving reliability is important, while for others, maintaining reliability is enough.

Communication During Outages

For many customers, beyond rates and outages, the most important improvement that Hydro Ottawa can make is with regard to communication during outages. Receiving information regarding estimated outage recovery times is an important feature for many customers. When the power goes out, making decisions as to how best react is important for many businesses, and understanding outage recovery times helps make the decision whether to shut down, send employees home or wait until the power is restored.

Hydro Ottawa's Proposed Rate Impact

The proposed rate increase was received with pushback from mid-market customers. Approaching the rate increase from a business perspective, many customers felt that the proposed amount far exceeded anything that they could pass on to their own customers. With salary freezes, fixed budgets and financially strapped businesses, many customers felt that this rate increase was unreasonable and that electricity was becoming increasingly difficult to afford.

Response	Mid-Market
The rate increase is reasonable and I support it	0
I don't like it, but I think the rate increase is necessary	5
The rate increase is unreasonable and I oppose	8
Don't know	3
TOTAL	**16**

Concern with Consultation

There was some concern within the two breakout groups, as well as in Hydro Ottawa's presentation, regarding the objectivity of the consultation. A number of customers felt that they were being told of this plan, without a real opportunity to provide impactful input. Again, some mid-market customers felt that questions they had regarding the rate increase, and proposed investment plan were not adequately answered, and this generated pushback within both groups.

While customers generally appreciated the opportunity to learn and provide feedback, there was a desire for more, supplemental information to help further understand the details of the proposed plan.

Methodology

About the Mid-Market GS Workshop Consultation

In the second phase of the customer consultation research program for Hydro Ottawa, INNOVATIVE conducted a workshop with mid-market general service > 50 kW customers. The purpose of this workshop was to provide customers with some education about their local distribution system, and then to gather their feedback on Hydro Ottawa's proposed investment plan for 2016-2020.

The workshop session was held in Ottawa on March 18th, 2015. A total of 16 mid-market general service customers participated in this workshop consultation session.

Recruiting Consultation Participants

All customer recruitment lists were randomly generated and provided to INNOVATIVE by Hydro Ottawa.

Customers were then contacted by telephone and screened to determine whether or not they were appropriate participants for the research. Mid-market general service customers qualified for the workshop if they managed or oversaw their business' electricity bill. The screening criteria were designed to ensure participants were knowledgeable of their business' electricity costs and could have an informed discussion on the impact of the proposed rate increases.

An incentive of $150 was provided to all customers who participated in the consultation sessions.

All consultation sessions were video recorded to verify participant feedback and verbatim quotes.

Consultation Session Structure

The workshop session began with a presentation from Hydro Ottawa employees, explaining the challenges facing the system, the proposed investment plan, and the customer impacts. This presentation lasted approximately two hours, and included a Q&A period with customers in the audience.

Following the Hydro Ottawa presentation and Q&A, customers were separated into equal-sized groups and taken to breakout rooms to begin the next step of the consultation - a small, moderator-lead focus group discussion.

As a primary tool for the customer consultations, INNOVATIVE and Hydro Ottawa developed an informational workbook to provide research participants with an overview of the electricity system, Hydro Ottawa's role within it and their challenges, efficiencies, investment plans and impact on distribution rates. These break-out focus group sessions were structured around the themes contained in this workbook, which was developed in the fall of 2014.

The workbook themes included the following:

1. Have Your Say
2. Electricity Grid 101
3. About Your Bill

4. How are your Electricity Rates Determined?
5. Hydro Ottawa's Distribution Network Today
6. Reliability
7. Challenges Facing Hydro Ottawa
8. Finding Efficiencies and Cost Savings
9. The Dollars and Cents

Because customers had already heard a presentation from Hydro Ottawa, the breakout focus group sessions were quickly able to focus on the topics explored in the workbook.

The facilitator used the hardcopy workbooks distributed during the presentation as a guide for the remainder of the session. The workbooks contained questions to gather feedback from customers on specific aspects of the system, Hydro Ottawa's investment plan, and resulting impact on rates.

The facilitator then led participants through the workbook section by section to ensure they understood the information and to answer any questions they had about the content.

Participants were asked to independently respond to the questions within the workbook. The facilitator then led a group discussion on the answers participants provided and what the various issues meant for their business.

The hardcopy workbooks were collected from the participants at the conclusion of each consultation session.

Each breakout session ran for approximately 1 hour.

NOTE: Results contained within this report are based on a limited sample and should be interpreted as directional only.

Participant Feedback

The following participant feedback was gathered from the consultations on March 18th, 2015 with mid-market general service customers.

Mid-Market (GS Over 50 kW) Rate Class

Understanding Customer Bills

In general, most mid-market customers did not understand the various components of their bills. This includes; who collects what, what Hydro Ottawa is responsible, and how much is remitted to Hydro Ottawa for distribution. Because these aspects were unclear for many, the comments regarding electricity bills were mostly negative in nature.

> *"Your [Hydro Ottawa] name is on the bill. Archaic, complicated. There's no way to tell what the Hydro Ottawa portion is"*
>
> *"How many kilowatts do I use? Am I close to the average bill, or way down?"*
>
> *"The delivery of the information to the customer to determine how I achieved the bill I received is terrible"*
>
> *"The bill - it doesn't matter how many times you look at a Hydro Ottawa bill, you still get confused. It should be simpler"*

Overall Satisfaction

While overall general satisfaction with service was high, there were some comments made in the breakout sessions about improving the communication and relationship between Hydro Ottawa and mid-market customers. Some customers felt that because their bills were so high, Hydro Ottawa should be doing more to help explain the aspects of their consumption, and find ways for them to save money. Again, the root of many of these concerns was related to the fact that many customers did not understand the different components of their bills, and exactly how much was remitted to Hydro Ottawa.

> *"There needs to be more interaction with the businesses. With this 7% I want to know how much of it goes to wages; I want to know how much management of each department makes; I want to know what their union rate of pay is. This is all lumped into the distribution cost"*
>
> *"I'm paying $460/month for a $12 commodity charge. I've gone to Hydro Ottawa until I'm blue in the face and their response to me is that it's because of my high consumption. There seems to be an ignorance within the customer service. If they're going to talk about this, customer service needs to be better educated"*

Impact of Outages

Customer electricity usage in the mid-market rate class varies substantially, and as such, so does the impact of outages. Throughout the breakout sessions, it was quite apparent that business type and size were important variables in determining the impact of an outage.

For many customers who operate machinery and equipment, the cost of lost productivity during an outage can be expensive. An outage can result in a lengthy "re-boot", lost revenue, and the cost of paying employees who are not able to work during the outage.

> *"When the power goes out, I'm still paying all of my employees, and I'm waiting until the power goes back on"*
>
> *"It costs my business $600 an hour. That's $600 in revenue, plus I'm paying the expense of the employees that are not working. It's probably closer to $1000 an hour"*
>
> *"Power for us is crucial. If our power goes down, we have a window of no more than four hours. Anything past that we lose our ice surface – that costs us fifteen thousand to rebuild, and time and effort. So for us it's absolutely crucial"*
>
> *"The level of outages here, is higher than the other jurisdictions that I've worked in. I think they should spend to reduce the number and duration. An outage is always going to be more expensive than preventing it. So it's cost savings and an improvement"*
>
> *"We have a manufacturing component and when it's down it's a big problem. It means we can't deliver. Our customers are forgiving and we don't have a surcharge, but if the outages were longer than what we do have it would be a very big problem. We wouldn't be able to supply our demand"*
>
> *"Big problem – the whole building is commercial so once the power goes out everyone is stuck. The last big one was two and a half hours – there were people stuck in the elevator"*

In addition to lost wages and productivity, an outage can also present health and safety concerns for some customers. In the hospitality industry and senior care, customers are obligated to have generators in the case of an outage to mitigate any potential health and safety concerns.

> *"We have a generator that services life safety. Elevator and emergency lighting"*
>
> *"If it's going to be over 24-hours we start calling families to make arrangements for the people. There is no major cost, but it is an inconvenience"*
>
> *"We're right downtown so we've had two in the past year, not more than half an hour each, it's not a big deal. It's residential so people are inconvenienced, but we have an emergency generator for the elevator and garage doors, emergency lighting. It's not a huge issue for us"*

While a number of businesses and industries struggle during an outage, some mid-market customers see an outage as more of an inconvenience than anything. Many of these customers had not experienced an above average number of outages in the past year, and therefore do not really see them as an issue or concern. As such, many of these customers felt that Hydro Ottawa should invest in maintaining current reliability, instead of improving it.

> *"I'm that person that gets an outage once a year, and it's never been a long outage"*
>
> *"I think we had one outage last year at our business, and at the house I'm not sure we even had one. But then you hear on the radio that someone in another part of town is out of power. I'm one of the lucky ones, so I'm tempted to put 'spend what is needed to maintain the current level of outages' because it doesn't affect me. But then you hear about someone else – depending on what part of town you're in you'll have a different answer"*

"Inconvenience – with the church, were not generating revenue so it's not so severe. I'm not there all the time but I don't ever recall an outage even within the last five years. We just expect the power to be there and it is"

"No real effect. We always just expect the power to be on. We've only had about two [outages] in the past year. We have about eleven hundred members, so they might have trouble accessing things on the internet but it really is low key in terms of outages"

Overall, outage impacts are variable based on the size, nature and industry in which a customer operates. For some customers, even one outage can be extremely damaging, while for others, it is more of an inconvenience. This variation was extremely evident in these breakout sessions, as no two companies were alike when it came to outage impacts.

Communication During Outages

While there was a great deal of variation regarding outage impacts, many customers agree that aside from restoring power, effective communication during an outage is extremely important. When an outage occurs, many businesses rely on estimated recovery times to make important decisions that can ultimately be very costly. For the most part, customers were satisfied with the level of communication they received from Hydro Ottawa during an outage, however, some felt that there could be improvements to this aspect.

Being able to receive an estimated time of recovery is important for many businesses because it allows them to make a decision as to whether to shut down, or remain in operation. For instance, one customer who operates a restaurant lost business to a competitor down the street because they were not able to receive an accurate projection as to when the power would be restored. Next to actually restoring power, communicating outage durations is the most important aspect for most mid-market customers.

"I'm usually the first person to report an outage. I'll phone them and they'll tell me they're investigating the problem. And I'll wait maybe 1 or 2 hours and then I'll call them back again and they will say that the crew is on site but we don't know what's going to happen"

"Once we get a projection of the amount of time it's going to be out, if it's going to be short duration we basically don't do anything, we just wait. If it's going to be over 24-hours we start calling families to make arrangements for the people. There is no major cost, but it is an inconvenience"

Hydro Ottawa's Proposed Rate Impact

For many mid-market customers, "inflation" was the key word when it came to Hydro Ottawa's proposed rate increase. As business owners, customers in these two groups expressed not being able to increase what they charge much beyond inflation, and generally they feel that Hydro Ottawa should not be able to either.

Businesses are continuously having to make do with fewer employees and resources, and as such, many customers felt that Hydro Ottawa should do the same. Many of these small businesses are struggling, and they believe it will be difficult to afford this increase without passing it on to their customers and tenants. In fact, one customer who manages retail properties believes that this increase could result in some businesses not being able to stay open.

Altogether, while these customers generally understand that there is a need to make investments in the system, most will not grant permission to an increase of this size, with the information that they received. Approaching this proposed rate increase in the context of their own businesses, many customers in these groups believe that Hydro Ottawa should find ways to make it work without a rate increase of this size.

> *"We're still charging the same as we did 15 or 20 years ago. You can't just raise the price because everything else is going up"*

> *"My members are union members. The entire province of Ontario hasn't had an increase in their pay for teachers for three years and judging by the way things are going they won't. A small portion of their fess, that's how we make our funds and that hasn't increased"*

> *"The last thirteen years that I've been with my company, we started out with fourteen employees doing the production that I do today with five. That's the only way that I can make money today, because I'm more efficient"*

> *"The percentage [rate increase] is the only figure that matters, because you make this bill such a piece of garbage that we have no way of figuring it out"*

> *"If the inflation rate is 2.5% how are you going to justify a 35% increase?"*

> *"They can't possibly expect people to be comfortable with that 4.5% from 2017 to 2020. That's an additional $5000 a year, and that's after taxed income. I understand there's infrastructure, there's capital investment that has to be done, but there has to be another solution. I think hitting the user with the cost is unacceptable"*

> *"The size of the increase is unrealistic and not a single one of our customers would accept this. As a commercial landlord I'm accountable to my tenants and I try and hold the line of inflation to two or three percent for operating costs and such. If I tried to hit them with a 12% increase in the first year I would be hung"*

> *"I have retail tenants – Jomi the shawarma guy is going to have to sell an extra four hundred shawarmas a month to pay his bill. It's small business that are struggling, and if he can't pay his rent, he's going to go dark and it's going to affect my topline"*

Concern with Consultation

For some customers, there was skepticism when it came to the whole consultation process. A number of mid-market customers felt that this was a "one-sided debate" wherein Hydro Ottawa was just looking to tell their story without answering the tough questions that customers had. A number of customers wanted to see an alternative viewpoint wherein they could compare the two sides, and determine which was best for their individual business.

Again, customers in these groups approached the consultation and Hydro Ottawa's plan from the perspective of their own businesses, and therefore, many wanted more detailed information, including finances, salaries and budgets. These perceived information gaps resulted in a good deal of skepticism in these groups, and overall, customers were generally unhappy with the plan being presented.

> *"In the feedback, I'm putting some don't knows because I don't feel that I can answer those questions, without a sufficient answer to some of the questions I'm asking"*

"I would like to see somebody else present the other side of the argument"

"How can we help you [Hydro Ottawa] make your decisions when we don't really know what we're talking about?"

"This was an extremely one-sided presentation. We're getting Hydro Ottawa's view of the situation and the problems that they face, there is no energy critic in here giving us the other point of view of how they see the industry and the problems that they see with the industry"

"My impression when I read this workbook is that they wanted me to come down here and give them a pat on the back for being such a good service provider and say you guys are doing a great job and we will give you the increase you're asking for"

"When we were reading these questions, we felt geared to only answer in a certain way for Hydro Ottawa, there is no real feedback"

"I don't think Hydro Ottawa came here expecting to get the questions that we are asking. They came to show us what their presentation is"

Questionnaire Results

1. Given what you know and what you have read so far, how well do you feel you understand the parts of the electricity system, how they work together and which services Hydro Ottawa is responsible for?

Response	Mid-Market
Very well	12
Somewhat well	3
Not very well	1
I don't understand at all	0
Missing value	0
TOTAL	**16**

2. Generally, how satisfied are you with the service you receive from Hydro Ottawa?

Response	Mid-Market
Very satisfied	6
Somewhat satisfied	9
Not very satisfied	0
Not at all satisfied	0
Don't know	1
Missing value	0
TOTAL	**16**

4. When averaged across the entire customer population, a Hydro Ottawa customer experiences 1.1 power outages per year. Do you recall how many outages you experienced in the past year?

Response	Mid-Market
None	2
One	5
Two	3
Three	5
Four	0
More than four	1
Don't know	0
TOTAL	**16**

5. Overall, how satisfied are you with the reliability of electricity services provided by Hydro Ottawa?

Response	Mid-Market
Very satisfied	10
Somewhat satisfied	4
Somewhat dissatisfied	0
Very dissatistied	1
Don't know	1
TOTAL	**16**

6. In your view, how do you think Hydro Ottawa should address the number of customer power outages?

Response	Mid-Market
Spend what is needed to reduce the power of outages	4
Spend what is needed to maintain the current level of outages	9
Accept more power outages in order to help keep customer costs	1
Don't know	2
TOTAL	**16**

7. The average Hydro Ottawa customer is without power for approximately 2 hours per year. In your view, how do you think Hydro Ottawa should address the length of time customers are without power?

Response	Mid-Market
Spend what is needed to reduce the duration of power outages	2
Spend what is needed to maintain the current duration of outages	10
Accept longer power outages in order to help keep customer costs from rising	1
Don't know	3
TOTAL	**16**

8. With regards to projects focused on replacing aging equipment in poor condition, which of the following statements best represents your point of view?

Response	Mid-Market
Hydro Ottawa should invest what it forcasts is required to replace the system's aging infrastructure to maintain system reliability, even if that increases my monthly electricity bill by a few dollars over the next few years	8
Hydro Ottawa should lower its investment in renewing the system's aging infrastructure to lessen any bill increase, even if that means more or longer power outages	2
Don't know	5
Missing value	1
TOTAL	**16**

9. In order to operate efficiently and better serve our customers, Hydro Ottawa needs IT systems to manage the grid and its customer information, as well as proper facilities to house its staff, vehicles and tools. Which of the following statements best represents your point of view?

Response	Mid-Market
While Hydro Ottawa should be wise with its spending, it is important that its staff have the equipment and tools they need to manage the system efficiently and reliably	9
Hydro Ottawa should find ways to make do with the buildings, equipment and IT systems it already has	4
Don't know	2
Missing value	1
TOTAL	**16**

10. How well do you feel you understand the cost drivers that Hydro Ottawa is responding to?

Response	Mid-Market
Very well	7
Somewhat well	6
Not very well	1
Not well at all	0
Don't know	0
Missing value	2
TOTAL	**16**

11. How well do you think Hydro Ottawa is managing these cost drivers while meeting customer expectations?

Response	Mid-Market
Very well	3
Somewhat well	4
Not very well	2
Not well at all	2
Don't know	4
Missing value	1
TOTAL	**16**

12. How satisfied are you with the efforts Hydro Ottawa has made to find efficiencies and cost savings?

Response	Mid-Market
Very satisfied	0
Somewhat satisfied	6
Not very satisfied	2
Not at all satisfied	1
Don't know	5
Missing value	2
TOTAL	**16**

13. From what you have read here and what you may have heard elsewhere, does Hydro Ottawa's investment plan seem like it is going in the right direction or the wrong direction?

Response	Mid-Market
Definitely the right direction	2
Might be the right direction	7
Might be the wrong direction	2
Definitely the wrong direction	1
Don't know	3
Missing value	1
TOTAL	**16**

14. How well did Hydro Ottawa's plan cover the topics you expected?

Response	Mid-Market
Very well	1
Somewhat well	7
Not very well	5
Not well at all	3
Don't know	0
TOTAL	**16**

15. How well do you think Hydro Ottawa is planning for the future?

Response	Mid-Market
Very well	2
Somewhat well	6
Not very well	4
Not well at all	0
Don't know	4
TOTAL	**16**

16. Considering what you know about the local distribution system, which of the following best represents your point of view?

Response	Mid-Market
The rate increase is reasonable and I support it	0
I don't like it, but I think the rate increase is necessary	5
The rate increase is unreasonable and I oppose	8
Don't know	3
TOTAL	**16**

Key Account Validation Interviews

Summary

Key Account Interviews
with Volunteered customers

PURPOSE: To validate the consultation process and verify that Hydro Ottawa provided Key Account customers with the information they needed to form an informed opinion on the proposed plan.

INNOVATIVE conducted followed-up interviews with 6 of 9 key account customers who participated in one-on-one consultation sessions with Hydro Ottawa staff. The interviews were designed to validate the process and to verify that Hydro Ottawa provided these customers with the information they needed to provide informed feedback on the proposed plan. The following summary highlights key findings from the validation interviews.

Assessment of Plan

Overall, based on their pre-existing knowledge and the consultation they had with Hydro Ottawa staff, all six key account users responded positively to the proposed Distribution System Plan.

More specifically, key account customers generally understood the reasons behind the proposed rate increase. Because key account customers have a unique perspective and knowledge of the existing system, they generally see the need to replace aging infrastructure. Furthermore, a number of customers felt that because they serviced a variety of tenants (residential and commercial), any Hydro Ottawa plan should be able to accommodate the needs of all customers.

Ultimately, few interviewees were happy with the proposed rate increase, however, they felt that Hydro Ottawa staff did an adequate job explaining the challenges and infrastructure needs that they are faced with.

Coverage of Distribution System Topics

All six key account customers believed that Hydro Ottawa's Distribution System Plan covered the key areas they expected (e.g. rate increases, system renewal, system access, system service, and general plant issues).

System Renewal and Rate Impact

Overall, considering what they know about the plan, all six key account customers granted permission for the proposed rate increase. Four of six customers did not like it, but found it necessary, while the remaining two found it reasonable and supported it.

The proposed rate increase is reasonable and I support it	n=2
I don't like it, but I think the proposed rate increase is necessary	n=4
The proposed rate increase is unreasonable and I oppose it	n=0

Methodology

Innovative Research Group (INNOVATIVE) was engaged by Hydro Ottawa to conduct a series of validation phone calls with key account customers. Key account customers were briefed on the proposed five year Distribution System Plan by Hydro Ottawa staff. INNOVATIVE followed-up by telephone with key account customers after their briefing session to validate the process and to verify that Hydro Ottawa provided these customers with the information they needed to provide informed feedback on the proposed plan.

The initial Hydro Ottawa interviews were held throughout the last three weeks of March, 2015. A total of nine key accounts customers participated in these consultation sessions. INNOVATIVE followed up with six of the nine key accounts customers interviewed soon after their conversations with Hydro Ottawa staff. The three remaining key account customers were either unavailable for a follow-up interview or did not respond to INNOVATIVE'S requests for an interview.

NOTE: Results contained within this report are based on a very limited sample and should be interpreted as directional only.

Recruiting Key Account Participants

The key account participants were recruited from a client-provided list. The key account customers represented a diverse range of interests from a cross-section of manufacturing, public works and property management.

The six larger users who completed the validation interviews with INNOVATIVE were promised confidentiality. As such, responses are not assigned to any particular individual in this report, nor are names provided.

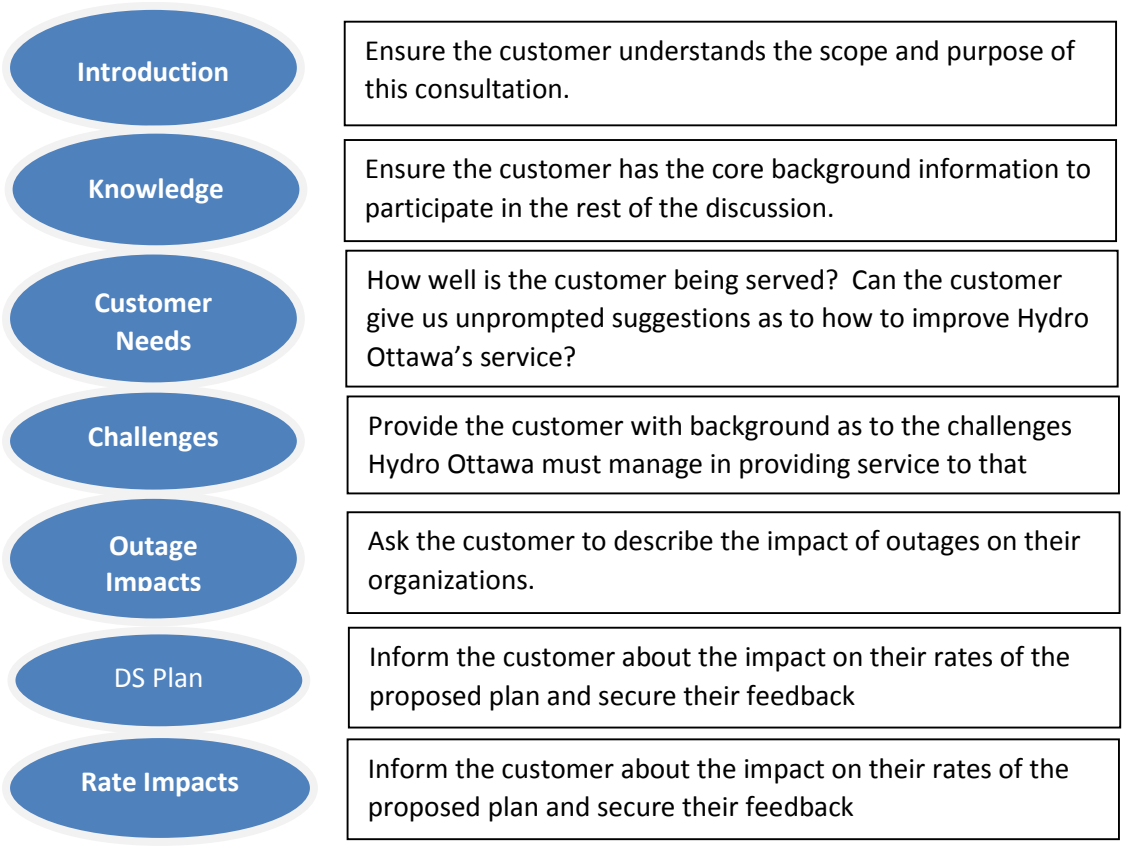
Key Account Consultation Process

INNOVATIVE assisted Hydro Ottawa in developing the framework to consult with the key account rate class and to collect feedback on how the five year Distribution System Plan will affect them.

The basic concept of the key account discussion was to cover the same issues as the broader consultation (which follows the consultation workbook). However, as expected, key accounts had a much stronger initial knowledge base and a much more specific understanding of their needs. That meant there was a higher demand for specific information about specific circuits, performance on those circuits and initiatives to enhance the reliability and security of those circuits.

With only a handful of key accounts, Customer Account managers at Hydro Ottawa customized their consultation sessions for each customer, focusing on the issues that were most relevant to the client.

Key Account Interview Structure



Participant Feedback

The following section highlights the general feedback from the key account rate class group.

Overall Take-Away

Overall, based on their pre-existing knowledge and the consultation they had with Hydro Ottawa staff, all six key account users interviewed supported the proposed rate increase. Four key account users did not like the proposed rate increase, but thought it was necessary, while two users found the proposed rate increase reasonable and supported it.

Generally, the six key account users interviewed responded quite positively to the proposed rate increase and felt comfortable with their existing relationship with Hydro Ottawa.

More specifically, key account users understood the reasons behind the proposed rate increase. One interviewee stated that he realized the existing infrastructure's life was coming to an end and *"it would have been nice to plan ahead"*, yet he understood that it was not possible.

Furthermore, those customers who managed both residential and commercial properties felt that each property type had different perspectives when it came to the DSP. Commercial properties focus more on infrastructure, while residential properties are more concerned with rates and health/safety (i.e. high rise buildings).

Customer Experience and Expectations

All six of the key account users interviewed felt that they had an adequate opportunity to express their concerns about how well Hydro Ottawa is meeting their needs. Furthermore, all were highly satisfied with the level of explanation they received regarding Hydro Ottawa's challenges in maintaining the system. A number of customers felt that the presentation they received was *"clear, concise and to the point".* Overall, these customers were very positive when discussing the Hydro Ottawa staff members who conducted the original consultation.

Coverage of Distribution System Topics

Again, all six key account customers who were interviewed felt that Hydro Ottawa's Distribution System Plan covered all the key areas that they expected. A number of customers were pleased with regards to the *"fluency and clarity"* of the plan and were thankful that so many of the important aspects were covered thoroughly.

One key account customer said that their business is located near a substation owned by Hydro One, and they always have a *"backup plan"*, and if they do experience an outage, it doesn't usually last long.

Altogether, key account customers were pleased with the areas touched on in the DSP, and also felt that the plan was clearly explained by Hydro Ottawa staff.

One customer, while not being able to remember many of the details of the plan, noted that his tenants had multiple needs. For some of his tenants, a power outage is a big deal, he said, *"workers go home after half an hour and lose the whole day".* Additionally, power outages can become a health

and safety concern for those tenants residing in high rise buildings. Ultimately, within his company, there are varying needs that the DSP should address.

System Renewal and Rate Impact

All six key account customers interviewed felt that the rate of system renewal was "about right". One customer commented that *"[Hydro Ottawa] seems to have balanced the plan and rate impact well".* Additionally, when it came to system renewal, one customer said, *"They are coming clean. I felt that the presentation was real and now I'm waiting to hear more about it in the media".*

All six customers interviewed gave social permission to the proposed rate increase. Four of six customers did not like it, but found it necessary, while the remaining two found it reasonable and supported it. Again, these customers felt that they had received all the information they needed to make an informed decision and that Hydro Ottawa did a good job of explaining the different aspects of the plan.

Consultation Process

The six customers unanimously felt that the presentation included all the information they needed, and ultimately, should they have more questions about the plan, they would not hesitate to contact Hydro Ottawa.

One customer said that their company was *"very happy with their continuing relationship with Hydro Ottawa"* and should they have any questions on the plan or new ways to save money, they will reach out to Hydro Ottawa.

Validation Interview Questionnaire Results

The following tables are the tabulations of key account user feedback to validation questions INNOVATIVE asked when following up on Hydro Ottawa's interviews with their key account rate class.

Reponses to *open-ended* questions are included in the body text of the previous sections.

[KA = Key Account]

1. Can you please confirm that you recently met with representatives of Hydro Ottawa about their Distribution System Plan?

Response	KA1	KA2	KA3	KA4	KA5	KA6	Count
Yes	1	1	1	1	1	1	6
No	0	0	0	0	0	0	0
Total	1	1	1	1	1	1	6

2. Did you have an opportunity to express any concerns about how well Hydro Ottawa is meeting your needs?

Response	KA1	KA2	KA3	KA4	KA5	KA6	Count
Yes	1	1	1	1	1	1	6
No	0	0	0	0	0	0	0
Total	1	1	1	1	1	1	6

3. Did Hydro Ottawa do a good job explaining the challenges they are facing in maintaining the system?

Response	KA1	KA2	KA3	KA4	KA5	KA6	Count
Yes	1	1	1	1	1	1	6
No	0	0	0	0	0	0	0
Total	1	1	1	1	1	1	6

4. Did the Distribution System plan cover the key areas you expected?

Response	KA1	KA2	KA3	KA4	KA5	KA6	Count
Yes	1	1	1	1	1	1	6
No	0	0	0	0	0	0	0
Total	1	1	1	1	1	1	6

5. Do you feel Hydro Ottawa's proposed rate of system renewal is too fast, too slow or about right?

Response	KA1	KA2	KA3	KA4	KA5	KA6	Count
Too fast	0	0	0	0	0	0	0
About right	1	1	1	1	1	1	6
Too slow	0	0	0	0	0	0	0
Total	1	1	1	1	1	1	6

6. Considering what you know about the local distribution system, which of the following best represents your point of view:

Response	KA1	KA2	KA3	KA4	KA5	KA6	Count
The proposed rate increase is reasonable and I support it	1	0	1	0	0	0	2
I don't like it, but I think the proposed rate increase is necessary	0	1	0	1	1	1	4
The proposed rate increase is unreasonable and I oppose it	0	0	0	0	0	0	0
Total	1	1	1	1	1	1	6

Customer Telephone Surveys

Telephone Surveys
among Residential and GS customers

PURPOSE: To obtain statistically significant quantitative customer feedback on Hydro Ottawa's plan and assess reaction to customer opinions obtained from the previous research phases.

Summary

The following summary highlights the key findings from telephone surveys of 1,036 Hydro Ottawa residential customers and 200 general service (GS) <50 kW customers.

General Satisfaction

A solid majority of residential (84%) and general service (81%) customers are satisfied with the job Hydro Ottawa is doing managing their local distribution system. Among residential customers, 38% are *very* satisfied, and another 46% are *somewhat* satisfied. Three-in-ten (31%) general service customers are *very* satisfied, while another 50% are *somewhat* satisfied.

Asked what Hydro Ottawa could do to improve their service, 22% of residential customers and 25% of general service customers said they "don't know". Another 18% of residential customers and 10% of business customers said there was nothing Hydro Ottawa could do because they are already satisfied with their service. The main suggestion for improving service among both respondent groups was "lower rates" (29% residential, 26% general service).

Electricity Bill Knowledge Summary

All respondents were read a brief preamble that explained how much of their total electricity bill is remitted to Hydro Ottawa (20% in the case of residential customers, 19% in the case of small business customers). One third (34%) of residential customers and slightly more (37%) business customers indicated that they had been aware of the bill breakdown prior to the survey.

System Reliability

More than one third (35%) of residential customers reported not having experienced any power outages in the past 12 months. Among those who did almost half (47%) reported that it lasted for less than an hour. The vast majority (87%) of residential customers described their most recent outage as a minor (66%) or no (21%) inconvenience.

The result is similar among general service customers: 34% did not experience any outages, but among those who did, the duration was often (39%) less than an hour. Another 28% report that their last outage lasted between one and three hours. Half of general service customers (50%) report that their most recent outage was a major inconvenience.

The majority of residential (55%) and small business (56%) customers think Hydro Ottawa should spend what is needed to maintain the current *number* of outages. Similarly, half (51%) of each

respondent group thinks Hydro Ottawa should spend what is needed to maintain the current *length* of outages.

System Challenges & Priorities

When it comes to spending on the system's aging infrastructure, a majority of residential (56%) and general service (57%) customers say Hydro Ottawa should invest what it takes to replace the system's aging infrastructure to maintain system reliability; even if that increases their monthly electricity bill.

As for investing in new technology, most residential (57%) and small business (61%) customers think the benefits of new technology and infrastructure are important and should be a priority for Hydro Ottawa.

Both respondent groups agree (residential 66%; general service 61%) that, while Hydro Ottawa should be wise with its spending, it is important that its staff have the equipment and tools they need to manage the system efficiently and reliably.

Overall Assessment of Plan

Residential Social Permission:

At the end of the survey, 70% of residential customers give the proposed rate increase social permission. One-in-four (23%) feel it is reasonable and they support it, while another 47% don't like it but feel it is necessary.

General Service Social Permission:

Only slightly fewer general service customers (66%) are prepared to give the rate increase social permission. One-in-five (22%) support it outright, and another 44% reluctantly accept it as being necessary.

Methodology

INNOVATIVE conducted two random digit dialing customer telephone surveys for Hydro Ottawa:

- A **residential customer survey** was conducted among 1,036 respondents between April 1 and April 12, 2015. Respondents were randomly selected from a customer list provided by Hydro Ottawa (40,000 residential records). A sample of 1,036 residential customers is considered accurate to within ±3.0 percentage points, 19 times out of 20.
- A **general service customer (GS < 50 kW) survey** was conducted among 200 respondents between April 2 and April 9, 2015. Respondents were randomly selected from a customer list provided by Hydro Ottawa (8,000 GS records). A sample of 200 residential customers is considered accurate to within ±6.9 percentage points, 19 times out of 20.

The margin of error in both surveys will be larger within each sub-grouping of the samples.

Questionnaire Design

The residential and general service questionnaires were designed to simulate the journey that respondents to the online workbook and participants in the Customer Consultation Focus Groups experienced. This included a combination of educating the customer, having customers reflect on their personal experience with the distribution system, and having them make value judgments on trade-offs between system reliability and bill impact.

As part of simulating the "*workbook journey*", the questionnaire was informed by, and incorporated feedback from, the previous qualitative consultation phases of Hydro Ottawa customer engagement. This included sharing both supportive and non-supportive feedback in the survey from previous phases of Hydro Ottawa's customer consultation as it related to the utility's proposed rate increase. Wording of questions differed slightly between the Residential and General Service surveys – for example, in the preambles the size of monthly bills differed between residential and general service customers – but otherwise remained generally consistent.

Both surveys are practically identical and ran at approximately 10 minutes in length.

Fielding the Surveys

Residential (RS) Customer Survey:

For the purposes of executing the residential survey, Hydro Ottawa provided INNOVATIVE with a confidential list containing 40,000 of their residential customers' contact information.

The contact list included only residential customers with contact information on file and who had been a customer of Hydro Ottawa since at least January 1, 2014. The information contained in the contact list included customer name, home telephone number, home address, service area, and total annual usage between January 1 and December 31, 2014.

Only one customer per household was eligible to complete the residential survey. Survey respondents were screened to certify that only the customer primarily responsible for paying their Hydro Ottawa electricity bill was interviewed. This step was taken to ensure that survey

respondents represented the most qualified person within a household to answer questions about their electricity bill and how Hydro Ottawa's proposed rate increase would impact their household.

Before retiring any randomly selected telephone number from the contact list, 8 attempts were made to reach a potential respondent for each unique telephone number, or until an interviewer received a hard refusal. Each night a new sample was released from the contact list to replace completed or retired telephone numbers.

Residential customers were contacted using the primary contact telephone number on file with Hydro Ottawa between 4pm and 9pm on weekdays; between 10am and 9pm on Saturdays; and between 11am and 9pm on Sundays.

While most customers completed the telephone survey from their home (84%), 15% of respondents completed the survey on their cellular phone and 1% at their place of work. Respondents who completed the survey over their cellular phone were screened to ensure they were not operating a motorized vehicle and could safely respond to the survey questions.

General Service (GS) Customer Survey:

The sample for the general service survey consisted of 8,000 customers drawn from a confidential list provided to INNOVATIVE by Hydro Ottawa. General service respondents were screened to ensure they were in charge of managing or overseeing the electricity bill at their organization.

General service customers were contacted at their place of work on weekdays between 9am to 5pm.

All fieldwork for both surveys was conducted using a computer-assisted telephone interviewing (CATI) system.

Sample Design

The two surveys followed a stratified random sampling methodology. This is a method of sampling that involves the division of a population into smaller groups known as strata. In stratified random sampling, the strata are formed based on members' shared attributes or characteristics (in this case, region and electricity consumption). A random sample from each stratum is taken in a number proportional to the stratum's size when compared to the customer population. These subsets of the strata are then pooled to form a random sample.

In both surveys, residential and general service customers were divided by the **region** that roughly corresponded to the service territories of the former utilities that merged to form Hydro Ottawa in 2000 and quartiles based on **annual electricity consumption** to ensure the sample had a proportionate mix of customers from low, medium-low, medium-high, and high electricity usage households and small businesses.

Ensuring the samples represented the known customer consumption profiles reduces non-response bias in the survey estimates.

Note: A non-response bias occurs in a survey if the answers of respondents differ from that of the potential answers of those who did not answer.

Residential Sample Design:

The following table illustrates the segmentation of the residential survey sample by region.

Service Area	Customer Distribution	Target Sample	Actual Sample	Difference
Ottawa Centre	28%	277	286	**+9**
Gloucester[4]	29%	290	306	**+16**
Nepean	27%	265	269	**+4**
Kanata	11%	109	114	**+5**
Goulbourn	6%	58	61	**+3**
TOTAL	**100%**	**1,000**	**1,036**	**+36**

Within service area populations, customers were divided into quartiles based on annual electricity usage. The table below illustrates the actual survey interviews by usage quartile within Hydro Ottawa's five regions.

Service Area	Low Usage	Medium-Low Usage	Medium-High Usage	High Usage	Total
Ottawa Centre	72	72	70	72	**286**
Gloucester	78	75	77	76	**306**
Nepean	69	66	68	66	**269**
Kanata	29	29	29	27	**114**
Goulbourn	15	16	15	15	**61**
TOTAL	**263**	**258**	**259**	**256**	**1,036**

GS Sample Design:

The survey of general service customers also divided the respondents by region and annual electricity usage to reflect the actual distribution of Hydro Ottawa's customers:

Service Area	Customer Distribution	Target Sample	Actual Sample	Difference
Ottawa Centre	42%	84	84	**0**
Gloucester	27%	54	56	**+2**
Nepean	21%	41	40	**-1**
Kanata	5%	9	8	**-1**
Goulbourn	6%	11	12	**+1**
TOTAL	**100%**	**200**	**200**	**0**

[4] Respondents from Casselman were included in the distribution for Gloucester in both the residential and GS surveys.

Again, within service area populations, general service customers were divided into quartiles based on annual electricity usage. The table below illustrates the number of survey interviews by usage quartile within Hydro Ottawa's five regions.

Service Area	Low Usage	Medium-Low Usage	Medium-High Usage	High Usage	Total
Ottawa Centre	21	21	21	21	**84**
Gloucester	14	14	14	14	**56**
Nepean	10	10	10	10	**40**
Kanata	2	2	2	2	**8**
Goulbourn	3	3	3	3	**12**
TOTAL	**50**	**50**	**50**	**50**	**200**

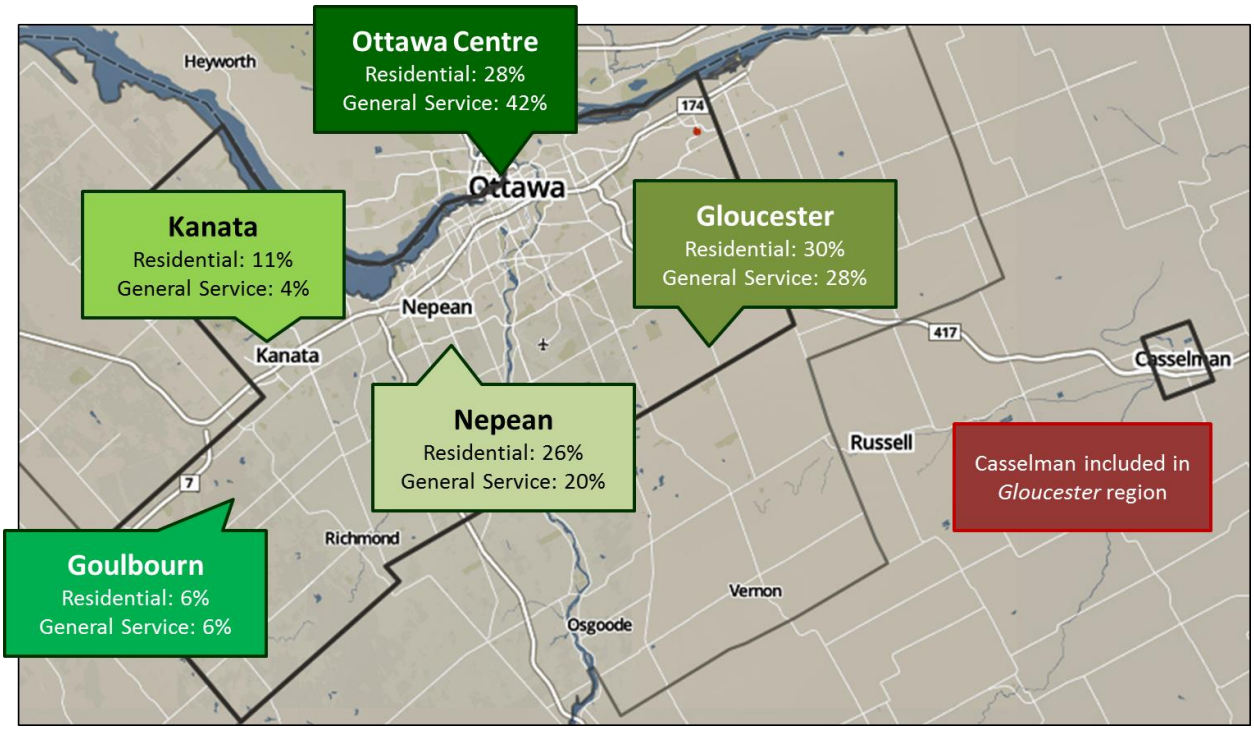
Sample Weights

Weights have not been applied to either the residential or general service data as the stratified random samples provide an accurate representation of Hydro Ottawa's actual customer base.

Regional Segmentation

The following diagram illustrates the regional distribution of residential and general service customers in Hydro Ottawa's service area.

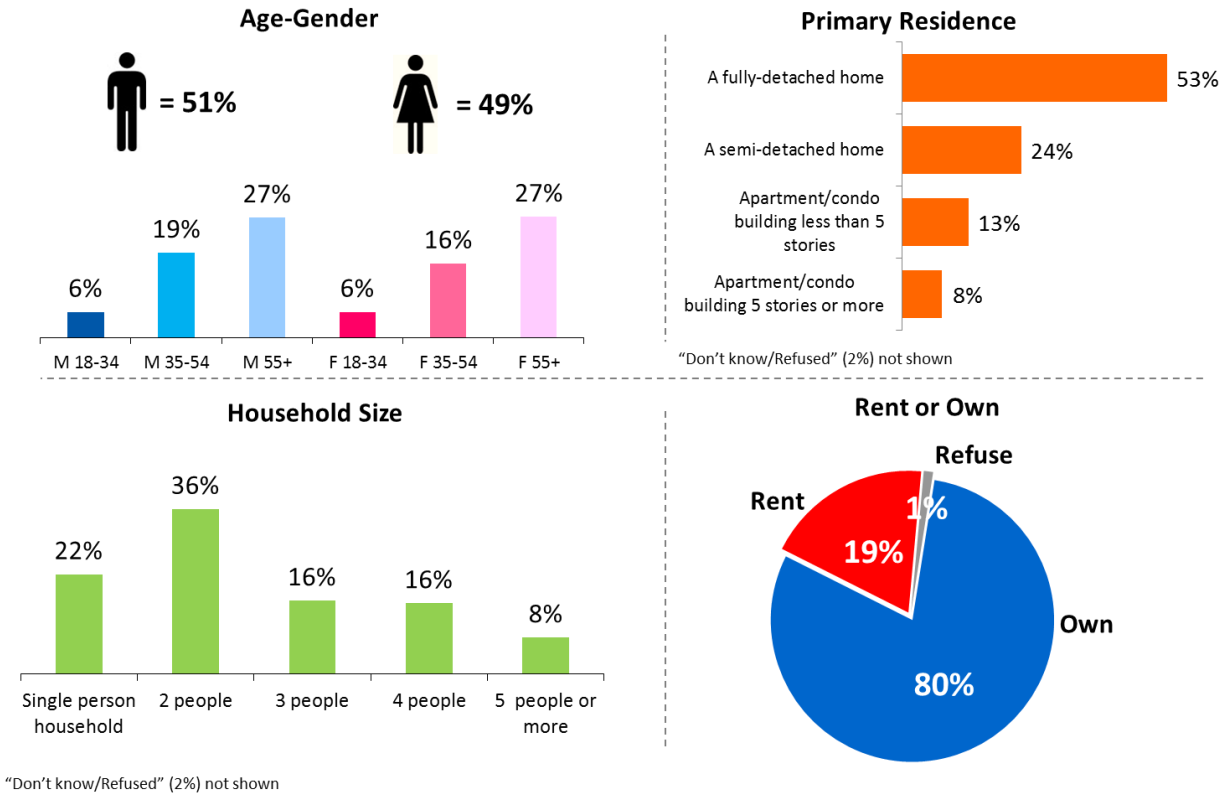
Figure A: Regional Segmentation



Demographic Profiles

The following details the demographic characteristics of respondents who completed the Residential Ratepayer Survey [n=1,036].

Figure B: Residential Customer Profile

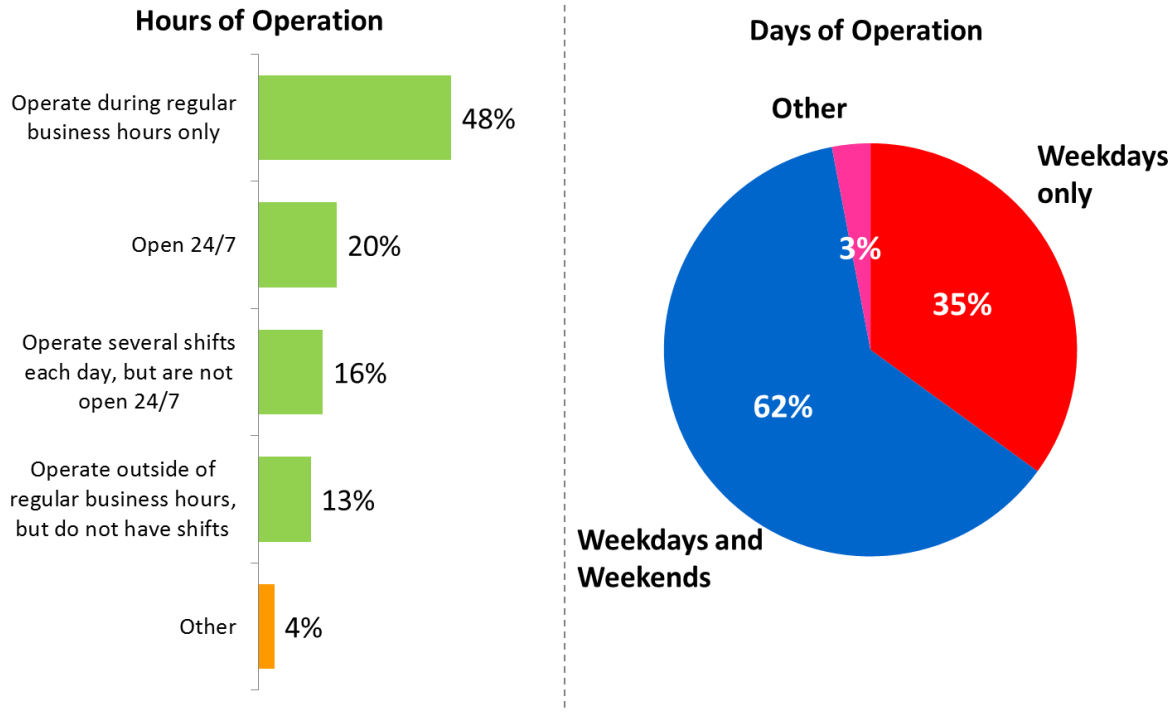


"Don't know/Refused" (2%) not shown

Firmographic Profiles

Below are the firmographics of respondents who completed the general service ratepayer survey [n=200].

Figure C: GS Customer Profile



Respondent Feedback

Familiarity and Satisfaction

In the first section of the survey, we asked respondents about their level of familiarity with Hydro Ottawa, and whether or not they are generally satisfied with them. We also invited input on how Hydro Ottawa could improve their service.

Familiarity and Satisfaction Summary

- Fewer than half (46%) of residential customers claim to be familiar with their local electricity distribution system. This figure is slightly higher among general service customers (49%).
- A strong majority of residential customers (84%) are satisfied with the service they receive from Hydro Ottawa, as are 81% of general service customers.
- The primary suggestion for improving service is "lower rates" (29% residential; 26% general service). 18% of residential customers and 10% of general service customers say there is nothing Hydro Ottawa can do to improve their service.

Prior to answering the questions in the General Satisfaction Section, respondents were presented with a preamble concerning key components of Ontario's electricity system.

The preamble read as follows:

"To start, I'd like to ask you a few questions about the electricity system…

As you may know, Ontario's electricity system has three key components: ***generation***, ***transmission*** *and* ***distribution****.*

- ***Generating stations*** *convert various forms of energy into electric power;*
- ***Transmission lines*** *connect the power produced at generating stations to where it is needed across the province; and*
- ***Distribution lines*** *carry electricity to the homes and businesses in our communities.*

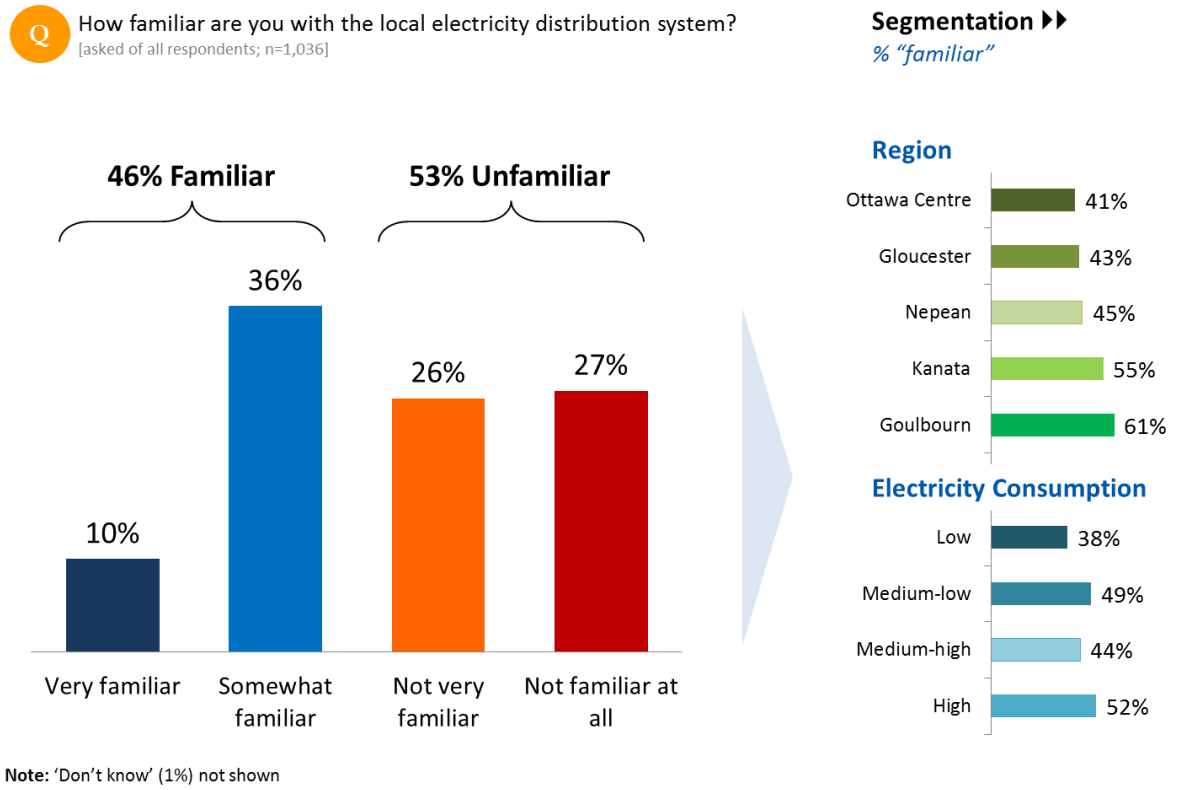
Today we're going to talk about your ***local distribution system*** *which is maintained and operated by* ***Hydro Ottawa****."*

Familiarity with Local Electricity Distribution System

Fewer than half (46%) of residential customers say they are either *somewhat* (36%) or *very* (10%) familiar with their local electricity distribution system. A majority (53%) of residential customers are unfamiliar with their local distribution system, with over one-in-four (27%) report that they are *not familiar at all* with the system.

- Degree of familiarity is directionally higher among those with high electricity consumption (52%) compared to low levels of consumption (38%).
- Regionally, residential customers in Ottawa Centre are least familiar (41%). Customers in Goulbourn are relatively more familiar (61%) with the local distribution system.

Figure RS.1: Familiarity with the Local Distribution System

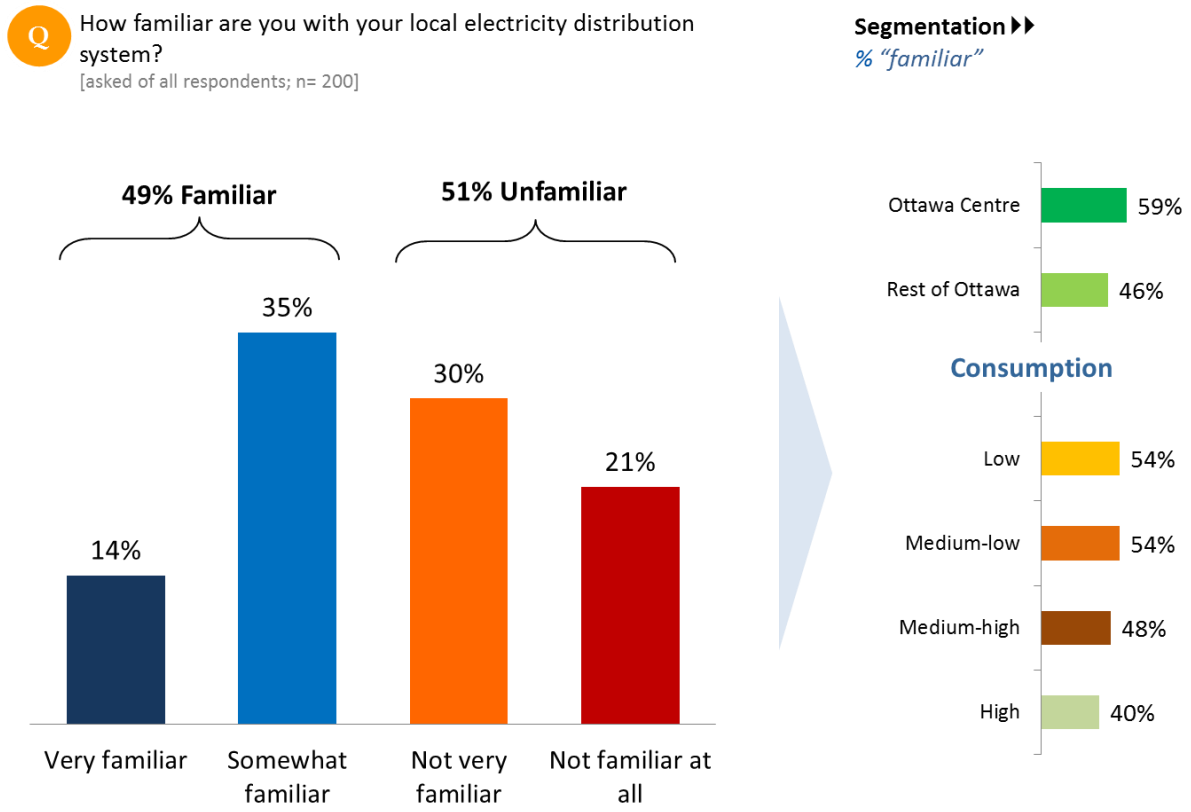


Note: 'Don't know' (1%) not shown

Familiarity is slightly higher among general service respondents, with almost half saying they are *somewhat* (35%) or *very* (14%) familiar with their local electricity system. One-in-five (21%) say they are *not familiar at all* with the system.

- Familiarity is lowest among GS<50 kW customers with a high level of consumption.
- Regionally, general service customers in Ottawa Centre are more familiar than customers across the rest of Hydro Ottawa's service area.

Figure GS.1: Familiarity with the Local Distribution System



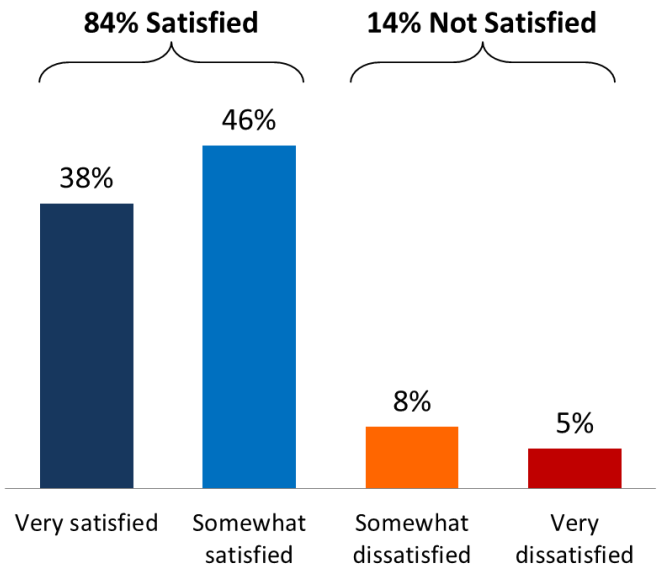
Satisfaction with how Hydro Ottawa is Running the Distribution System

A large majority (84%) of residential customers are satisfied with the job Hydro Ottawa is doing running their local electricity distribution system, with 38% being *very* satisfied and a further 46% being *somewhat* satisfied. Only 14% percent report being *dissatisfied* with the job Hydro Ottawa is doing.

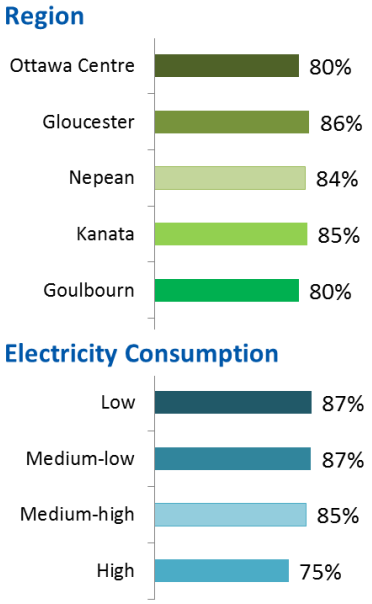
- Satisfaction ranges from 75% among high consumption customers to a high of 87% among those with a low and medium-low consumption level.
- Regionally, customer satisfaction levels are relatively consistent across Hydro Ottawa's service territory.

Figure RS.2: Satisfaction with Hydro Ottawa

Q Generally speaking, how satisfied are you with the job Hydro Ottawa is doing running your local distribution system?
[asked of all respondents; n=1,036]



Segmentation
% "satisfied"

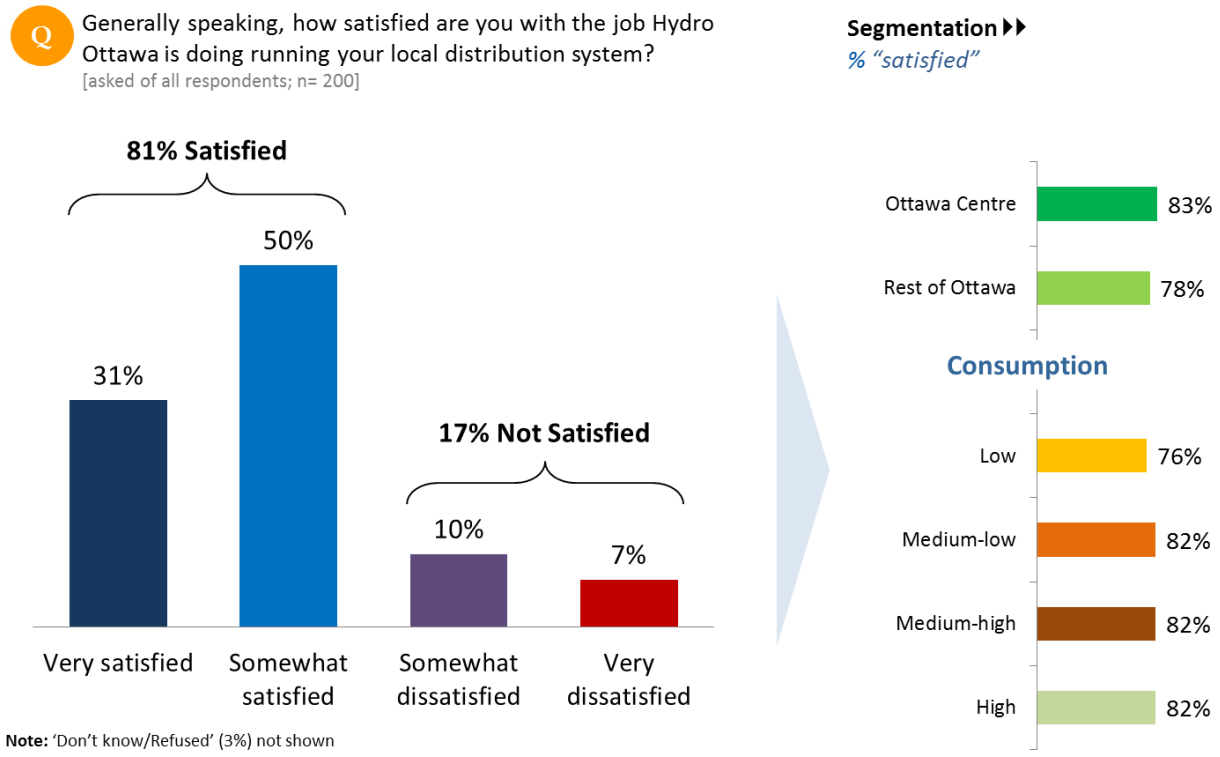


Note: 'Don't know' (3%) not shown

Like residential customers, a majority (81%) of general service customers reporting being satisfied with the job Hydro Ottawa is doing, with 31% *very* satisfied and another 50% who are *somewhat* satisfied. Almost 1-in-5 (17%) general service customers are *dissatisfied.*

- There are no statistically significant differences in satisfaction across regions or consumption levels.

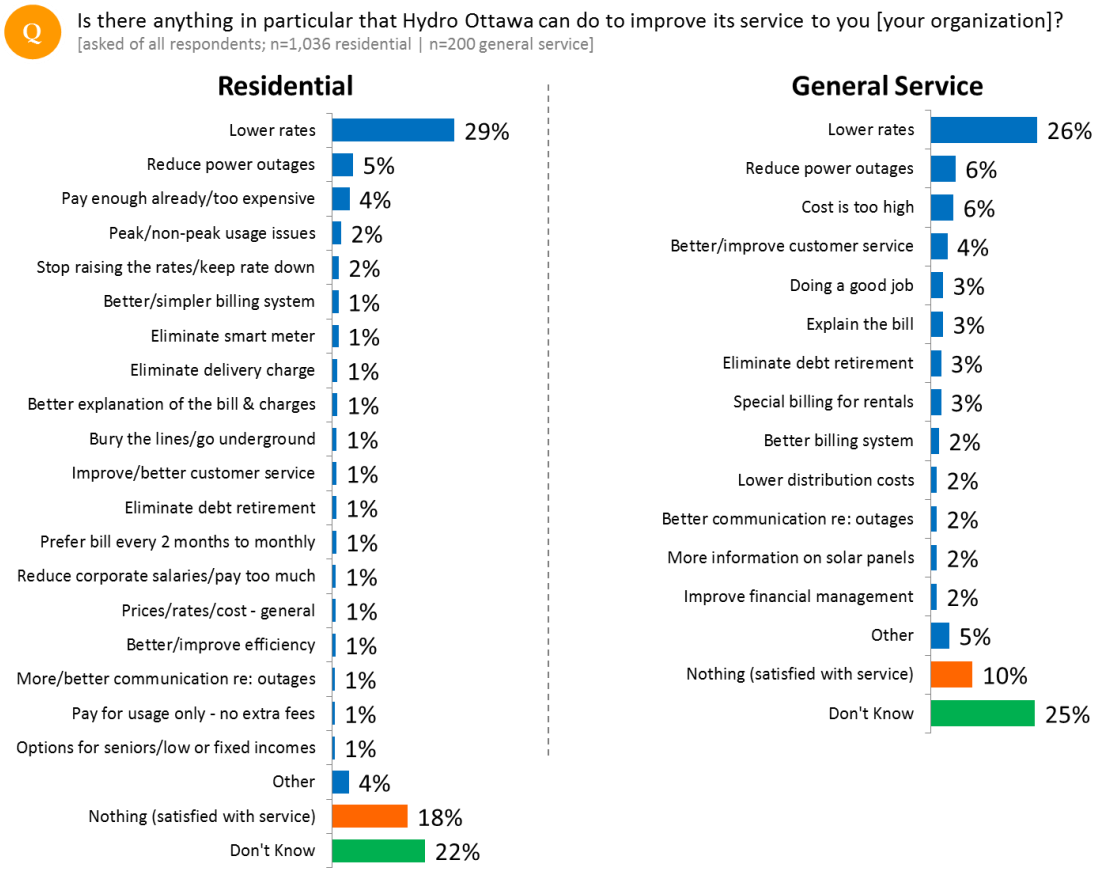
Figure GS.2: Satisfaction with Hydro Ottawa



How to Improve Service

When asked how Hydro Ottawa could improve their service, 18% of residential customers and 10% of general service customers say there is nothing they can do – they are already satisfied. Among both respondent groups, the primary suggestion for improving service is "lower rates" (29% residential; 26% general service). This is followed distantly by "reduce power outages" (5% residential; 6% general service).

Figure RS/GS.3: How to Improve Service



Electricity Bill Knowledge

Before asking respondents about their familiarity with their electricity bill, residential and general service customers were presented with a preamble on the breakdown of their electricity bill:

Residential Survey Preamble:

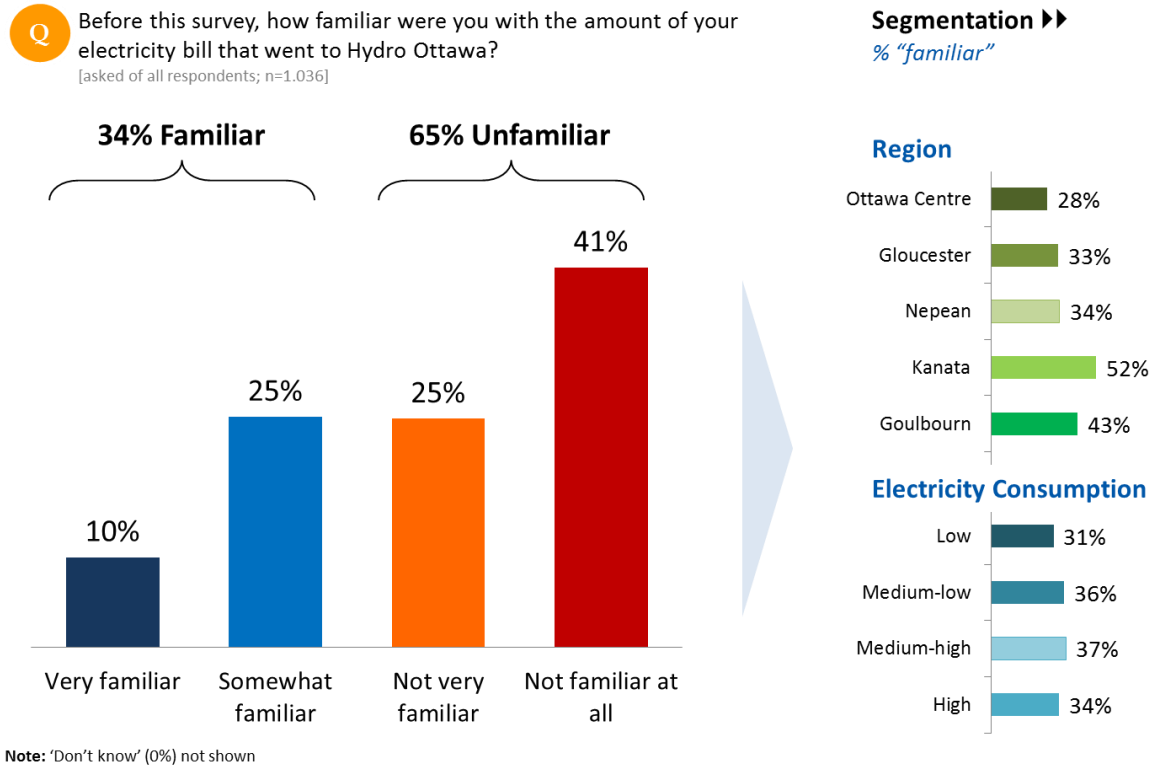
I'd now like to talk with you about your electricity bill …

While some customers pay more and other pay less, the ***average residential customer pays about $130 a month*** *for electricity of* ***which $26 or approximately 20% goes to Hydro Ottawa****. The rest of the bill goes to power generation companies, transmission companies, the provincial government and regulatory agencies.*

Most (65%) residential respondents were unfamiliar with how much of their energy bill goes to Hydro Ottawa. In fact, 41% were *not familiar at all*. Just over a third (34%) said they were familiar with the bill breakdown.

- Familiarity is highest among Kanata residents, lowest among residential customers living in Ottawa Centre.

Figure RS.4: Familiarity with Electricity Bill



Note: 'Don't know' (0%) not shown

General Service Survey Preamble:

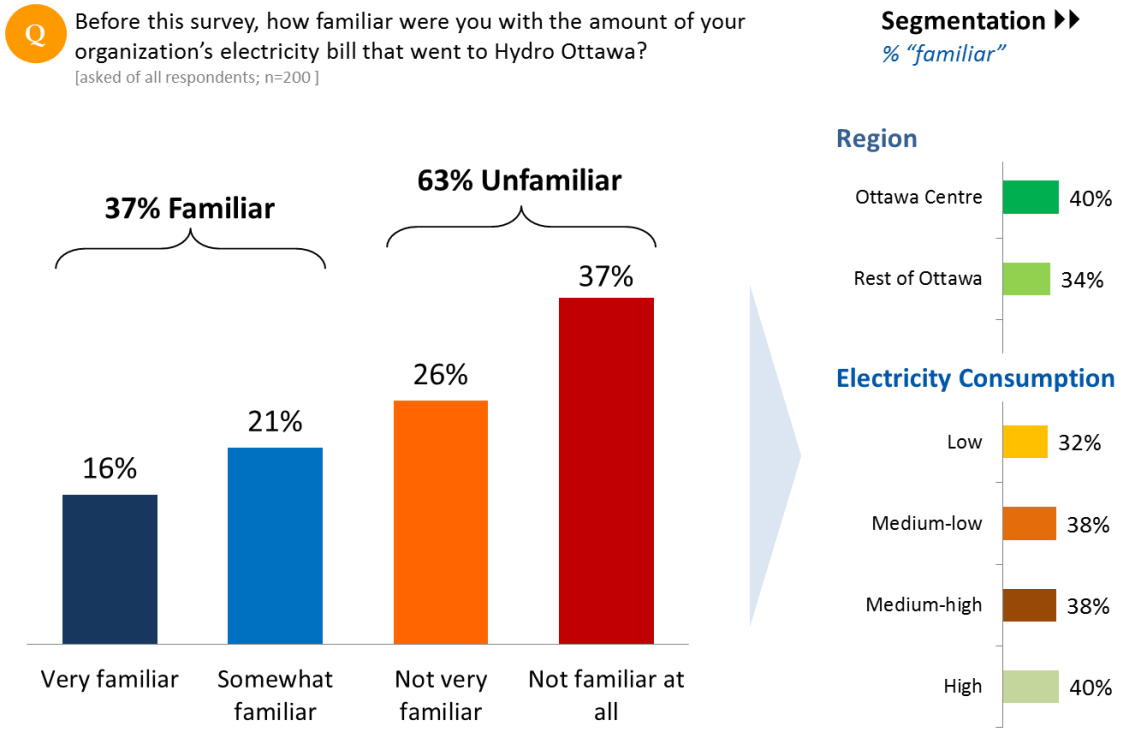
I'd now like to talk with you about your electricity bill …

While some customers pay more and others pay less, the ***average small business pays about $311 a month for electricity*** *of which* ***$59 or approximately 19% goes to Hydro Ottawa****. The rest of the bill goes to power generation companies, transmission companies, the provincial government and regulatory agencies.*

Among general service customers, six-in-ten (63%) were unfamiliar with how much of their energy bill went to Hydro Ottawa, with 37% being *not familiar at all.* Conversely, 37% reported being familiar with this bill breakdown.

- There are no significant variations across the sub-segments of the general service sample.

Figure GS.4: Familiarity with Electricity Bill



System Reliability

This section of the survey focused on customers' experiences with reliability. We also asked respondents what they think Hydro Ottawa's priorities should be when it comes to investing in system reliability.

System Reliability Preamble *(read to both Residential and General Service customers):*

Despite best efforts, no electrical distribution system can deliver perfectly reliable electricity. As a general rule, the more reliable the system, the more expensive the system is to build and maintain.

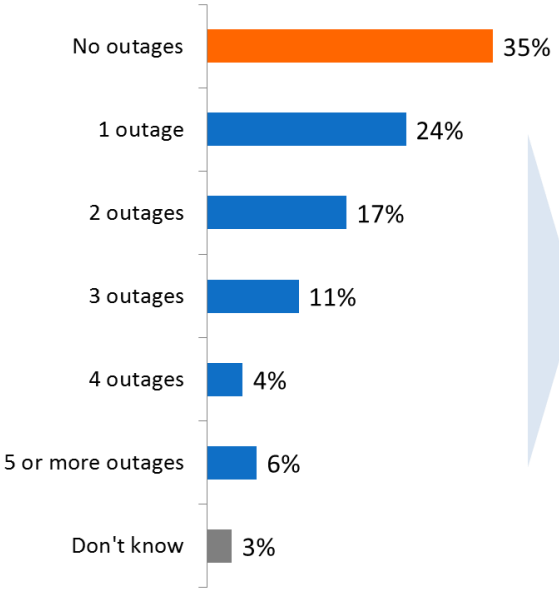
With that said, the average Hydro Ottawa customer experiences ***one*** *power outage per year.*

Over a third (35%) of residential customers did not experience an outage in the prior 12 months. Among those who recall a power outage over the past 12 months, half (52%) experienced between one and three outages, with only 10% experiencing four or more.

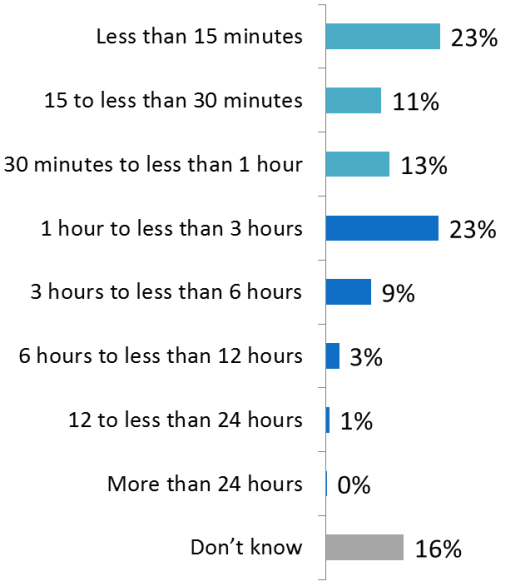
Among residential customers who experienced a power outage, almost half (47%) report that their most recent outage lasted less than one hour. In fact, almost half (46%) say it was less than 15 minutes in duration. Just over a third (36%) reported their most recent power outage over the past 12 months lasting over an hour.

Figure RS.5: Power Service Interruptions

Q Have you experienced any power outages in the past 12 months, and if so, approximately how many?
[asked of all respondents; n=1,036]



Q Approximately how many minutes did the most recent power outage last?
[Asked of all respondents who experienced an outage, n=651]

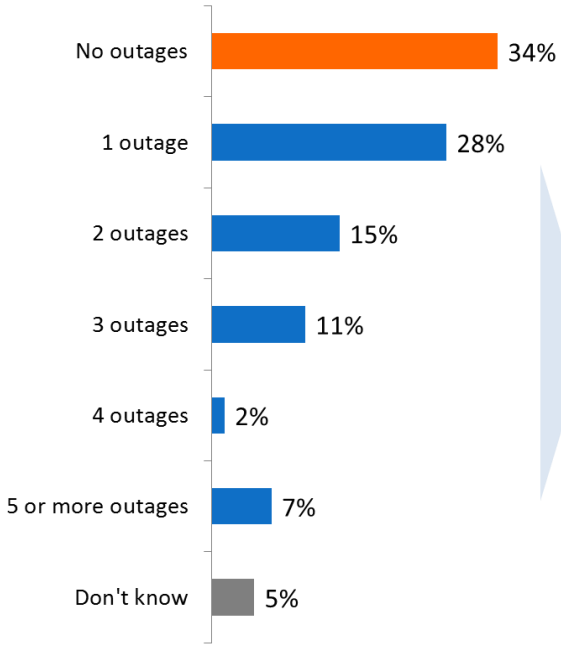


One third (34%) of general service customers did not experience any outages, while just over half (54%) experienced between one and three outages. Only-one-in ten (9%) reported four or more outages.

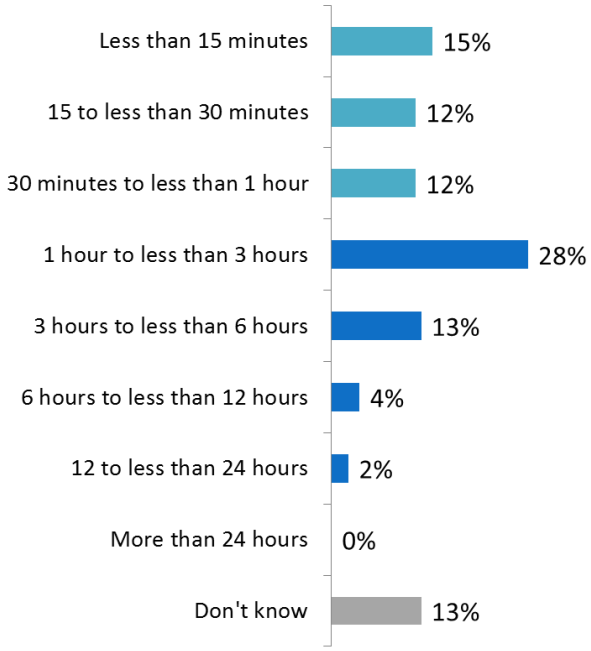
General service customers reported shorter outages than residential customers. Four-in-ten (39%) said their most recent outage lasted less than an hour (15% said less than 15 minutes), while nearly half (47%) said over an hour.

Figure GS.5: Power Service Interruptions

Q Has your organization experienced any power outages in the past 12 months, and if so, approximately how many?
[asked of all respondents; n=200]



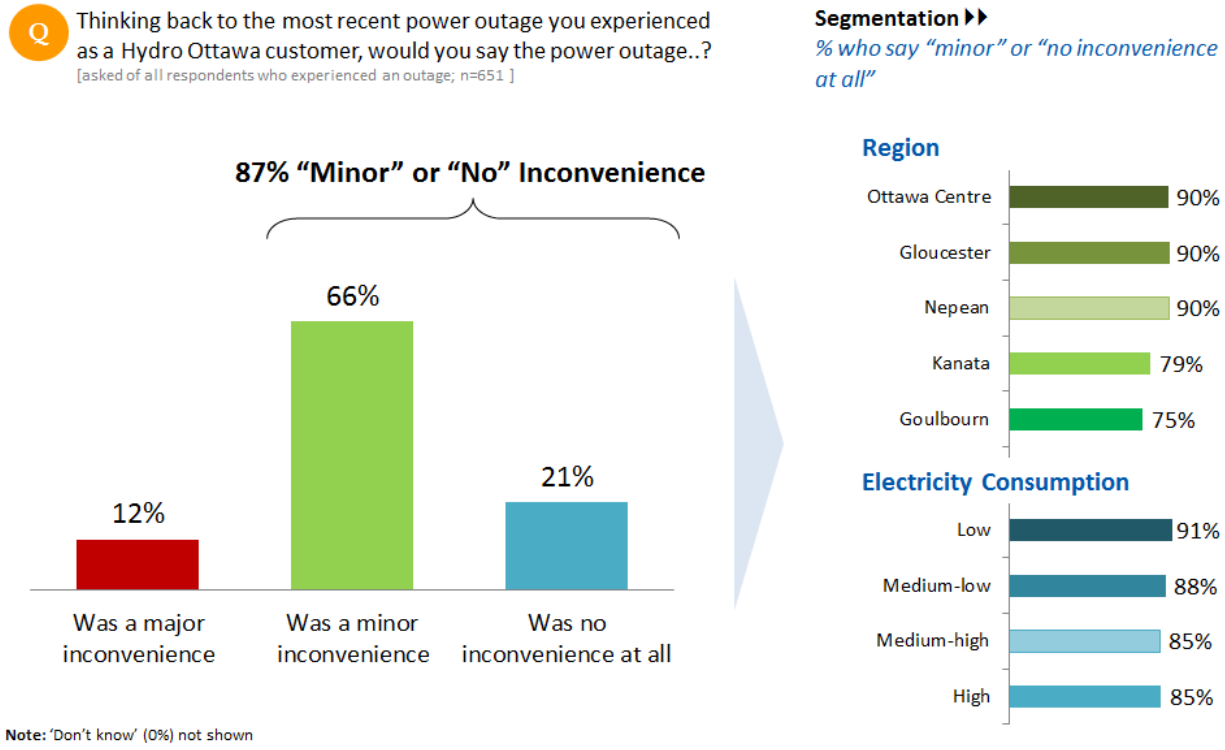
Q Approximately how many minutes did the most recent power outage last?
[Asked of all respondents who experienced an outage; n=123]



Regardless of duration, nine-in-ten (87%) residential customers say their most recent power outage either had a minor or caused no inconvenience. 12% said their most recent power outage over the past 12 months was a major inconvenience.

- Customers in Goulbourn (75%) are least likely to say their most recent power outage was a minor inconvenience or caused no inconvenience.

Figure RS.6: Impact of Most Recent Power Service Interruption

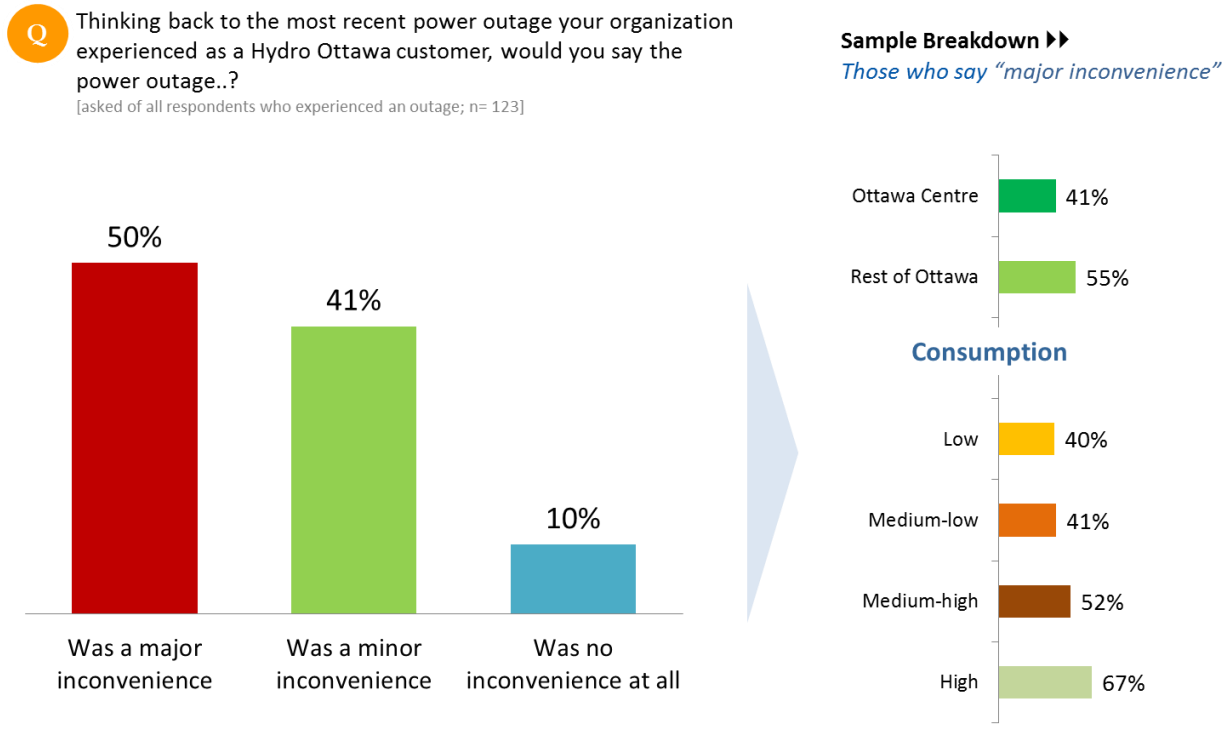


Note: 'Don't know' (0%) not shown

Unlike residential customers, 50% of general service customers reported that their most recent power outage was a major inconvenience. On the other hand, 51% of general service customers say their most recent power outages was either a minor inconvenience or caused no inconvenience at all.

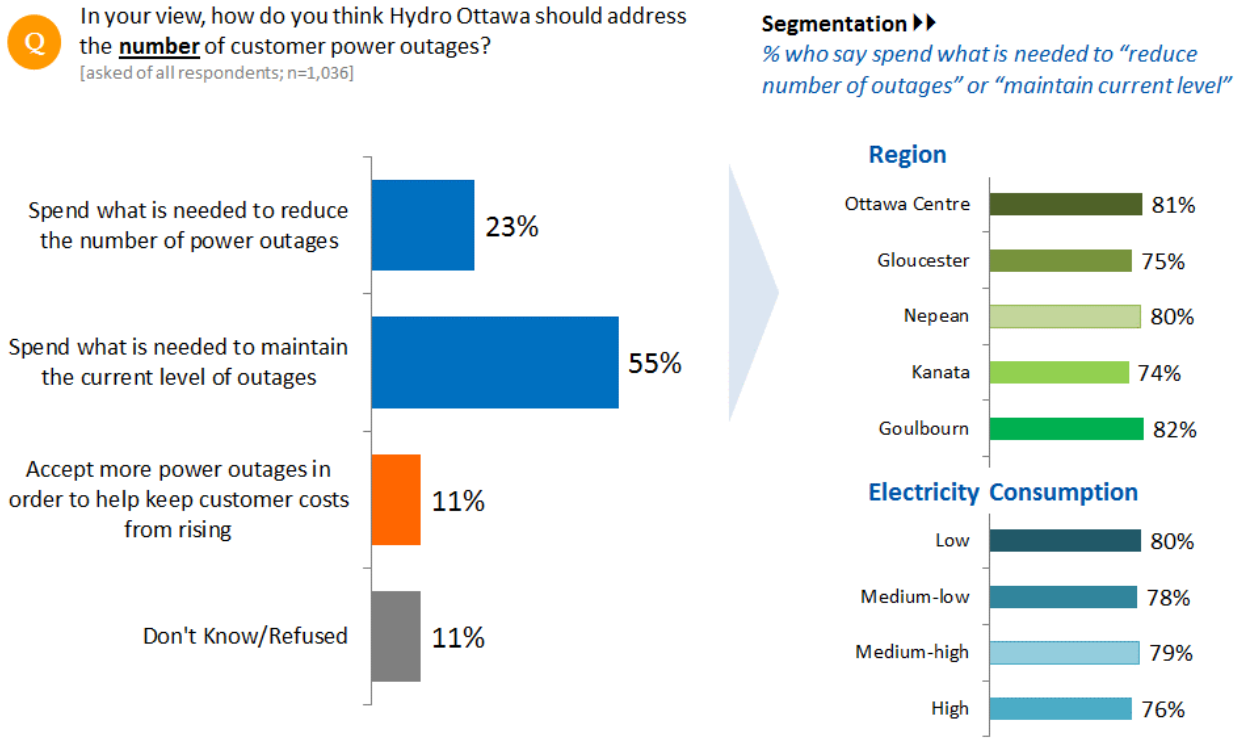
- Those with a higher level of electricity consumption are most likely to say the last power outage was a major inconvenience (67%).

Figure GS.6: Impact of Most Recent Power Service Interruption



When asked what Hydro Ottawa should do to address the number of power outages, eight-in-ten (78%) residential customers say Hydro Ottawa should spend what is needed to reduce the number or maintain the current level of power outages. Only one-in-ten (11%) say they are willing to accept more outages to help keep customer costs from rising.

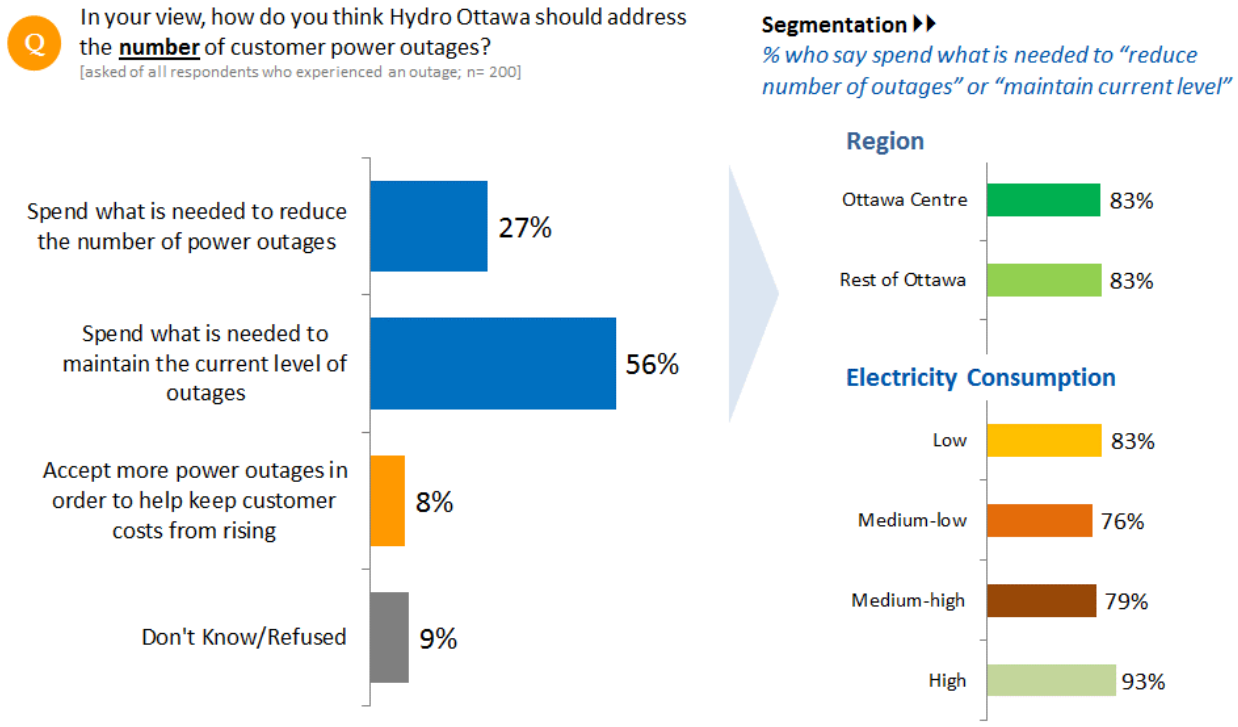
Figure RS.7: Addressing the Number of Power Service Interruption



Among general service customers, the preference (56%) is also for Hydro Ottawa to spend what is needed to maintain the current level of unexpected power outages. Three-in-ten (27%) would like them to spend what is needed to reduce the current number, but only eight percent are willing to accept more outages in order to keep customer costs from rising.

- Businesses with high electricity consumption levels are most likely (93%) to prefer a spending plan that either reduces the number of power outages or maintains the current level of reliability.

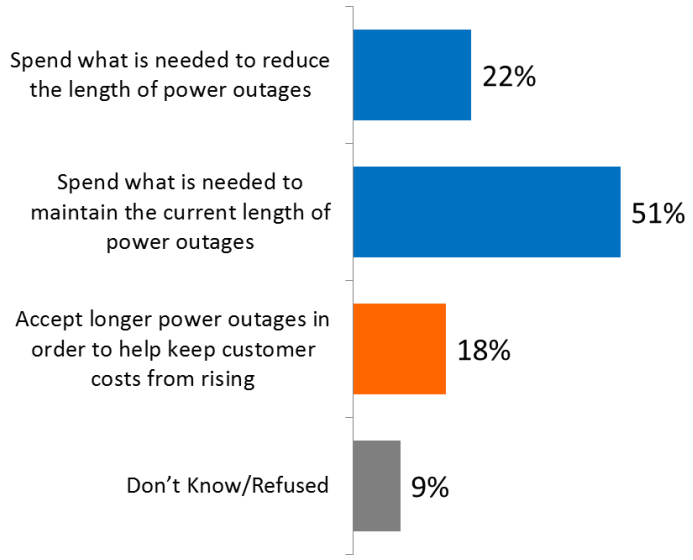
Figure GS.7: Addressing the Number of Power Service Interruption



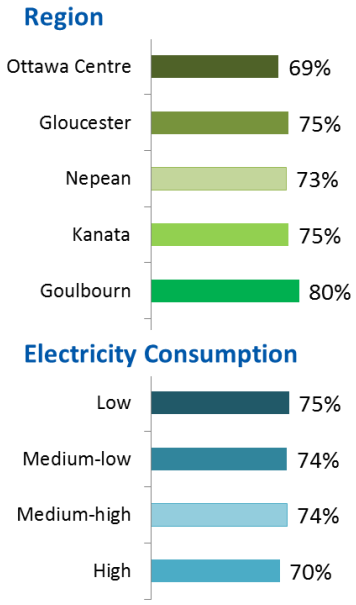
Consistent with their preference for spending what is needed to maintain the current number of outages, residential customers also want maintenance to be the objective when it comes to spending on the duration of power outages (51%). Two-in-ten (22%) would prefer that Hydro Ottawa spend what is needed to reduce the length of power outages, while fewer (18%) say they would accept long time without power in order to keep customer costs from rising.

Figure RS.8: Addressing the Length of Power Service Interruption

Q Overall, the average customer is without power for 1.7 hours per year. In your view, how do you think Hydro Ottawa should address the **length** of time customers are without power?
[asked of all respondents; n=1,036]



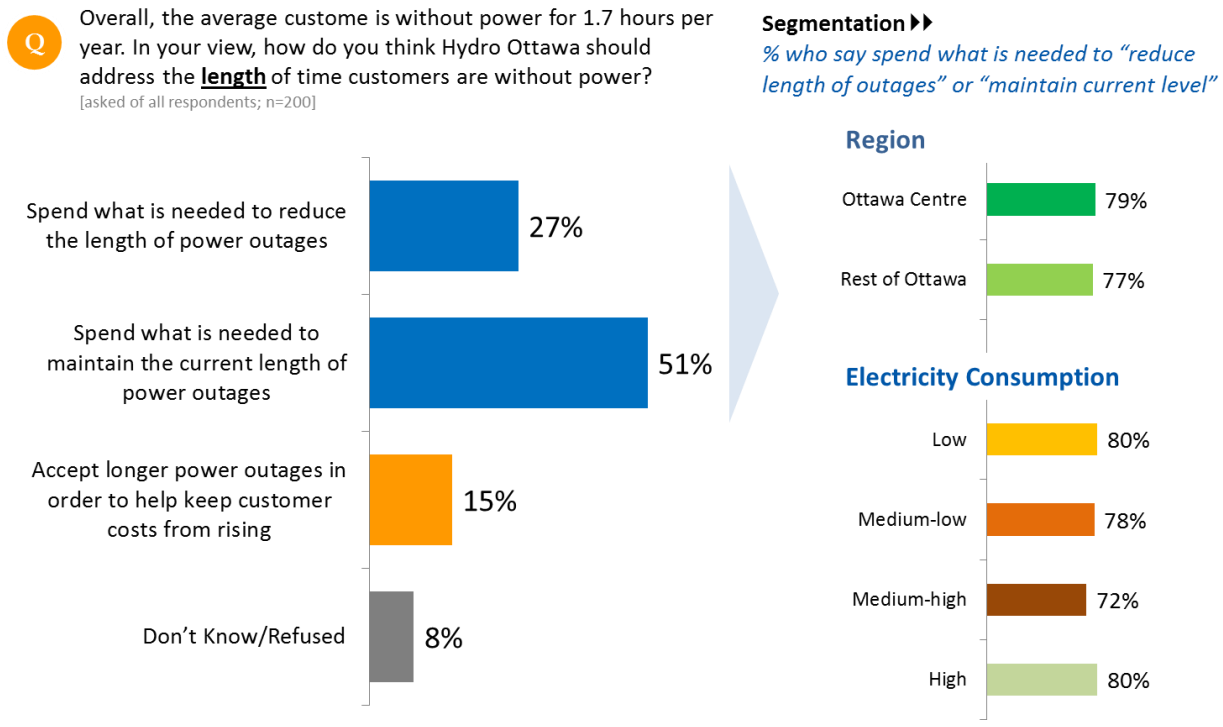
Segmentation ▸▸
% who say spend what is needed to "reduce length of outages" or "maintain current length"



Again, like residential customers, a majority of general service customers prefer a spending level with the goal of maintaining the current length of power outages (51%). Fewer than one-in-five (15%) are prepared to accept longer time without power to keep customer costs from rising, while 27% would like Hydro Ottawa to spend what is needed to reduce the current length of outages.

- There are no significant variations across the sub-segments of the general service sample.

Figure GS.9: Addressing the Length of Power Service Interruption



System Challenges and Priorities

This series of questions gathered feedback on investment in the areas of System Renewal, System Service and General Plant. Preambles prior to each question provided respondents with some background information to help them give a more informed opinion.

System Renewal

Before asking respondents about Hydro Ottawa's investment priorities, residential and general service customers were read the following preamble related to the utility's proposed system renewal program.

System Renewal Preamble *(read to both Residential and General Service customers):*

A significant amount of ***Hydro Ottawa's*** *electrical infrastructure was built in the 1960s and 70s, and is still in-service today. While* ***Hydro Ottawa*** *believes it has done its best to prolong the life of these assets, many of these assets are approaching or have exceeded the end of their useful life.*

As part of its investment plan, ***Hydro Ottawa*** *is proposing a significant infrastructure renewal program. The estimated cost of this system renewal program is* ***$181 million*** *over the next 5 years.*

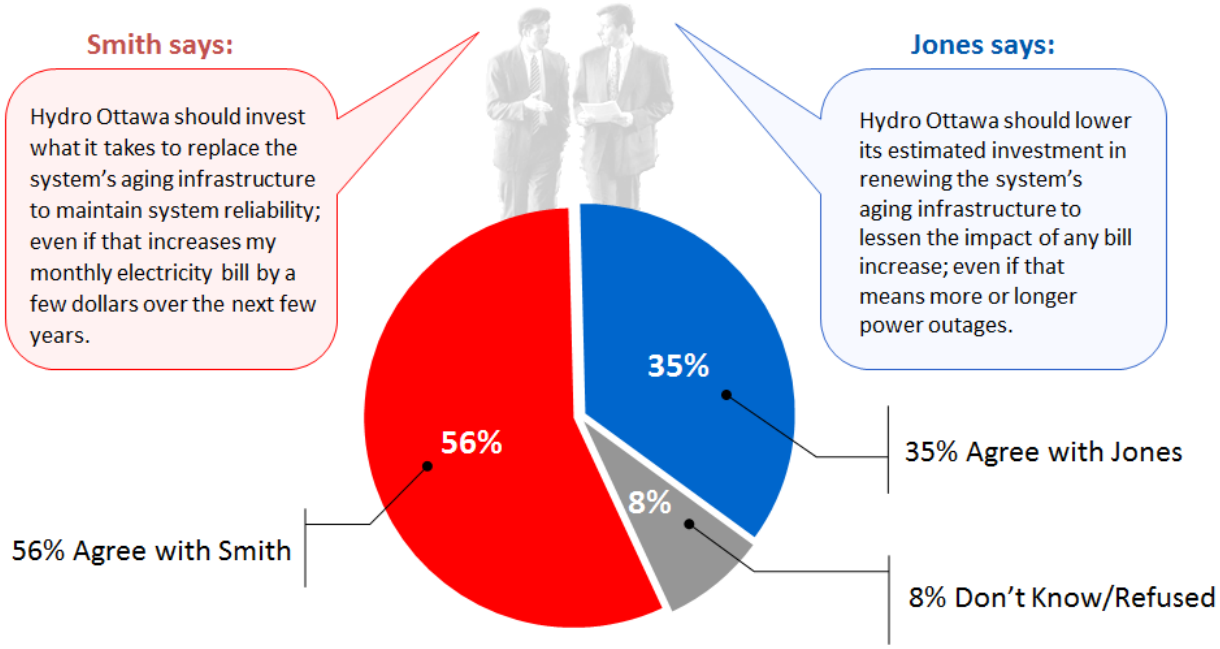
Although this plan will allow ***Hydro Ottawa*** *to make the necessary investments to maintain system reliability,* ***it will have an impact on customer bills****.*

A majority (56%) of residential customers feel Hydro Ottawa should invest what it takes to replace the system's aging infrastructure to maintain system reliability. More than a third (35%) say Hydro Ottawa should lower its investment in system renewal in order to lessen the impact of a bill increase; even if it means more or longer power outages.

- In households that are not under financial strain due to their electricity bill, 70% think Hydro Ottawa should invest what it takes to replace the system's aging infrastructure. Almost half (45%) of those who are under some financial strain feel the same way.

Figure RS.10: System Renewal Preferences

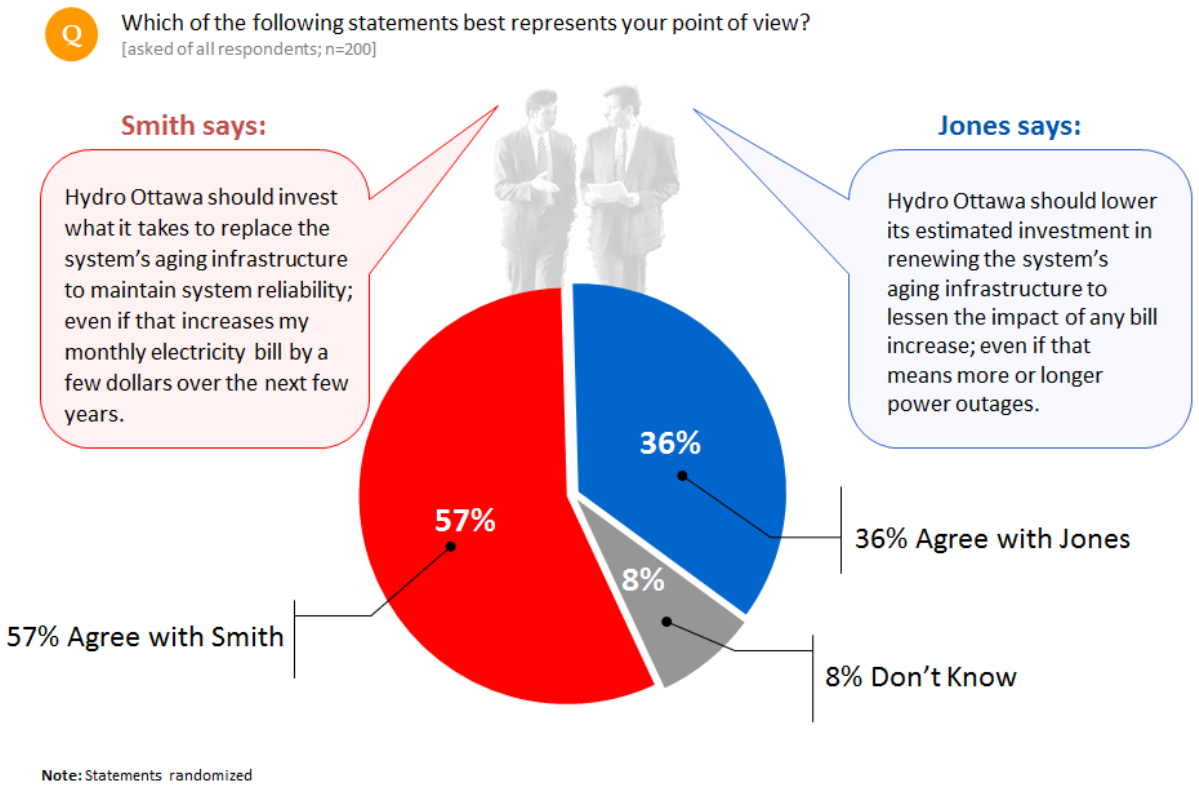
Q Which of the following statements best represents your point of view?
[asked of all respondents; n=1,036]



Note: Statements randomized

Similar to residential customers, a majority (57%) of general service customers feel Hydro Ottawa should invest what it takes to replace the system's aging infrastructure, while 36% would rather they lower the estimated investment in renewing the system's aging infrastructure to lessen the impact of any bill increase.

Figure GS.10: System Renewal Preferences



Note: Statements randomized

System Service

System Service Preamble *(read to both Residential and General Service customers):*

New technology and electricity infrastructure can have many impacts on distribution systems:

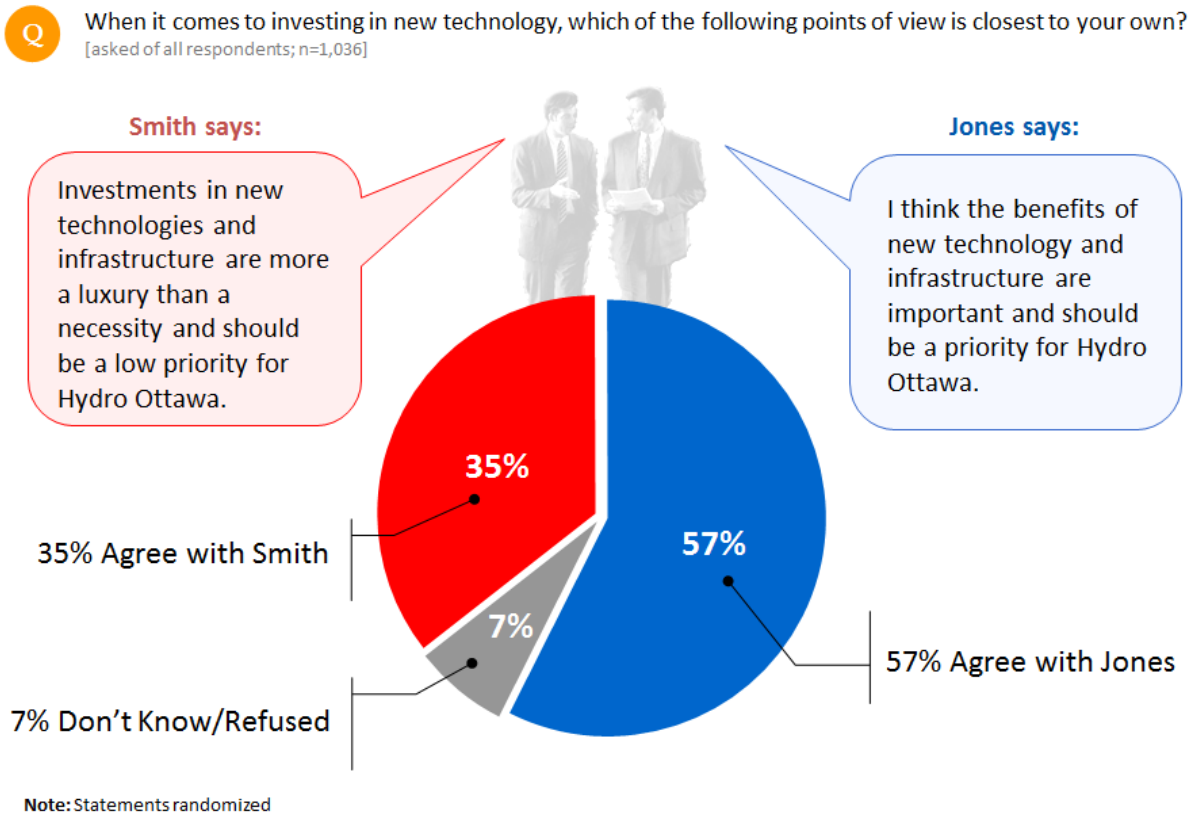
- *New substations to ensure growing communities have the electricity capacity they need.*
- *New computer systems, sensors and monitoring equipment provide pinpointed information about outages to both system controllers and customers in real time.*
- *Remotely controlled equipment and switches allow power to be restored to many customers much more quickly than in the past.*

While there are benefits from new technology and equipment, there are also costs.

Most (57%) residential customers think the benefits of new technology and infrastructure are important and should be a priority for Hydro Ottawa. About one third (35%) feel these types of investments are more of a luxury than a necessity.

- Residential customers living in households whose electricity bill causes financial strain are more likely than others to feel that investments in new technologies and infrastructure are more of a luxury (40% versus 30%, respectively).
- At 27% respondents living in three-person households are less likely to feel such investments are a luxury than respondents living in either larger or smaller households.

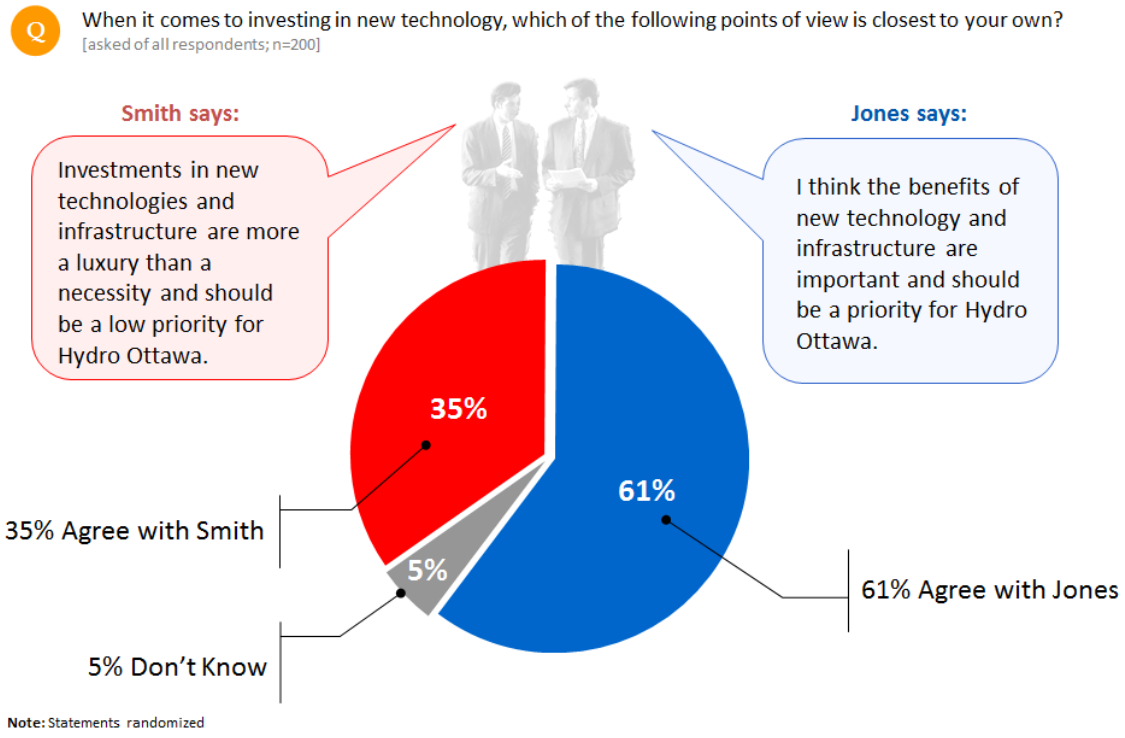
Figure RS.11: System Service Preferences



Note: Statements randomized

Once again, similar to residential customers, most (61%) general service customers think the benefits of new technology and infrastructure are important and should be a priority for Hydro Ottawa, while just over a third (35%) feel these investments are more of a luxury and should be a low priority for Hydro Ottawa.

Figure GS.11: System Service Preferences



General Plant

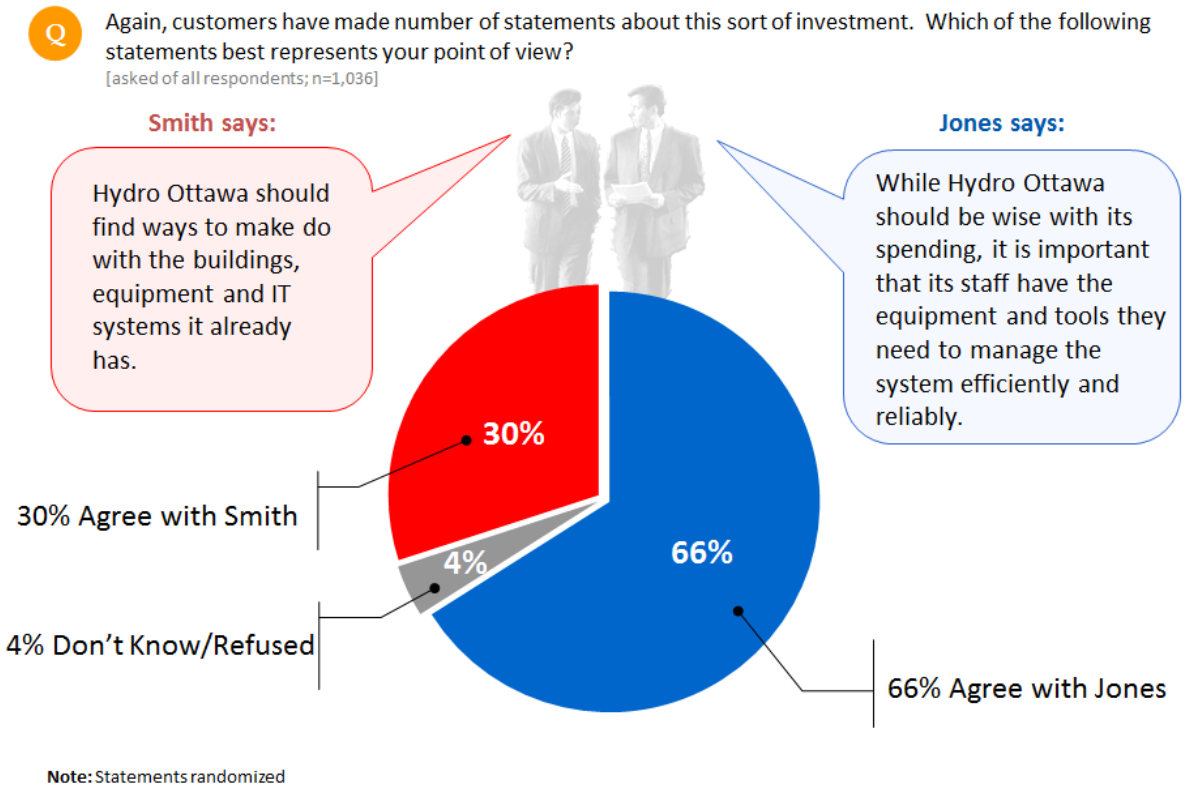
General Plant Preamble *(read to both Residential and General Service customers):*

Hydro Ottawa is not just the local electricity distribution system itself, but a company that operates the system. As a company, Hydro Ottawa needs buildings to house its staff, vehicles and tools to service the power lines and IT systems to manage the electrical system and customer information.

Two thirds (66%) of residential customers feel that, while Hydro Ottawa should be wise with its spending; that it is important that its staff have the equipment and tools they need to manage the system efficiently and reliably. Less than a third (30%) say Hydro Ottawa should make do with its current general plant assets.

- Customers living in households that not under financial strain due to their electricity bill are most likely to say it is important for Hydro Ottawa staff to have the equipment and tools they need (71%).

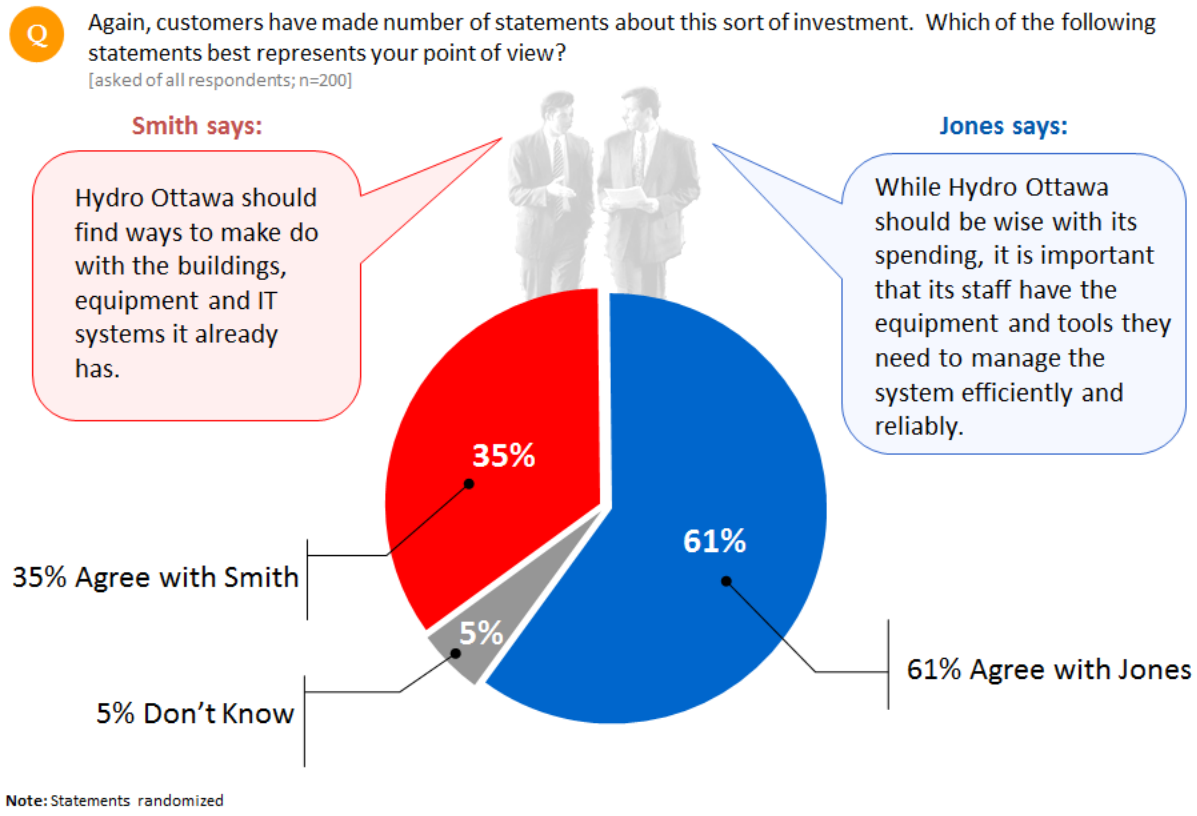
Figure RS.12: General Plant Preferences



Note: Statements randomized

Among general service customers, the results are similar: 61% feel that while Hydro Ottawa should be wise with its spending, it is important that its staff have the equipment and tools they need to manage the system efficiently and reliably. About one third (35%) feel they should find ways to make do with the equipment they already have.

Figure GS.12: General Plant Preferences



Note: Statements randomized

Reaction to Customer Consultation Feedback

This section measures agreement with some of the key opinion statements provided by Hydro Ottawa's customers in the previous phases of the consultation. There were a total of fourteen statements in the questionnaire, and respondents were asked to indicate their level of agreement with each one.

Customer Reaction Statements

The statement "Nobody likes to pay more for electricity, but I think we have an obligation to maintain the reliability of our local electrical system for future generations" garnered the highest level of total agreement (strongly + somewhat agree) among both residential and business customers.

Among residential customers, the statement with the lowest level of agreement was "When it comes to reducing power outages and improving reliability, the first priority should be business customers, then residential customers".

General service customers, on the other hand, were least likely to agree that "Hydro Ottawa should have charged its customer more over the past decade to create a reserve fund that could have helped pay to replace the system's aging electrical infrastructure.

Residential Customer Reaction

Of the fourteen statements tested, the only one that failed to get less than a majority agreement was "when it comes to reducing power outages and improving reliability, the first priority should be business customers, then residential customers" (37% agreed). Aside from that statement, all others had a level of agreement of 51% or more.

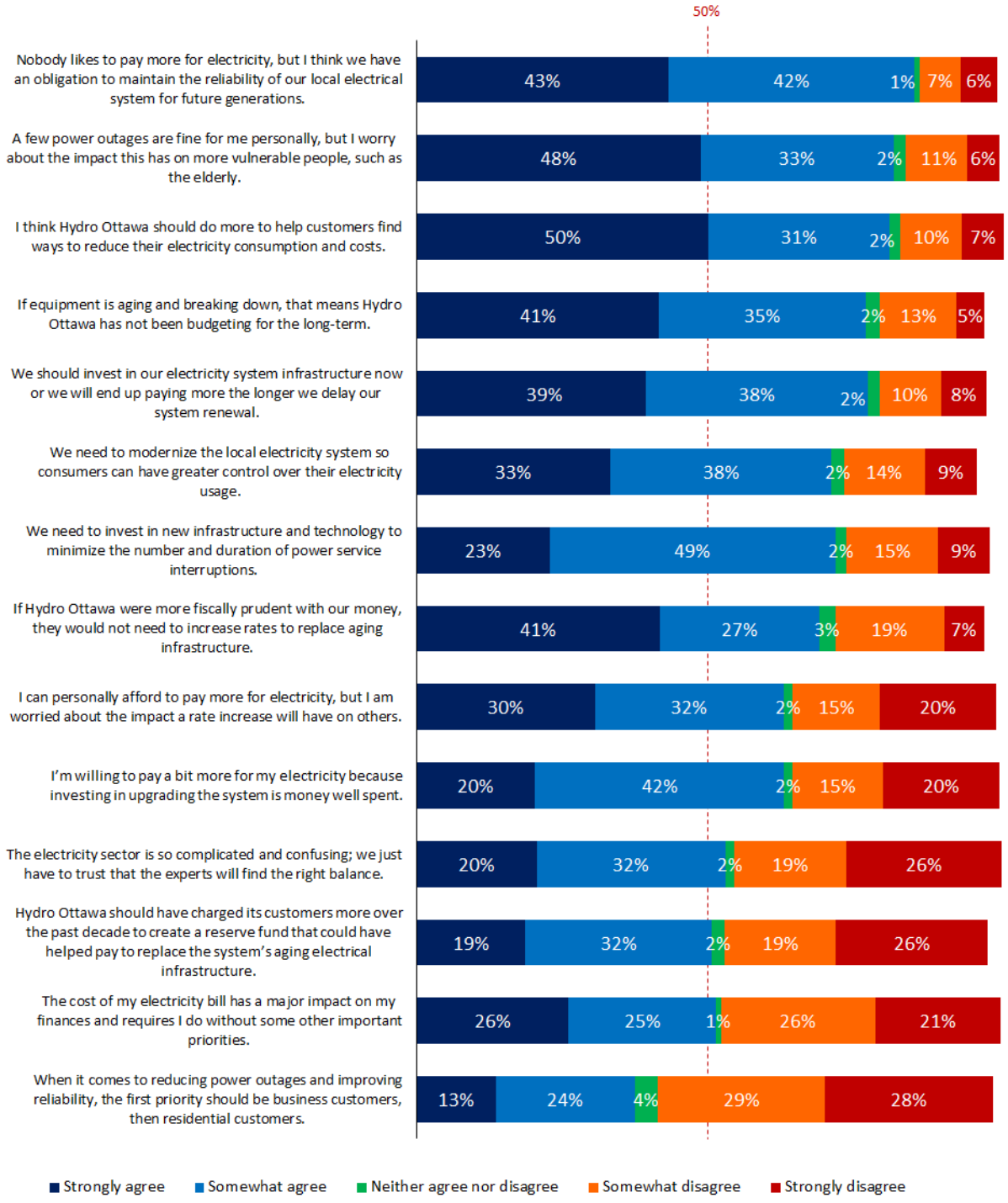
While the highest total agreement was for "nobody likes to pay more for electricity, but I think we have an obligation to maintain the reliability of our local electrical system for future generations" (85% total agreed), the highest level of *strong* agreement was in response to the statements "I think Hydro Ottawa should do more to help customers find ways to reduce their electricity consumption and costs" (50% strongly agree) and "A few power outages are fine for me personally, but I worry about the impact this has on more vulnerable people, such as the elderly" (48% strongly agree).

Two other statements that were agreed to by at least three quarters were "We should invest in our electricity system infrastructure now or we will end up paying more the longer we delay our system renewal" (77% total agreement) and "If equipment is aging and breaking down, that means Hydro Ottawa has not been budgeting for the long-term" (76% total agreement).

The three statements that received the lowest levels of agreement are "Hydro Ottawa should have charged its customers more over the past decade to create a reserve fund that could have helped pay to replace the system's aging electrical infrastructure" (51%), "The cost of my electricity bill has a major impact on my finances and requires I do without some other important priorities" (51%) and "When it comes to reducing power outages and improving reliability, the first priority should be business customers, then residential customers" (37%).

Figure RS.13: Reaction to Previous Customer Input

Q The following statements have been made by customers throughout Hydro Ottawa's community consultation process. For each statement, please tell me if you strongly agree, somewhat agree, somewhat disagree or strongly disagree.
[asked of all respondents; n=1,036]



Note: 'Don't know' not shown

GS Customer Reaction

More than half (57%) of general service customers *strongly* agree with the statement "I think Hydro Ottawa should do more to help customers find ways to reduce their electricity consumption and costs". However, the highest total level of agreement was for "Nobody likes to pay more for electricity, but I think we have an obligation to maintain the reliability of our local electrical system for future generations" (87% total agreement).

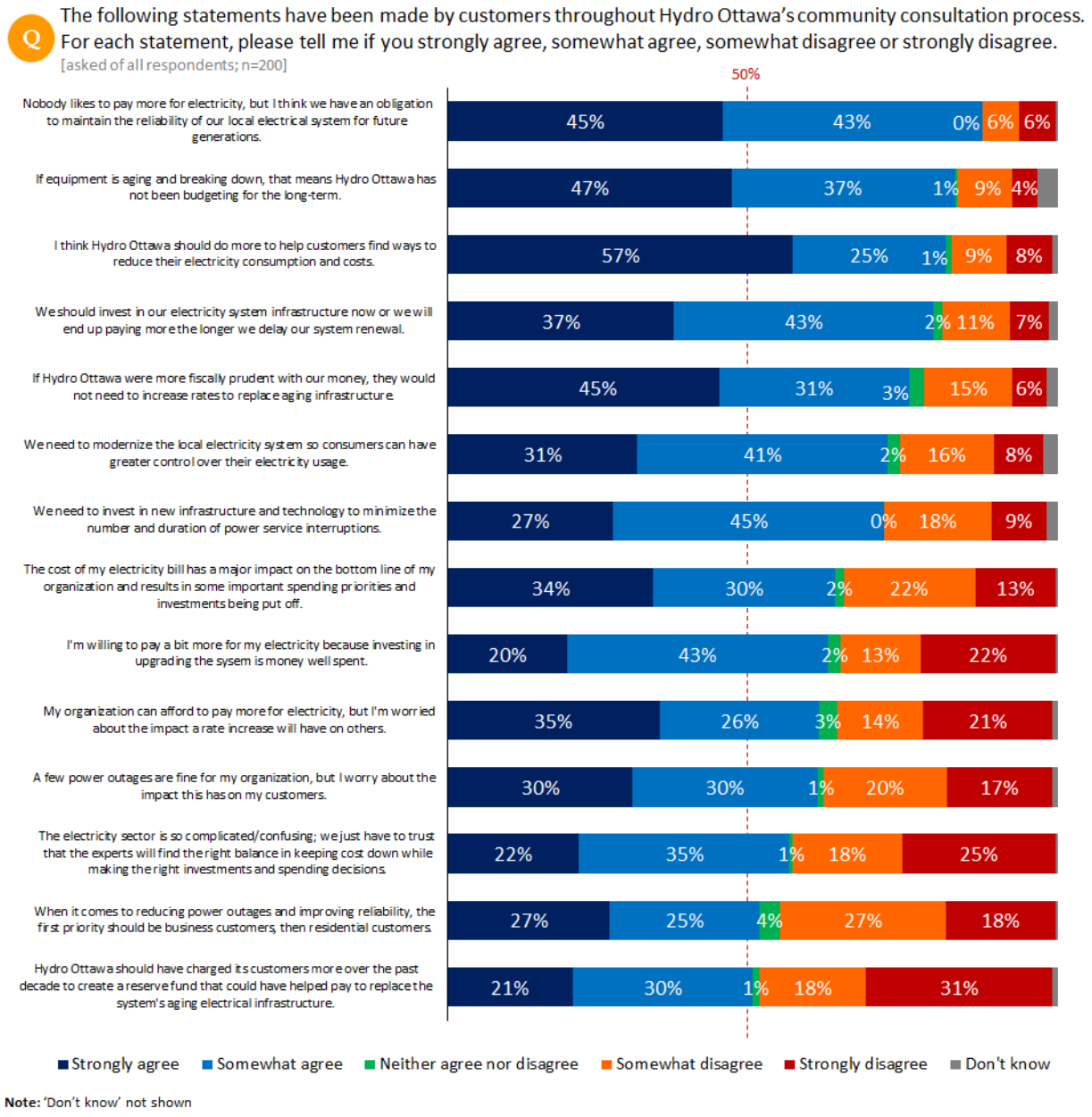
In total, five of the fourteen statements tested garnered agreement from at least three quarters of general service customers:

- "Nobody likes to pay more for electricity, but I think we have an obligation to maintain the reliability of our local electrical system for future generations" (87%)
- "If equipment is aging and breaking down, that means Hydro Ottawa has not been budgeting for the long-term" (84%)
- "I think Hydro Ottawa should do more to help customers find ways to reduce their electricity consumption and costs" (82%)
- "We should invest in our electricity system infrastructure now or we will end up paying more the longer we delay our system renewal" (80%).
- "If Hydro Ottawa were more fiscally prudent with our money, they would not need to increase rates to replace aging infrastructure" (76%)

While all remaining statements were agreed to by at least 51% of respondents, the two statements receiving the lowest levels of agreement are:

- "When it comes to reducing power outages and improving reliability, the first priority should be business customers, then residential customers" (52%)
- "Hydro Ottawa should have charged its customers more over the past decade to create a reserve fund that could have helped pay to replace the system's aging infrastructure" (51%)

Figure GS.13: Reaction to Previous Customer Input



Note: 'Don't know' not shown

Overall Assessment of Plan

The final section of the questionnaire sets out the rate impact for residential and general service customers and then asks to what extent they are prepared to accept it. "Acceptance" for the purposes of this analysis is those who feel the increase is reasonable and support it, and those who don't like it but feel it is necessary (reluctant acceptance). Using open-ended questions, respondents are also asked why they accept or oppose the rate increase.

Acceptance of Rate Increase Summary

A strong majority (70%) of residential customers are prepared to accept the rate increase, with 23% supporting it outright, and another 47% reluctantly accepting it as necessary. The remaining 27% find the rate increase unreasonable and they oppose it.

Among general service customers, there is also a strong degree of support (66% total acceptance), Just over one-in-five (22%) find the increase reasonable and they accept it, while twice as many (44%) don't like it, but think the rate increase is necessary. One third (32%) say the increase is unreasonable and they oppose it.

Financial Flexibility and Level of Acceptance

The degree to which customers are willing to accept the rate increase varies according to whether or not their electricity bill places their household or business under financial strain.

Among residential customers who are under financial strain, 61% accept the rate increase (17% support it outright), compared to 80% of those who are not financially strained (30% of whom support it outright).

It is a similar story among general service customers: 54% of those under financial strain accept the increase (18% supporting it outright), while 72% of those not under financial strain accept it (30% outright).

Reasons why customers accept or oppose Hydro Ottawa's proposed plan

- Among residential customers, "affordable/reasonable" (53%) is the most commonly cited reason for supporting the rate increase, followed by "necessary to upgrade/maintain" (31%).
- Residential customers who oppose the rate increase say they "pay too much now/rates are high enough" (16%), or they mention "financial/administrative mismanagement" (11%), or that "developers should pay increased costs" (10%).
- Looking at the general service breakdown, supporters say it is "affordable/reasonable" (43%) or "need it/necessary" (39%).
- Similar to residential customers, general service customers who oppose the rate increase say they "pay too much now/high enough" (22%), or "financial/administrative mismanagement" (10%). They also say it's "too much for small business" (10%) or that the "increase is too much" (10%).

Social Permission

Before being asked to assess Hydro Ottawa's investment plan, customers were presented with a preamble concerning the estimated breakdown of costs for Hydro Ottawa's plan over the next 5 years and the impact this would have on customer rates. They were then asked to indicate their level of "social permission" or acceptance of the rate increase.

Social Permission Preamble:

To maintain the reliability of the local electricity system, Hydro Ottawa's proposed 5 year plan will spend an estimated ***$537 million*** *on capital investments. This includes …*

- ***$181 million*** *to replace aging infrastructure;*
- ***$150 million*** *to integrate new technologies into the power system;*
- ***$145 million*** *to invest in buildings and equipment;*
- ***$62 million*** *to serve new communities, connect customers and to power new high-rises and condo projects.*

To fund this plan, Hydro Ottawa is proposing the ***average residential customers' rate increase by approximately $2.00 per month*** *on the distribution portion of their bill over the next five years. So, by 2020, the average residential household will be paying an* ***estimated $10.00 more per month*** *on the distribution portion of their electricity bill.*

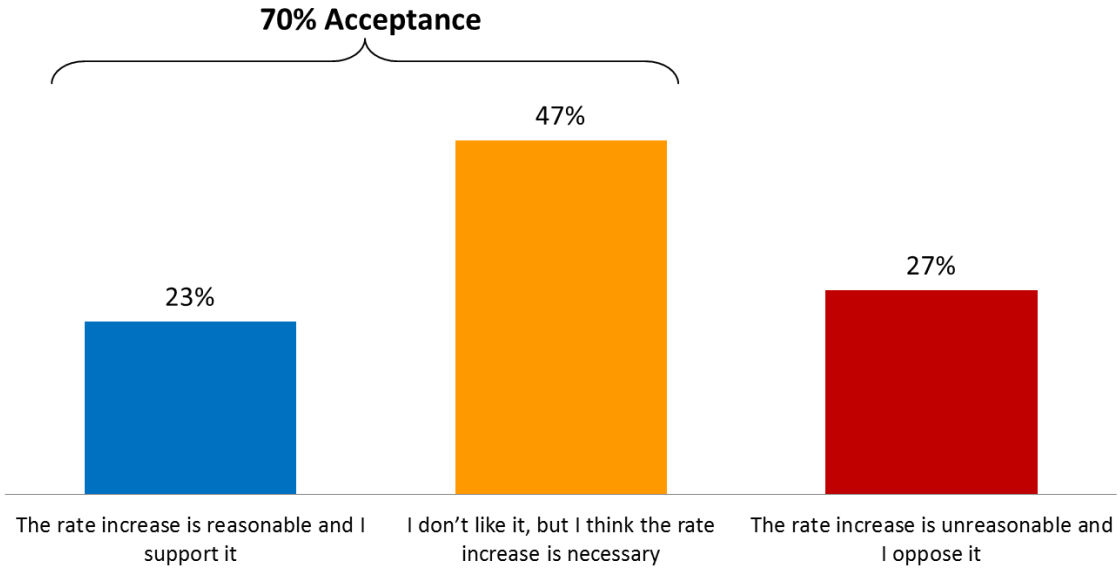
(Note: in the GS Survey, the two bolded phrases in the last paragraph were replaced with "… ***small business' rate increase by about $4.04 per month*** *on the distribution portion of their bill over the next five years. So, by 2020, the average small business will be paying an* ***estimated $20.20 more per month*** *on the distribution portion of their electricity bill." respectively. The rest of the preamble remained the same for organizational customers.)*

When residential respondents were asked the social permission question, a strong majority (70%) give the proposed increase permission. Just under a quarter (23%) support the increase, while another 47% don't like it, but think it is necessary. The remaining 27% find the rate increase unreasonable and they oppose it.

- Men (26%) are more likely than women (20%) to support the rate increase. Women are must more likely to reluctantly accept the plan than men (53% versus 41%).
- Those living in financially strained household are less likely to support the rate increase than those who are not financially strained (17% versus 30%).

Figure RS.14 – Social Permission

Q Considering the cost of the Hydro Ottawa plan, which point of view is closest to your own?
[asked of all respondents; n=1,036]



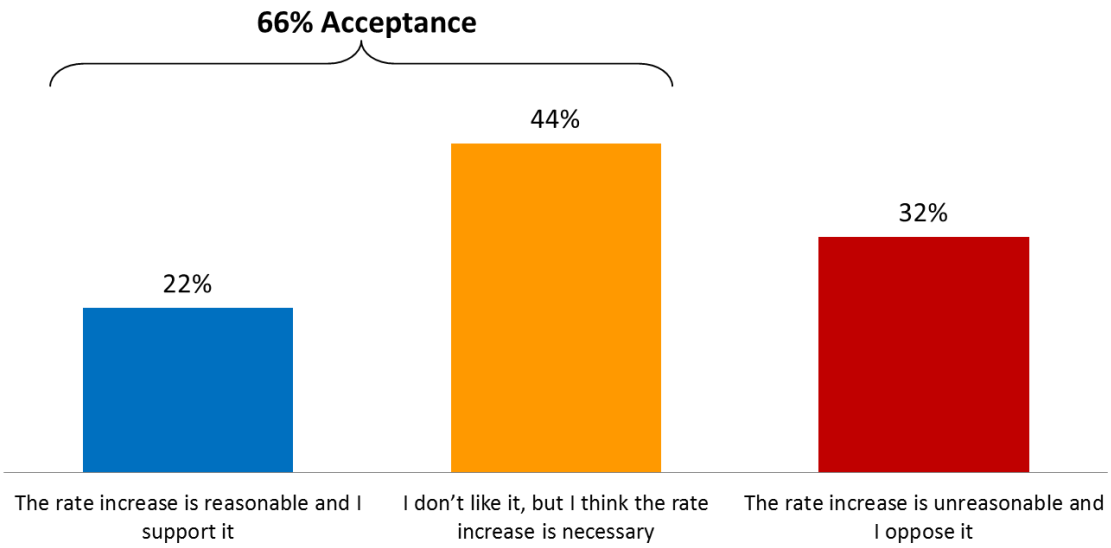
Note: 'Don't know'/'Refused' (3%) not shown

General service customers also grant social permission for the rate increase (66% overall), with 22% supporting it outright and another 44% offering reluctant acceptance. One third (32%) find the rate increase unreasonable and oppose it.

- Overall acceptance is highest among businesses with medium-low consumption levels (72%), and businesses whose electricity bill does not cause them financial strain (72%).

Figure GS.14 – Social Permission

Q Considering the cost of the Hydro Ottawa plan, and what it means for your business, which point of view is closest to your own?
[asked of all respondents; n=200]



Note: 'Don't know'/'Refused' (3%) not shown

Ability to Pay and Level of Acceptance

Based on their responses to an earlier question about whether or not their electricity bill has a major impact on their household/organization's finances, we are able to divide respondents into households/businesses that are financially strained and those that are not financially strained.

Among residential customers, those who are not financially strained are much more likely (80%) to grant the proposed rate increase social permission than those who are financially strained (61%). In fact, financially strained households are more than twice as likely to oppose the rate increase as those in non-financially strained households (37% versus 16%). Nonetheless, a plurality (44%) of those in financially strained households do reluctantly accept the rate increase.

Figure RS.15 – Social Permission by Ability to Pay

Responses	Financially Strained	Not Financially Strained	All Residential Customers
The rate increase is reasonable and I support it	17%	30%	23%
I don't like it, but I think the rate increase is necessary	44%	50%	47%
The rate increase is unreasonable and I oppose it	37%	16%	27%
Don't know	2%	4%	3%
Social Permission	**61%**	**80%**	**70%**

The pattern is similar among general service customers. Among financially strained businesses, 63% give the rate increase social permission, compared to 72% among businesses that are not financially strained by their electricity bills. Three-in-ten (30%) non-financially strained businesses give their full acceptance to the rate increase, while another 42% accept it reluctantly. One-in-four (25%) oppose the rate increase. Among those businesses that are financially strained, 18% support the rate increase, and another 44% offer reluctant acceptance. More than one third (36%) oppose the rate increase.

Figure GS.15 –Social Permission by Ability to Pay

Responses	Financially Strained	Not Financially Strained	All GS Customers
The rate increase is reasonable and I support it	18%	30%	22%
I don't like it, but I think the rate increase is necessary	44%	42%	44%
The rate increase is unreasonable and I oppose it	36%	25%	32%
Don't know	2%	3%	3%
Social Permission	**63%**	**72%**	**66%**

Opinions on Proposed Rate Increase

Among residential customers who support the rate increase outright, 53% say it is "affordable/reasonable", and 31% say it is "necessary to upgrade/maintain" (31%).

Those who don't like the rate increase, but feel it is necessary cite "need it/necessary to upgrade/maintain" (39%) as the primary reason for their opinion. There are a variety of other reasons given by small number of respondents, such as "financial/administrative mismanagement" (6%).

Among those who opposed the rate increase, the three most commonly cited reasons are "pay too much now/high enough" (16%), "financial/administrative mismanagement" (11%), and "developers should pay increased costs" (10%).

Figure RS.16 – Opinion on Proposed Rate Increase

Q Why do you say that? (i.e. Hydro Ottawa's proposed rate increase)

PERMISSION: Reasonable, support it	% RS
Affordable/reasonable	53%
Necessary to upgrade/maintain	31%
Better to pay now than more later	4%
Everything/cost of living increases	3%
Funding has to come from somewhere	2%
Developers should pay increased costs	2%
Other	6%
Sample Size	**n=232**

NO PERMISSION: Unreasonable, oppose it	% RS
Pay too much now/high enough	16%
Financial/ administrative mismanagement	11%
Developers should pay increased costs	10%
Have limited/fixed income/can't afford	8%
Increase will be more than stated/don't trust	7%
Company should be more cost efficient	6%
Use profits to upgrade	5%
Increase is too much	4%
Salaries/bonuses too high	4%
Should have planned better	4%
Because of the debt retirement	2%
Rates have increased too much over years	2%
Rates keep increasing	2%
Other	18%
Don't Know	1%
Sample Size	**n=279**

PERMISSION: Don't like, but necessary	% RS
Need it/necessary to upgrade/maintain	39%
Financial/ administrative mismanagement	6%
Pay too much now/high enough	5%
Have limited/fixed income/can't afford	4%
Should have planned better	4%
Affordable/reasonable	4%
No one wants to pay more	4%
Developers should pay increased costs	3%
Everything/cost of living increases	3%
Increase will be more than stated/don't trust	3%
Funding has to come from somewhere	3%
Better to pay now than more later	3%
Use profits to upgrade	2%
Salaries/bonuses too high	2%
Need breakdown/explanation of charges	2%
Other	12%
Don't Know	1%
Sample Size	**n=471**

General service customers tend to support the rate increase because it is "affordable/reasonable" (43%) or that they "need it/necessary" (39%).

Those who reluctantly accept the rate increase say they "need it/necessary" (32%) or that they "pay too much now/high enough" (17%).

Among general service customers who oppose the rate increase, the main reasons are "pay too much now/high enough" (22%), "financial/administrative mismanagement" (10%), "too much for small businesses" (10%), and "increase is too much" (10%).

Figure GS.16 – Opinion on Proposed Rate Increase

Q Why do you say that? (i.e. Hydro Ottawa's proposed rate increase)

PERMISSION: Reasonable, support it	% GS
Affordable/reasonable	43%
Need it/necessary	39%
Everything increasing	7%
Has to come from somewhere	5%
Other	7%
Sample Size	**n=44**

NO PERMISSION: Unreasonable, oppose it	% GS
Pay too much now/high enough	22%
Financial/ administrative mismanagement	10%
Too much for small businesses	10%
Increase is too much	10%
Salaries/bonuses too high	8%
Don't need/not necessary	8%
Where did/do all the profits go	5%
Should have planned better	5%
Alternative energy	3%
Developers should pay increased costs	3%
Everyone should pay the same	3%
Everything increasing	2%
Because of the debt retirement	2%
Other	11%
Sample Size	**n=63**

PERMISSION: Don't like, but necessary	% GS
Need it/necessary	32%
Pay too much now/high enough	17%
Financial/ administrative mismanagement	9%
No one wants to pay more	5%
Has to come from somewhere	5%
Affordable/reasonable	3%
$20.00 increase is a lot of money	6%
Better to pay now than more later	3%
Other	17%
Don't know	1%
Sample Size	**n=87**

Appendix:

Hydro Ottawa's 2016 Rate Application Review

HydroOttawa

HAVE YOUR SAY 2016-2020 RATE APPLICATION

Hydro Ottawa distributes electricity to more than **319,500** homes and businesses in Ottawa and Casselman. As the third largest municipally-owned electrical utility in Ontario, it is an important community asset for the citizens of Ottawa.

TABLE OF CONTENTS

2 Have Your Say

4 Electricity 101

6 About Your Bill

8 How are your electricity rates determined?

10 Hydro Ottawa's Distribution Network Today

12 Reliability

14 Challenges Facing Hydro Ottawa

16 Finding Efficiencies and Cost Savings

19 The Dollars and Cents

HAVE YOUR SAY

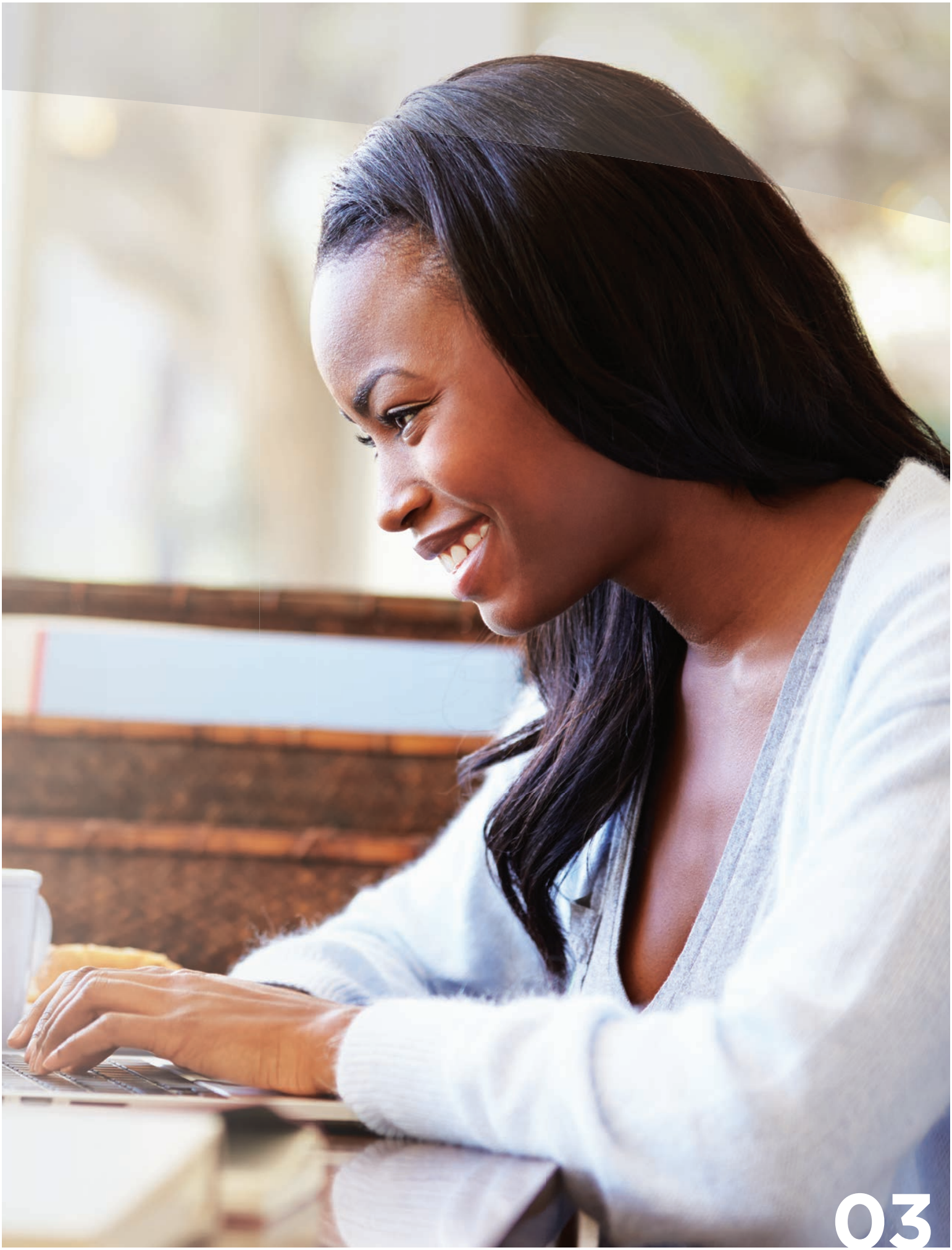
Hydro Ottawa is planning for the future, and we're looking for your feedback on our plans.

Our goal is to continue delivering the electricity local homes and businesses depend on, reliably and efficiently. With aging infrastructure and a growing city, significant investments must be made to achieve this goal.

There is a balancing act that all utilities must consider when planning for the future; system reliability versus the cost to consumers. Generally, the more reliable the system, the more expensive the system is to build and maintain.

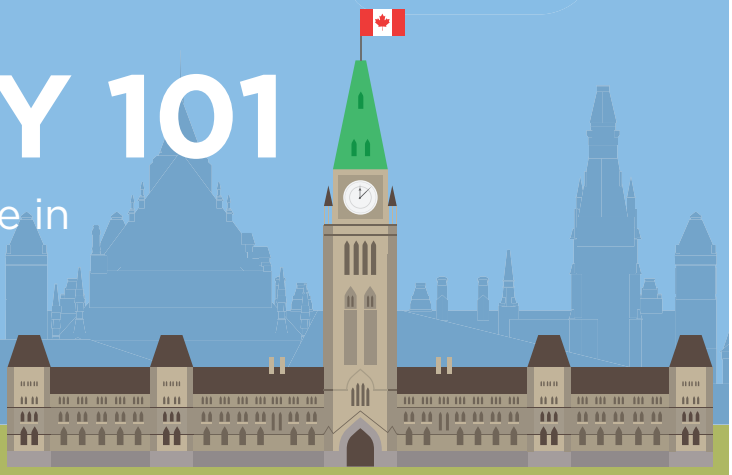
This customer consultation is designed to collect your feedback on the reliability of Ottawa's electricity distribution system and the spending decisions Hydro Ottawa will need to make over the next five years. Ultimately, this will inform our regulator, the Ontario Energy Board, and other stakeholders in the rate setting process, and help Hydro Ottawa align its plans with customer needs and preferences.

This is your opportunity to tell Hydro Ottawa what you think about the proposed plan and the cost implications for you. **Have your say by completing this survey.**



ELECTRICITY 101

Understanding Hydro Ottawa's role in Ontario's Electricity System

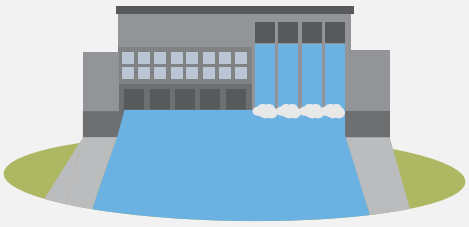


There are three main components to all electricity systems: generation, transmission and distribution.

Generation:

Where electricity comes from

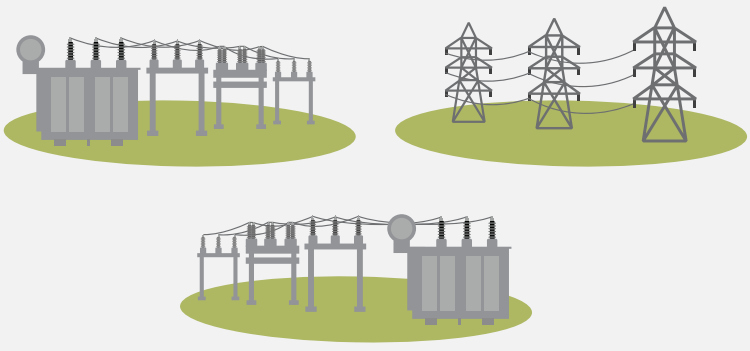
Ontario's electricity is generated by nuclear and natural gas, as well as hydroelectric and other renewable technologies. In Ontario, 70% of electricity is generated by Ontario Power Generation, which has generation stations across the province.



Transmission:

Electricity travels across Ontario

Once electricity is generated, it must be transported to urban and rural areas across the province. This happens by way of high voltage transmission lines that serve as highways for electricity. The province has more than 30,000 kilometres of transmission lines, owned mostly by Hydro One.



Distribution:

Delivering power to homes and businesses

Hydro Ottawa is responsible for the last step of the journey: distributing electricity to customers in the region through its distribution network. This local grid includes transformer stations of various sizes and designs that decrease the voltage of the electricity so it can be used in your home. There are 59,450 poles, 2,703 km of overhead power lines and 2,781 km of underground cable. Through this distribution network, Hydro Ottawa delivers electricity to more than 319,500 homes and businesses.

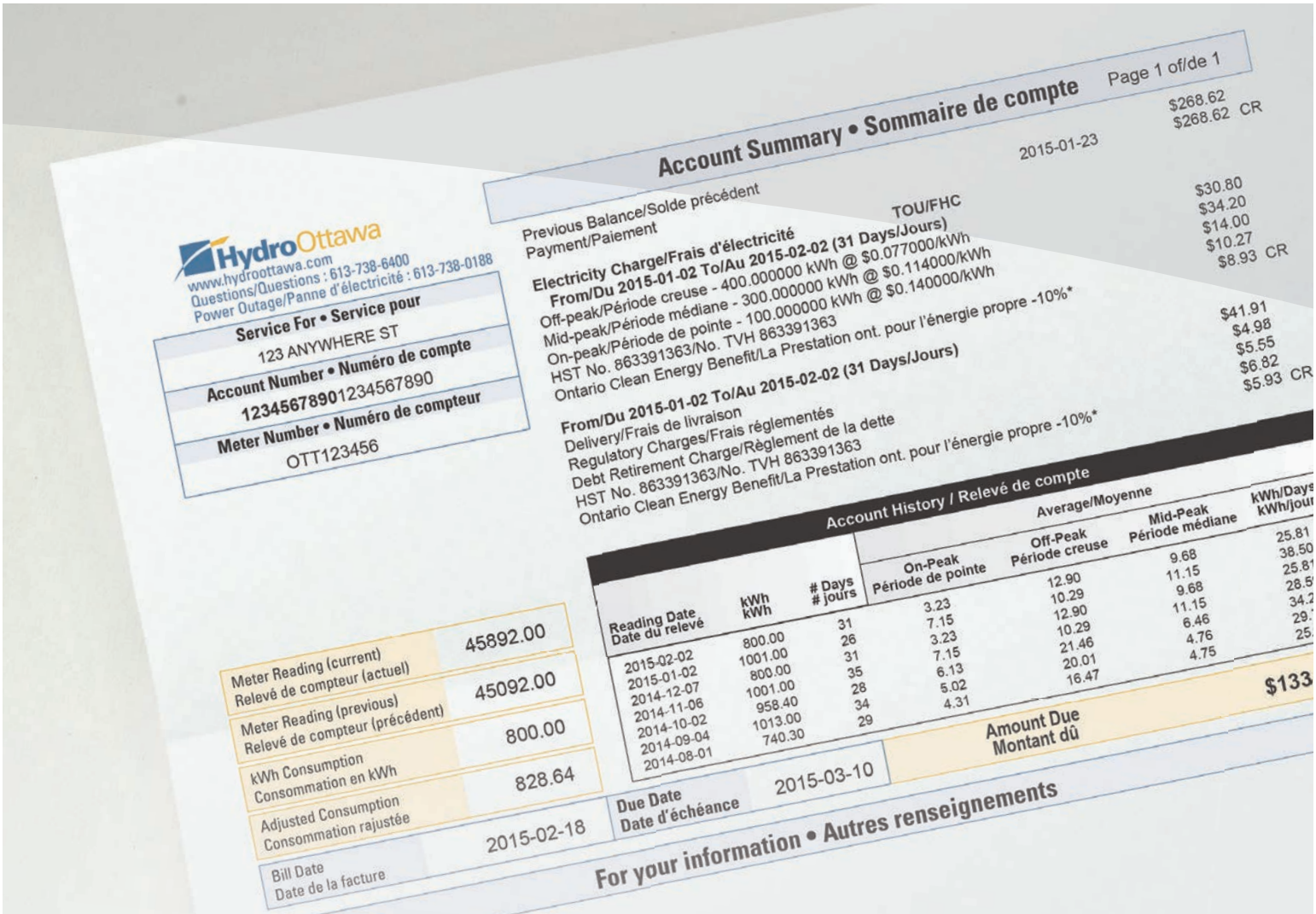
ABOUT YOUR BILL

About 20% of your bill goes to Hydro Ottawa. The total cost of Hydro Ottawa's operations and services represents about one fifth of your bill. It is only this portion that is the subject of this consultation and the topic on which we are seeking your feedback.

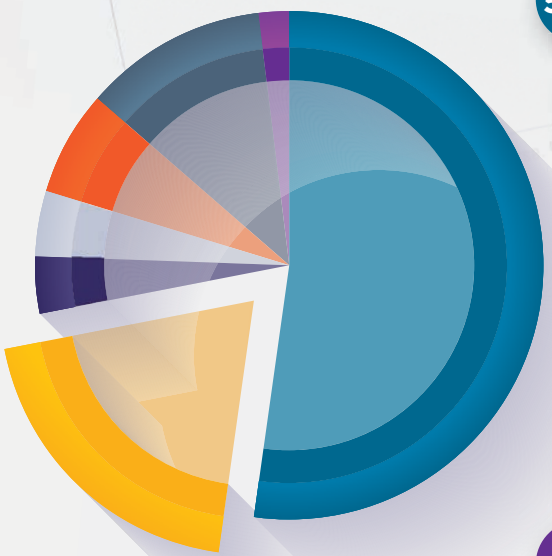
Hydro Ottawa bills customers and collects payments, but only keeps about 20 percent of what the customer pays. The other 80 percent is passed on, without mark-up, to the other companies responsible for generating electricity, transmitting it, and to regulators and the provincial government.

The revenues from the portion of your payment retained by Hydro Ottawa are used for capital investments and operating expenses, including operating and maintaining the electricity distribution network, and providing customer services.

Hydro Ottawa continues to make long-term investments to cover future growth by expanding electricity service into new developments, upgrading older equipment, maintaining poles, transformers, overhead wires, underground cables and the infrastructure needed to operate the electricity network in our service area.



Components of the Electricity Bill[1]



- 52.4% Electricity Generation
- 19.6% Hydro Ottawa Charges
- 3.8% Debt Retirement Charge
- 4% Regulatory Charges
- 6.8% Hydro One Transmission
- 11.5% HST
- 1.9% Adjusted Consumption

1 Residential customer consuming 800 kilowatt-hours per month.

HOW ARE ELECTRICITY RATES DETERMINED?

Hydro Ottawa's distribution rates must be approved by the Ontario Energy Board based on applications by the utility. The rate setting process is open and transparent, with opportunities for public participation. Hydro Ottawa must submit evidence to demonstrate the amount of funding it needs to safely and reliably distribute electricity to its customers.

> FEEDBACK

1 Given what you know and what you have read so far, how well do you feel you understand the parts of the electricity system, how they work together and which services Hydro Ottawa is responsible for?

- ❑ Very well
- ❑ Somewhat well
- ❑ Not very well
- ❑ I don't understand at all

2 Generally, how satisfied are you with the service you receive from Hydro Ottawa?

- ❑ Very satisfied
- ❑ Somewhat satisfied
- ❑ Not very satisfied
- ❑ Not at all satisfied
- ❑ Don't know

3 Is there anything in particular that Hydro Ottawa can do to improve its service to you?

.....

.....

.....

.....

.....

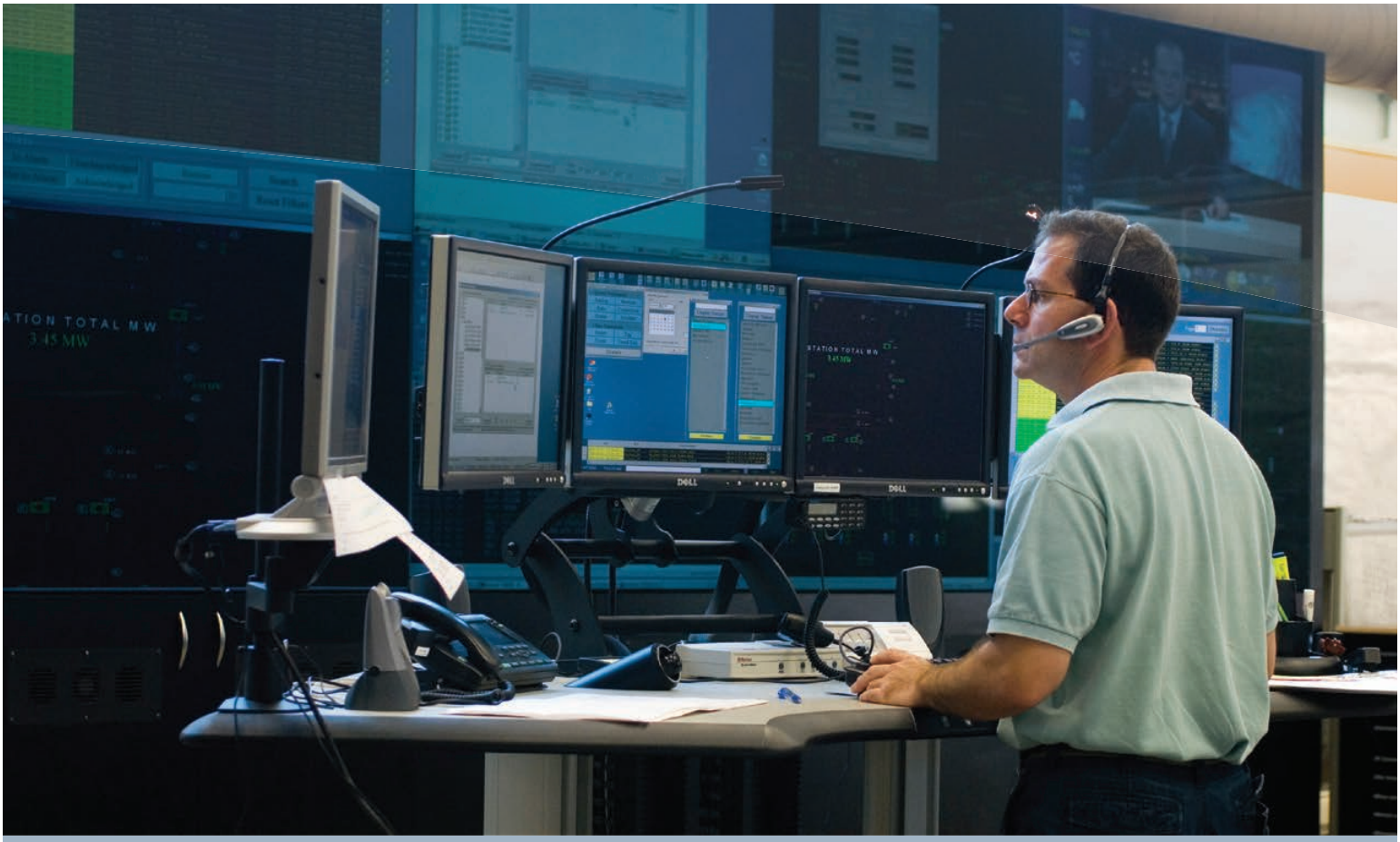
HYDRO OTTAWA'S DISTRIBUTION NETWORK TODAY

Hydro Ottawa's electricity distribution network delivers electricity to more than 319,500 customers. Its service territory of 1,104 square kilometres includes a mix of urban, suburban and rural customers.

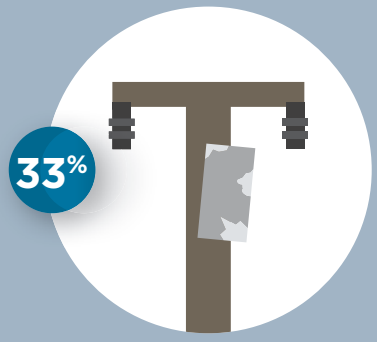
As the City of Ottawa's population continues to grow, additional pressure is put on the local distribution system. The network is expanding to accommodate new suburban subdivisions, downtown redevelopment projects and Ottawa's Light Rail Transit.

At the same time, Hydro Ottawa's assets are aging. Large segments of the network were constructed in the 1960s, 70s and 80s. As most electrical infrastructure has a lifespan of around 50 years, a considerable number of components are approaching or have exceeded their anticipated end-of-life. While continued maintenance has prolonged the life of these assets, infrastructure investments are now needed.

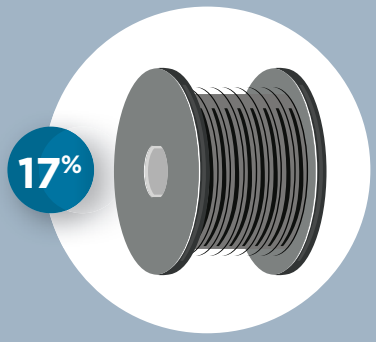
Hydro Ottawa's plan includes increasing investments in this infrastructure. If these aging assets aren't addressed, they will have a negative impact on reliability.



OUR INFRASTRUCTURE IS AGING



33% of pole-mounted transformers are 50+ years old



17% of distribution cables need replacing

12% of wood poles are in poor or critical condition

Hydro Ottawa's distribution system is an even mix of overhead and underground wires. While underground wires are less likely to be damaged by storms or adverse weather, they are much more expensive to build and maintain. And, if there is a power outage it often takes longer to locate and repair the problem, compared to overhead wires.

RELIABILITY

Hydro Ottawa tracks both the average number of power outages per customer and how long those interruptions last.

While most customers experience no outages from year to year, we measure reliability in terms of an average across the entire customer population. In 2014, this figure was 1.1 outages per customer with an average duration of 1.7 hours.

No system delivers perfectly reliable electricity. There is a balancing act between reliability and the cost of running the system.

Together, equipment failure and adverse weather, including lightning, represent 47% of all power outages. Moving forward, it is critical that investment levels for equipment replacement increase in order to reinforce the system against future storms and to get ahead of the curve on aging equipment.

The frequency of outages due to defective equipment has increased by 12% since 2010.

Hydro Ottawa monitors the health of its infrastructure very closely and conducts audits of its assets. These audits help Hydro Ottawa prioritize which parts of the system get upgraded or rebuilt first.

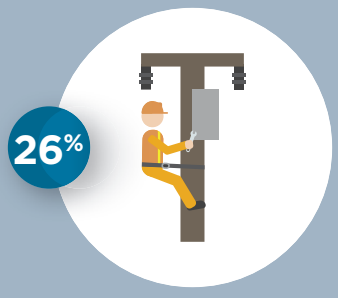
21% of outages are storm-related.

While adverse weather is beyond Hydro Ottawa's control, our ability to respond to these challenges is not.

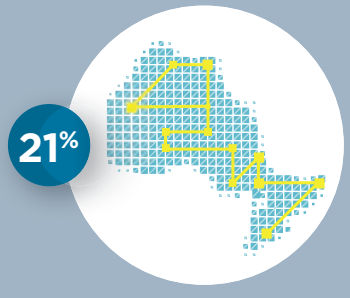
Each year Hydro Ottawa trims more than 40,000 trees near power lines. When trees are close enough to potentially contact power lines, public safety and reliability can be compromised.

In addition to this regular maintenance, Hydro Ottawa started an extensive tree trimming project in 2014 to limit the impact of future ice or wind storms. This project focuses on branches that are overhanging power lines in 2,600 locations across the city.

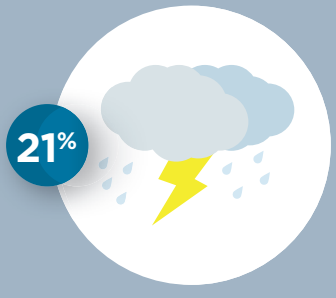
CAUSES OF POWER OUTAGES – 2014



Equipment failure



Loss of supply from the provincial grid



Weather/lightning damage

> FEEDBACK

4 When averaged across the entire customer population, a Hydro Ottawa customer experiences 1.1 power outages per year. Do you recall how many outages you experienced in the past year?

- ❑ None
- ❑ One
- ❑ Two
- ❑ Three
- ❑ Four
- ❑ More than four
- ❑ Don't know

5 Overall, how satisfied are you with the reliability of electricity services provided by Hydro Ottawa?

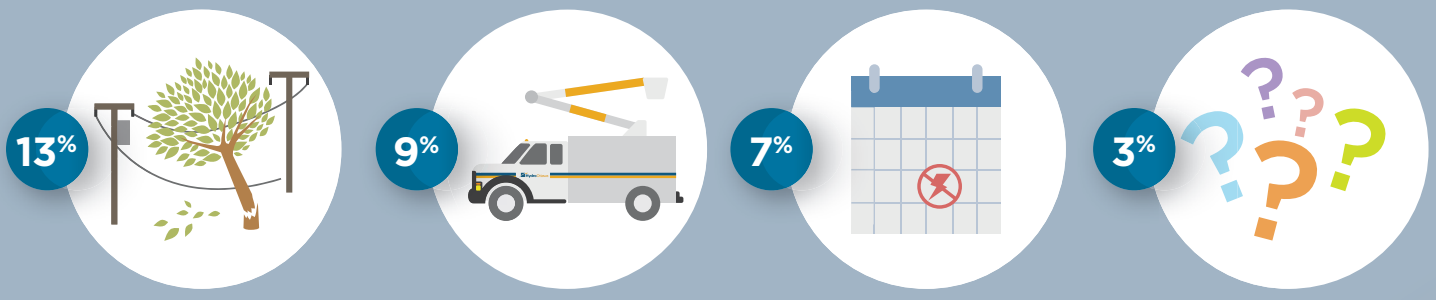
- ❑ Very satisfied
- ❑ Somewhat satisfied
- ❑ Somewhat dissatisfied
- ❑ Very dissatisfied
- ❑ Don't know

6 In your view, how do you think Hydro Ottawa should address the number of customer power outages?

- ❑ Spend what is needed to reduce the number of power outages
- ❑ Spend what is needed to maintain the current level of outages
- ❑ Accept more power outages in order to help keep customer costs from rising
- ❑ Don't know

7 The average Hydro Ottawa customer is without power for approximately 2 hours per year. In your view, how do you think Hydro Ottawa should address the length of time customers are without power?

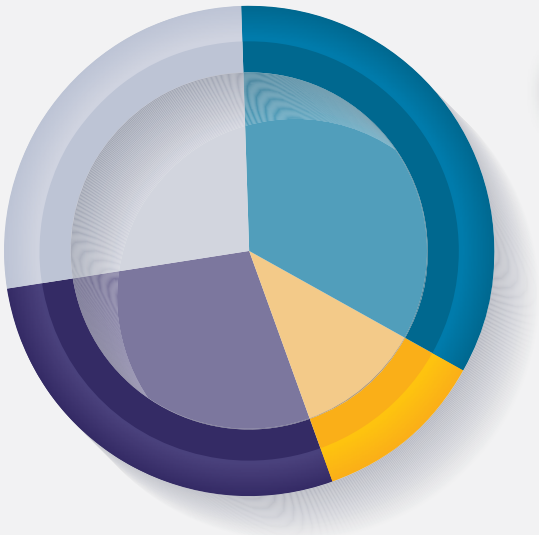
- ❑ Spend what is needed to reduce the duration of power outages
- ❑ Spend what is needed to maintain the current duration of outages
- ❑ Accept longer power outages in order to help keep customer costs from rising
- ❑ Don't know



CHALLENGES FACING HYDRO OTTAWA

What are the major issues we need to address?

2016-2020 Forecasted Capital Spending



- 33.7% Replacing Aging Infrastructure $181.0 million
- 28.8% Integrating Technology in the Power System $149.5 million
- 27% Buildings and Equipment $144.9 million
- 11.5% Serving a Growing City $61.9 million

Replacing Aging Infrastructure

Over the years, Hydro Ottawa has worked hard to keep equipment maintained and working well to get maximum value for money. However, Hydro Ottawa's key challenge now comes from the need to replace aging equipment.

As mentioned above, large segments of Hydro Ottawa's power system were constructed in the 1960s, 70s and 80s. As most electrical infrastructure has a lifespan of around 50 years, a considerable number of components are approaching or have exceeded their anticipated end-of-life. Hydro Ottawa's plan includes increasing investments in this infrastructure. If these aging assets aren't addressed, they will negatively impact reliability.

To assist us in prioritizing what needs to be replaced and when, Hydro Ottawa assesses each type of equipment. This allows us to make strategic investments to replace assets that are in poor or critical condition.

Our plans include replacing a significant number of wooden poles in older neighbourhoods, as well as major equipment such as transformers to ensure reliable electricity supply.

Serving a Growing City

Ottawa continues to grow in population, primarily in four regions: the downtown core, Nepean/Riverside South, Kanata South/Stittsville, and Orléans. The city has not seen any slowing of development as a result of the economic downturn and growth is expected to continue into the future.

This growth is being seen through the development of new mixed retail/residential communities as well as intensification of existing communities and the Light Rail Transit project. Moving forward, significant investment will be required to catch up to and maintain pace with the demand.

Hydro Ottawa is planning ahead to serve new communities, accommodate the intensification of existing neighbourhoods and to power Ottawa's Light Rail Transit project.

Integrating Technology in the Power System

Hydro Ottawa is planning a number of targeted investments to improve reliability. This includes adding automated switches and enhancing the communications equipment used to monitor the network. These investments help us identify the causes of power outages more quickly and/or restore power outages remotely, thereby reducing their duration.

Buildings and Equipment

Just like the power system, the buildings and equipment Hydro Ottawa needs to support the business are also in need of refurbishment and replacement.

It has been determined that some of Hydro Ottawa's existing administrative offices and operations and training centres are beyond their useful lives. They cannot accommodate future growth and the costs of maintenance and upgrades on these facilities continue to escalate. In addition, as the City of Ottawa has grown over the last six decades, Hydro Ottawa's main facility is now very poorly located in a residential neighbourhood. In some cases, it is more prudent to invest in building new facilities rather than investing the equivalent amount in functionally obsolete buildings.

Hydro Ottawa plans to sell three existing facilities and prudently construct a new administrative, technical and training headquarters and a new operations centre. The existing facilities are not optimally situated to respond quickly across the city, as they are located away from major transportation routes. The buildings are overcrowded, have poor energy efficiency, and will require significant expenditures to meet increased standards for accessibility.

The combined savings from reductions in costs and improvements in operational productivity will have the lowest long-term impact on electricity rates.

FINDING EFFICIENCIES AND COST SAVINGS

Hydro Ottawa is focused on improving productivity to cut costs. Ontario Energy Board comparisons have consistently shown that Hydro Ottawa's operating, maintenance and administration costs are below the provincial average. We're focused on continuous improvement to keep rates reasonable for our customers.

The following list outlines a number of cost saving initiatives Hydro Ottawa is focusing on:

Using Innovative Techniques

Hydro Ottawa has started a pilot project using a new technique to extend the life of existing buried cables; which if successful would represent significant savings over the cost to excavate and replace these cables and allow monies to be redirected to replacing other aging assets.

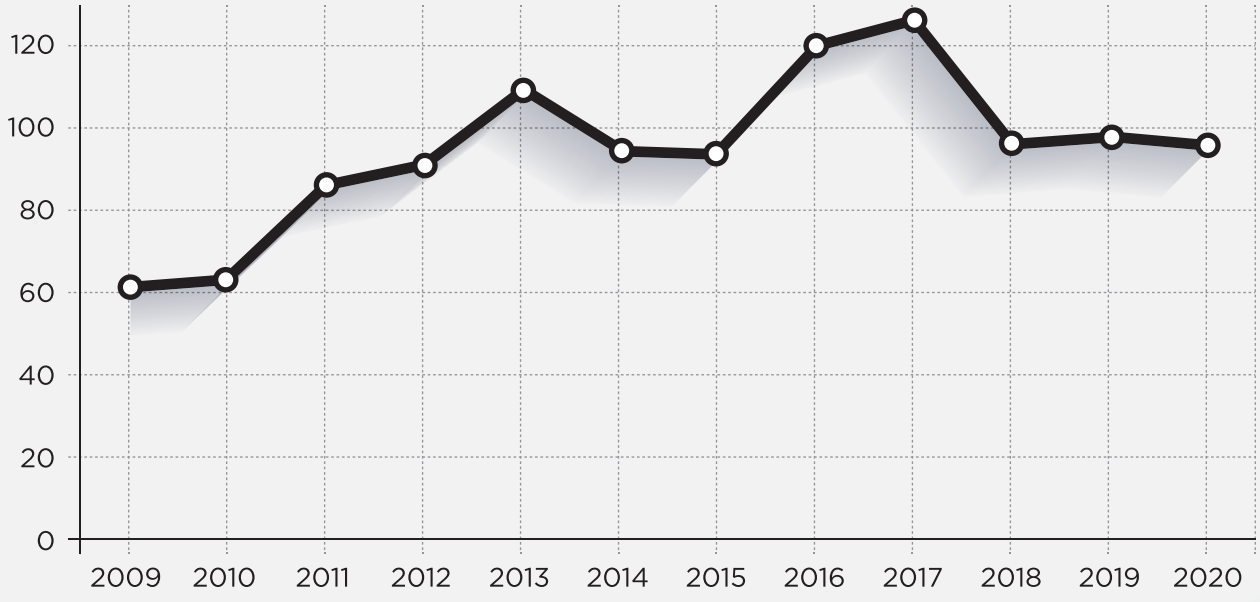
Leveraging technology to improve reliability

The electricity grid is becoming 'smarter' as we incorporate new technology, such as switches and sensors. Signals sent through this monitoring system identify faults, reducing the time spent trouble-shooting the cause of a power outage. Remotely-operated switches reduce the manual effort needed to restore power, and can cut the response time to power outages. Through the use of these technologies, less manual effort is required – creating efficiencies and improving reliability.

Planning effectively

Through an ever improving inspection, testing, and project prioritization process, Hydro Ottawa has developed a plan that allows us to make smart investments in the distribution system. We're implementing new software to further improve this asset planning.

Capital Expenditures ($ million)



> FEEDBACK

8 With regards to projects focused on replacing aging equipment in poor condition, which of the following statements best represents your point of view?

- ❑ Hydro Ottawa should invest what it forecasts is required to replace the system's aging infrastructure to maintain system reliability, even if that increases my monthly electricity bill by a few dollars over the next few years.
- ❑ Hydro Ottawa should lower its investment in renewing the system's aging infrastructure to lessen any bill increase, even if that means more or longer power outages.
- ❑ Don't know

9 In order to operate efficiently and better serve our customers, Hydro Ottawa needs IT systems to manage the grid and its customer information, as well as proper facilities to house its staff, vehicles and tools. Which of the following statements best represents your point of view?

- ❑ While Hydro Ottawa should be wise with its spending, it is important that its staff have the equipment and tools they need to manage the system efficiently and reliably.
- ❑ Hydro Ottawa should find ways to make do with the buildings, equipment and IT systems it already has.
- ❑ Don't know

10 How well do you feel you understand the cost drivers that Hydro Ottawa is responding to?

- ❑ Very well
- ❑ Somewhat well
- ❑ Not very well
- ❑ Not well at all
- ❑ Don't know

11 How well do you think Hydro Ottawa is managing these cost drivers while meeting customer expectations?

- ❑ Very well
- ❑ Somewhat well
- ❑ Not very well
- ❑ Not well at all
- ❑ Don't know

12 How satisfied are you with the efforts Hydro Ottawa has made to find efficiencies and cost savings?

- ❑ Very satisfied
- ❑ Somewhat satisfied
- ❑ Not very satisfied
- ❑ Not at all satisfied
- ❑ Don't know

THE DOLLARS AND CENTS

What does the proposed Hydro Ottawa plan mean for residential customers?

In the first year, a typical **residential**[1] customer will see an increase of $3.60 per month annually on the delivery portion of their bill. In each of the following four years, from 2017 to 2020, a typical residential customer's bill will increase by an average of $1.55 per month annually. As such, by 2020, the average residential household will be paying an estimated $9.80 more per month on the delivery portion of their electricity bill.

What does the proposed Hydro Ottawa plan mean for commercial customers?

In the first year, a typical **commercial**[2] customer will see an increase of $7.40 per month annually on the delivery portion of their bill. In each of the following four years, from 2017 to 2020, a typical commercial customer's bill will increase by an average of $3.20 per month annually. As such, by 2020, the average commercial customer will be paying an estimated $20.20 more per month on the delivery potion of their electricity bill.

1 Residential customer consuming 800 kilowatt-hours per month.
2 General Service customer consuming 2,000 kilowatt-hours per month and having a monthly demand of less than 50 kilowatts.

> FEEDBACK

13 From what you have read here and what you may have heard elsewhere, does Hydro Ottawa's investment plan seem like it is going in the right direction or the wrong direction?

- ❑ Definitely the right direction
- ❑ Might be the right direction
- ❑ Might be the wrong direction
- ❑ Definitely the wrong direction
- ❑ Don't know

14 How well did Hydro Ottawa's plan cover the topics you expected?

- ❑ Very well
- ❑ Somewhat well
- ❑ Not very well
- ❑ Not well at all
- ❑ Don't know

If 'Not very well' or 'Not well at all,' what is missing?

.....

.....

.....

.....

15 How well do you think Hydro Ottawa is planning for the future?

- ❑ Very well
- ❑ Somewhat well
- ❑ Not very well
- ❑ Not well at all
- ❑ I don't know

16 Considering what you know about the local electricity distribution system, which of the following best represents your point of view?

- ❑ The rate increase is reasonable and I support it
- ❑ I don't like it, but I think the rate increase is necessary
- ❑ The rate increase is unreasonable and I oppose it
- ❑ Don't know

FINAL THOUGHTS

Hydro Ottawa values your feedback. This is the first time the utility has conducted a review about its upcoming investment plan in this type of format.

Overall Impression: What did you think about the survey?

Volume of Information: Did Hydro Ottawa provide too much information, not enough, or just the right amount?

Content Covered: Was there any content missing that you would have liked to have seen included?

Outstanding Questions: Is there anything that you would still like answered?

Suggestions for Future Consultations: How would you prefer to participate in these consultations?

HydroOttawa

AUDITED FINANCIAL STATEMENTS FOR 2012, 2013 and 2014

Hydro Ottawa Limited's Audited Financial Statements for 2013 (with 2012 comparatives) are attached as Attachment A-4(A). The 2014 audited financial statements will be filed as Attachment A-4(B) when available.

Hydro Ottawa Limited

Financial Statements

December 31, 2013

Table of Contents

	Page
Report of Management	1
Independent Auditors' Report	2 - 3
Statement of Income, Comprehensive Income and Retained Earnings	4
Balance Sheet	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 33

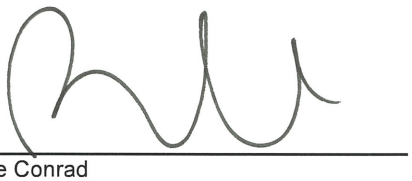
Report of Management

Management is responsible for the integrity of the financial data reported by Hydro Ottawa Limited ['the Company']. Fulfilling this responsibility requires the preparation and presentation of financial statements using management's best judgment and estimates in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with the preceding year.

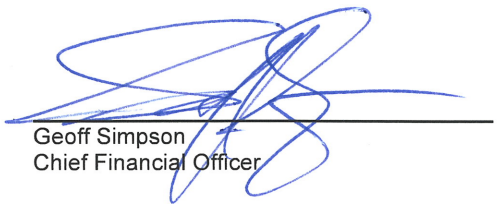
Management maintains appropriate systems of internal control and corporate-wide policies and procedures, which provide reasonable assurance that the Company's assets are safeguarded and that financial records are relevant and reliable.

The Board of Directors of the Company, with the advice of the Audit Committee of Hydro Ottawa Holding Inc., ensures that management fulfills its responsibility for financial reporting and internal control. At regular meetings, the Audit Committee, including membership of outside directors of the Board of Directors of the Company, reviews internal controls and financial reporting matters with management for Hydro Ottawa Holding Inc. and its subsidiaries. Directors of the Company who are members of the Audit Committee, as well as the Chief Executive Officer and the Chief Financial Officer, advise the Board of Directors of the Company of any matters of concern raised by the Audit Committee in reviewing the financial affairs of the Company.

On behalf of Management,



Bryce Conrad
President and Chief Executive Officer



Geoff Simpson
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Hydro Ottawa Limited

We have audited the accompanying financial statements of **Hydro Ottawa Limited**, which comprise the balance sheet as at December 31, 2013, and the statement of income, comprehensive income and retained earnings, 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 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 **Hydro Ottawa Limited** 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

Ottawa, Canada,
April 3, 2014.

Chartered Accountants
Licensed Public Accountants

Hydro Ottawa Limited

Statement of Income, Comprehensive Income and Retained Earnings
Year ended December 31
[in thousands of Canadian dollars]

		2013		2012
Revenues [Note 21]				
Power recovery	**$**	**768,079**	$	709,935
Distribution sales		**152,392**		151,936
Other revenue		**32,319**		24,223
		952,790		886,094
Expenses				
Purchased power [Note 21]		**768,079**		709,935
Operating costs [Note 21]		**99,751**		92,645
Depreciation		**29,388**		28,939
Amortization		**7,711**		6,580
		904,929		838,099
Income before other expenses (recoveries) and payments in lieu of corporate income taxes		**47,861**		47,995
Financing costs [Note 17]		**15,672**		15,626
Recovery of regulatory asset write-down [Note 6]		**-**		(679)
		15,672		14,947
Income before payments in lieu of corporate income taxes		**32,189**		33,048
Payments in lieu of corporate income taxes [Note 18]		**6,750**		6,635
Net income and comprehensive income		**25,439**		26,413
Retained earnings, beginning of year		**92,074**		80,661
Dividends declared and paid [Note 15]		**(15,000)**		(15,000)
Retained earnings, end of year	**$**	**102,513**	$	92,074

The accompanying notes are an integral part of these financial statements

Hydro Ottawa Limited

Balance Sheet
As at December 31
[in thousands of Canadian dollars]

		2013		2012
Assets				
Current assets				
Cash	$	**5,038**	$	1,639
Accounts receivable [Notes 4 and 21]		**65,842**		70,223
Payments in lieu of corporate income taxes receivable		**457**		1,211
Unbilled revenue [Note 5]		**106,551**		89,935
Prepaids		**2,931**		2,475
Regulatory assets [Note 6]		**31**		1,969
Future income tax assets [Note 18]		**818**		628
		181,668		168,080
Non-current assets				
Regulatory assets [Note 6]		**12,441**		7,603
Property, plant and equipment [Note 7]		**651,577**		595,632
Intangible assets [Note 8]		**44,733**		29,683
Future income tax assets [Note 18]		**19,893**		24,165
Total assets		**910,312**		825,163
Liabilities and shareholder's equity				
Current liabilities				
Accounts payable and accrued liabilities [Notes 9 and 21]		**178,816**		149,323
Regulatory liabilities [Note 6]		**19,173**		22,097
Regulatory liability for future income tax assets [Note 18]		**818**		628
		198,807		172,048
Non-current liabilities				
Regulatory liabilities [Note 6]		**12,915**		20,144
Regulatory liability for future income tax assets [Note 18]		**19,893**		24,165
Employee future benefits [Note 11]		**8,533**		10,246
Customer deposits		**13,085**		11,782
Notes payable [Note 12]		**387,185**		327,185
Asset retirement obligations [Note 10]		**300**		438
		640,718		566,008
Shareholder's equity				
Share capital [Note 15]		**167,081**		167,081
Retained earnings		**102,513**		92,074
		269,594		259,155
Total liabilities and shareholder's equity	$	**910,312**	$	825,163

Contingent liabilities and commitments [Notes 19 and 20]

ON BEHALF OF THE BOARD:

Director

Director

The accompanying notes are an integral part of these financial statements

Hydro Ottawa Limited

Statement of Cash Flows
Year ended December 31
[in thousands of Canadian dollars]

		2013		2012
Net inflow (outflow) of cash related to the following activities:				
Operating				
Net income and comprehensive income	**$**	**25,439**	$	26,413
Items not affecting cash				
Depreciation		**29,388**		28,939
Amortization		**7,711**		6,580
Net loss on disposal of property, plant and equipment [Note 7]		**989**		1,779
Allowance for funds used during construction [Notes 7 and 8]		**(2,376)**		(1,773)
Employee future benefits [Note 11]		**109**		105
Changes in non-cash working capital and other operating balances				
Decrease (increase) in accounts receivable		**4,381**		(7,905)
Increase in unbilled revenue		**(16,616)**		(2,680)
Decrease in payments in lieu of corporate income taxes receivable		**754**		4,704
Increase in prepaids		**(456)**		(703)
(Increase) decrease in regulatory assets, net of liabilities [Note 11]		**(14,949)**		13,456
Increase in accounts payable and accrued liabilities [Notes 7 and 8]		**4,529**		4,633
		38,903		73,548
Investing				
Acquisition of property, plant and equipment [Note 7]		**(107,054)**		(98,549)
Acquisition of intangible assets [Note 8]		**(23,069)**		(10,634)
Proceeds from disposal of property, plant and equipment		**1,765**		45
Contributions in aid of construction [Note 7]		**21,419**		22,191
		(106,939)		(86,947)
Financing				
Issuance of notes payable [Note 12]		**60,000**		-
Proceeds from cash advances from parent [Note 21]		**26,000**		27,000
Increase (decrease) in customer deposits [Note 9]		**435**		(1,375)
Dividends paid [Note 15]		**(15,000)**		(15,000)
		71,435		10,625
Net change in cash		**3,399**		(2,774)
Cash, beginning of year		**1,639**		4,413
Cash, end of year	**$**	**5,038**	$	1,639
Supplementary cash flow information				
Interest paid		**18,030**		17,369
Payments in lieu of corporate income taxes paid, net of refunds		**5,783**		1,980

1. DESCRIPTION OF BUSINESS

Hydro Ottawa Limited [the 'Company'] was incorporated on October 3, 2000 pursuant to the *Business Corporations Act (Ontario)* as mandated by the Ontario government's *Electricity Act, 1998*. The Company is a wholly owned subsidiary of Hydro Ottawa Holding Inc., which in turn is wholly owned by the City of Ottawa.

The Company is a regulated electricity distribution company that owns and operates electricity infrastructure in the City of Ottawa and the Village of Casselman and is responsible for the safe, reliable delivery of electricity to homes and businesses in its licensed service area. In addition to billing for distribution services, the Company invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services and for debt retirement.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Part V of the *Chartered Professional Accountants Canada Handbook* for publicly accountable entities ['pre-changeover Canadian GAAP'], including principles prescribed by the Ontario Energy Board ['OEB'] in the Accounting Procedures Handbook ['AP Handbook']. In the opinion of management, all adjustments necessary for fair presentation are reflected in the financial statements. The financial statements reflect the significant accounting policies summarized below.

(a) Regulation

The Company is regulated by the OEB under the authority of the *Ontario Energy Board Act, 1998*. The OEB is charged with the responsibilities of approving or setting rates for the transmission and distribution of electricity, and ensuring that distribution companies fulfil obligations to connect and service customers.

The Company operates under an incentive regulation mechanism ['IRM'] prescribed by the OEB. Under IRM a distributor first sets base rates through a cost-of-service application every four years. This application determines the appropriate revenue requirement to recover approved costs, and provide a rate of return on a deemed capital structure applied to approved rate base assets. For subsequent years in which no cost-of-service application is filed, rates are adjusted by an inflation factor less a productivity factor.

The Company applies for distribution rates based on estimated costs of service. Once the rate is approved, it is not adjusted as a result of actual costs of service being different from those which were estimated, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates. The OEB has the general power to include or exclude costs and revenue 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.

The Company continues to assess the likelihood of recovery of all regulatory assets subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation. If the requirement for a provision becomes more likely than not, the Company will recognize the provision in operating costs for the period.

The following regulatory treatments have resulted in accounting treatments that differ from pre-changeover Canadian GAAP for enterprises operating in a non-regulated environment:

(i) 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 Company incurs to purchase these services.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(a) Regulation [continued]

(i) Regulatory assets and liabilities [continued]

The Company accrues interest on the regulatory asset and liability balances as directed by the OEB.

Regulatory assets and liabilities are classified as current if they are expected to be recovered from, or refunded to, customers within 12 months after the reporting period. All other regulatory asset and liability balances are classified as long-term on the balance sheet.

Regulatory balances are comprised principally of the following:

- Regulatory asset/liability refund account ['RARA'/'RLRA'] consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through temporary additional rates referred to as rate riders.

- Settlement variances relate primarily to the charges the Company incurred for transmission services, the commodity, wholesale market operations and the global adjustment that were not settled with customers during the period. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time and they are reported at year end dates in accordance with rules prescribed by the OEB.

- Deferred smart meter costs represent the differences between the amounts funded through rates for smart meters and actual program costs. Program costs include operating, maintenance, depreciation and administrative expenses directly related to smart meters, a return on smart meter assets, and the net book value of conventional meters removed upon the installation of smart meters.

- Other Post Employment Benefits deferral account ['OPEB deferral account'] was authorized by the OEB in 2011 to record the adjustment to post-retirement benefits relating to the cumulative actuarial gains or losses. This account is adjusted annually to record any changes in the cumulative actuarial gains or losses. No interest charges are recorded on this account as instructed by the OEB.

Other regulatory variances and deferred costs:

- The OEB allows electricity distributors to record in a deferral account the difference between low voltage charges paid to Hydro One Networks Inc. and those charged to customers.

- The OEB allows electricity distributors to record in a deferral account the net cost of providing retailer billing services and transaction request services.

- The OEB approved a deferral account for distributors to record one-time administrative incremental International Financial Reporting Standards ['IFRS'] transition costs, which were not already approved and included for recovery in distribution rates.

- In its Guidelines released June 16, 2009, the OEB created four new deferral accounts to allow distributors to begin recording expenditures for certain activities relating to the connection of renewable generation or the development of a smart grid. These deferral accounts were authorized to be used to record qualifying incremental capital investments or operating, maintenance and administrative expenses.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(a) Regulation [continued]

(i) Regulatory assets and liabilities [continued]

- In its Guidelines released January 5, 2012, the OEB required the Company to record the difference between the actual authorized Conservation and Demand Management ['CDM'] activities and activities included in the Company's load forecast. This variance is recorded in the Lost Revenue Adjustment Mechanism variance account.

- The OEB directed distributors to record the input tax credit savings arising from the elimination of the provincial sales tax and the implementation of the harmonized sales tax on July 1, 2010 in a separate account. The OEB concluded that fifty percent of the balances should be returned to the ratepayers for the period up to the rebasing date, which for the Company was January 1, 2012.

(ii) Contributions in aid of construction

Contributions in aid of construction received from outside sources are used to finance additions to property, plant and equipment. According to the AP Handbook prescribed by the OEB, contributions in aid of construction are treated as a reduction to property, plant and equipment and are depreciated at an equivalent rate to that used for the depreciation of the related property, plant and equipment.

(iii) Allowance for funds used during construction ['AFUDC']

An allowance for the cost of funds used during the construction period has been applied to major capital and development projects.

(iv) Payments in lieu of corporate income taxes ['PILs']

The Company is considered to be a Municipal Electric Utility ['MEU'] for purposes of the PILs regime contained in the *Electricity Act, 1998*, as all of its share capital is indirectly owned by the City of Ottawa and not more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. The *Electricity Act, 1998* provides that an MEU that is exempt from tax under the *Income Tax Act (Canada)* ['ITA'] and the *Taxation Act, Ontario* ['TAO'] is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount approximating the tax that it would be liable to pay under the ITA and the TAO if it were not exempt from tax.

The Company follows the liability method for recording income taxes in accordance with pre-changeover Canadian GAAP recommendations. Under the liability method, current income taxes payable are recorded based on taxable income. Future income taxes arising from temporary differences in the accounting and tax basis of assets and liabilities are provided based on substantively enacted tax rates that will be in effect when the differences are expected to reverse.

The AP Handbook provides for the recovery of PILs by the Company through annual distribution rate adjustments as approved by the OEB. The Company recognizes regulatory liabilities and assets for the amounts of future income taxes expected to be refunded to or recovered from customers in future electricity rates.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(b) Revenue recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, services have been delivered, the price has been fixed or is determinable and collection is reasonably assured.

(i) Distribution sales

The Company charges customers for the delivery of electricity, based on rates established by the OEB. The rates are intended to allow the Company to recover its prudently incurred costs and earn a fair return on invested capital. Distribution sales are recognized when electricity is delivered to the customer, as measured by meter readings or usage estimates.

(ii) Power recovery

Power recovery revenue represents the pass-through of the cost of power to the consumer as purchased by the Company and is recognized when electricity is delivered to the customer, as measured by meter readings or usage estimates. Power recovery revenue is regulated by the OEB and includes charges to customers for the electricity commodity, the transmission of electricity and the administration of the wholesale electricity system.

(iii) Unbilled revenue

Unbilled revenue represents an estimate of the electricity consumed by the customers that has not yet been billed as at December 31, 2013.

(iv) Other revenue

Other revenue related to sales of other services is recognized as services are rendered.

Conservation and demand management ['CDM'] revenue stems from the delivery of provincial government programs that promote conservation and is recognized on a cost-recovery basis.

(c) Financial instruments

All financial instruments are initially recorded at fair value, unless fair value cannot be reliably determined. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties. The subsequent measurement of each financial instrument depends on the financial instruction classification elected by the Company.

The Company classifies and measures its financial instruments as follows:

- Cash is classified as held-for-trading and is measured at fair value.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(c) Financial instruments [continued]

- Accounts receivable and unbilled revenue are classified as loans and receivables and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value with the exception of related party transactions which are measured at the carrying amount determined in accordance with pre-changeover Canadian GAAP Section 3840, Related Party Transactions. Subsequent measurements are recorded at amortized cost using the effective interest rate method, if applicable.

- Accounts payable and accrued liabilities, customer deposits and notes payable are classified as other financial liabilities and are initially measured at their fair value with the exception of related party transactions which are measured at the carrying amount determined in accordance with pre-changeover Canadian GAAP Section 3840, Related Party Transactions. Subsequent measurements are recorded at amortized cost using the effective interest rate method, if applicable.

(d) Property, plant and equipment

Property, plant and equipment include buildings and fixtures, land, furniture and equipment, rolling stock, electricity distribution infrastructure, and assets under construction.

Spare parts and standby equipment, which are expected to be used during more than one year, are considered to be assets under construction, and are depreciated only once they are put into service.

Property, plant and equipment are recorded at cost and include directly attributable contracted services, materials, labour, engineering costs, overheads and AFUDC. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Contributions in aid of construction received are treated as a contra account to property, plant and equipment. The amount is depreciated by a charge to accumulated depreciation and a reduction in depreciation expense at an equivalent rate to that used for the depreciation of the related asset.

Significant renewals and enhancements to existing assets are capitalized only if the service life of the asset is increased, reliability is improved above original design standards or if operating costs are reduced by a substantial and quantifiable amount.

Depreciation is recorded on a straight-line basis over the estimated service life of the related asset.

Estimated service lives for property, plant and equipment classes are as follows:

Buildings and fixtures	20 to 75 years
Furniture and equipment	5 to 10 years
Rolling stock	7 to 15 years
Electricity distribution infrastructure	10 to 60 years

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(d) Property, plant and equipment [continued]

Land and assets under construction are not subject to depreciation.

The Company reviews its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Company will estimate the future cash flows expected to result from the use of the asset group and their eventual disposition, and record an impairment loss, if required. The Company's primary measure of fair value is based on discounted cash flows.

(e) Intangible assets

Intangible assets include land rights, line connection contributions and computer software.

Computer software is recorded at cost and includes directly attributable contracted services, materials, labour, overheads and AFUDC. Land rights and line connection contributions are recorded at cost.

Intangible assets are amortized on a straight-line basis over the estimated service life of the related asset.

Estimated service lives for intangible assets are as follows:

Land rights	50 years
Line connection contributions	45 years
Computer software	5 to 10 years

Assets which are not ready for use are not subject to amortization.

The Company reviews its intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Company will estimate the future cash flows expected to result from the use of the asset group and their eventual disposition, and record an impairment loss, if required. The Company's primary measure of fair value is based on discounted cash flows.

(f) Asset retirement obligations

The Company recognizes its obligation to retire certain tangible long-lived assets, whereby the fair value of a liability for an asset retirement obligation is recognized in the period during which it is incurred if a reasonable estimate can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and then amortized over its estimated useful life. In subsequent periods, the asset retirement obligation is adjusted for the passage of time and any changes in the amount or timing of the underlying future cash flows are reflected in the liability. The liability is adjusted for an annual accretion charged to operating costs. A gain or loss may be incurred upon settlement of the liability.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(g) Employee future benefits

(i) Pension plan

The Company provides pension benefits for its employees through the Ontario Municipal Employees Retirement System ['OMERS'] Fund [the 'Fund']. OMERS is a multi-employer pension plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The 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 Fund.

Although the plan is a defined benefit plan, sufficient information is not available to the Company 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. As a result, the Company accounts for the plan as a defined contribution plan, and contributions payable as a result of employee service are expensed as incurred as part of operating costs.

(ii) Employee future benefits other than pension plan

Employee future benefits other than pensions provided by the Company include life insurance benefits, accumulated sick leave credits and a retirement grant. These plans provide benefits to certain employees when they are no longer providing active service.

Employee future benefits expense is recognized in the period during which the employees render services.

Employee future benefits are recorded on an accrual basis. The accrued benefit obligation and current service costs are calculated using the projected unit credit method prorated on service and based on assumptions that reflect management's best estimates. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Actuarial gains and losses resulting from experience different from that assumed or from changes in actuarial assumptions are deferred as permitted by the OEB. In the absence of rate regulation, the actuarial gains and losses are included in the statement of income, comprehensive income and retained earnings.

(h) Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills and fulfillment of construction obligations. Deposits estimated to be refundable to customers within the next fiscal year are classified as current liabilities and included in accounts payable and accrued liabilities.

(i) Leases

At the inception of a lease, or an arrangement that contains a lease, the Company evaluates whether the lease should be classified as a capital lease or an operating lease. Leases that transfer substantially all the risks and rewards incidental to ownership of the related asset are classified as capital leases. All other leases are classified as operating leases. Classification is reassessed if the terms of the lease are changed.

All of the Company's leases are classified as operating leases.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(j) Measurement uncertainty

The preparation of financial statements in conformity with pre-changeover Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Accounts receivable and unbilled revenue are reported net of an appropriate allowance for unrecoverable amounts. Other significant estimates are used in determining the useful lives and asset impairments of long-lived assets, payments in lieu of corporate income taxes, employee future benefits and certain accruals.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the OEB or the provincial government. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies.

3. CHANGES IN ACCOUNTING POLICIES

Future - International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board ['AcSB'] confirmed that publicly accountable enterprises ['PAEs'] would be required to transition to International Financial Reporting Standards ['IFRS'] effective January 1, 2011. While the Company is not a PAE, it is a Government Business Enterprise given its status as a municipally owned utility, and such enterprises are required to follow the same basis of accounting as PAEs.

On the original transition date, IFRS did not contain a standard governing rate-regulated activities ['RRA']. Due to the significance of this issue in Canada, the AcSB postponed the original IFRS transition date to January 1, 2015 for qualifying entities with RRA pending the completion of an interim standard by the International Accounting Standards Board ['IASB']. Until January 1, 2015, qualifying entities are permitted to continue reporting under pre-changeover Canadian GAAP.

On January 30, 2014, the IASB issued interim standard IFRS 14 - Regulatory Deferred Accounts ['IFRS 14'] which permits rate-regulated entities that have not yet transitioned to IFRS to use its existing RRA practices. This standard is effective January 1, 2016 with early adoption permitted. The Company will adopt IFRS and early adopt IFRS 14 on January 1, 2015.

4. ACCOUNTS RECEIVABLE

		2013		2012
Electricity receivables, net of allowance for doubtful accounts of $1,919 [2012 – $1,411]	**$**	**52,126**	$	52,449
Other receivables, net of allowance for doubtful accounts of $66 [2012 – $139]		**9,757**		14,210
Amounts due from related parties [Note 21]		**3,959**		3,564
	$	**65,842**	$	70,223

5. UNBILLED REVENUE

		2013		2012
Unbilled revenue	**$**	**106,757**	$	90,003
Less allowance for doubtful accounts		**(206)**		(68)
	$	**106,551**	$	89,935

6. REGULATORY ASSETS AND LIABILITIES

The Company files a rate application to settle its regulatory assets and liabilities as required. The time period for settlement is determined by the OEB based on the magnitude of the balances to be cleared.

Information about the Company's regulatory assets and liabilities is as follows:

		2013		2012
Regulatory assets				
Deferred smart meter costs	**$**	**-**	$	1,939
OPEB deferral account [Note 11]		**3,109**		4,977
Settlement variances		**5,527**		-
RARA		**475**		253
Other		**3,361**		2,403
		12,472		9,572
Less current portion		**(31)**		(1,969)
Total non-current regulatory assets	**$**	**12,441**	$	7,603
Regulatory liabilities				
Settlement variances	**$**	**27,374**	$	39,917
Deferred smart meter costs		**1,045**		-
RLRA		**2,002**		678
Other		**1,667**		1,646
		32,088		42,241
Less current portion		**(19,173)**		(22,097)
Total non-current regulatory liabilities	**$**	**12,915**	$	20,144

6. REGULATORY ASSETS AND LIABILITIES [CONTINUED]

(a) Regulatory asset/liability refund accounts

The RARA/RLRA is the net aggregate of all regulatory assets and liabilities which have been approved for recovery or disposition and includes accrued interest costs up to December 31, 2013 of $178 [2012 – interest cost of $107] less amounts already settled through distribution rates.

On December 5, 2013, the OEB approved the disposition of regulatory liabilities of $19,173, consisting of settlement variances and low voltage variance account accumulated up to December 31, 2012. The December 5, 2013 approved disposition will be transferred to RLRA on January 1, 2014, which is when this disposition is effective in rates.

(b) Settlement variances

Settlement variances include accrued interest costs of $284 [2012 – $458].

(c) Other

Other variance and deferred costs include accrued interest earned of $34 [2012 – $13].

(d) Income before PILs

In the absence of rate regulation, the income before PILs for the year ended December 31, 2013 would be lower by $13,052 [2012 – higher by $12,305].

(e) Recovery of regulatory asset write-down

In 2013, the Company recorded a recovery of regulatory asset write-down of nil (2012 – $679).

7. PROPERTY, PLANT AND EQUIPMENT

	2013		
	Cost	**Accumulated depreciation**	**Net book value**
Land	**$ 24,995**	**$ -**	**$ 24,995**
Buildings and fixtures	**80,274**	**21,689**	**58,585**
Furniture and equipment	**17,970**	**11,768**	**6,202**
Rolling stock	**24,711**	**15,417**	**9,294**
Electricity distribution infrastructure	**1,131,821**	**437,739**	**694,082**
Assets under construction	**43,324**	**-**	**43,324**
	1,323,095	**486,613**	**836,482**
Contributions in aid of construction	**(233,023)**	**(48,118)**	**(184,905)**
	$ 1,090,072	**$ 438,495**	**$ 651,577**

	2012		
	Cost	Accumulated depreciation	Net book value
Land	$ 5,381	$ -	$ 5,381
Buildings and fixtures	72,336	19,604	52,732
Furniture and equipment	20,820	15,030	5,790
Rolling stock	23,665	15,612	8,053
Electricity distribution infrastructure	1,045,846	414,664	631,182
Assets under construction	61,574	-	61,574
	1,229,622	464,910	764,712
Contributions in aid of construction	(212,751)	(43,671)	(169,080)
	$ 1,016,871	$ 421,239	$ 595,632

During the year, the Company capitalized an AFUDC of $1,295 [2012 – $1,478] to property, plant and equipment and credited financing costs [Note 17]. The average annual interest rate for 2013 was 4.5% [2012 – 4.8%].

During the year, the Company incurred a loss on disposal of property, plant and equipment of $989 [2012 – $1,779].

The Company entered into significant non-cash transactions that have been excluded from the statement of cash flows. These transactions were related to property, plant and equipment additions of $10,616 [2012 – $9,321], which represent amounts included in accounts payable and accrued liabilities at year end.

8. INTANGIBLE ASSETS

	2012	Acquisitions	Retirements	2013
Cost				
Land rights	$ 2,437	$ 2	$ -	$ 2,439
Line connection contributions	2,808	354	-	3,162
Computer software	64,065	2,159	(5,265)	60,959
Computer software under development	13,690	20,246	-	33,936
	$ 83,000	$ 22,761	$ (5,265)	$ 100,496

	2012	Amortization	Retirements	2013
Accumulated amortization				
Land rights	$ 612	$ 49	$ -	$ 661
Line connection contributions	830	54	-	884
Computer software	51,875	7,608	(5,265)	54,218
	$ 53,317	$ 7,711	$ (5,265)	$ 55,763

	Cost	Accumulated amortization	Net book value
Net book value as at December 31, 2013			
Land rights	$ 2,439	$ 661	$ 1,778
Line connection contributions	3,162	884	2,278
Computer software	60,959	54,218	6,741
Computer software under development	33,936	-	33,936
	$ 100,496	$ 55,763	$ 44,733

8. INTANGIBLE ASSETS [CONTINUED]

	2011	Acquisitions	Retirements	2012
Cost				
Land rights	$ 2,427	$ 10	$ -	$ 2,437
Line connection contributions	2,808	-	-	2,808
Computer software	61,486	2,579	-	64,065
Computer software under development	3,801	9,889	-	13,690
	$ 70,522	$ 12,478	$ -	$ 83,000

	2011	Amortization	Retirements	2012
Accumulated amortization				
Land rights	$ 563	$ 49	$ -	$ 612
Line connection contributions	777	53	-	830
Computer software	45,398	6,478	-	51,875
	$ 46,738	$ 6,580	$ -	$ 53,317

	Cost	Accumulated amortization	Net book value
Net book value as at December 31, 2012			
Land rights	$ 2,437	$ 612	$ 1,825
Line connection contributions	2,808	830	1,978
Computer software	64,065	51,875	12,190
Computer software under development	13,690	-	13,690
	$ 83,000	$ 53,317	$ 29,683

During the year, the Company capitalized an AFUDC of $1,081 [2012 – $295] to computer software and credited financing costs [Note 17]. The average annual interest rate for 2013 was 4.5% [2012 – 4.8%].

There was no impairment of intangible assets for the years ended December 31, 2013 and 2012.

The Company entered into significant non-cash transactions that have been excluded from the statement of cash flows. These transactions were related to intangible asset additions of $729 [2012 – $2,119], which represent amounts included in accounts payable and accrued liabilities at year end.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		2013		2012
Purchased power payable	**$**	**67,033**	$	62,813
Trade payable and accrued liabilities		**33,936**		33,021
Customer deposits		**14,306**		15,174
Customer credit balances		**7,364**		9,146
Due to related parties [Notes 13 and 21]		**56,177**		29,169
	$	**178,816**	$	149,323

10. ASSET RETIREMENT OBLIGATIONS

		2013		2012
Balance, beginning of year	**$**	**438**	$	627
Liabilities settled during the year		**(141)**		(203)
Accretion expense		**26**		19
Revisions in estimated cash flows		**(23)**		(5)
	$	**300**	$	438

As at December 31, 2013, the Company estimates an asset retirement obligation ['ARO'] of $300 [2012 – $438] related to the removal and destruction of polychlorinated biphenyls ['PCBs'] in distribution transformers and other clean-up related to PCBs. The ARO is calculated using an estimated undiscounted cash flow over two years [2012 – one year] totaling $357 [2012 – $498] and a discount rate of 5.3% [2012 – 5.3%]. No assets have been legally restricted for settlement of the liability.

11. EMPLOYEE FUTURE BENEFITS

(a) Pension plan

The Company's participating employer contributions under OMERS for the year ended December 31, 2013 amounted to $5,335 [2012 – $4,537].

(b) Employee future benefits other than pension plan

Employee future benefits are calculated using an annual compensation rate increase of 3.1% [2012 – 3.1%] and a discount rate of 4.8% [2012 – 3.8%] to calculate the liabilities. The valuation also includes several other economic and demographic assumptions including mortality rates. The mortality assumption at December 31, 2013 has been updated resulting in an actuarial remeasurement of employee future benefits. The mortality assumption is now based on the most recent Canadian Pensioners Mortality information published by the Canadian Institute of Actuaries in July 2013.

11. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(b) Employee future benefits other than pension plan [continued]

Information about the Company's defined benefit plans is as follows:

	2013		
	Accumulated liability	**Expense for the year**	**Benefits paid**
Life insurance	**$ 5,118**	**$ 481**	**$ 434**
Retirement grant provision	**927**	**83**	**21**
Sick leave	**5**	**-**	**-**
	6,050	**$ 564**	**$ 455**
Accrued benefit obligation	**9,159**		
Deferred actuarial loss [Note 6]	**$ (3,109)**		

	2012		
	Accumulated liability	Expense for the year	Benefits paid
Life insurance	$ 5,071	$ 568	$ 510
Retirement grant provision	865	80	32
Sick leave	5	-	-
	5,941	$ 648	$ 542
Accrued benefit obligation	10,918		
Deferred actuarial loss [Note 6]	$ (4,977)		

An actuarial extrapolation was performed as at December 31, 2013. As a result of this exercise, the Company decreased the accrued benefit obligation by $1,759 [2012 – increased by $1,165]. Changes in the accumulated actuarial loss are non-cash transactions that have been excluded from the cash flow statement.

The current liability portion of the accrued employee future benefits included in trade accounts payables and accrued liabilities amounts to $626 [2012 – $672] and the non-current portion was $8,533 [2012 – $10,246].

12. NOTES PAYABLE

On May 14, 2013, the Company converted all of the then outstanding due on demand promissory notes payable to Hydro Ottawa Holding Inc. totaling $282,185 [December 31, 2012 –- $282,185] and all of the then outstanding grid promissory notes payable to Hydro Ottawa Holding Inc. totaling $75,000 [December 31, 2012 –- $45,000] into new promissory note agreements which are summarized as follows:

- A $200,000 promissory note bearing interest at 5.04% per annum due February 9, 2015, unless otherwise agreed to by the two parties.

- A $50,000 promissory note bearing interest at 4.968% per annum due December 19, 2036, unless otherwise agreed to by the two parties.

- A $107,185 promissory note bearing interest at 4.144% per annum for the first five years [3.991% thereafter] due May 14, 2043, unless otherwise agreed to by the two parties.

Also on May 14, 2013, the Company established a new grid promissory note facility with Hydro Ottawa Holding Inc. of which $30,000 is outstanding at December 31, 2013 [2012 – nil]. Interest on this note is fixed and is based on the cost of long-term debt for Ontario's Regulated Utilities in accordance with OEB's cost of capital calculations, which was 4.94% for this draw.

The promissory notes and the grid promissory note facility are subordinated and postponed to the obligation of the Company to a third party for the payment in full of any secured indebtedness and any and all security interests granted to secure such obligations of the Company. Amounts outstanding on the grid promissory note are due on demand and Hydro Ottawa Holding Inc. has confirmed that it does not intend to recall any amounts on this note within one year.

		2013		2012
5.040% promissory note payable, re-issued May 14, 2013	**$**	**200,000**	$	200,000
4.968% promissory note payable, issued May 14, 2013		**50,000**		-
4.144% promissory note payable, issued May 14, 2013		**107,185**		-
4.940% grid promissory note payable, issued December 10, 2013		**30,000**		-
5.900% promissory note payable, issued July 1, 2005		**-**		32,185
5.218% promissory note payable, issued December 20, 2006		**-**		50,000
5.750% grid promissory note payable, issued December 21, 2009		**-**		15,000
5.870% grid promissory note payable, issued April 30, 2010		**-**		15,000
5.550% grid promissory note payable, issued July 5, 2011		**-**		15,000
	$	**387,185**	$	327,185

13. CREDIT FACILITY

The Company continues to maintain a $90,000 revolving demand credit facility and a $600 commercial card facility available from Hydro Ottawa Holdings Inc. As at December 31, 2013, $53,000 [December 31, 2012 – $27,000] was drawn against the revolving demand credit facility via advances of $23,000 and $30,000 maturing on January 2 and 7, 2014 respectively. The rate of interest is based on the rate applicable to Hydro Ottawa Holding Inc.'s outstanding bankers' acceptances drawn on that date [if any]. Otherwise, the rate of interest is based on the Bank of Canada's 'Bankers Acceptances 1 month' rate.

14. CAPITAL DISCLOSURES

The Company's main objectives when managing capital are to:

- Ensure continued access to funding to maintain and improve the operations and infrastructure of the Company;
- Ensure compliance with covenants related to the credit facilities and senior unsecured debentures entered into by its parent company, Hydro Ottawa Holding Inc.; and
- Align the Company's capital structure with the debt to equity structure recommended by the OEB.

The Company's capital consists of the following:

		2013		2012
Credit facility [Note 13]	**$**	**53,000**	$	27,000
Notes payable [Note 12]		**387,185**		327,185
Total debt		**440,185**		354,185
Shareholder's equity		**269,594**		259,155
Total capital	**$**	**709,779**	$	613,340
Debt capitalization ratio		**62 %**		58 %

The Company does not have any external debt arrangements as all financing is received from its parent company, Hydro Ottawa Holding Inc., which is in compliance with all financial covenants and limitations associated with its long-term debt.

The Company is deemed by the OEB to have a capital structure that is funded by 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure only as a basis for setting distribution rates. As such, the Company's actual capital structure may differ from the OEB deemed structure.

The Company met its capital management objectives, which have not changed during the year.

15. SHARE CAPITAL

(a) Authorized

Unlimited number of voting first preferred shares, redeemable at one dollar per share
Unlimited number of non-voting second preferred shares, redeemable at ten dollars per share
Unlimited number of non-voting third preferred shares, redeemable at one hundred dollars per share
Unlimited number of voting [10 votes per share] fourth preferred shares, redeemable at one hundred dollars per share
Unlimited number of voting Class A common shares
Unlimited number of non-voting Class B common shares
Unlimited number of non-voting Class C common shares, redeemable at the price at which such shares are issued

The above shares are without nominal or par value.

Holders of second preferred shares, fourth preferred shares and common shares are entitled to receive dividends as and when declared by the Board of Directors at their discretion.

(b) Issued

		2013		2012
154,789,001 Class A common shares	**$**	**167,081**	$	167,081

Any invitation to the public to subscribe for shares of the Company is prohibited by shareholder resolution.

On April 4, 2013, the Board of Directors declared a $7,500 dividend on the common shares of the Company outstanding on December 31, 2012. The dividend was paid to the sole shareholder, Hydro Ottawa Holding Inc. on April 10, 2013 [2012 – April 3, 2012, the Board of Directors declared a $7,500 dividend which was paid on April 5, 2012].

On August 22, 2013, the Board of Directors declared a $7,500 dividend on the common shares of the Company outstanding on June 30, 2013. The dividend was paid to the sole shareholder, Hydro Ottawa Holding Inc. on September 5, 2013 [2012 – August 23, 2012, the Board of Directors declared a $7,500 dividend which was paid on September 5, 2012].

16. FINANCIAL INSTRUMENTS

(a) Carrying values

The Company's financial instruments consist of cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, customer deposits and notes payable. The only financial instrument recorded at fair value is cash and it is classified as level 1 in the pre-changeover Canadian GAAP Section 3862 fair value hierarchy. The carrying amounts approximate fair value because of the short maturity of the current portion, and the discounted long-term portion approximates the carrying value, taking into account interest accrued on the outstanding balance. The carrying values of the Company's remaining financial instruments, except for notes payable, approximate their fair values because of the short maturities of the instruments.

The Company has estimated the fair value of the notes payable as at December 31, 2013 as amounting to $399,000 [2012 – $332,000]. The fair value has been determined based on discounting all future payments of interest and the principal repayment on January 1, 2014 , at the estimated interest rate of 4% [2012 – 4%] that would be available to the Company on December 31, 2013.

(b) Risk factors

In the normal course of business, the Company is exposed to market risk, credit risk and liquidity risk. The Company's risk exposure and strategies to mitigate these risks are noted below.

(i) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risk: interest rate risk, currency risk and other price risk such as equity risk.

The Company is exposed to interest rate risk on its borrowings. The Company mitigates exposure to interest rate risk by fixing interest rates on its notes payable with its parent company. Under Hydro Ottawa Holding Inc.'s credit facilities, any advances on its operating line would expose the Company to fluctuations in short-term interest rates related to prime rate loans and bankers' acceptances as all short-term financing requirements are obtained through its parent company, which passes on its borrowing costs. The interest rate risk is deemed to be low due to the immaterial cost of its short-term borrowings. For the most part, the borrowing requirements are for a very short duration as the advances serve to bridge gaps between the cash outflow related to the monthly power bill and the inflows related to the settlements with customers and, as such, there is very limited exposure to interest rate risk.

As at December 31, 2013, the Company has limited exposure to fluctuations in foreign currency exchange rates. The Company does purchase a small proportion of goods and services which are denominated in foreign currencies, predominately the US dollar. The impact of the fluctuation of foreign currencies on the gains or losses of accounts payable denoted in foreign currencies is not material.

As at December 31, 2013, the Company has not entered into any hedging transactions or derivative contracts.

16. FINANCIAL INSTRUMENTS [CONTINUED]

(b) Risk factors [continued]

(ii) Credit risk

Credit risk is the risk that a counterparty will default on its obligations, causing a financial loss. Concentration of credit risk associated with accounts receivable and unbilled revenue is limited due to the large number of customers the Company services. The Company has approximately 315,000 customers, the majority of which are residential. As a result, the Company did not earn a significant amount of revenue and does not have a significant receivable from any individual customer.

The Company performs ongoing credit evaluations of its customers and requires collateral to support customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. Effective October 2010, the OEB instituted changes to the Distribution System Code requirements for residential security deposits. Security deposits on hand must be applied to active residential accounts in arrears prior to the customer entering into a payment arrangement, rather than as a deposit to be applied to the final bill. Further, additional amendments prohibit the Company from collecting deposits from low income residential customers. Management has concluded that residential security deposits are no longer as effective for mitigating credit risk. Effective January 1, 2011, the Company ceased collecting residential security deposits, and began refunding all residential deposits on hand. The Company continues to hold collateral to support customer accounts receivable on non-residential accounts. As at December 31, 2013, the Company held security deposits related to power recovery and distribution sales in the amount of $14,514 [2012 – $12,882].

The carrying amount of accounts receivable and unbilled revenue is reduced by an allowance for doubtful accounts based on the credit risk applicable to particular customers, and historical and other information. The Company records an allowance for doubtful accounts when the recoverability of an amount becomes doubtful. The amount of the related impairment loss is recognized in income in the period during which such assessment is made. When the receivable amount is deemed to be uncollectible, it is written off and the allowance for doubtful accounts adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written off result in a reduction of operating costs in the statement of income, comprehensive income and retained earnings. As at December 31, 2013, the allowance for doubtful accounts was $2,191 [2012 – $1,479] and there have been no significant fluctuations in the allowance during the year.

Credit risk associated with accounts receivable and unbilled revenue is as follows:

		2013		2012
Total accounts receivable	**$**	**67,827**	$	71,773
Total unbilled revenue		**106,757**		90,003
Less allowance for doubtful accounts		**(2,191)**		(1,618)
	$	**172,393**	$	160,158
Of which				
Outstanding for less than 30 days		**60,203**		64,410
Outstanding for more than 31 days but not more than 120 days		**5,665**		5,845
Outstanding for more than 121 days		**1,959**		1,518
Unbilled revenue		**106,757**		90,003
Less allowance for doubtful accounts		**(2,191)**		(1,618)
	$	**172,393**	$	160,158

16. FINANCIAL INSTRUMENTS [CONTINUED]

(b) Risk factors [continued]

(ii) Credit risk [continued]

As at December 31, 2013, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties and 11% [2012 – 10%] of the Company's accounts receivable was aged more than 30 days. The Company's maximum exposure to credit risk is equal to the carrying value of accounts receivable and unbilled revenue less deposits held.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they come due. The Company's parent, Hydro Ottawa Holding Inc., manages all the financing and investing activities for the Company. The Company has access to credit facilities with Hydro Ottawa Holding Inc.. The liquidity risks associated with financial commitments relate to grid promissory notes, promissory notes or advances issued to/from its parent company, Hydro Ottawa Holding Inc., and accounts payable and accrued liabilities in the amount of $178,816 that are due within one year [2012 – $149,323].

The Company has access to a $90,000 [2012 – $90,000] credit facility with Hydro Ottawa Holding Inc. as well as a $600 commercial card facility. As at December 31, 2013, the Company has drawn $53,000 [2012 – $27,000] [Note 13]. These credit facilities are available to the Company to help meet its financial obligations as they come due.

17. FINANCING COSTS

		2013	2012
Interest expense on notes payable	**$**	**18,030**	$ 17,369
Other interest expense [net of interest income]		**18**	30
Less AFUDC		**(2,376)**	(1,773)
	$	**15,672**	$ 15,626

18. PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates. A reconciliation between the statutory and effective tax rates is provided as follows:

		2013		2012
Federal and Ontario statutory income tax rate		**26.50 %**		26.50%
Income before provision for PILS	**$**	**32,189**	$	33,048
Provision for PILs at statutory rate	**$**	**8,530**	$	8,758
Increase (decrease) resulting from				
Permanent differences		**1,088**		876
Impact of changes to expected future tax rates on opening temporary differences		**-**		(857)
Regulatory offset to temporary differences and changes in future tax rates		**(3,001)**		(996)
Future tax benefit recognized on actuarial gains (losses) recorded in OPEB deferral account		**495**		(1,319)
Prior year adjustments		**(58)**		404
Tax credits		**(162)**		(249)
Other		**(142)**		18
	$	**6,750**	$	6,635
Effective income tax rate		**20.97 %**		20.08 %

The Company as a rate-regulated enterprise is required to recognize future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future electricity rates.

Provision for PILs consists of the following:

		2013		2012
Payments in lieu of corporate income taxes	**$**	**6,750**	$	6,635
Future PILs corporate income tax provision				
Future income tax provision before regulatory adjustment		**4,083**		961
Regulatory adjustment for the recovery of future income tax provision		**(4,083)**		(961)
	$	**6,750**	$	6,635

The Company's future income tax assets are presented on the balance sheet as follows:

		2013		2012
Future income tax assets, current	**$**	**818**	$	628
Future income tax assets, non-current		**19,893**		24,165
	$	**20,711**	$	24,793

18. PAYMENTS IN LIEU OF CORPORATE INCOME TAXES [CONTINUED]

Significant components of the Company's future income tax assets are as follows:

		2013		2012
Property, plant and equipment and intangible assets	**$**	**16,816**	$	20,471
Employee future benefits		**3,303**		3,936
Other temporary differences		**592**		386
	$	**20,711**	$	24,793

The Company's regulatory liabilities for the amounts of future income taxes expected to be refunded to customers in future electricity rates are presented on the balance sheet as follows:

		2013		2012
Regulatory liability for future income tax assets, current	**$**	**818**	$	628
Regulatory liability for future income tax assets, non-current		**19,893**		24,165
	$	**20,711**	$	24,793

19. CONTINGENT LIABILITIES

Purchasers of electricity in Ontario, including the Company, through the Independent Electricity System Operator ['IESO'], are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Company fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. As at December 31, 2013, Hydro Ottawa Holding Inc. had drawn standby letters of credit in the amount of $16,000 [2012 – $16,000] against its credit facility to cover its prudential support obligation.

The Company participates with other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. The Company is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred. If any additional assessments were required in the future, their cost would be charged to income in the year during which they occur.

In December 2012, Hydro Ottawa was charged with five charges under the Occupational Health and Safety Act in respect of an incident occurring on March 22, 2012, which resulted in the fatality of an employee of a third party sub-contractor. No charges have been or can be brought against directors, officers or employees arising from this incident. The maximum fine for each count is $500. The Corporation, through external counsel, is defending the charges. At this time, it is not possible to quantify the effect, if any, of these charges on these financial statements.

Various lawsuits have been filed against the Company for incidents that arose in the ordinary course of business. In the opinion of management, the outcomes of the lawsuits, now pending, are neither determinable nor material. Should any loss result from the resolution of these claims, such losses would be claimed through the Company’s insurance carrier, with any unrecoverable amounts charged to income in the year of resolution.

20. COMMITMENTS

The Company has $43,237 in total open commitments, of which $34,835 are for 2014, $6,806 for 2015, $1,552 for 2016, $44 for 2017 and nil for 2018. This includes commitments relating to a customer information system services agreement, construction projects, spare parts and standby equipment, and overhead and underground services.

21. RELATED PARTY TRANSACTIONS

The Company is wholly owned by Hydro Ottawa Holding Inc., which in turn is wholly owned by the City of Ottawa. Hydro Ottawa Holding Inc. is also the sole shareholder of Energy Ottawa Inc. Chaudiere Hydro L.P. is wholly owned by Energy Ottawa Inc.

The following table provides the transactions entered into with related parties as well as outstanding balances at year end. These transactions occur in the normal course of business, and are transacted at the amount of consideration determined and agreed to by the related parties.

Trade amounts due from and to Hydro Ottawa Holding Inc. and Energy Ottawa Inc. are non-interest bearing and due on demand.

	2013		2013	
	Transactions during the year		Balances at year end	
	Sales to related parties	Purchases from related parties	Due from related parties	Due to related parties
City of Ottawa				
Sale of electricity [1]	$ 33,852	$ -	$ -	$ -
Other services [2]	7,684	-	-	-
Fuel, permits and other services [3]	-	1,183	-	-
Property taxes [3]	-	2,053	-	-
Conservation and demand management [3]	-	57	-	-
Accounts receivable [Note 4]	-	-	3,899	-
Accounts payable and accrued liabilities [Note 9]	-	-	-	222
	$ 41,536	$ 3,293	$ 3,899	$ 222

21. RELATED PARTY TRANSACTIONS [CONTINUED]

	2013 Transactions during the year		2013 Balances at year-end	
	Sales to related parties	Purchases from related parties	Due from related parties	Due to related parties
Hydro Ottawa Holding Inc.				
Administrative and corporate support services [2] [3]	$ 771	$ 3,623	$ -	$ -
Financing [4]	-	105	-	-
Interest [4]	-	17,971	-	-
Accounts payable and accrued liabilities [Note 9]	-	-	-	54,893
Notes payable [Note 12]	-	-	-	387,185
	$ 771	$ 21,699	$ -	$ 442,078
Energy Ottawa Inc.				
Purchase of electricity [5]	$ -	$ 2,832	$ -	$ -
Conservation and demand management initiatives [3]	-	1,211	-	-
Administrative and corporate support services [2]	1,015	-	-	-
Accounts payable and accrued liabilities [Note 9]	-	-	-	1,062
	$ 1,015	$ 4,043	$ -	$ 1,062
Chaudiere Hydro L.P.				
Accounts receivable [Note 4]	$ -	$ -	$ 60	$ -
Total	$ 43,322	$ 29,035	$ 3,959	$ 443,362

[1] Included in power recovery and distribution sales revenue
[2] Included in other revenue and contributions in aid of construction
[3] Included in operating costs
[4] Included in financing costs
[5] Included in purchased power

21. RELATED PARTY TRANSACTIONS [CONTINUED]

	2012 Transactions during the year		2012 Balances at year end	
	Sales to related parties	Purchases from related parties	Due from related parties	Due to related parties
City of Ottawa				
Sale of electricity [1]	$ 33,995	$ -	$ -	$ -
Other services [2]	4,017	-	-	-
Fuel, permits and other services [3]	-	730	-	-
Property taxes [3]	-	1,849	-	-
Conservation and demand management initiatives [3]	-	254	-	-
Accounts receivable [Note 4]	-	-	3,510	-
Accounts payable and accrued liabilities [Note 9]	-	-	-	46
	$ 38,012	$ 2,833	$ 3,510	$ 46
Hydro Ottawa Holding Inc.				
Administrative and corporate support services [2] [3]	$ 744	$ 3,746	$ -	$ -
Financing [4]	-	169	-	-
Interest [4]	-	17,231	-	-
Accounts payable and accrued liabilities [Note 9]	-	-	-	28,286
Notes payable [Note 12]	-	-	-	327,185
	$ 744	$ 21,146	$ -	$ 355,471
Energy Ottawa Inc.				
Purchase of electricity [5]	$ -	$ 2,383	$ -	$ -
Conservation and demand management initiatives [3]	-	864	-	-
Administrative and corporate support services [2]	533	-	-	-
Accounts payable and accrued liabilities [Note 9]	-	-	-	837
	$ 533	$ 3,247	$ -	$ 837
Chaudiere Hydro L.P.				
Accounts receivable [Note 4]	$ -	$ -	$ 54	$ -
Total	$ 39,289	$ 27,226	$ 3,564	$ 356,354

[1] Included in power recovery and distribution sales
[2] Included in other revenue and contributions in aid of construction
[3] Included in operating costs
[4] Included in financing costs
[5] Included in purchased power

22. COMPARATIVE FIGURES

In certain instances, the 2012 information presented for comparative purposes has been reclassified to conform to the financial statement presentation adopted for the current year.

2014 AUDITED FINANCIAL STATEMENTS

To be filed as Attachment A-4(B) when available.

RECONCILLIATION OF 2012, 2013 and 2014 AUDITED FINANCIAL STATEMENTS

The reconciliations of Hydro Ottawa Limited's 2012 and 2013 audited Financial Statements are attached as Attachment A-4(F) and A-4(G) respectively. The 2014 reconciliation will be filed as Attachment A-4(H) when available.

RECONCILLIATION OF AUDITED FINANCIAL STATEMENTS AND APPLICTION

The following table reconciles Hydro Ottawa Limited's ("Hydro Ottawa") 2012 Audited Financial Statements to Information for the Historical Year (2012) that is provided in this Application:

Table 1 – Statement of Income

Statement of Income	CGAAP Audited 2012 ($'000)	MIFRS Adjustment (1) ($'000)	Unregulated Business (2) (3) ($'000)	2012 Regulated Balances (2) (3) ($'000)
REVENUES				
Power recovery	$ 709,935	$ -	$ -	$ 709,935
Distribution sales	151,936	-	-	151,936
Other revenue	24,223	-	(13,180)	11,043
TOTAL REVENUES	**886,094**	**-**	**(13,180)**	**872,914**
EXPENSES				
Purchased power	709,935	-	-	709,935
Operating costs	92,645	(697)	(13,000)	78,947
Amortization/Depreciation	35,519	193	(20)	35,692
OTHER				
Financing costs	15,626	-	-	15,626
Recovery of regulatory asset write-down	(679)	-	-	(679)
PILS	6,635	26	-	6,661
TOTAL EXPENSE	**859,682**	**(479)**	**(13,020)**	**846,182**
NET INCOME	26,412	479	(159)	26,732

The following table provides a reconciliation of Capital Assets as reported in the 2012 Audited Financial Statement and the information on the Historical Year (2012) that is provided in this Application

[1] Net book value for capital assets and depreciation are different between CGAAP and MIFRS due to different capitalization policies between CGAAP and MIFRS prior to January 1, 2012. Capitalization policies under both accounting standards have been aligned starting January 1, 2012.
[2] For the purposes of this rate application, and in accordance with Ontario Energy Board policies, all revenue and expenses associated with Conservation and Demand Management ("CDM") has been excluded from the costs and revenues in this rate application. In addition, revenues and expenses related to other non-utility operations, such as rental of properties not in rate base, have also been excluded.
[3] For financial statement purposes interest earned (Account 4405) is an offset to interest expense (and in other revenue for regulatory accounting) and certain short-term interest is recorded as an operating expense.
[4] Remove Non-Utility Assets
[5] Adjustment includes reclassification differences between CGAAP and MIFRS between Properties, plant and equipment, Intangible, Investment properties and deferred income

Table 2 – Capital Assets

	CGAAP Audited 2012 ($'000)	MIFRS Adjustment (1) (5) ($'000)	Unregulated Business (4) ($'000)	2012 Regulated Balances ($'000)
Property, plant and equipment	$ 595,632	$ 46,801	$ (2,414)	**$ 640,019**
Intangible asets	29,683	(921)	-	**28,762**
Investment properties	-	2,184	-	**2,184**
Deferred income	-	(48,940)	-	**(48,940)**
TOTAL	**$ 625,315**	**$ 45,880**	**$ (2,414)**	**$ 668,781**

RECONCILLIATION OF AUDITED FINANCIAL STATEMENTS AND APPLICTION

The following tables reconcile Hydro Ottawa Limited's ("Hydro Ottawa") 2013 Audited Financial Statements to Information for the Historical Year (2013) that is provided in this Application

Table 1 – Statement of Income

Statement of Income	CGAAP Audited 2013 ($'000)	MIFRS Adjustment (1) ($'000)	Unregulated Business (2) (3) ($'000)	2013 Regulated Balances (2) (3) ($'000)
REVENUES				
Power recovery	$ 768,079	$ -	$ -	$ 768,079
Distribution sales	152,392	-	-	152,392
Other revenue	32,319	-	(16,641)	15,677
TOTAL REVENUES	952,790	-	(16,641)	936,149
EXPENSES				
Purchased power	768,079	-	-	768,079
Operating costs	99,751	49	(15,964)	83,835
Amortization/Depreciation	37,098	(181)	(22)	36,895
OTHER				
Financing costs	15,672	-	-	15,672
PILS	6,750	(13)	-	6,737
TOTAL EXPENSE	**927,350**	**(145)**	**(15,987)**	**911,218**
NET INCOME	**25,440**	**145**	**(655)**	**24,930**

The following table provides a reconciliation of Capital Assets as reported in the 2013 Audited Financial Statement and the information on the Historical Year (2013) that is provided in this Application.

[1] Net book value for capital assets and depreciation are different between CGAAP and MIFRS due to different capitalization policies between CGAAP and MIFRS prior to January 1, 2012. Capitalization policies under both accounting standards have been aligned starting January 1, 2012.
[2] For the purposes of this rate application, and in accordance with Ontario Energy Board policies, all revenue and expenses associated with Conservation and Demand Management ("CDM") has been excluded from the costs and revenues in this rate application. In addition, revenues and expenses related to other non-utility operations, such as rental of properties not in rate base, have also been excluded.
[3] For financial statement purposes interest earned (Account 4405) is an offset to interest expense (and in other revenue for regulatory accounting) and certain short-term interest is recorded as an operating expense.
[4] Remove Non-Utility Assets
[5] Adjustment includes reclassification differences between CGAAP and MIFRS between Properties, plant and equipment, Intangible, Investment properties and deferred income

Table 2 – Capital Assets

	CGAAP Audited 2013 ($'000)	MIFRS Adjustment (1) (5) ($'000)	Unregulated Business (2) ($'000)	2013 Regulated Balances ($'000)
Property, plant and equipment	$ 651,577	$ 60,328	$ (2,362)	**$ 709,543**
Intangible assets	44,733	(1,124)	-	**43,609**
Investment properties	-	2,143	-	**2,143**
Deferred income	-	(62,091)	-	**(62,091)**
TOTAL	**$ 696,310**	**$ 59,204**	**$ (2,362)**	**$ 753,152**

RECONCILLIATION OF AUDITED FINANCIAL STATEMENTS AND APPLICTION

The 2014 Reconciliation of Audited Financial Statements will be filed as Attachment A-4(H) when available.

ANNUAL REPORT AND MANAGEMENT DISCUSSION AND ANALYSIS

Hydro Ottawa Holding Inc.'s (i.e. Hydro Ottawa Limited's parent company) Annual Report and Management's Discussion and Analysis for 2013 can be found in the subsequent attachment, A-4(C).

Hydro Ottawa Holding Inc.

2013 Annual Report

Cover Photo:
Hydro Ottawa Apprentice Powerline Maintainers get hands-on training along Fernbank Road near Terry Fox Drive in Kanata.

Credit: Leon T. Switzer/Front Page Media Group

Our Mission

Hydro Ottawa's mission is to create long-term value for our shareholder, benefiting our customers and the communities we serve.

Hydro Ottawa is both a community asset and an investment for our shareholder, the City of Ottawa. As a community asset, our goal is to provide effective, efficient and reliable service to our customers, and to be a strong strategic partner for our city, helping to deliver on its economic development and environmental agendas. As an investment, our goal is to provide stable, reliable and growing returns to our shareholder.

Table of Contents

1 Company Profile

2 Message to Our Shareholder

5 Financial Highlights

6 Progress Against Plan

21 Management's Discussion and Analysis

42 Consolidated Financial Statements

83 Statement of Executive Compensation

85 Corporate Governance

89 Members of the Board of Directors

90 Glossary of Terms

Company Profile

Hydro Ottawa Holding Inc. (Hydro Ottawa) is 100 percent owned by the City of Ottawa. It is a private company, registered under the *Ontario Business Corporations Act*, and overseen by an independent board of Directors consisting of 11 members appointed by City Council. The core businesses of the Corporation are electricity distribution, renewable energy generation and related services. In 2013, Hydro Ottawa owned and operated two subsidiary companies.

Hydro Ottawa Limited

Hydro Ottawa Limited is a regulated electricity distribution company operating in the City of Ottawa and the Village of Casselman. As the third largest municipally owned electrical utility in Ontario, Hydro Ottawa Limited maintains one of the safest, most reliable and cost-effective electricity distribution systems in the province, and serves over 315,000 residential and commercial customers across a service area of 1,100 square kilometres. As a condition of its distribution license, the company is required to meet conservation and demand management targets established by the Ontario Energy Board. Hydro Ottawa Limited added approximately 5,400 new customers to its distribution system in 2013, an increase of 1.7 percent, while the volume of electricity delivered through its distribution network decreased by approximately 0.7 percent over the prior year. The company's capital assets grew by $71 million, or 11.4 percent.

Energy Ottawa Inc.

Energy Ottawa is the largest municipally owned producer of green power in Ontario, and a provider of commercial energy management services. It owns and operates six run-of-the-river hydroelectric generation plants at Chaudière Falls in the city's core and holds interests in two landfill gas-to-energy joint ventures that convert millions of tonnes of previously flared-off methane gas into renewable energy at the Trail Road landfill site in Ottawa and the Laflèche landfill site in Moose Creek, Ontario. In total, this represents a generation capacity of more than 48 megawatts annually, which is enough to power 40,000 homes.

Message to Our Shareholder

On behalf of management and the Board of Directors of both Hydro Ottawa Holding Inc. and Hydro Ottawa Limited, and our more than 650 dedicated employees — we are very pleased to provide this 2013 Annual Report to our shareholder, the City of Ottawa.

Jim Durrell, C.M.
Chair, Board of Directors

Bryce Conrad
President and
Chief Executive Officer

This report marks the second year of reporting against our *2012–2016 Strategic Direction*, which was endorsed by our shareholder in June 2012. Hydro Ottawa's mission over the term of that five-year plan is to deliver value, both as a community asset providing essential services to our customers, and as an investment for the City of Ottawa, our shareholder. With that mission in mind, our goal is two-fold: to continue to fulfil our core mandate to provide a safe, reliable, affordable and sustainable supply of electricity to the over 315,000 homes and businesses that rely on us every day; and to ensure a more sustainable energy future for our community.

Hydro Ottawa continued to provide value to our shareholder in 2013. We advanced key elements of our business strategy, while once again achieving strong financial results that exceeded our targets for the year. This reflects our focus on the business priorities that have driven our success to date — an unwavering commitment to financial strength, customer value, organizational effectiveness, and corporate citizenship.

In the area of financial strength, Hydro Ottawa's 2013 net income of $32.1 million surpassed the strategic plan projection by $4.1 million, resulting in $19.3 million in dividends to the City of Ottawa. With strong performance in both 2012 and 2013, Hydro Ottawa has delivered $37.9 million of the $90 million dividend commitment set out in the *2012–2016 Strategic Direction*. Based on this record of performance and prudent management of business risks, Hydro Ottawa continued to maintain its "A" credit rating with a "Stable" trend in 2013.

Hydro Ottawa's improved financial performance for 2013 was achieved in large part through better cost controls and enhanced revenues in our renewable energy generation business. Revenues from renewable generation for 2013 were $21 million, a 91 percent increase over 2012, and Hydro Ottawa's hydroelectric generation capacity grew to 48 megawatts largely due to the acquisition of three hydroelectric plants at Chaudière Falls in 2012.

While Hydro Ottawa Limited, our regulated electricity distribution company, contributed 80 percent of our 2013 net income, it did not match its 2012 performance. Both demand for electricity and distribution revenue dropped in 2013, while costs increased.

Revenue growth in the electricity distribution business is not expected to keep pace with cost increases arising from customer growth, contractual and inflationary pressures, as well as changing regulatory requirements. Productivity improvement is a must to partially offset rising costs, and enhanced revenue growth from our renewable generation business will be critical to increasing shareholder value. That is why Hydro Ottawa pursued the expansion of its renewable generation capacity at Chaudière Falls in 2013. We are pleased to report that we were awarded a 40-year power purchase agreement by the Ontario Power Authority. This will see the construction of a new 29-megawatt generation facility, which will increase our hydroelectric generation capacity by over 50 percent. Construction is to commence in 2015.

Our *2012–2016 Strategic Direction* calls for a continued focus on enhancing customer value and that is why working to keep distribution rates stable for the more than 315,000 homes and businesses we serve remains a priority. While the overall customer bill increased in 2013, the approved distribution rate increase for the Hydro Ottawa portion was 1.08 percent effective January 1, 2013. We are pleased that we have been able to keep this portion of the bill very stable over the past several years through effective cost control and efficient operations.

We are also investing in service reliability at unprecedented levels. Like all utilities in Ontario, Hydro Ottawa must replace aging distribution system equipment at an accelerated pace. We are investing more than half a billion dollars over the course of our 2012–2016 plan to improve system reliability and reduce the occurrence of interruptions caused by aging and defective equipment.

In 2013, Hydro Ottawa continued to experience reliability challenges due to bad weather and increasing failure rates for aging distribution assets. A concerted effort was made to reverse this trend and 2013 was another record year for distribution system investments. Our overall investment in electricity distribution assets was over $131 million, including the new $25 million Terry Fox station to better serve the growing needs of customers in Kanata and Stittsville.

Achieving our goals for customer and shareholder value requires a high performance workforce, and efficient and effective operations. At Hydro Ottawa, we strive for performance excellence in every area of our operations.

In light of shifting demographic trends, anticipated retirements and changing skill requirements, we continued to plan and prepare both for management succession and continuity of skilled trades and technical capacity to ensure a prepared and sustainable workforce over the next five to ten years. Key initiatives in this regard included the continuation of our skilled trades apprenticeship programs, our engineering internship program and our leadership development programs, the expansion of our Algonquin College Powerline Technician Diploma Program partnership, and the development of our Diversity Plan.

Hydro Ottawa also continued to be a responsible and engaged corporate citizen. In 2013, we partnered with Christie Lake Kids to establish the Hydro Ottawa Sustainable Youth Leadership Centre. We were also honoured with the United Way Community Builder Award for *Best Community Campaign* for our 2012 efforts and raised a record $228,415 in 2013. Whether by helping our customers conserve energy, educating over 17,000 local elementary students about electricity safety and conservation, or providing more than $139,000 in financial assistance to front-line agencies that serve people who are homeless or at risk of being homeless through our Brighter Tomorrow's Fund, Hydro Ottawa was there.

We also reached beyond our own community on two occasions last year to lend a helping hand when our neighbours in the Peterborough and Toronto areas and much of eastern and central Ontario were without power. It was a moving reminder that our employees are dedicated not only to service, but also to giving back to their community and their neighbours — and occasionally those neighbours a little further afield.

As a result of the company's achievements, Hydro Ottawa was recognized once again in 2013 by a number of awards including among others, for the fifth year in a row as one of the National Capital Region's Top Employers, for the third year in a row as one of Canada's Greenest Employers, for Innovation in HR Practices for our Retiree and Older Worker Engagement Strategy, and for our Hydro Ottawa Safe Supervisor Program.

We are proud of the company's performance in 2013 and of the many contributions we continued to make to the well-being of our community. This is a testament to the hard work and dedication of our employees — the cornerstone of our success. We look forward to advancing our *2012–2016 Strategic Direction* and continuing to deliver value to our shareholder, our customers and the communities we serve.

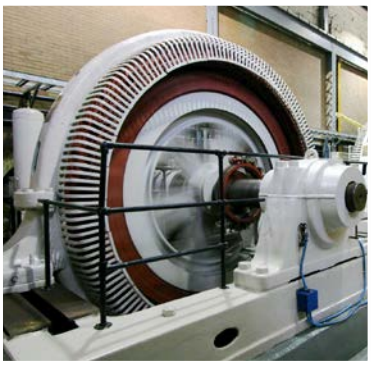
Sincerely,

Jim Durrell, C.M.
Chair, Board of Directors

Bryce Conrad
President and Chief Executive Officer

Financial Highlights

(in thousands of Canadian dollars)	2013	2012
Operations		
Distribution revenue	152,392	151,936
Generation revenue	21,047	11,009
EBITDA	96,925	87,752
Net income	32,142	30,989
Dividend (paid in the following year)	19,300	18,600
Balance Sheet		
Total assets	1,008,006	925,901
Capital assets	791,782	721,527
Long-term debt	400,413	251,459
Shareholder's equity	384,153	367,718
Cash Flows		
Operating	49,430	80,804
Investing	(112,184)	(142,727)
Financing	131,258	(18,290)



Progress Against Plan

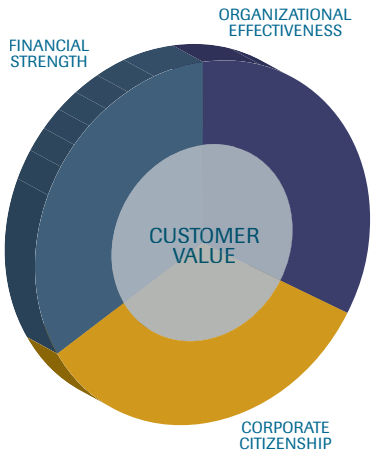
Hydro Ottawa's 2013 Annual Report is the second to report against the company's *2012–2016 Strategic Direction: Creating Long-Term Value*.

The aim of the Strategic Direction is to move the company from 'good to great', leveraging our position as a leading and trusted service provider to become one of Canada's most successful integrated utilities.

This strategy is built on the company's strengths and achievements, and responds to a changing environment that presents significant opportunities for Hydro Ottawa and the community we serve.

To ensure we take full advantage of those opportunities, Hydro Ottawa is focused on the fundamentals of leading performance: Financial Strength, Customer Value, Organizational Effectiveness, and Corporate Citizenship. These four Key Areas of Focus guide our business strategy and form the basis of our annual reporting in the pages that follow.

One of our Key Areas of Focus — Customer Value — takes on central importance under the company's five-year plan. The essence of Hydro Ottawa's business strategy is to put the customer at the centre of everything we do.



FOUR KEY AREAS OF FOCUS

Financial Strength

STRATEGIC OBJECTIVE

We will create sustainable growth in our business and our earnings

By improving productivity and pursuing business growth opportunities that leverage our strengths — our core capabilities, our assets and our people

Customer Value

STRATEGIC OBJECTIVE

We will deliver value across the entire customer experience

By providing reliable, responsive and innovative services at competitive rates

Organizational Effectiveness

STRATEGIC OBJECTIVE

We will achieve performance excellence

By cultivating a culture of innovation and continuous improvement

Corporate Citizenship

STRATEGIC OBJECTIVE

We will contribute to the well-being of the community

By acting at all times as a responsible and engaged corporate citizen

Financial Strength

Strategic Objective: We will create sustainable growth in our business and our earnings by improving productivity and pursing business growth opportunities that leverage our strengths — our core capabilities, our assets and our people.

Our commitment is to provide sustained shareholder value now and in the future.

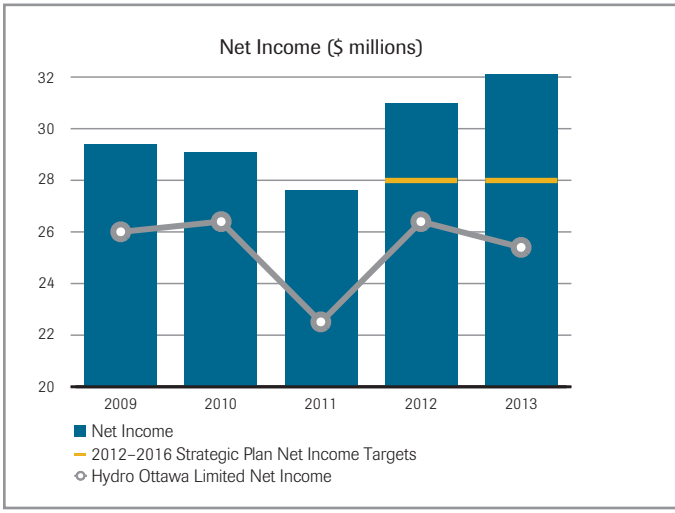
For a second consecutive year, Hydro Ottawa exceeded its financial targets as set out in our *2012–2016 Strategic Direction*. This was due in large part to better cost control and strong performance in our renewable energy generation business line that has enhanced the company's ability to fulfil our core mandate to provide a safe, reliable, affordable and sustainable supply of electricity to the more than 315,000 homes and businesses that rely on us every day.

We exceeded our financial targets

Growth in generation revenue and a focus on cost containment took Hydro Ottawa's 2013 net income to $32.1 million, exceeding the target forecast in the *2012–2016 Strategic Direction* by $4.1 million. Cumulative net income for 2012 and 2013, the first two years of our Strategic Direction, has exceeded target by $7.1 million.

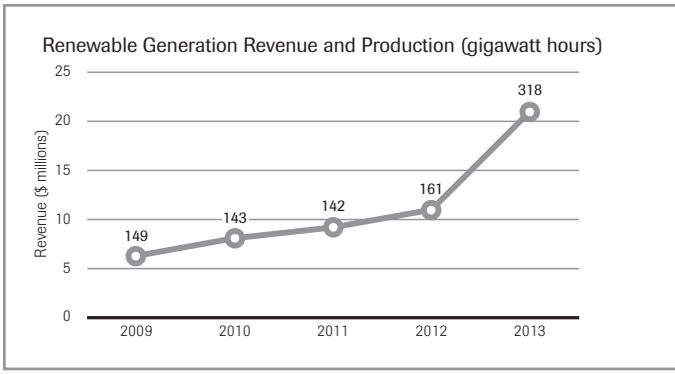
While our regulated local distribution company, Hydro Ottawa Limited, contributed 80 percent of our 2013 net income, it did not match its 2012 performance — both demand for electricity and distribution revenue dropped in 2013, while costs increased.

In order to manage these pressures, Hydro Ottawa kept its focus on cost control and productivity, and continued to closely monitor revenues and expenses. One important indicator of productivity is operating cost per customer. Each year the Ontario Energy Board (OEB) compares the operating costs per customer of all Ontario electricity distributors. In the OEB's most recent survey, Hydro Ottawa ranked 19th out of 73 electricity distribution companies in terms of lowest costs per customer.



$32.1 million in net income

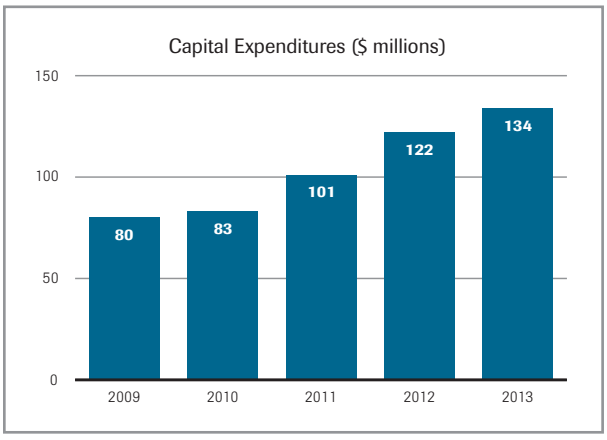
Hydro Ottawa's renewable energy generation business line became a greater source of revenues for the company in 2013 as a result of the full year of operations of the three hydroelectric plants at Chaudière Falls, acquired in November 2012, and the landfill gas-to-energy facility at Moose Creek, which commenced commercial operations on January 25, 2013. Revenues from renewable energy generation for 2013 were $21 million, a 91 percent increase over 2012, and Hydro Ottawa's hydroelectric generation capacity grew to 48 megawatts in total.



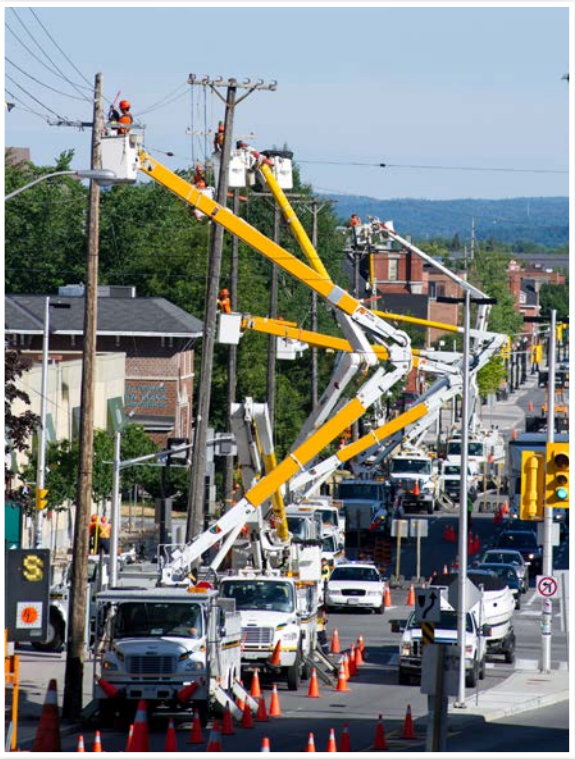
Electricity generation revenue increased by **91 percent**

We delivered our largest capital program to date

In 2013, Hydro Ottawa invested $134 million in our electricity distribution system and generation assets — part of our plan to make significant investments over the course of our *2012–2016 Strategic Direction* to maintain and enhance reliability, and to address aging infrastructure and system growth.



$134 million capital program



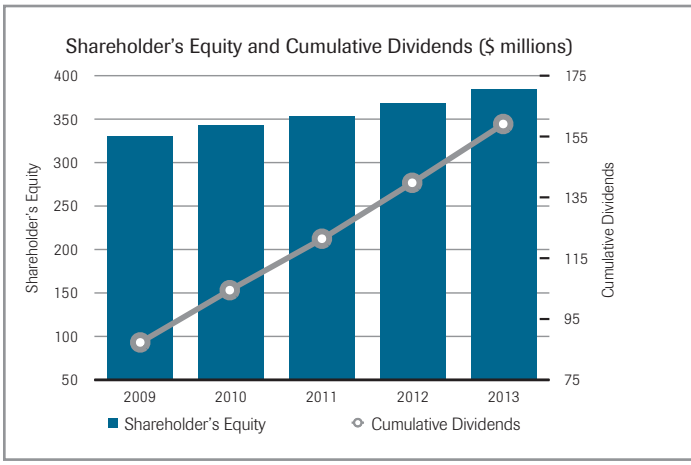
Shareholder value increased by 13 percent

Hydro Ottawa continued to provide excellent value to its shareholder in 2013, with a return on equity of 8.6 percent. Total shareholder value — including dividends paid and earnings retained with the company — increased 13 percent during the year.

Since 2005, Hydro Ottawa has delivered $159.2 million in dividends to the City of Ottawa, including $19.3 million arising from 2013 results.

With strong performance in both 2012 and 2013, Hydro Ottawa has delivered $37.9 million of the $90 million dividend commitment set out in the *2012–2016 Strategic Direction*.

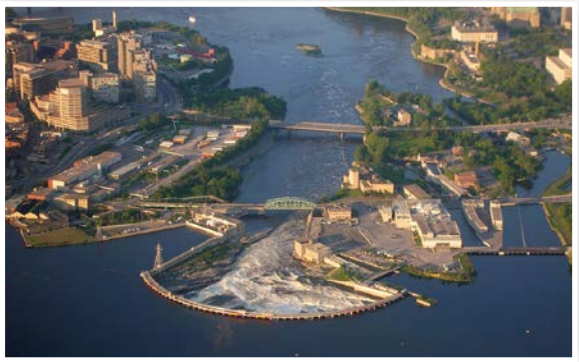
Based on this record of strong operational performance and prudent management of business risks, Hydro Ottawa continued to maintain its "A" credit rating with a "Stable" trend in 2013, and was able to issue long-term debt of $150 million to fund our capital programs and the purchase of the three hydroelectric plants at Chaudière Falls.



$19.3 million in dividends to the City of Ottawa

We continued to pursue business growth

To enhance the company's ability to respond to changing needs and expectations, and to ensure long-term financial sustainability, Hydro Ottawa kept its focus on business growth opportunities. In 2013, Hydro Ottawa pursued the expansion of its renewable generation capacity at Chaudière Falls, and early in 2014, was awarded a 40-year power purchase agreement by the Ontario Power Authority. This will see the construction of a new 29-megawatt generation facility, which will increase our hydroelectric generation capacity by over 50 percent. Construction is to commence in 2015.



Customer Value

Strategic Objective: We will deliver value across the entire customer experience by providing reliable, responsive and innovative services at competitive rates.

The essence of Hydro Ottawa's business strategy is to put the customer at the centre of everything we do. Understanding and responding to the customer's needs and expectations – for quality service, cleaner energy, and help in controlling their energy consumption and electricity costs – is the key to success in an evolving energy landscape.

We strive to deliver a reliable product, while keeping our service efficient and friendly, and our costs as low as possible.

Feedback from our customers continued to show we're on the right track

Overall customer satisfaction remained strong at 90 percent, and customer complaint escalations continued to trend downwards.

90 percent customer satisfaction rate

We kept our focus on improving the customer's experience

Hydro Ottawa's innovative "Go Paperless" tree planting campaign in 2013 to promote customer self-serve and paperless billing and payment options resonated with customers; by year end, more than 104,000 customers were subscribed to MyHydroLink, while more than 66,000 customers had signed up for E-Billing. It also earned us the Communications Excellence Award from the Electricity Distributors' Association.

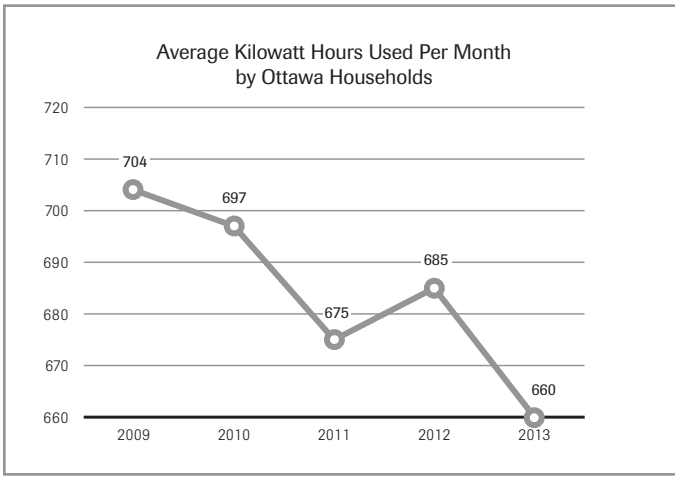
We continued to support our customers and other stakeholders on a variety of social media platforms including Twitter, Facebook, YouTube and LinkedIn. Our Twitter followers more than doubled in 2013 to 4,987.

14,414 customers registered for E-Billing as a result of our "Go Paperless" campaign

We continued to help people conserve and control their electricity costs

Hydro Ottawa continued to be a leader in promoting energy conservation in our community, helping residents and businesses use our product efficiently and wisely. In 2013, our Pit Crew took to residential streets with free In-Home Displays and at year-end, more than 32,600 households were participating in the *peaksaver* PLUS® program.

It was also an excellent year for the Small Business Lighting program with 1,100 small businesses taking advantage of professionally installed energy efficient lighting. Another 780 larger commercial customers took advantage of our retrofit program to upgrade to much more efficient technologies.



40 Million kWh saved from our residential, small business and large commercial conservation programs, in addition to peak demand savings of 27MWs – enough electricity to power 4,000 homes for a year

We re-invested in our electricity distribution system

Like most utilities in Ontario, Hydro Ottawa faces a need to replace aging distribution system equipment at an accelerated pace. Our plan is to continue to make significant investments of more than half a billion dollars over the course of our *2012–2016 Strategic Direction* to achieve the maximum benefit for our customers and reduce the occurrence of interruptions caused by defective equipment.

Hydro Ottawa continued to experience reliability performance challenges due to episodes of bad weather as well as increasing failure rates for aging distribution assets. A concerted effort was made to reverse this trend and 2013 was another record year for distribution system investments. Our overall investment in asset management projects was over $131 million, with a particular focus on areas with reliability issues, new station capacity, plant relocation, system expansion, and small residential and commercial infill.

Significant milestones in 2013 included energizing the new Terry Fox station to better serve customers in Kanata and Stittsville, expansion of the Fallowfield station for the growing community of Barrhaven, and extensive work to replace aging infrastructure including poles, underground cables, transformers and switchgear, and line extensions throughout our service territory.

New $25 million Terry Fox Station in Kanata

Record year for distribution system investments:
$131 million to address reliability, aging infrastructure and growth

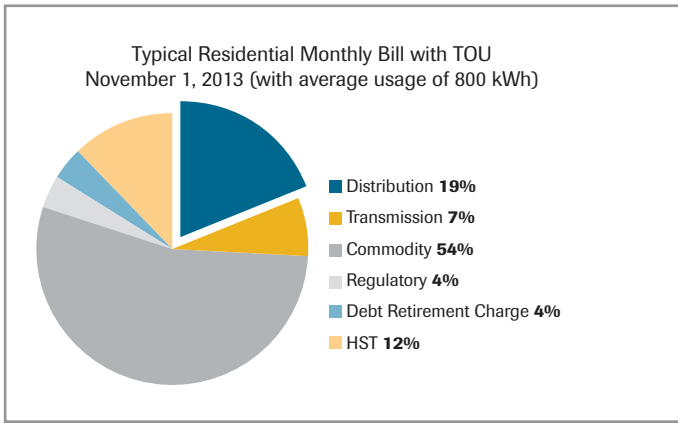
Distribution rates remained stable

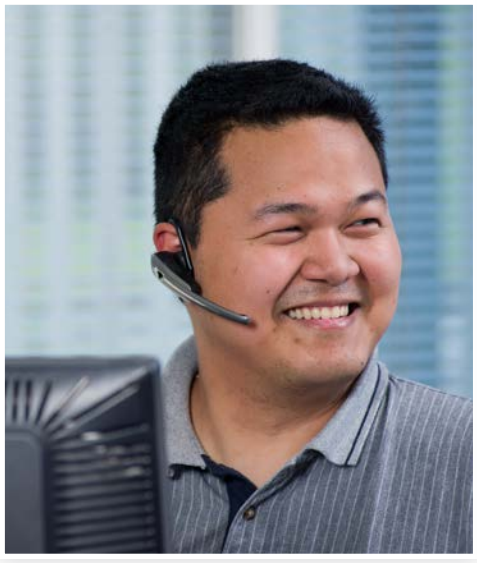
Hydro Ottawa's electricity distribution rates are set through open public hearings by the Ontario Energy Board (OEB), Ontario's electricity and natural gas regulator, which regulates the sector and receives policy direction from the Government of Ontario. The OEB approves rates for the distribution of electricity by utilities such as Hydro Ottawa with the goal of protecting the interests of consumers with respect to prices while ensuring that the electrical service provided by utilities is adequate, safe and reliable.

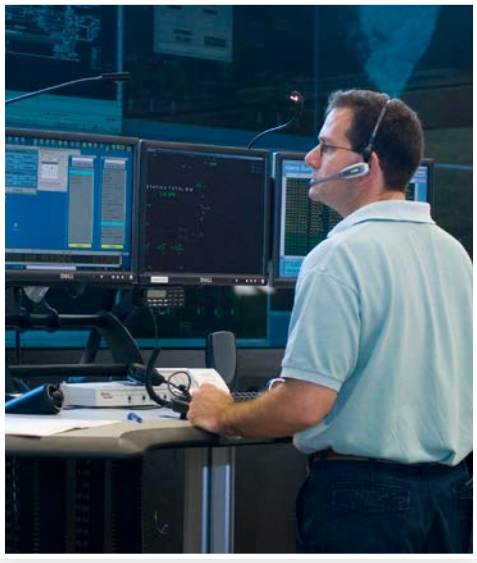
In 2013, Hydro Ottawa's distribution rates made up less than 20 percent of the customer's total electricity bill. The remaining 80 percent consists of pass-through charges that Hydro Ottawa collects for others, with no markup, including the cost of the electricity commodity.

Hydro Ottawa's distribution rates ensure there are sufficient revenues to maintain a reliable electricity distribution system and provide high quality service.

While the overall customer bill increased in 2013, the approved distribution rate increase for the Hydro Ottawa portion was 1.08 percent effective January 1, 2013.







Organizational Effectiveness

Strategic Objective: We will achieve performance excellence by cultivating a culture of innovation and continuous improvement.

Achieving our goals for customer and shareholder value requires a high performance workforce, and efficient and effective operations. At Hydro Ottawa, we strive for performance excellence in every area of our operations.

Our performance continued to be recognized

Our efforts to build a top-performing organization were recognized once again in 2013

- For the fifth year in a row as one of the National Capital Region's Top Employers
- For the fourth consecutive year as an Achievers 50 Most Engaged Workplaces in Canada
- For the third year in a row as one of Canada's Greenest Employers
- Minister's Award for Apprenticeship Training
- Infrastructure Health and Safety Association President's Awards for 250,000, 500,000, 750,000 and 1,000,000 hours worked without a new lost time injury

Winner of the Electricity Human Resources Canada Employer's Award for Innovation in HR Practices for our Retiree and Older Worker Engagement Strategy

Maintaining a healthy and safe work environment remained a top priority

Maintaining a healthy and safe work environment is a fundamental commitment to our employees. In 2013, Hydro Ottawa provided an average of more than 23 hours of safe work practices training per employee, focusing on higher risk trade employees, who received an average of 47 hours per employee. Our integrated Occupational Health, Safety and Environment management system continues to be certified to the internationally-recognized standards of OHSAS 18001 and ISO 14001.

Canadian Society of Safety Engineering Local Chapter and National Achievement Award for Hydro Ottawa's Safe Supervisor Program

Infrastructure Health & Safety Association™

1,000,000 hours worked without a new lost time injury

We kept our focus on ensuring a prepared and sustainable workforce

In light of shifting demographic trends, anticipated retirements and changing skill requirements, we continued to plan and prepare both for management succession and continuity of skilled trades and technical capacity to ensure a prepared and sustainable workforce over the next five to ten years.

- Our leadership development program, offered in partnership with the MEARIE Group and the Schulich School of Business, York University, graduated 22 participating Hydro Ottawa leaders with a Masters Certificate in Energy Sector Leadership
- We developed our Diversity Plan to create and support a talented workforce that is reflective of the diversity in the communities we serve
- We expanded our Algonquin College Powerline Technician Diploma Program partnership through a double intake of students in 2013 and graduated 17 students from the first program cohort
- Our five Apprenticeship Programs continued to grow — 13 new apprentices were hired in 2013, bringing the total to 36 apprentices, representing 21 percent of our trades workforce
- Our Engineering Intern Program continued to create a talent pool with three interns receiving their P.Eng. designation for a total of 10 to date, and two program alumni promoted to supervisory levels
- Our Summer and Co-op Student Programs continued to be a vital part of our talent supply strategies — providing meaningful opportunities to young workers
- Our Retiree and Older Worker Engagement Strategy, branded as '*Prime Time*' via an all-employee survey, has been key to engaging workers and managing knowledge transfer

HydroOttawa PRIME TIME

21 percent of our trades workforce is now made up of apprentices hired through our five Apprenticeship Programs

We continued to look for ways to improve our operations

A number of productivity improvements were implemented in 2013 with a continued focus on the capital project execution process. Through more efficient use and scheduling of internal crews and external contractors, we were able to complete our largest capital program to date.

We revitalized our Employee Reward and Recognition framework to emphasize performance and introduced the CEO's Award for Productivity and Innovation.

As part of our strategy to improve the efficiency and effectiveness of our operations, we advanced our Real Estate Rationalization Plan. The plan involves the sale of three of our existing facilities that are nearing end of useful life and require major capital investments in the next several years, and the construction of two combined facilities in the east and south ends of the city. In 2013, Hydro Ottawa concluded the acquisition of two new properties: one is near Hunt Club Road and Highway 417 and the other near Fallowfield Road and Highway 416. The Request for Qualifications for the design and build phase was also completed, together with the appointment of a Fairness Commissioner. When fully implemented, the plan is expected to deliver savings of $3 million annually through a combination of cost reductions and productivity improvements. It will also enhance service through more strategically located and better-equipped facilities, and help to reduce the environmental impact of our operations.

Corporate Citizenship

Strategic Objective: We will contribute to the well-being of the community by acting at all times as a responsible and engaged corporate citizen.

At Hydro Ottawa, we seek to contribute to positive outcomes in our community and beyond.

We continued to give where we live

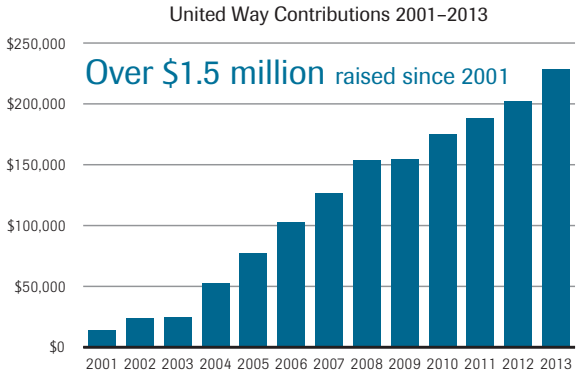
As a community company that delivers essential services to Ottawa residents, contributing to the well-being of our community has always been a part of Hydro Ottawa's core mandate. In 2013, we continued to be active in our community. We partnered with Christie Lake Kids to establish the Hydro Ottawa Sustainable Youth Leadership Centre, which provides a unique opportunity for disadvantaged youths to learn experientially about alternative energy, while building leadership skills. We were honoured with the United Way Community Builder Award for *Best Community Campaign* for our 2012 efforts and raised a record $228,415 in 2013. Whether by educating 17,635 children and youths about electricity safety and conservation, providing $139,946 in financial assistance to front-line agencies that serve people who are homeless or at risk of being homeless through our Brighter Tomorrows Fund, or providing $187,912 to struggling customers under the Low-Income Energy Assistance Program, Hydro Ottawa was there.

$139,946 in financial assistance to front-line agencies that serve people who are homeless or at risk of being homeless.

900 children with disabilities enjoyed exclusive access to the Gloucester Fair, thanks to Hydro Ottawa employee volunteers

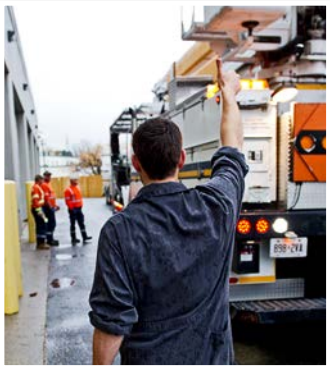
17,635 students
trained about electricity safety and conservation in area schools

$228,415 raised for United Way Ottawa from employee donations and corporate matching



We assisted those in need outside our community

Our employees are always willing to lend a helping hand to those in need. During the spring of 2013, tens of thousands of customers in Peterborough and the surrounding area were without power due to wind and freezing rain downing power lines. Hydro Ottawa responded immediately to requests for help in restoring power and repairing broken poles. In December 2013, the Toronto area and much of eastern and central Ontario experienced a significant ice storm where hundreds of thousands of customers lost power. Without hesitation, our employees volunteered to give up their holidays with family and loved ones to help restore power to residents in the hard hit communities of Picton, Brampton and Toronto.

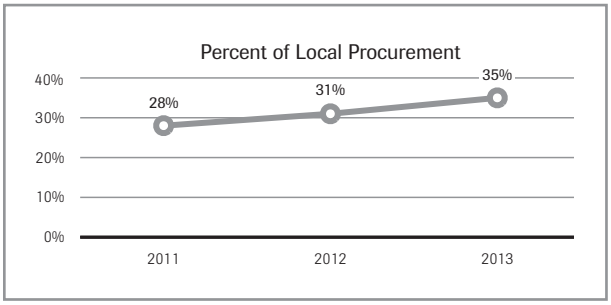


We kept our focus on being green

2013 Canada's Greenest Employers

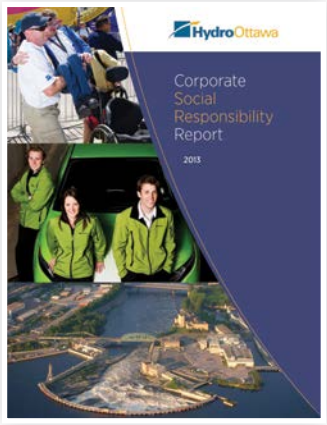
Given the inextricable link between energy and the environment, Hydro Ottawa's approach to corporate citizenship includes a strong focus on environmental sustainability. In 2013, we continued to practice what we preach by carefully managing our own impacts on the environment. We added a second electric vehicle to our fleet and swapped in 36 flex-fuel vehicles, and maintained a high rate of non-hazardous waste diversion at 91 percent. We also completed the installation of building automated systems in 52 of our substations, and continued to green our supply chain and procurement processes by purchasing 35 percent of our goods and services from local suppliers. And for the third year in a row, Hydro Ottawa was recognized as one of Canada's Greenest Employers for incorporating environmental values into our corporate culture.

91 percent non-hazardous waste diverted from landfill



And we continued to walk the talk

At Hydro Ottawa, we believe that good governance is the glue that holds together responsible business practices. By making governance a core focus over the past several years, we have established leading practices for a company of our size and mandate. Accordingly, in 2013 we refreshed our Code of Business Conduct to provide greater clarity and guidance to employees and board members in making the right decisions. In addition, we produced our inaugural Corporate Social Responsibility Report to demonstrate our commitment and leadership in this area and share our progress with our stakeholders.



Management's Discussion and Analysis

The Management's Discussion and Analysis ['MD&A'] is intended to provide a narrative review of Hydro Ottawa Holding Inc.'s operational performance and financial position, and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2013. The consolidated financial statements are prepared in accordance with pre-changeover Canadian generally accepted accounting principles ['pre-changeover Canadian GAAP'], including accounting principles prescribed by the Ontario Energy Board ['OEB'] in the Accounting Procedures Handbook, and are expressed in thousands of Canadian dollars.

The MD&A contains forward-looking statements, including, but not limited to, statements as to future operating results and plans. These statements reflect management's expectations as of the date of release. The impacts of risks and uncertainties may cause actual results, performance or achievements to differ materially from those projected here.

Business of Hydro Ottawa Holding Inc.

Hydro Ottawa Holding Inc. ['Hydro Ottawa' or 'the Corporation'] was incorporated on October 3, 2000 under the *Business Corporations Act* (Ontario) as a for-profit holding company. Hydro Ottawa is wholly owned by the City of Ottawa ['the Shareholder'] and governed by an independent Board of Directors appointed by the Shareholder.

The Corporation's core businesses are electricity distribution, renewable energy generation and related services. Hydro Ottawa owns and operates two subsidiary companies, as follows:

Hydro Ottawa Limited: The core and by far the largest business of the Corporation is the distribution of electricity by its largest subsidiary, Hydro Ottawa Limited, which accounts for approximately 88 percent of the Corporation's capital assets and 90 percent of revenues. Hydro Ottawa Limited is a regulated electricity local distribution company ['LDC'] that owns and operates distribution infrastructure in the City of Ottawa and the Village of Casselman. Hydro Ottawa Limited is the largest LDC in eastern Ontario and the third largest municipally owned LDC in the province of Ontario. Hydro Ottawa Limited delivers electricity reliably and safely to approximately 315,000 residential and commercial customers across a service area of approximately 1,100 square kilometres. As a condition of its distribution licence, Hydro Ottawa Limited is required to meet conservation and demand management targets established by the OEB. Hydro Ottawa Limited receives power from the provincial electricity grid and embedded generators and distributes it across a network comprising 85 distribution stations, 169 station class transformers, 2,800 kilometres of underground cable, 2,900 kilometres of overhead lines, 35,600 distribution transformers and 48,000 hydro poles. Hydro Ottawa Limited added 5,400 net new customers to its distribution system in 2013, an increase of 1.7 percent.

Energy Ottawa Inc. (Energy Ottawa): A generator of renewable energy and provider of commercial energy management services, Energy Ottawa is the largest municipally owned producer of green power in Ontario. Energy Ottawa now owns and operates six run-of-the-river hydroelectric generation plants at Chaudière Falls. Energy Ottawa also holds interests in the following entities:

PowerTrail Inc. ['PowerTrail'] is a 60 percent owned joint venture that operates a generation plant and gas collection system at the Trail Road landfill site in Ottawa, Ontario.

Moose Creek Energy LP ['Moose Creek LP'] is a 50.1 percent owned joint venture that operates a generation plant and gas collection system at the Laflèche landfill site in Moose Creek, Ontario.

Chaudiere Water Power Inc. ['CWPI'] is a 66.66 percent owned joint venture that operates the Chaudière Dam facilities on the Ottawa River.

Energy Ottawa's green energy production now exceeds 48 MW annually, which is enough to power 40,000 homes. On February 7, 2014, Energy Ottawa's subsidiary Chaudiere Hydro L.P., was granted a 40-year Hydroelectric Standard Offer Program – Municipal Stream Contract ['HESOP Contract'] by the Ontario Power Authority ['OPA'] to produce renewable waterpower. As a result of this contract, Chaudiere Hydro L.P. will expand its generation facilities increasing Energy Ottawa's total capacity from 38 megawatts to 58 megawatts ['Chaudière expansion']. The Chaudière expansion will require a major investment, and have a significant impact on operations in the coming years. The anticipated commercial operation date is in the fourth quarter of 2017.

Vision and Strategy

OUR VISION

Hydro Ottawa's vision is to be a leading and trusted integrated utility services Corporation. This vision is built upon the objectives that were set out for the Corporation at its inception – to increase the value of the Corporation for its Shareholder, to deliver efficient and effective service to our customers, and to grow competitive businesses that maximize the value of our existing assets and core competencies.

The goal of Hydro Ottawa's *2012–2016 Strategic Direction* is to move the Corporation from 'good to great', leveraging our position as a leading and trusted service provider to become one of Canada's most successful integrated utilities.

LEADING

For Hydro Ottawa, leading means consistently being among the top performers in the business, in every critical area of our operations; and being regarded as a credible and trusted voice in our industry, helping to shape policy, regulatory and operational responses to the critical issues of the day.

As our industry evolves in response to customer needs and technological and policy change, our goal is to ensure Hydro Ottawa continues to be a leader in this shifting strategic context, becoming one of the most successful utility companies in Canada.

TRUSTED

Trust is fundamental to Hydro Ottawa's success; a continuing belief among our stakeholders that we will deliver on our mission, reliably, in a transparent and accountable fashion.

We are a Corporation with very deep roots in our community, established through more than 100 years of providing an essential service to homes and businesses. Through an independent third party survey conducted in 2013, Hydro Ottawa scored higher results than National and Ontario industry comparables when customers were asked to rate their satisfaction with items such as:

- provides consistent, reliable energy;
- quickly handles outages;
- provides good value for money;
- operates a cost effective hydroelectric system;
- deals professionally with customer problems;
- works with customers to keep their energy costs affordable;
- proactive in communicating changes;
- quickly deals with issues that affect customers;
- adapts well to changes in customer's expectations; and
- overall provides excellent quality services.

We are proud of our legacy and continue to seek out ways to be of service to our customers.

In the years to come, we will continue to demonstrate that we have the strength and ability to deliver on our mandate, coupled with a commitment to transparency, accountability, and the well-being of our community.

INTEGRATED

Hydro Ottawa's strategic vision involves realizing synergies and economies of scale in 'close to the customer' utility services, to create savings, and additional value for the Shareholder and enhanced service to customers.

OUR STRATEGY

The essence of Hydro Ottawa's strategy is to put the customer at the centre of everything we do. Understanding and responding to the customer's needs and expectations for service quality, cleaner energy, and greater control over the management of energy costs will be key to Hydro Ottawa's continued success in an evolving landscape. The customer value we provide up to and beyond the meter will drive all critical areas of performance-our financial strength and business growth, our operational efficiency and effectiveness, and our contributions to the well-being of our community.

To enhance our ability to respond to customer needs and expectations, and ensure long-term financial sustainability, Hydro Ottawa will also maintain a focus on strategic business growth within our core areas of strength. Our growth agenda involves three basic components:

- achieving economies of scale by expanding our electricity distribution business beyond its current service territory, and leveraging our core systems to support other utility services;
- increasing the supply of clean energy for customers and earnings for our Shareholder by expanding our renewable generation; and
- bringing innovative solutions to energy-conscious consumers and businesses, by growing our energy management expertise.

To achieve our strategy, the plan is structured around four critical areas of performance that have driven our success to date; our four Key Areas of Focus:

- Customer Value: We will deliver value across the entire customer experience;
- Financial Strength: We will create sustainable growth in our business and our earnings;
- Organizational Effectiveness: We will achieve performance excellence; and
- Corporate Citizenship: We will contribute to the well being of the community.

These four key areas of focus will continue to guide our activities throughout the current plan.

We have made significant strides on the growth agenda by increasing the supply of clean energy with the following projects:

On November 20, 2012, Chaudiere Hydro L.P. completed the purchase of three additional run-of-the-river hydroelectric plants at Chaudière Falls from Domtar Inc. Energy Ottawa's hydroelectric generating capacity has more than doubled to 38 megawatts with this purchase. In addition, the Chaudière Falls site is one of the largest remaining hydroelectric sites available in Ontario.

On January 25, 2013, the landfill gas collection plant at the Laflèche landfill site in Moose Creek, Ontario commenced commercial operations.

On February 7, 2014, Chaudiere Hydro L.P. was granted a 40-year HESOP Contract by the OPA to produce renewable waterpower. As a result of this contract, Chaudiere Hydro L.P. will expand its generation facilities increasing Energy Ottawa's total capacity from 38 megawatts to 58 megawatts. The anticipated commercial operation date is in the fourth quarter of 2017.

Hydro Ottawa continues to pursue solar energy projects, including those through a partnership with the City of Ottawa.

Electricity Distribution — Industry Overview

THE ROLE OF THE LOCAL DISTRIBUTION COMPANY

Ontario's LDCs take power from the high-voltage transmission grid, reduce the electricity voltage to a lower level [50,000 volts and under], and provide this electricity to customers; homes, businesses, institutions and industry. They also provide energy conservation services to their customers, as a condition of their distribution licenses issued by their regulator, the OEB.

The functions carried out by Ontario's LDCs include the following:

- Plan: Review performance and trending, project consumer demand growth, develop capital and maintenance plans;
- Design: Apply standards and rigor to projects and retrofits and execute plan;
- Build: Bring the conceptual design to construction;
- Operate: 24/7 operations;
- Maintain: Manage physical assets;
- Restore: Outage management, customer communications;
- Meter: Measure the customer's consumption;
- Bill: Obtain all the usage information and send the bill to the customer;
- Settle: Act as the billing agent for other organizations in Ontario's electricity system;
- Collect: Manage payment collection;
- Conserve: Promote conservation and demand management programs; and
- Customer Care: Manage the relationship with customers.

REGULATORY ENVIRONMENT

Hydro Ottawa and its subsidiaries operate within the framework of the *Electricity Act, 1998* ['Electricity Act'] and the *Ontario Energy Board Act, 1998*.

Hydro Ottawa Limited, as an electricity distributor, is both licensed and regulated by the OEB. Hydro Ottawa Holding Inc. and Energy Ottawa also have restrictions on business activities because they are affiliates to a distributor that is owned indirectly by a municipal corporation. On November 12, 2010, Hydro Ottawa Limited's Distribution Licence was revised to reflect its additional mandate to achieve Conservation and Demand Management ['CDM'] targets.

The legal and policy framework for the Corporation's businesses is set mainly by the Government of Ontario, which passes legislation and regulations that govern the energy sector in the province. The Ministry of Energy works to develop the electricity generation, transmission and other energy related facilities in Ontario. The Ministry of Energy also has legislative responsibility for several agencies, including the Independent Electricity System Operator ['IESO'], the OEB and the OPA. The government restructured Ontario's electricity industry in 1998, and within the new structure, utilities provide service and build and maintain infrastructure to meet or

exceed regulated standards, while earning a regulated return on invested capital. The OEB implements and oversees this framework, ensuring that market participants in the natural gas and electricity sectors comply with their regulatory obligations.

As an LDC, Hydro Ottawa Limited is required to satisfy and maintain prudential requirements with the IESO, which include credit support with respect to outstanding market obligations in the form of letters of credit, cash deposits or guarantees from third parties with prescribed credits ratings. The OEB regulates the province's electricity sector and, in keeping with the *Ontario Energy Board Act, 1998*, has the authority and power to approve and fix all rates for the transmission and distribution of electricity in the province.

The OEB must set or approve all rates charged by Hydro Ottawa Limited, and establishes standards of service and conduct that must be followed as a condition of being licensed to distribute electricity. Energy Ottawa and its affiliates are also licensed by the OEB as an electricity retailer and generator.

The permitted business activities of Hydro Ottawa Limited were expanded as a result of the *Green Energy and Green Economy Act, 2009* ['Green Energy Act'] to include the ownership and operation of generation and energy storage facilities under established criteria. Existing permitted activities include distributing electricity, load management, the promotion of electricity conservation and the efficient use of electricity and cleaner energy sources.

The Green Energy Act requires all distributors to file plans with the OEB on facilitating renewable energy generation and implementing a smart grid. It also amended the mandate of the OEB, expanding its objectives to include the promotion of CDM, facilitating the implementation of a smart grid and promoting the use and generation of electricity from renewable energy sources. The Corporation filed a Green Energy Act plan with its 2012 Cost-of-Service application.

The Electricity Act establishes the structure of the electricity industry and the roles and responsibilities of parties such as the IESO, Electrical Safety Authority ['ESA'], OPA and the Smart Meter Entity ['SME']. The Electricity Act further establishes rights and obligations for distributors. For instance, distributors are obligated to connect any building that lies along their distribution systems upon request and access to its system must be non-discriminatory. The Green Energy Act establishes mandatory timelines and information requirements for each step of a process established for the connection of generation facilities that sell electricity through the distribution grid.

The Ontario electricity commodity market is open to competition at both the wholesale and retail levels. Since 1999, electricity distributors have been purchasing their electricity from the wholesale market overseen by the IESO and recovering costs of electricity in accordance with procedures mandated by the OEB. At the wholesale level, generators can bid into the electricity market overseen by the IESO or enter into a contract with the OPA. At the retail level, consumers have the choice of purchasing the electricity commodity through a contract with a licensed electricity retailer or through a licensed distributor, such as Hydro Ottawa Limited, as part of a standard supply service ['SSS'].

Under SSS, the commodity is provided to customers on a pass-through basis such that commodity revenues match the cost. Residential and small commercial customers receive the SSS through a regulated price plan ['tiered'] or Time-of-Use ['TOU'], under which the OEB sets the commodity rates for the province twice per year, in May and November, based on a forecast of the commodity costs. Differences between the forecast and

actual costs are tracked by the OEB in a variance account until the balance is cleared through future regulated commodity rates. Other customers pay for the commodity based on the provincial spot market price or through the terms of a retail contract.

Regardless of whether customers have signed a contract with a retailer, or are supplied through the SSS, Hydro Ottawa Limited continues to be responsible for the delivery of the electricity through its distribution system to all customers within the licensed service area.

In April 2012, the Ontario Minister of Energy established the Ontario Distribution Sector Review Panel to provide expert advice to the government on how to improve efficiencies in the sector, with the aim of reducing the financial cost of electricity distribution for electricity consumers. The Panel's report, *Renewing Ontario's Electricity Distribution Sector: Putting the Consumer First* was published in December 2012. Based on a thorough review of the sector, the Panel proposed a new model for electricity distribution in Ontario aimed at creating robust, efficient and well-resourced utilities that will reduce costs to the consumer and support continued economic growth, largely through the consolidation of LDCs into larger regional utilities. Hydro Ottawa is well positioned to respond to opportunities involving regional consolidation where there is a clear benefit to our customers and our Shareholder.

DETERMINING DISTRIBUTION RATES

Ontario's electricity distribution companies, such as Hydro Ottawa Limited, recover their costs from customers through electricity distribution rates, including the costs to:

- design, build and maintain overhead and underground distribution lines, poles, stations and local transformers;
- operate local distribution systems, including smart meters; and
- provide customer service and emergency response.

Before LDCs can make any changes to their rates, they are required to seek approval from the OEB through a rate application. The OEB follows a multi-year process to set electricity distribution rates. The process is designed to encourage distribution companies to maximize their efficiency while generating the revenue required to reliably deliver electricity to consumers.

Under this model, a Cost-of-Service review is used to establish rates every fourth year [a 'rebasing'], based on the utility's costs to provide the service as determined through an open process before the OEB. This is followed by three years of rate setting under the Incentive Regulation Mechanism ['IRM']. During this three-year period, distributors file an application before the OEB, and rates are adjusted by an inflationary factor minus a productivity factor. This encourages management of the distribution company to maximize the efficiency and productivity of their business, by putting a cap on the distributor's rates. An 'incremental capital module', designed to accommodate significant and special capital needs, can also be applied for during the IRM term. A distribution company can apply for a Cost-of-Service review more often than every fourth year, but it must clearly demonstrate why an IRM adjustment would not provide sufficient resources to manage its business during the IRM period.

In 2011, the OEB initiated a review of the 3rd Generation IRM regulatory model for electricity distributors in Ontario, as part of a broader review of the regulatory framework for electricity in the province. Over the past five years of operating under the 3rd Generation IRM, electricity distributors have raised a number of concerns with the model, including a concern that it did not provide adequate recovery for capital expenditures in the intervening years between rebasing. In the fall 2012, the OEB announced a new policy framework for regulation of the electricity industry in Ontario [*Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*, October 18, 2012]. Recognizing that the capital investment needs of LDCs vary over time, the new framework identified three rate-setting models from which LDCs will be able to choose to set their rates:

- 4th Generation Incentive Rate-setting [suitable for most distributors];
- Custom Incentive Rate-setting [suitable for those distributors with large or highly variable capital requirements]; and
- Annual Incentive Rate-setting Index [suitable for distributors with limited incremental capital requirements].

The OEB believes these models will provide choices suitable for distributors with varying capital requirements, addressing the issues raised by electricity distributors regarding recovery of capital expenditures, while allowing greater focus by the electric distributors on customer value and service. During 2013, the details of each of the regulatory models was developed with input from working groups comprised of electricity distributor staff, ratepayer groups and OEB staff. In November 2013, the OEB issued its final report on the details of 4th Generation Incentive Rate-setting and the Annual Incentive Rate-setting Index. Hydro Ottawa was actively engaged in the policy-making process through working groups and in other ways, which influenced the final design of the regulatory models. With the final details determined, electricity distributors can file applications under one of the three new models for 2015 rates.

Hydro Ottawa's rates for 2013 were established by means of the 3rd Generation Incentive rate-setting Index. Under this method, Hydro Ottawa's rates were adjusted, commencing January 1, 2013, by an inflationary adjustment of 1.08 percent increase. This inflationary adjustment was determined by the OEB as appropriate for electric distributors for 2013.

Costs and rates vary from distributor to distributor depending on factors such as the age and condition of assets, geographic terrain and distance, and population density and growth. The proportion of residential to commercial and industrial consumers can also contribute to cost differences between distribution companies.

Electricity bills include charges for the commodity, wholesale market services, transmission services, distribution services, debt retirement, and harmonized sales tax. Revenues from all of these charges, except distribution services, are collected from customers on a pass-through basis. Any differences between costs and revenues collected for these pass-through charges are tracked as a regulatory asset or liability, to be cleared through rates in a subsequent period. Distribution services revenue, which represents only about 20 percent of the bill, is retained by the LDC. The OEB-approved distribution rates include a fixed charge and a variable charge based on electricity consumption or peak demand.

Each year the OEB compares the operating costs per customer of all Ontario distributors. In the *2012 Yearbook of Electricity Distributors* [August 2013], Hydro Ottawa ranked in the top quartile of distributors in terms of lowest costs per customer [19th out of 73 electricity distributors].

Selected Consolidated Financial Results

The selected consolidated financial results of the Corporation presented below should be viewed in conjunction with the audited consolidated financial statements for the year ended December 31, 2013.

CONSOLIDATED STATEMENT OF INCOME [SUMMARY]

(in thousands of Canadian dollars)	2013	2012	Change
Revenues			
Power recovery	768,079	709,935	58,144
Distribution sales and other revenue	208,288	190,840	17,448
	976,367	900,775	75,592
Expenses			
Purchased power	765,151	707,552	57,599
Operating costs	114,291	105,471	8,820
	879,442	813,023	66,419
EBITDA	96,925	87,752	9,173
Depreciation and amortization	40,322	37,121	3,201
Other expenses and recoveries	14,645	10,422	4,223
Payments in lieu of corporate income taxes	9,410	8,928	482
	64,377	56,471	7,906
Non-controlling interest	(406)	(292)	(114)
Net income and comprehensive income	32,142	30,989	1,153

Net income increased by approximately $1.2 million [4 percent].The increase in net income is largely attributable to the growth in revenues resulting from the acquisition of generation assets at Chaudière Falls from Domtar Inc. in late 2012, the addition of a sixth generating engine at the PowerTrail landfill gas to energy plant, and the start of commercial operations at the Moose Creek landfill gas to energy plant in early 2013.

REVENUES

Revenues are earned from electricity distribution, sales of generated power, energy management services, the CDM program, and sundry activities.

The largest component in Hydro Ottawa's total revenues is the cost of power recovered from the customer through provincially established rates. The cost of power is a flow through amount, which poses limited risk to Hydro Ottawa's financial performance either positively or negatively. Hydro Ottawa Limited's power recovery increased by $58.1 million [8 percent], mainly due to increases in commodity and global adjustment rates included in purchased power costs.

Revenues, excluding power recovery, increased $17.4 million [9 percent] from 2012. Electricity distribution revenue is reflective of OEB approved distribution rates and the amount of electricity consumed. Revenue from distribution sales increased $0.4 million [0.3 percent] from 2012 as a result of new rates established by means of the 3rd Generation Incentive rate-setting index. Both CDM program revenues and revenues from other sundry activities increased $3.5 million respectively over the prior year as business has increased. Energy Ottawa's electricity generation revenues increased by $10.0 million over the prior year mainly due to new revenue as a result of the acquisition of generation assets at Chaudière Falls from Domtar Inc., the addition of a sixth generating engine at the PowerTrail landfill gas to energy plant, and the start of commercial operations at the Moose Creek landfill gas to energy plant in early 2013. Energy Ottawa's commercial energy management services revenues were in line with the prior year.

EXPENSES

Purchased power costs represent the cost of electricity delivered to customers within Hydro Ottawa Limited's distribution service territory. These costs consist of the commodity, wholesale market service charges, transmission charges and the global adjustment levied by the IESO, net of energy generated by Energy Ottawa and supplied to Hydro Ottawa Limited as an embedded generator within Hydro Ottawa Limited's service territory. The cost of purchased power increased by $57.6 million [8 percent], due mainly to increased commodity and global adjustment rates as noted above. The global adjustment accounts for differences between the market price and the rates paid to regulated and contracted generators and for CDM programs. When the spot market price of electricity is lower, the global adjustment is higher in order to cover the additional costs of energy contracts and other regulated generation.

Operating costs in the current year of $114.3 million increased by $8.8 million over 2012 due in large part to compensation costs which have increased over the prior year by approximately $6.4 million. The increase in compensation costs is due to increased number of employees as a result of the Chaudiere Hydro L.P. acquisition on November 20, 2012 as well as negotiated and inflationary increases. CDM program costs have also increased over the prior year by $3 million in conjunction with the increase in program revenues.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses increased by $3.2 million, primarily due to the acquisition of generation assets at Chaudière Falls from Domtar Inc., the addition of a sixth generating engine at the PowerTrail landfill gas to energy plant, and the start of commercial operations and thus depreciation of the Moose Creek landfill gas to energy plant in early 2013. Also contributing to the increase are acquisitions and improvements to information systems and a global increase of investments in the electricity distribution infrastructure of the Corporation.

PAYMENTS IN LIEU OF CORPORATE TAXES ['PILS']

Hydro Ottawa Limited is considered to be a Municipal Electric Utility ['MEU'] for purposes of the PILs regime contained in the *Electricity Act, 1998*, since all of its share capital is indirectly owned by the City of Ottawa and not more than 10 percent of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. The Electricity Act provides that a MEU that is exempt from tax under the *Income Tax Act* (Canada) ['ITA'] and *Taxation Act, 2007* (Ontario) ['TAO'] is required to make, for each taxation year, a PILs payment in an amount approximating the tax that it would be liable to pay under the ITA and the TAO if it were not exempt from tax.

The Corporation and Energy Ottawa are also MEUs. PowerTrail and CWPI are taxable under the ITA and TAO, as less than 90 percent of their share capital is owned by the City of Ottawa.

Moose Creek LP and Chaudiere Hydro L.P. are not taxable entities for federal and provincial income tax purposes. Tax on Moose Creek LP and Chaudiere Hydro L.P.'s net income (loss) is borne by the individual partners through the allocation of taxable income.

The Corporation's effective tax rate increased from 22.2 percent in 2012 to 22.4 percent in 2013. The year-over-year increase is a result of impacts of permanent and temporary differences between the accounting and tax basis of assets and liabilities.

CONSOLIDATED BALANCE SHEET [SUMMARY]

(in thousands of Canadian dollars)	2013	2012	Change
Current assets	183,147	172,075	11,072
Non-current assets	824,859	753,826	71,033
Total assets	1,008,006	925,901	82,105
Current liabilities	161,689	234,195	(72,506)
Non-current liabilities	462,164	323,988	138,176
Total liabilities	623,853	558,183	65,670
Shareholder's equity	384,153	367,718	16,435
Liabilities and shareholder's equity	1,008,006	925,901	82,105

ASSETS

Total assets increased by approximately $82.1 million during the year. This increase is largely attributable to property, plant and equipment and intangible assets, which have increased by $70.3 million. This is a result of our continuing investment in electrical distribution and generation infrastructure. In addition, accounts receivable and unbilled revenue have increased by $11.5 million due in large part to the global adjustment amount included in unbilled revenue.

LIABILITIES

Total liabilities increased by $65.7 million in 2013. This change is largely attributable to the issuance of Senior Unsecured Debentures in the amount of $150 million discussed below under the Statement of Cash Flows [Summary], offset by a $68.5 million decrease in bank indebtedness and a $10.2 million decrease in regulatory liabilities, primarily attributable to variances associated with the electricity and global adjustment costs.

STATEMENT OF CASH FLOWS [SUMMARY]

(in thousands of Canadian dollars)	2013	2012
Cash (bank indebtedness), beginning of year	(77,357)	2,856
Cash provided by Operating Activities	49,430	80,804
Cash used in Investing Activities	(112,184)	(142,727)
Cash provided by (used in) Financing Activities	131,258	(18,290)
Bank indebtedness, end of year	(8,853)	(77,357)

CASH PROVIDED BY OPERATING ACTIVITIES

Cash generated by operating activities provided approximately $31 million less cash flow than in 2012. The majority of the decrease arises from less cash flow being generated from working capital, primarily due to the timing of settlement within the regulatory accounts as well as an increase in the global adjustment amount included in unbilled revenue.

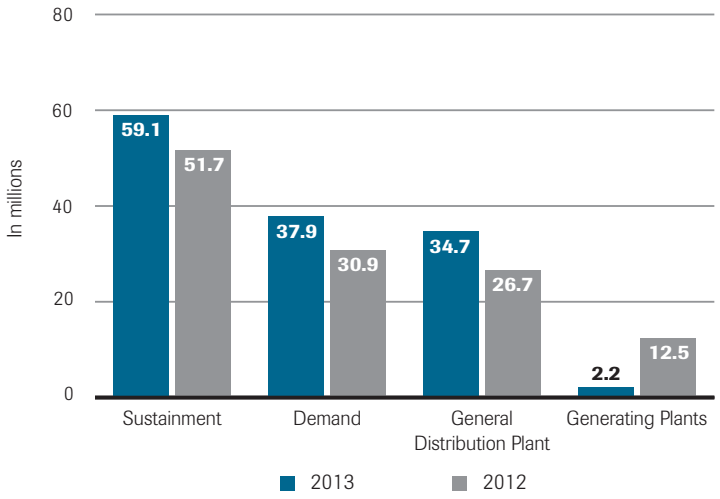
CASH USED IN INVESTING ACTIVITIES

The total investment in property, plant and equipment and intangible assets, net of contributions in aid of construction in 2013 is approximately $112 million. Capital investments in 2013 included approximately $59 million on sustainment capital to replace aging infrastructure and to modify the existing distribution system; $38 million on demand projects [less contributed capital of $22 million], which includes third-party driven growth projects such as new residential or commercial installations, and municipal improvement projects including the City of Ottawa's Light Rail Transit project; $35 million on general plant items including Information Technology infrastructure, land purchases for new facilities, fleet, and other sundry items; and $2 million in generating plants.

Investment in the Hydro Ottawa Limited electricity distribution system continues to be robust. In 2013, 1,087 new poles, 543 overhead transformers, and 233 km of overhead cables were installed. Over 250 demand capital projects were initiated, including the addition of 5,388 new residential and 1,084 new commercial connections.

Investments in generation operations during 2013 saw a large decrease from the prior year. In 2012 the Corporation made major investments, which included the $46.3 million purchase of three additional run-of-the-river hydroelectric plants at Chaudière Falls from Domtar Inc., and $10.6 million on construction costs related to the new Moose Creek landfill gas collection plant and utilization system that was completed in early 2013.

The following chart shows the year over year capital investments, excluding the acquisition of assets from Domtar Inc. on November 20, 2012.



CASH PROVIDED BY FINANCING ACTIVITIES

Dividends were paid to the Shareholder in 2013 in accordance with the approved dividend policy. The 2013 payment totalled $18.6 million based on 2012 results, and the 2012 payment totalled $16.6 million based on 2011 results.

On May 14, 2013, the Corporation issued $150 million in Senior Unsecured Debentures. The debentures bear interest at a rate of 3.991 percent per annum, payable semi-annually in arrears in equal instalments on November 14 and May 14, and is due on May 14, 2043.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation's primary sources of liquidity and capital resources are derived from operating activities, banking facilities, and proceeds from bond issuances as and when required. Liquidity and capital resource requirements are primarily for capital expenditures to maintain the Hydro Ottawa Limited electricity distribution system, cost of power, interest expense and prudential requirements.

On July 15, 2013, the Corporation renewed its credit facility for $193.5 million. The Corporation may use up to $75 million of the facility for general operating requirements and annual capital expenditures. In addition, a $100 million two-year revolving credit line remains available for larger capital expenditures and acquisitions. Capital expenditure requirements in excess of this, if any, will be funded through future bond issuances.

As at December 31, 2013, the Corporation had drawn $16 million in standby letters of credit and $5 million in short term borrowings against its credit facility. The remaining facility is adequate to support the short-term working capital deficit experienced each month to settle the IESO costs of power invoice in advance of receiving payment from customers. The Corporation will continue to invest in its distribution system and expects to renew the $200 million bond maturing in February 2015. This will enable the Corporation to maintain its appropriate liquidity position.

PowerTrail maintains a separate credit facility with a Canadian Chartered bank. The facility consists of $0.2 million in standby letters of credit. As at December 31, 2013, $0.1 million in standby letters of credit were drawn against this credit facility.

CWPI also maintains a credit facility consisting of a $0.5 million operating credit line secured by the principals of CWPI. The operating credit line is repayable on demand and bears interest at the Bank of Canada's prime lending rate per annum with interest payable monthly. The facility also contains customary covenants and events of default. As at December 31, 2013, CWPI had not drawn this operating line.

CREDIT RATINGS

As at December 31, 2013, the Corporation's bonds are rated as follows:

Rating Agency	Rating
Standard & Poor's Rating Services Inc.	A ('stable')
Dominion Bond Rating Service Inc.	A ('stable')

During the past year, both the Dominion Bond Rating Service ['DBRS'] and Standard & Poor's Rating Services Inc. ['S&P'] reaffirmed Hydro Ottawa Holdings Inc.'s rating at 'A' with a stable trend. Once again, both rating agencies noted the Corporation's strong competitive position and a recession resistant customer base promoting an excellent business risk profile.

Hydro Ottawa's strong credit rating over the past several years is a direct result of its conservative financial policies, strong operational performance and low business risk.

The Corporation's bonds carry covenants normally associated with this type of debt [see Notes 14 and 15 of the consolidated financial statements for further details]. The Corporation is in compliance with these covenants as at December 31, 2013.

Accounting Estimates and Policies

SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of consolidated financial statements, in conformity with pre-changeover Canadian GAAP, requires management to make estimates and assumptions that affect the reported amounts of consolidated revenues, expenses, assets, liabilities, and the disclosure of commitments and contingencies at the date of the consolidated financial statements.

These estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Because they involve varying degrees of judgment and uncertainty, the amounts currently reported in the financial statements could prove to be inaccurate in the future.

The following accounting estimates require management's judgments and assumptions in preparing financial statements and, as such, are considered to be critical. References to the associated note in the consolidated financial statements are provided in brackets:

- Useful lives of property, plant and equipment and intangible assets [Note 2(j) and (k)]
- Unbilled revenue [Note 2(g)(iii)]
- Regulatory assets and liabilities [Note 6]
- Employee future benefits [Note 13]
- Payments in lieu of corporate income taxes [Note 21]

CHANGES IN ACCOUNTING POLICIES – FUTURE

On February 13, 2008, the Canadian Accounting Standards Board ['AcSB'] confirmed that publicly accountable enterprises ['PAEs'] would be required to transition to International Financial Reporting Standards ['IFRS'] effective January 1, 2011. While the Corporation is not a PAE, it is a Government Business Enterprise given its status as a municipally owned utility, and such enterprises are required to follow the same basis of accounting as PAEs.

On the original transition date, IFRS did not contain a standard governing rate-regulated activities ['RRA']. Due to the significance of this issue in Canada, the AcSB postponed the original IFRS transition date to January 1, 2015 for qualifying entities with RRA pending the completion of an interim standard by the International Accounting Standards Board ['IASB']. Until January 1, 2015, qualifying entities are permitted to continue reporting under pre-changeover Canadian GAAP.

On January 30, 2014, the IASB issued interim standard IFRS 14 – Regulatory Deferred Accounts ['IFRS 14'] which permits rate-regulated entities that have not yet transitioned to IFRS to use its existing RRA practices. This standard is effective January 1, 2016 with early adoption permitted. The Corporation will adopt IFRS and early adopt IFRS 14 on January 1, 2015.

Critical Non-Capital Resources and Internal Processes

CRITICAL NON-CAPITAL RESOURCES

The Corporation employs over 650 people with Hydro Ottawa Limited accounting for over 90 percent of this workforce.

Over the next five years, 156 employees of Hydro Ottawa will be eligible to retire with an unreduced pension. Almost 60 percent are trades and technical employees; the other 40 percent are management, administrative, professional, and clerical employees. This reflects a broader trend of workforce demographics seen by utilities in Ontario and across Canada.

In preparation for these retirements, Hydro Ottawa has a comprehensive and integrated talent management strategy to ensure a sustainable and prepared workforce. This includes:

- Extensive in-house apprenticeship programs, and an engineering intern training and development program, to ensure the availability of qualified journeypersons and professional engineers;
- A succession planning and management program and training and development program to ensure that there are qualified employees in the talent pipeline for key positions;
- A proactive approach to knowledge management and knowledge transfer for key positions, including an older worker and retiree engagement strategy so that work is seamlessly transitioned from our veteran workforce to the next generations;
- A Diversity Plan to create and support a talented workforce that is reflective of the diversity in the communities we serve; and
- Partnerships with industry and educational institutions to support the implementation of the talent management strategy. These include, most notably, collaborations with Algonquin College to deliver the College's new Powerline Technician diploma program, and with Carleton University's Sustainable and Renewable Energy Engineering Department for the establishment of a smart grid laboratory to foster innovative research on electrical power systems and promote the training of engineers in the smart grid environment.

On November 20, 2012, with the acquisition of assets from Domtar Inc., over 20 individuals who were previously employed by Domtar Inc. became employees of Chaudiere Hydro L.P. and CWPI. As a result of this transaction, the Corporation established a defined benefit pension plan for these employees. A Retirement Committee has been created to undertake the management, operation and administration of the pension plan; this Committee through the Governance and Management Resources Committee reports to the Hydro Ottawa Holding Inc. Board of Directors.

INTERNAL PROCESSES

Various technologies and processes have been introduced to enhance sustainability and better manage electrical distribution assets and improve customer service, including increasing the automation and reliability of the network through faster restoration times. Hydro Ottawa believes a commitment to sustainability is important not only because it benefits the environment, but also because it improves the Corporation's business.

With the successful completion of the Province's Smart Meter and Time-of-Use rate programs in 2011, in 2013 the Corporation continued to focus on leveraging customer access to their account information through customer self-serve options not available prior to the Smart Metering initiative. These options result in improved customer satisfaction, fewer complaints and improved efficiencies.

By year end 2013 over 104,000 customers [33 percent of all customers] had subscribed to *MyHydroLink*, a web-based customer portal that provides a number of self-service options. Over 66,000 customers have opted to receive their Hydro Ottawa bill electronically, and over 63,000 customers have subscribed to an automated payment process which is more convenient for them and more efficient for the utility.

Customer use of Hydro Ottawa's leading mobile web offering continued to increase in popularity in 2013. This mobile service features many customer account information options along with access to Hydro Ottawa's award winning Outage Communications system. Hydro Ottawa Mobile is available to customers with a smart phone such as an iPhone, Android device or BlackBerry.

In 2013 Hydro Ottawa continued to deploy a Remote Disconnect/Reconnect feature that allows electrical service to be interrupted and restored to a customer's premise remotely by Hydro Ottawa staff. This will provide more efficient service by reducing the number of truck-rolls required to respond to non-payment situations. Over 8,400 meters are now equipped with this feature.

Hydro Ottawa Limited also continues to maintain certification to several international standards, including ISO 9001 Quality Management System, ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health and Safety Management System. Internal and external third-party audits are conducted annually to confirm and maintain certification and to attain re-registration as required by the standards.

A key and significant upgrade to the Customer Information System ['CIS'] which began in 2011 has been completed and deployed in early 2014. In conjunction with this upgrade, Hydro Ottawa converted all residential and small commercial customers to a monthly billing cycle, in place of the bi-monthly cycle.

In 2013 Hydro Ottawa completed its most extensive Customer Market Research which enabled the development of a series of customer persona profiles. This foundational research will be utilized in the development of Hydro Ottawa's Customer Experience Strategic Plan and is being applied in the deployment of several initiatives throughout the Corporation.

The Corporation places significant emphasis on cost containment and productivity improvements in order to enhance financial strength and operational performance. The OEB sets productivity improvement targets for electricity distributors as part of its Incentive Regulation Mechanism, and the Corporation pursues corporate-wide efficiencies in addition to those targets. In 2013 Hydro Ottawa launched a corporate-wide team to develop a five-year strategy to help the entire Corporation prioritize and put into place plans for productivity improvements. This team was tasked with identifying new initiatives for 2014 which will have a notable and positive impact on productivity. These initiatives include the deployment of an Asset Optimization Tool and a Mobile Workforce Management Tool. Coincident with the development the five-year strategy, will be the development of a scorecard to monitor and report on overall productivity of the Corporation.

Risks and Uncertainties

The ability to manage and mitigate risk, to maintain flexibility, and to respond effectively to changes in our business environment is critical to the Corporation's continued success.

The Corporation's Enterprise Risk Management ['ERM'] system establishes the framework to help the Corporation track and respond to risks and opportunities impacting strategic direction and business activities, in a consistent and integrated manner across the enterprise. A multi-year Business Planning cycle, with annual updates, enables continuous review of assumptions and the state of the market in which the Corporation operates.

Hydro Ottawa continues to monitor and manage traditional risks and sources of risk that are structural within the industry and the regulated environment. It is possible; however, that some of these risks could adversely impact Hydro Ottawa's results and objectives. These include but are not restricted to: the weather; the policy and regulatory environment; the state of the economy and macro-economic trends; government policies relating to the production and procurement of renewable and clean energy as well as carbon emissions and conservation; labour force demographics, with a particular emphasis on the renewal of human resources in the trades; and the impact of fiscal policies on customers. In addition, the evolution of the industry presents new and emerging risks that need to be managed effectively.

The emerging as well as the traditional risks are discussed below.

POLICY AND REGULATORY ENVIRONMENT

Political uncertainty in the province of Ontario could affect opportunities for growth, in both electricity distribution [e.g. potential consolidation and integration of local distribution companies] and electricity generation [e.g. rates for new power purchase agreements; approval of new Feed-In Tariff projects].

Hydro Ottawa's businesses operate in a regulated environment. Business performance could be adversely affected by significant policy and regulatory changes, including but not limited to changes in rate regulation, policies relating to the production, procurement, pricing or sale of renewable and clean energy, carbon emissions, CDM, the consolidation of electrical utilities, or restrictions on utility service provision.

The OEB approves local electricity distribution rates based on projected load growth and consumption levels. Hydro Ottawa sought and obtained OEB approval for a rebasing of its distribution rates, which went into effect on January 1, 2012, with OEB-approved incentive regulation applications thereafter. If actual experience varies from the projections, the Corporation's net income could be affected. Hydro Ottawa's distribution revenue will decline if CDM forecasts are exceeded. While the OEB has recognized the need to compensate for such lost revenue, the Lost Revenue Adjustment Mechanism instituted by the OEB may not adequately compensate the Corporation for such lost revenue.

The ability to maintain and operate the electrical distribution system reliably and safely depends on sufficient funding and the OEB allowing recovery of capital expenditures on distribution infrastructure repair and replacement.

ECONOMY

The state of the local and national economy could have a significant impact on the Corporation's business performance, through factors such as interest rates, inflation, customer credit risk, weakening demand for electricity and/or value-added services, and availability of market capital to fund growth. The economic climate could also have an effect on the stability and performance of some of Hydro Ottawa's key business partners.

CREDIT RATINGS

Significant future changes in business or financial risks could affect the Corporation's existing credit rating of [A/Stable].

DEPENDENCE ON PARTNERS

Current and future growth opportunities may depend upon the presence of willing partners, capable of performing to long-term expectations. The absence of municipalities willing to partner on utility service delivery, or of willing partners for mergers and acquisitions, or the underperformance of key business partners, could have a negative impact on Hydro Ottawa's ability to meet its growth objectives.

PENSION PLANS

The Corporation provides a defined benefit pension plan for the majority of its employees, through the Ontario Municipal Employees Retirement System ['OMERS']. As OMERS is a multi-employer, contributory, defined benefit pension plan, it is not practicable to determine the Corporation's portion of pension obligations or the fair value of plan assets. OMERS' future funding shortfalls and net losses, if any, may entail temporary contribution increases from both members and employers.

Hydro Ottawa has recently established a defined benefit pension plan for employees of Chaudiere Hydro L.P. and participating employers, with appropriate financial and investment procedures and oversight, as required by law. Pension benefit obligations and related net pension cost can be affected by volatility in the global financial and capital markets. There is no assurance that pension plan assets will earn the assumed long-term rates of return. Market-driven changes impacting the performance of the pension plan assets may result in material variations in actual return on pension plan assets.

TECHNOLOGY INFRASTRUCTURE

The Corporation's business performance is dependent upon complex technology systems, including administrative information technology, customer information and billing systems, advanced metering, and operational technologies such as geographic information systems, system control and outage management systems. Increasing automation, the integration of systems, and extensive use of common technology in facilitating such integration and connectivity present emerging risks that the Corporation must manage effectively. The failure of one or more of these key systems, or a failure of the Corporation to plan effectively for future technology needs or transition effectively to new technology systems could adversely impact the Corporation's business operations.

CYBER SECURITY

The Corporation's reliance on information systems and expanded data transmission and exchange networks, in conjunction with the growing extent of systems and data integration within the electricity sector, increases its exposure to information security threats, including cyber security risks. A security breach, data corruption or system failure at a shared resource or common service provider, could put Hydro Ottawa's information systems and information assets at risk.

TIME-OF-USE TECHNOLOGY

Given the number of devices, systems and web interfaces involved in the smart meter – TOU billing process, as well as the number of external and internal service providers engaged, risks arising from the reliability and performance of any single component of this integrated network or of the system as a whole could lead to a disruption of the meter-to-cash cycle.

CUSTOMER, MEDIA PERCEPTIONS

Electrical utilities across Ontario are confronted with risks arising from negative customer and media perceptions, driven by rising electricity prices and inconsistent service levels, including reported billing inaccuracies. With Hydro Ottawa's cutover in early 2014 to a new customer care and billing system, and the phased transition of its customers to monthly billing, these risks could become more prominent.

LABOUR FORCE DEMOGRAPHICS

Across the electricity sector, retirements are outpacing new entrants to the workforce, which could have an adverse impact on the ability of the Corporation to build a sustainable workforce and achieve its business objectives. Hydro Ottawa's investments in apprenticeship, succession planning and retiree engagement programs are designed to manage risks relating to workforce demographics.

WEATHER

Severe weather can significantly impact financial results. Storms increase capital and maintenance costs to repair or replace damaged equipment and infrastructure, to ensure the continuing reliability of the electricity distribution system. Weather fluctuations also influence distribution revenues, which tend to increase with severe weather and decrease with moderate weather, and renewable energy production, which depends upon factors such as water flows [hydroelectric], and sun [solar].

Outlook

Subject to the risks and uncertainties discussed in this document, Hydro Ottawa will continue to provide efficient, reliable electricity distribution services to customers at a competitive cost, generate green power, and provide energy services and conservation expertise while maintaining sustainable earnings. The Corporation will achieve this by continuing to invest in core distribution assets, improving productivity and pursuing business growth opportunities that leverage corporate strengths.

The Corporation also continues to actively pursue opportunities for expansion in non-regulated business lines in accordance with the endorsed strategy, as evidenced by the acquisition of the run-of-the-river generation assets, the completion of a second landfill gas collection plant and the upcoming expansion of generation facilities at Chaudière Falls.

Consolidated Financial Statements

December 31, 2013

TABLE OF CONTENTS

43 Report of Management

44 Independent Auditors' Report

46 Consolidated Statement of Income, Comprehensive Income and Retained Earnings

47 Consolidated Balance Sheet

48 Consolidated Statement of Cash Flows

49 Notes to the Consolidated Financial Statements

Report of Management

Management is responsible for the integrity of the financial data reported by Hydro Ottawa Holding Inc. ['the Corporation']. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements using management's best judgment and estimates in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with the preceding year.

Management maintains appropriate systems of internal control and corporate-wide policies and procedures, which provide reasonable assurance that the Corporation's assets are safeguarded and that financial records are relevant and reliable.

The Board of Directors, through the Audit Committee, ensures that management fulfills its responsibility for financial reporting and internal control. The Audit Committee consists of outside directors and at regular meetings reviews audit, internal control and financial reporting matters with management and external auditors. The Audit Committee has reviewed the consolidated financial statements and submitted its report to the Board of Directors.

On behalf of Management,

Bryce Conrad
President and Chief Executive Officer

Geoff Simpson
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Hydro Ottawa Holding Inc.

We have audited the accompanying consolidated financial statements of **Hydro Ottawa Holding Inc.**, which comprise the consolidated balance sheet as at December 31, 2013, and the consolidated statements of income, comprehensive income and retained earnings, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

A member firm of Ernst & Young Global Limited

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Hydro Ottawa Holding 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

Ottawa, Canada,
April 3, 2014.

Chartered Accountants
Licensed Public Accountants

Hydro Ottawa Holding Inc.

Consolidated Statement of Income, Comprehensive Income and Retained Earnings
Year ended December 31
[in thousands of Canadian dollars]

	2013	2012
Revenue		
Power recovery [Note 24]	**$ 768,079**	$ 709,935
Distribution sales [Note 24]	**152,392**	151,936
Generation revenue	**21,047**	11,009
Other revenue [Note 24]	**34,849**	27,895
	976,367	900,775
Expenses		
Purchased power	**765,151**	707,552
Operating costs [Note 24]	**114,291**	105,471
Depreciation	**31,891**	30,449
Amortization	**8,431**	6,672
	919,764	850,144
Income before other expenses (recoveries) and payments in lieu of corporate income taxes	**56,603**	50,631
Financing costs [Note 20]	**14,645**	11,101
Recovery of regulatory asset write-down [Note 6]	**-**	(679)
	14,645	10,422
Income before payments in lieu of corporate income taxes	**41,958**	40,209
Payments in lieu of corporate income taxes [Note 21]	**9,410**	8,928
Net income and comprehensive income	**32,548**	31,281
Attributable to non-controlling interest [Note 17]	**406**	292
Attributable to equity shareholder	**32,142**	30,989
Retained earnings, beginning of year	**138,242**	123,853
Dividends declared and paid [Note 16]	**(18,600)**	(16,600)
Recovery of refundable dividend taxes paid [Note 16]	**1,489**	-
Retained earnings, end of year	**$ 153,273**	$ 138,242

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

Hydro Ottawa Holding Inc.

Consolidated Balance Sheet
As at December 31
[in thousands of Canadian dollars]

	2013	2012
Assets		
Current assets		
Accounts receivable [Notes 4 and 24]	**$ 70,276**	$ 75,408
Payments in lieu of corporate income taxes receivable	**2,372**	1,482
Unbilled revenue [Note 5]	**106,551**	89,935
Prepaids	**3,099**	2,653
Regulatory assets [Note 6]	**31**	1,969
Future income tax assets [Note 21]	**818**	628
	183,147	172,075
Non-current assets		
Regulatory assets [Note 6]	**12,441**	7,603
Property, plant and equipment [Note 7]	**725,656**	669,740
Intangible assets [Note 8]	**66,126**	51,787
Future income tax assets [Note 21]	**19,947**	24,222
Retirement benefit asset [Note 13]	**689**	474
Total assets	**1,008,006**	925,901
Liabilities and shareholder's equity		
Current liabilities		
Bank indebtedness [Note 9]	**8,853**	77,357
Accounts payable and accrued liabilities [Notes 10 and 24]	**132,348**	132,791
Payments in lieu of corporate income taxes payable	**157**	702
Regulatory liabilities [Note 6]	**19,173**	22,097
Notes payable [Note 14]	**340**	620
Regulatory liability for future income tax assets [Note 21]	**818**	628
	161,689	234,195
Non-current liabilities		
Regulatory liabilities [Note 6]	**12,915**	20,144
Regulatory liability for future income tax assets [Note 21]	**19,893**	24,165
Employee future benefits [Note 13]	**9,065**	10,780
Notes payable [Note 14]	**400,413**	251,459
Future income tax liabilities [Note 21]	**6,464**	5,179
Other liabilities [Note 11]	**13,414**	12,261
	623,853	558,183
Shareholder's equity		
Share capital [Note 16]	**228,453**	228,453
Retained earnings	**153,273**	138,242
Non-controlling interest [Note 17]	**2,427**	1,023
	384,153	367,718
Total liabilities and shareholder's equity	**$1,008,006**	$ 925,901

Contingent liabilities and commitments [Notes 22 and 23]

ON BEHALF OF THE BOARD:

Director

Director

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

Hydro Ottawa Holding Inc.

Consolidated Statement of Cash Flows
Year ended December 31
[in thousands of Canadian dollars]

	2013	2012
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income and comprehensive income	**$ 32,548**	$ 31,281
Items not affecting cash		
Depreciation	**31,891**	30,449
Amortization	**8,431**	6,672
Loss on disposal of property, plant and equipment	**1,083**	1,779
Allowance for funds used during construction [Notes 7 and 8]	**(2,411)**	(2,056)
Future payments in lieu of corporate income taxes	**1,288**	671
Amortization of debt-issuance costs	**237**	225
Employee future benefits [Notes 6 and 13]	**107**	188
Change in retirement benefit asset [Note 13]	**(215)**	7
Changes in non-cash working capital and other operating balances		
Decrease (increase) in accounts receivable	**5,132**	(9,833)
Increase in unbilled revenue	**(16,616)**	(2,680)
Increase in prepaids [Note 18]	**(446)**	(742)
(Increase) decrease in regulatory assets, net of liabilities [Notes 6 and 13]	**(14,949)**	13,456
Increase in accounts payable and accrued liabilities [Notes 7, 8 and 13]	**3,296**	6,280
Increase in payments in lieu of corporate income taxes receivable/payable [Note 16]	**54**	5,107
	49,430	80,804
Investing		
Acquisition of property, plant and equipment [Notes 7 and 18]	**(112,299)**	(107,695)
Acquisition of intangible assets [Notes 8 and 18]	**(23,069)**	(10,929)
Proceeds from disposal of property, plant and equipment	**1,765**	45
Acquisition of assets from Domtar Inc. [Note 18]	**-**	(46,339)
Contributions in aid of construction [Note 7]	**21,419**	22,191
	(112,184)	(142,727)
Financing		
Proceeds from bond issuance, net of debt-issuance costs [Note 14]	**148,857**	-
Increase (decrease) in customer deposits [Notes 10 and 11]	**435**	(1,375)
Dividends paid [Note 16]	**(18,600)**	(16,600)
Repayment of notes payable [Note 14]	**(420)**	(300)
Repayable grant [Note 7]	**(12)**	(15)
Contributed capital from non-controlling interest [Note 17]	**998**	-
	131,258	(18,290)
Net change in cash	**68,504**	(80,213)
(Bank indebtedness) cash, beginning of year	**(77,357)**	2,856
Bank indebtedness, end of year	**$ (8,853)**	$ (77,357)
Supplemental cash flow information		
Interest paid	**$ 16,864**	$ 12,723
Payments in lieu of corporate income taxes paid, net of refunds	**$ 7,858**	$ 3,199

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

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
December 31, 2013
[in thousands of Canadian dollars]

1. DESCRIPTION OF BUSINESS

Hydro Ottawa Holding Inc. ['Hydro Ottawa' or the 'Corporation'] was incorporated on October 3, 2000 pursuant to the *Business Corporations Act (Ontario)* as mandated by the Ontario government's *Electricity Act, 1998*. The Corporation is wholly owned by the City of Ottawa [the 'Shareholder']. The Corporation owns 100% of Hydro Ottawa Limited, Energy Ottawa Inc. ['Energy Ottawa'] and Telecom Ottawa Holding Inc. ['TOHI'], which does not maintain active operations.

Hydro Ottawa Limited is a regulated electricity distribution company that owns and operates electricity infrastructure in the City of Ottawa and the Village of Casselman and is responsible for the safe, reliable delivery of electricity to homes and businesses in its licensed service area. In addition to billing for distribution services, Hydro Ottawa Limited invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services and for debt retirement.

Energy Ottawa is a power generation company that generates renewable energy. Energy Ottawa also offers a range of expert energy management and procurement services to large energy-consuming organizations and companies. Energy Ottawa holds interests in the following entities:

- Chaudiere Hydro L.P. was formed on June 22, 2012 and is over 99.99% owned by Energy Ottawa and less than 0.01% owned by Chaudiere Hydro Inc. ['Chaudiere Hydro GP']. Chaudiere Hydro L.P. was formed to own and operate three hydroelectric generation plants and related assets purchased from Domtar Inc. on November 20, 2012 as described in Note 18 of these consolidated financial statements. Chaudiere Hydro GP is wholly owned by Energy Ottawa and was incorporated on June 18, 2012 to act as the general partner of Chaudiere Hydro L.P.

- Moose Creek Energy LP ['Moose Creek LP'] is a 50.10% owned joint venture formed on April 15, 2011 to facilitate the construction and operation of a generation plant and gas collection system at the Laflèche landfill site in Moose Creek, Ontario. Moose Creek Energy Inc., a 50.00% owned joint venture incorporated on March 2, 2011, is the general partner of Moose Creek LP. Commercial operations of Moose Creek LP commenced on January 25, 2013.

- PowerTrail Inc. ['PowerTrail'] is a 60.00% owned joint venture incorporated on August 10, 2005 to construct and operate a generation plant and gas collection system at the Trail Road landfill site in Ottawa, Ontario.

- Chaudiere Water Power Inc. ['CWPI'] is a 66.67% owned joint venture [as of November 20, 2012; 28.33% previously], incorporated on April 30, 1981 to act as an agent for the three principals of CWPI with a mandate to operate the Chaudière Dam facilities on the Ottawa River. The facilities are not owned by CWPI; they are jointly owned by the principals. In accordance with the shareholders agreement, all costs incurred by CWPI in relation to the facilities are fully reimbursed in accordance with each principal's ownership percentage.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Part V of the *Chartered Professional Accountants Canada Handbook* for publicly accountable entities ['pre-changeover Canadian GAAP'], including principles prescribed by the Ontario Energy Board ['OEB'] in the *Accounting Procedures Handbook* ['AP Handbook']. In the opinion of management, all adjustments necessary for fair presentation are reflected in the consolidated financial statements. The consolidated financial statements reflect the significant accounting policies summarized below.

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries: Hydro Ottawa Limited, Telecom Ottawa Holding Inc., and Energy Ottawa, which includes the accounts of PowerTrail, Moose Creek LP, Chaudiere Hydro L.P., Chaudiere Hydro GP and CWPI [as of November 20, 2012]. All intercompany balances and transactions have been eliminated in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(b) Consolidation of variable interest entities

The Corporation consolidates variable interest entities ['VIEs'] in which the Corporation is the primary beneficiary, as described in pre-changeover Canadian GAAP Accounting Guideline 15 – *Consolidation of Variable Interest Entities* ['AcG-15']. Upon the application of AcG-15, the initial equity investment at risk was not sufficient to permit PowerTrail or Moose Creek LP to finance their activities without additional subordinated financial support from its equity owners and, as such, PowerTrail and Moose Creek LP are consolidated in the consolidated financial statements of Energy Ottawa and ultimately, the Corporation.

As of November 20, 2012, Energy Ottawa became the primary beneficiary of CWPI due to an increase in effective share ownership from 28.33% to 66.66% as a result of the acquisition of assets described in Note 18 of these consolidated financial statements. CWPI was therefore consolidated by Energy Ottawa under AcG-15 as of this date. Prior to November 20, 2012, Energy Ottawa accounted for its 28.33% interest as a joint venture using proportionate consolidation and accounted for the costs incurred by CWPI as operating or capital expenditures, based on the nature of the costs.

The VIEs have non-controlling interests which are reported separately as part of equity.

(c) Investment in joint venture

The Corporation holds a 50.00% interest in Moose Creek GP, the general partner of Moose Creek LP. As general partner, Moose Creek GP has the full and exclusive right, power and authority to manage, control, administer and operate the business and affairs regarding the undertaking and business of Moose Creek LP. The other 50.00% is owned by Integrated Gas Recovery Services Inc. ['IGRS'] of Thorold, Ontario. While the Corporation accounts for its interest in Moose Creek GP using proportionate consolidation, Moose Creek GP does not contain significant assets, liabilities, revenue or expenses.

(d) Acquisition of assets and business combinations

The Corporation evaluates the integrated set of activities [inputs, processes, outputs] associated with an acquired asset group to determine whether it meets the definition of a business as prescribed by Section 1582 Business Combinations under pre-changeover Canadian GAAP. The consideration for an acquisition is measured at the aggregate of the fair values, at the date of exchange, of the assets transferred and the liabilities incurred to former owners of the acquired business in exchange for control of the acquired business. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Corporation will report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. Within one year, the Corporation will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date.

Transaction costs with respect to a business combination are expensed as incurred and included in general and administrative expenses as part of operating costs.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Measurement uncertainty

The preparation of consolidated financial statements in conformity with pre-changeover Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Accounts receivable and unbilled revenue are reported net of an appropriate allowance for unrecoverable amounts. Other significant estimates are used in determining the useful lives and asset impairments of long-lived assets, payments in lieu of corporate income taxes, employee future benefits, the retirement benefit asset, certain accruals, as well as the fair value of assets and liabilities acquired.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by the OEB or the provincial government. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies.

(f) Regulation

Hydro Ottawa Limited is regulated by the OEB under the authority of the *Ontario Energy Board Act, 1998*. The OEB is charged with the responsibilities of approving or setting rates for the transmission and distribution of electricity, and ensuring that distribution companies fulfil obligations to connect and service customers.

Hydro Ottawa Limited operates under an incentive regulation mechanism ['IRM'] prescribed by the OEB. Under an IRM, a distributor first sets base rates through a cost-of-service application every four years. This application determines the appropriate revenue requirement to recover approved costs, and provides a rate of return on a deemed capital structure applied to approved rate base assets. For subsequent years in which no cost-of-service application is filed, rates are adjusted by an inflation factor less a productivity factor.

Hydro Ottawa Limited applies for distribution rates based on estimated costs of service. Once the rate is approved, it is not adjusted as a result of actual costs of service being different from those which were estimated, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates. The OEB has the general power to include or exclude costs and revenue 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.

Hydro Ottawa Limited continues to assess the likelihood of recovery of all regulatory assets subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation. If the requirement for a provision becomes more likely than not, the Corporation will recognize the provision in operating costs for the period.

The following regulatory treatments have resulted in accounting treatments that differ from pre-changeover Canadian GAAP for enterprises operating in a non-regulated environment:

(i) 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 Hydro Ottawa Limited incurs to purchase these services.

Hydro Ottawa Limited accrues interest on the regulatory asset and liability balances as directed by the OEB.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(f) Regulation [continued]

(i) Regulatory assets and liabilities [continued]

Regulatory assets and liabilities are classified as current if they are expected to be recovered from, or refunded to, customers within 12 months after the reporting period. All other regulatory asset and liability balances are classified as long-term on the consolidated balance sheet.

Regulatory balances are comprised principally of the following:

- Regulatory asset/liability refund account ['RARA' / 'RLRA'] consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through temporary additional rates referred to as rate riders.

- Settlement variances relate primarily to the charges Hydro Ottawa Limited incurred for transmission services, the commodity, wholesale market operations and the global adjustment that were not settled with customers during the period. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time and they are reported at year end dates in accordance with rules prescribed by the OEB.

- Deferred smart meter costs represent the differences between the amounts funded through rates for smart meters and actual program costs. Program costs include operating, maintenance, depreciation and administrative expenses directly related to smart meters, a return on smart meter assets, and the net book value of conventional meters removed upon the installation of smart meters.

- Other Post Employment Benefits deferral account ['OPEB deferral account'] was authorized by the OEB in 2011 to record the adjustment to post-retirement benefits relating to the cumulative actuarial gains or losses. This account is adjusted annually to record any changes in the cumulative actuarial gains or losses. No interest charges are recorded on this account as instructed by the OEB.

Other regulatory variances and deferred costs:

- The OEB allows electricity distributors to record in a deferral account the difference between low voltage charges paid to Hydro One Networks Inc. and those charged to customers.

- The OEB allows electricity distributors to record in a deferral account the net cost of providing retailer billing services and transaction request services.

- The OEB approved a deferral account for distributors to record one-time administrative incremental International Financial Reporting Standards ['IFRS'] transition costs, which were not already approved and included for recovery in distribution rates.

- In its Guidelines released June 16, 2009, the OEB created four new deferral accounts to allow distributors to begin recording expenditures for certain activities relating to the connection of renewable generation or the development of a smart grid. These deferral accounts were authorized to be used to record qualifying incremental capital investments or operating, maintenance and administrative expenses.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(f) Regulation [continued]

(i) Regulatory assets and liabilities [continued]

- In its Guidelines released January 5, 2012, the OEB required Hydro Ottawa Limited to record the difference between the actual authorized Conservation and Demand Management ['CDM'] activities and activities included in Hydro Ottawa Limited's load forecast. This variance is recorded in the Lost Revenue Adjustment Mechanism variance account.

- The OEB directed distributors to record the input tax credit savings arising from the elimination of the provincial sales tax and implementation of the harmonized sales tax on July 1, 2010 in a separate account. The OEB concluded that fifty percent of the balances should be returned to the ratepayers for the period up to the rebasing date, which for Hydro Ottawa Limited was January 1, 2012.

(ii) Contributions in aid of construction

Contributions in aid of construction received from outside sources are used to finance additions to property, plant and equipment. According to the AP Handbook, contributions in aid of construction are treated as a reduction to property, plant and equipment and are depreciated at an equivalent rate to that used for the depreciation of the related property, plant and equipment.

(iii) Allowance for funds used during construction ['AFUDC']

An allowance for the cost of funds used during the construction period has been applied to major capital and development projects.

(iv) Payments in lieu of corporate income taxes ['PILs']

Hydro Ottawa Limited is considered to be a Municipal Electric Utility ['MEU'] for purposes of the PILs regime contained in the *Electricity Act, 1998*, as all of its share capital is indirectly owned by the City of Ottawa and not more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. The *Electricity Act, 1998* provides that a MEU that is exempt from tax under the *Income Tax Act (Canada)* ['ITA'] and the *Taxation Act, Ontario* ['TAO'] is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount approximating the tax that it would be liable to pay under the ITA and the TAO if it were not exempt from tax.

Hydro Ottawa Limited follows the liability method for recording income taxes in accordance with pre-changeover Canadian GAAP recommendations. Under the liability method, current income taxes payable are recorded based on taxable income. Future income taxes arising from temporary differences in the accounting and tax basis of assets and liabilities are provided based on substantively enacted tax rates that will be in effect when the differences are expected to reverse.

The AP Handbook provides for the recovery of PILs by Hydro Ottawa Limited through annual distribution rate adjustments as approved by the OEB. Hydro Ottawa Limited recognizes regulatory liabilities and assets for the amounts of future income taxes expected to be refunded to or recovered from customers in future electricity rates.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(f) Regulation [continued]

(iv) Payments in lieu of corporate income taxes ['PILs'] [continued]

The Corporation, Energy Ottawa, Chaudiere Hydro GP and Telecom Ottawa Holding Inc. are also MEUs that account for PILs using the liability method.

PowerTrail and CWPI are taxable under the ITA and TAO as less than 90% of each corporation's share capital is owned by the City of Ottawa. Corporate income taxes are accounted for using the liability method as described above.

Moose Creek LP and Chaudiere Hydro L.P. are not taxable entities for federal and provincial income tax purposes. Tax on the net income (loss) is borne by the individual partners through the allocation of taxable income.

(g) Revenue recognition

The Corporation recognizes revenue when persuasive evidence of an arrangement exists, services have been delivered, the price has been fixed or is determinable and collection is reasonably assured.

(i) Distribution sales

The Corporation charges customers for the delivery of electricity, based on rates established by the OEB. The rates are intended to allow the Corporation to recover its prudently incurred costs and earn a fair return on invested capital. Distribution sales are recognized when electricity is delivered to the customer, as measured by meter readings or usage estimates.

(ii) Power recovery

Power recovery revenue represents the pass-through of the cost of power to the consumer as purchased by the Corporation and is recognized when electricity is delivered to the customer, as measured by meter readings or usage estimates. Power recovery revenue is regulated by the OEB and includes charges to customers for the electricity commodity, the transmission of electricity and the administration of the wholesale electricity system.

(iii) Unbilled revenue

Unbilled revenue represents an estimate of the electricity consumed by customers that has not yet been billed at year end.

(iv) Generation revenues

Generation revenue is recorded on the basis of regular meter readings.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(g) Revenue recognition [continued]

(v) Other revenue

Other revenue related to the provision of services is recognized as services are rendered. Other revenue includes contract revenue, commercial services revenue and conservation and demand management ['CDM'] revenue.

Contract revenue and commercial services revenue are accounted for using the percentage-of-completion method, whereby revenue and the corresponding costs are recognized proportionately with the degree of completion of the services under contract. Losses on contracts are fully recognized when they become evident. CDM revenue stems from the delivery of provincial government programs that promote conservation and is recognized on a cost-recovery basis.

(h) Bank indebtedness

Bank indebtedness includes short-term advances and/or bankers' acceptances with a maturity date of three months or less, and outstanding cheques.

(i) Financial instruments

All financial instruments are initially recorded at fair value, unless fair value cannot be reliably determined. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between willing parties. The subsequent measurement of each financial instrument depends on the classification elected by the Corporation.

The Corporation classifies and measures its financial instruments as follows:

- Cash is classified as held-for-trading and is measured at fair value.

- Accounts receivable and unbilled revenue are classified as loans and receivables and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value with the exception of related party transactions which are measured at the carrying amount determined in accordance with pre-changeover Canadian GAAP Section 3840, *Related Party Transactions*. Subsequent measurements are recorded at amortized cost using the effective interest rate method, if applicable.

- Bank indebtedness, accounts payable and accrued liabilities, customer deposits and notes payable are classified as other financial liabilities and are initially measured at their fair value with the exception of related party transactions which are measured at the carrying amount determined in accordance with pre-changeover Canadian GAAP Section 3840, *Related Party Transactions*. Subsequent measurements are recorded at amortized cost using the effective interest rate method, if applicable.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(j) Property, plant and equipment

Property, plant and equipment consist principally of electricity distribution infrastructure, generating plant and equipment, buildings and fixtures, land, reservoirs, dams and waterways, furniture and equipment, and assets under construction. Property, plant and equipment acquired in a business combination are initially recorded at their acquisition date fair values.

Spare parts and standby equipment, which are expected to be used during more than one year, are considered to be assets under construction, and are depreciated only once they are put into service.

Property, plant and equipment are recorded at cost and include directly attributable contracted services, materials, labour, engineering costs, overheads and AFUDC. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Contributions in aid of construction received are treated as a contra account to property, plant and equipment. The amount is depreciated by a charge to accumulated depreciation and a reduction in depreciation expense at an equivalent rate to that used for the depreciation of the related asset.

Significant renewals and enhancements to existing assets are capitalized only if the service life of the asset is increased, reliability is improved above original design standards or if operating costs are reduced by a substantial and quantifiable amount.

Depreciation is recorded on a straight-line basis over the estimated service life of the related asset.

Estimated service lives for property, plant and equipment classes are as follows:

Buildings and fixtures	20 to 100 years
Furniture and equipment	5 to 10 years
Rolling stock	7 to 15 years
Electricity distribution infrastructure	10 to 60 years
Generating plant and equipment	3 to 50 years
Reservoirs, dams and waterways	75 to 125 years

Assets under construction, land, spare parts and standby equipment are not subject to depreciation.

The Corporation reviews its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Corporation will estimate the future cash flows expected to result from the use of the asset group and their eventual disposition, and record an impairment loss, if required. The Corporation's primary measure of fair value is based on discounted cash flows.

(k) Intangible assets

Intangible assets include land rights, a power purchase agreement, line connection contributions, computer software, water rights and computer software under development.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(k) Intangible assets [continued]

Intangible assets with finite lives are recorded at cost and amortized on a straight-line basis over the estimated service life of the related asset. Intangible assets acquired in a business combination are initially recorded at their acquisition date fair values.

Estimated service lives for intangible assets with finite lives are as follows:

Land rights	50 years
Power purchase agreement	7 years
Line connection contributions	45 years
Computer software	5 to 10 years

Water rights with respect to the Chaudière Dam on the Ottawa River, which has an indefinite useful life, and computer software under development are not subject to amortization.

The Corporation reviews its intangible assets subject to amortization for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Corporation will estimate the future cash flows expected to result from the use of the asset group and their eventual disposition, and record an impairment loss, if required. The Corporation's primary measure of fair value is based on discounted cash flows.

The Corporation reviews its intangible assets not subject to amortization annually for the possibility of impairment. Through this process, the assessment of indefinite life is reviewed to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(l) Asset retirement obligations

The Corporation recognizes its obligation to retire certain tangible long-lived assets, whereby the fair value of a liability for an asset retirement obligation is recognized in the period during which it is incurred if a reasonable estimate can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and then amortized over its estimated useful life. In subsequent periods, the asset retirement obligation is adjusted for the passage of time and any changes in the amount or timing of the underlying future cash flows are reflected in the liability. The liability is adjusted for an annual accretion charged to operating costs. A gain or loss may be incurred upon settlement of the liability.

(m) Employee future benefits

(i) Pension plans

The Corporation provides pension benefits for its employees through the Ontario Municipal Employees Retirement System ['OMERS'] Fund [the 'Fund']. OMERS is a multi-employer pension plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The 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 Fund.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(m) Employee future benefits [continued]

(i) Pension plans [continued]

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. As a result, the Corporation accounts for the plan as a defined contribution plan, and contributions payable as a result of employee service are expensed as incurred as part of operating costs.

Chaudiere Hydro L.P. is the sponsoring employer of the Pension Plan for Employees of Chaudiere Hydro L.P. and Participating Employers ['Chaudiere Pension Plan' or 'CHPP'] effective November 20, 2012 and is accounted for as follows:

- CHPP assets are assets that are held by an insurance corporation and are measured at fair value, which is based on published market mid-price information in the case of quoted securities.

- Accrued benefit obligations of the CHPP are determined based on the expected future benefit payments discounted using market interest rates on high-quality debt instruments that match the timing and amount of expected benefit payments.

- The cost of pension earned by employees is actuarially determined using the projected benefit method prorated on services, and management's best estimate of expected plan investment performance, salary escalation, retirement ages, life expectancy and health care costs.

- The actuarial gains and losses arising on the plan assets and defined benefit obligation are recognized into income in the year in which they occur using the immediate recognition approach.

- Past service costs are included in the cost of the CHPP for the year when they arise.

Since the CHPP is funded, the fair value of the Chaudiere Pension Plan assets is offset against the accrued benefit obligation. The net amount is included in the retirement benefit asset or retirement benefit liability.

(ii) Employee future benefits other than pension plans

Employee future benefits other than pensions provided by the Corporation include medical, dental and life insurance benefits, accumulated sick leave credits and a retirement grant. These plans provide benefits to certain employees when they are no longer providing active service.

Employee future benefits expense is recognized in the period during which the employees render services.

Employee future benefits are recorded on an accrual basis. The accrued benefit obligation and current service costs are calculated using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Actuarial gains and losses resulting from experience different from that assumed or from changes in actuarial assumptions are recognized in income immediately, however for Hydro Ottawa Limited, these amounts are deferred as a regulatory asset or liability as permitted by the OEB.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(n) Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills and fulfillment of construction obligations. Deposits estimated to be refundable to customers within the next fiscal year are classified as current liabilities and included in accounts payable and accrued liabilities.

(o) Leases

At the inception of a lease, or an arrangement that contains a lease, the Corporation evaluates whether the lease should be classified as a capital lease or an operating lease. Leases that transfer substantially all the risks and rewards incidental to ownership of the related asset are classified as capital leases. All other leases are classified as operating leases. Classification is reassessed if the terms of the lease are changed.

Upon evaluation, all of the Corporation's leases are classified as operating leases.

(p) Debt-issuance costs

The Corporation incurred debt issuance costs that were external, direct and incremental in nature arising from its debenture offerings and credit facility restructuring. Debt issuance costs are netted against the proceeds of debt and amortized using the effective yield method. Credit facility restructuring costs are amortized over the initial term of the revolving term credit facility.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

On February 13, 2008, the Canadian Accounting Standards Board ['AcSB'] confirmed that publicly accountable enterprises ['PAEs'] would be required to transition to IFRS effective January 1, 2011. While the Corporation is not a PAE, it is a Government Business Enterprise given its status as a municipally owned utility, and such enterprises are required to follow the same basis of accounting as PAEs.

On the original transition date, IFRS did not contain a standard governing rate-regulated activities ['RRA']. Due to the significance of this issue in Canada, the AcSB postponed the original IFRS transition date to January 1, 2015 for qualifying entities with RRA pending the completion of an interim standard by the International Accounting Standards Board ['IASB']. Until January 1, 2015, qualifying entities are permitted to continue reporting under pre-changeover Canadian GAAP.

On January 30, 2014, the IASB issued interim standard IFRS 14 - Regulatory Deferred Accounts ['IFRS 14'] which permits rate-regulated entities that have not yet transitioned to IFRS to use its existing RRA practices. This standard is effective January 1, 2016 with early adoption permitted. The Corporation will adopt IFRS and early adopt IFRS 14 on January 1, 2015.

4. ACCOUNTS RECEIVABLE

	2013	2012
Electricity receivables, net of allowance for doubtful accounts of $1,919 [2012 – $1,411]	**$ 52,125**	$ 52,449
Other receivables, net of allowance for doubtful accounts of $66 [2012 – $139]	**11,954**	17,159
Amounts due from related parties [Note 24]	**6,197**	5,800
	$ 70,276	$ 75,408

5. UNBILLED REVENUE

	2013	2012
Unbilled revenue	**$ 106,757**	$ 90,003
Less allowance for doubtful accounts	**(206)**	(68)
	$ 106,551	$ 89,935

6. REGULATORY ASSETS AND LIABILITIES

The Corporation files a rate application to settle its regulatory assets and liabilities as required. The time period for settlement is determined by the OEB based on the magnitude of the balances to be cleared.

Information about the Corporation's regulatory assets and liabilities is as follows:

	2013	2012
Regulatory assets		
Deferred smart meter costs	**$ -**	$ 1,939
OPEB deferral account [Note 13]	**3,109**	4,977
Settlement variances	**5,527**	-
RARA	**475**	253
Other	**3,361**	2,403
	12,472	9,572
Less current portion	**(31)**	(1,969)
Total non-current regulatory assets	**$ 12,441**	$ 7,603

6. REGULATORY ASSETS AND LIABILITIES [CONTINUED]

	2013	2012
Regulatory liabilities		
Settlement variances	**$ 27,374**	$ 39,917
Deferred smart meter costs	**1,045**	-
RLRA	**2,002**	678
Other	**1,667**	1,646
	32,088	42,241
Less current portion	**(19,173)**	(22,097)
Total non-current regulatory liabilities	**$ 12,915**	$ 20,144

(a) Regulatory asset/liability refund accounts

The RARA/RLRA is the net aggregate of all regulatory assets and liabilities which have been approved for recovery or disposition and includes accrued interest costs up to December 31, 2013 of $178 [2012 – interest cost of $107] less amounts already settled through distribution rates.

On December 5, 2013, the OEB approved the disposition of regulatory liabilities of $19,173, consisting of settlement variances and low voltage variance account accumulated up to December 31, 2012. The December 5, 2013 approved disposition will be transferred to RLRA on January 1, 2014, which is when this disposition is effective in rates.

(b) Settlement variances

Settlement variances include accrued interest costs of $284 [2012 – $458].

(c) Other

Other variance and deferred costs include accrued interest earned of $34 [2012 –- $13].

(d) Income before PILs

In the absence of rate regulation, the income before PILs for the year ended December 31, 2013 would be lower by $13,052 [2012 – higher by $12,305].

(e) Recovery of regulatory asset write-down

In 2013, the Corporation recorded a recovery of regulatory asset write-down of nil [2012 – $679].

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
December 31, 2013
[in thousands of Canadian dollars]

7. PROPERTY, PLANT AND EQUIPMENT

	2013		
	Cost	**Accumulated depreciation**	**Net book value**
Land	**$ 31,252**	**$ -**	**$ 31,252**
Buildings and fixtures	**87,132**	**22,206**	**64,926**
Furniture and equipment	**18,121**	**11,904**	**6,217**
Rolling stock	**24,754**	**15,455**	**9,299**
Electricity distribution infrastructure	**1,131,820**	**437,739**	**694,081**
Generating plant and equipment	**56,445**	**14,559**	**41,886**
Reservoirs, dams and waterways	**19,293**	**222**	**19,071**
Assets under construction	**44,861**	**-**	**44,861**
	1,413,678	**502,085**	**911,593**
Contributions in aid of construction	**(234,318)**	**(48,381)**	**(185,937)**
	$ 1,179,360	**$ 453,704**	**$ 725,656**

	2012		
	Cost	Accumulated depreciation	Net book value
Land	$ 11,639	$ -	$ 11,639
Buildings and fixtures	78,076	20,135	57,941
Furniture and equipment	20,945	15,152	5,793
Rolling stock	23,708	15,648	8,060
Electricity distribution infrastructure	1,045,845	414,664	631,181
Generating plant and equipment	43,912	12,361	31,551
Reservoirs, dams and waterways	19,144	112	19,032
Assets under construction	74,698	-	74,698
	1,317,967	478,072	839,895
Contributions in aid of construction	(214,046)	(43,891)	(170,155)
	$ 1,103,921	$ 434,181	$ 669,740

During the year, the Corporation capitalized an AFUDC of $1,330 [2012 – $1,751] to property, plant and equipment and credited financing costs [Note 20]. The average annual interest rate for 2013 was 4.5% [2012 – 4.8%].

The Corporation entered into significant non-cash transactions that have been excluded from the consolidated statement of cash flows. These transactions were related to property, plant and equipment additions of $11,485 [2012 – $12,859], of which $11,485 [2012 –- $11,674] represent amounts included in accounts payable and accrued liabilities and nil [2012 – $1,185] in construction holdbacks, also included in accounts payable and accrued liabilities as at December 31, 2013.

7. PROPERTY, PLANT AND EQUIPMENT [CONTINUED]

In 2005, Energy Ottawa entered into an agreement with the Federal Government's Department of Natural Resources whereby project funding of up to $220 was provided to Energy Ottawa to field trial a mini hydro turbine developed by the Canada Centre for Mineral and Energy Technology ['CANMET'] Small Hydro Program. Under the terms of the agreement, an amount of $150 of the funding received was repayable at a rate of 2.5% of revenue received from the project, over a maximum period of 10 years. As at December 31, 2013, the unamortized balance of the non-repayable funding received of $41 [2012 – $44] is included in contributions in aid of construction. The current portion of the remaining repayable balance amounts to $12 [2012 – $12] and is included in accounts payable and accrued liabilities, while the long-term portion in the amount of $29 [2012 – $41] is included in other liabilities.

8. INTANGIBLE ASSETS

	2012	Acquisitions	Retirements	2013
Cost				
Land rights	$ 3,135	**$ 2**	**$ -**	**$ 3,137**
Power purchase agreement	4,578	**-**	**-**	**4,578**
Line connection contributions	3,614	**354**	**-**	**3,968**
Computer software	64,073	**2,167**	**(5,265)**	**60,975**
Water rights	16,941	**-**	**-**	**16,941**
Computer software under development	13,690	**20,246**	**-**	**33,936**
	$ 106,031	**$ 22,769**	**$ (5,265)**	**$ 123,535**

	2012	Amortization	Retirements	2013
Accumulated amortization				
Land rights	$ 1,310	**$ 49**	**$ -**	**$ 1,359**
Power purchase agreement	81	**700**	**-**	**781**
Line connection contributions	974	**70**	**-**	**1,044**
Computer software	51,879	**7,611**	**(5,265)**	**54,225**
	$ 54,244	**$ 8,430**	**$ (5,265)**	**$ 57,409**

	Cost	Accumulated amortization	Net book value
Net book value as at December 31, 2013			
Land rights	**$ 3,137**	**$ 1,359**	**$ 1,778**
Power purchase agreement	**4,578**	**781**	**3,797**
Line connection contributions	**3,968**	**1,044**	**2,924**
Computer software	**60,975**	**54,225**	**6,750**
Water rights	**16,941**	**-**	**16,941**
Computer software under development	**33,936**	**-**	**33,936**
	$ 123,535	**$ 57,409**	**$ 66,126**

8. INTANGIBLE ASSETS [CONTINUED]

	2011	Acquisitions	Retirements	2012
Cost				
Land rights	$ 3,125	$ 10	$ -	$ 3,135
Power purchase agreement	-	4,578	-	4,578
Line connection contributions	3,583	31	-	3,614
Computer software	61,493	2,580	-	64,073
Water rights	-	16,941	-	16,941
Computer software under development	3,801	9,889	-	13,690
	$ 72,002	$ 34,029	$ -	$ 106,031

	2011	Amortization	Retirements	2012
Accumulated amortization				
Land rights	$ 1,261	$ 49	$ -	$ 1,310
Power purchase agreement	-	81	-	81
Line connection contributions	910	64	-	974
Computer software	45,401	6,478	-	51,879
	$ 47,572	$ 6,672	$ -	$ 54,244

	Cost	Accumulated amortization	Net book value
Net book value as at December 31, 2012			
Land rights	$ 3,135	$ 1,310	$ 1,825
Power purchase agreement	4,578	81	4,497
Line connection contributions	3,583	974	2,609
Computer software	64,073	51,879	12,194
Water rights	16,941	-	16,941
Computer software under development	13,721	-	13,721
	$ 106,031	$ 54,244	$ 51,787

Water rights and the power purchase agreement were acquired from Domtar Inc. November 20, 2012 [Note 18].

During the year, the Corporation capitalized an AFUDC of $1,081 [2012 – $305] to intangible assets and credited financing costs [Note 20]. The average annual interest rate for 2013 was 4.5% [2012 – 4.8%].

There was no impairment of intangible assets for the years ended December 31, 2013 and 2012.

8. INTANGIBLE ASSETS [CONTINUED]

The Corporation entered into significant non-cash transactions that have been excluded from the consolidated statement of cash flows. These transactions were related to intangible asset additions of $729 [2012 – $2,119], which represent amounts included in accounts payable and accrued liabilities at year end.

9. CREDIT FACILITY

During the year, the Corporation renewed its credit facility for a revised amount of $193,500 [2012 – $193,650]. The facility is now structured into four types of credit availability and consists of a $75,000 [2012 – $75,000] 364-day revolving operating line which matures on August 2, 2014, a $100,000 [2012 – $100,000] revolving line to fund capital expenditures and growth opportunities which matures on August 2, 2015, a $17,500 [2012– $17,500] line to fund letters of credit and other guarantees and a $1,000 [2012 – $1,000] commercial card facility. The revolving operating line can be used by way of direct advances and/or bankers' acceptances. This credit facility contains customary covenants and events of default including a covenant to maintain the consolidated tangible net worth in excess of $175,000 at all times. It also requires the debt to capitalization ratio to be at or below 75% on a consolidated basis. The Corporation has cancelled its $150 corporate Visa facility which existed in the previous year.

As at December 31, 2013, the Corporation had drawn $4,950 in direct advances against the operating line, and nil against the capital line [2012 – $60,000 in bankers' acceptances against the operating line and $14,000 in bankers' acceptances against the capital line]. The facility allows for continuous renewal of operating and capital bankers' acceptances with maturities of 7 to 180 days. The Corporation has also drawn $16,000 [2012 – $16,000] against its facilities in standby letters of credit.

On October 12, 2013, PowerTrail renewed its existing credit facility for $200 [2012 - $200] in standby letters of credit to the Ontario Power Authority ['OPA'] for another year. The facility contains customary covenants and events of default, including a covenant to maintain a tangible net worth of $1,000. As at December 31, 2013, PowerTrail had drawn an amount of $133 [2012 – $133] in standby letters of credit against this facility.

CWPI maintains a credit facility consisting of a $500 [2012 - $500] operating credit line secured by the three principals of CWPI. The operating credit line is repayable on demand, bears interest at the Bank of Canada's prime lending rate with interest payable monthly. The facility also contains customary covenants and events of default. As at December 31, 2013, CWPI had not drawn this operating line [2012 – $19].

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2013	2012
Purchased power payable	**$ 67,033**	$ 62,813
Trade accounts payable and accrued liabilities	**43,377**	45,569
Customer deposits	**14,307**	15,174
Customer credit balances	**7,363**	9,146
Due to related parties [Note 24]	**268**	89
	$ 132,348	$ 132,791

11. OTHER LIABILITIES

		2013		2012
Non-current customer deposits	$	**13,085**	$	11,782
Non-current repayable grant [Note 7]		**29**		41
Asset retirement obligations [Note 12]		**300**		438
	$	**13,414**	$	12,261

12. ASSET RETIREMENT OBLIGATIONS

		2013		2012
Balance, beginning of year	$	**438**	$	627
Liabilities settled during the year		**(141)**		(203)
Accretion expense		**26**		19
Revisions in estimated cash flows		**(23)**		(5)
	$	**300**	$	438

As at December 31, 2013, the Corporation estimates an asset retirement obligation ['ARO'] of $300 [2012 – $438] related to the removal and destruction of polychlorinated biphenyls ['PCBs'] in distribution transformers and other clean-up related to PCBs. The ARO is calculated using an estimated undiscounted cash flow over two years [2012 – one year] totalling $357 [2012 – $498] and a discount rate of 5.3% [2012 – 5.3%]. No assets have been legally restricted for settlement of the liability.

13. EMPLOYEE FUTURE BENEFITS

(a) Pension plans

The Corporation contributes to two defined benefit plans covering substantially all of its employees.

The Corporation's participating employer contributions under OMERS for the year ended December 31, 2013 amounted to $5,939 [2012 – $5,008].

Effective November 20, 2012, the Corporation provides retirement benefits to certain employees who transferred to the Corporation from Domtar Inc. Consequently, the Corporation created the Chaudiere Pension Plan on this date. In accordance with the Purchase Agreement as described in Note 18, Domtar Inc. has agreed to fund the actuarial plan obligations relating to the transferred employees as at November 20, 2012. However, the physical transfer of plan assets from Domtar Inc.'s pension plan to the CHPP is not legally permitted to occur until the pending registration with the Financial Services Commission of Ontario is complete. The Corporation retains all risks and rewards of the plan assets awaiting to be transferred to CHPP and remains liable for the benefits accruing to its members from November 20, 2012 and onward.

13. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plan [continued]

Information about the Chaudiere Hydro Pension Plan is as follows:

(i) Accrued benefit obligation

		2013		2012
Balance, beginning of period	$	3,573	$	3,538
Current service cost		264		19
Interest cost on accrued benefit obligation		151		16
Benefit payments and administrative expenses		(102)		-
Actuarial gains		(293)		-
Balance, end of period	$	3,593	$	3,573

(ii) Plan assets

		2013		2012
Fair value, beginning of period	$	4,047	$	4,019
Actual return on plan assets		48		21
Employer contributions		190		-
Benefit payments and administrative expenses		(102)		-
Employee contributions		99		7
Fair value, end of period	$	4,282	$	4,047

(iii) Funded status

		2013		2012
Retirement benefit asset, beginning of period	$	474	$	481
Change in retirement benefit asset		215		(7)
Retirement benefit asset, end of period	$	689	$	474

13. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plan [continued]

No valuation allowance has been recorded by the Corporation as at December 31, 2013 or December 31, 2012 with respect to the retirement benefit asset.

Employee future benefits under the CHPP are calculated using an annual compensation rate increase of 2.0% [2012 – 2.0%], an expected return on plan assets of 4.8% [2012 – 4.7%] and a discount rate of 4.8% [4.0%] to calculate the liabilities.

(b) Employee future benefits other than pension plans

Employee future benefits are calculated using an annual compensation rate increase ranging from 2% to 3.1% [2012 – 2% to 3.1%] and a discount rate of 4.8% [2012 – ranging from 3.8% to 4.6%] to calculate the liabilities. The valuations also includes several other economic and demographic assumptions including mortality rates. The mortality assumption at December 31, 2013 has been updated resulting in an actuarial remeasurement of employee future benefits. The mortality assumption is now based on the most recent Canadian Pensioners Mortality information published by the Canadian Institute of Actuaries in July 2013.

Information about the Corporation's employee future benefits other than pension plans is as follows:

		2013	
	Accumulated liability	**Expense for the year**	**Benefits paid**
Life, medical and dental insurance	**$ 5,650**	**$ 564**	**$ 434**
Retirement grant provision	**927**	**83**	**21**
Sick leave	**5**	**-**	**-**
	6,582	**647**	**455**
Accrued benefit obligation	**9,691**		
Deferred actuarial loss	**$ (3,109)**		

		2012	
	Accumulated liability	Expense for the year	Benefits paid
Life, medical and dental insurance	$ 5,605	$ 612	$ 510
Retirement grant provision	865	80	32
Sick leave	5	-	-
	6,475	692	542
Accrued benefit obligation	11,452		
Deferred actuarial loss	$ (4,977)		

13. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(b) Employee future benefits other than pension plans [continued]

An actuarial extrapolation was performed as at December 31, 2013. As a result of this exercise, the Corporation decreased the projected benefit obligation by $1,761 [2012 – increased by $1,509].

The current liability portion of the accrued employee future benefits included in other accounts payable and accrued liabilities amounts to $626 [2012 – $672] and the non-current portion was $9,065 [2012 – $10,780].

14. NOTES PAYABLE

	2013	2012
4.930% senior unsecured debentures, Series 2005-1, due on February 9, 2015	**$ 199,762**	$ 199,548
4.968% senior unsecured debentures, Series 2006-1, due on December 19, 2036	**49,762**	49,751
3.991% senior unsecured debentures, Series 2013-1, due on May 14, 2043	**148,869**	-
IGRS promissory note	**2,360**	2,780
	400,753	252,079
Less current portion of IGRS promissory note	**(340)**	(620)
	$ 400,413	$ 251,459

On February 9, 2005, the Corporation issued $200,000 in 4.930% senior unsecured debentures, Series 2005-1, due on February 9, 2015. The debentures bear interest at a rate of 4.930% per annum, payable semi-annually in arrears in equal instalments on February 9 and August 9, which commenced August 9, 2005.

On December 20, 2006, the Corporation issued $50,000 in 4.968% senior unsecured debentures, Series 2006-1, due on December 19, 2036. The debentures bear interest at a rate of 4.968% per annum, payable semi-annually in arrears in equal instalments on June 19 and December 19, which commenced June 19, 2007.

On May 14, 2013, the Corporation issued $150,000 in 3.991% senior unsecured debentures, Series 2013-1, due on May 14, 2043. The debentures bear interest at a rate of 3.991% per annum, payable semi-annually in arrears in equal instalments on November 14 and May 14, which commenced November 14, 2013.

Each of the above debentures were purchased at 100% of their principal amount and are carried net of the related debt issuance costs which are amortized over the initial term of the debenture. Each debenture contains customary covenants and events of default, including a covenant to ensure that the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. Interest payments on these debentures over the next five years will be $18,331 in 2014, $13,401 in 2015 and $8,471 in 2016, 2017 and 2018.

The IGRS promissory note was issued by PowerTrail to fund the construction of the gas collection and generation plant at the Trail Road landfill site. Pursuant to the Shareholders' Agreement dated November 3, 2005, among Energy Ottawa, IGRS and PowerTrail, the note is unsecured, non-interest bearing, subject to certain conditions and has no set terms of repayment. During the year, PowerTrail made $420 [2012 – $300] in repayments to IGRS and intends to repay an additional $340 on this note in 2014. Management of IGRS has confirmed that it does not intend to call the remaining $2,020 in 2014.

15. CAPITAL DISCLOSURES

The Corporation's main objectives when managing capital are to:

- Ensure continued access to funding to maintain and improve the operations and infrastructure of the Corporation;
- Ensure compliance with covenants related to the credit facilities and senior unsecured debentures; and
- Align Hydro Ottawa Limited's capital structure with the debt-to-equity structure recommended by the OEB.

The Corporation's capital consists of the following:

	2013	2012
Bank indebtedness	**$ 8,853**	$ 77,357
Notes payable	**400,753**	252,079
Total debt	**409,606**	329,436
Shareholder's equity	**381,726**	366,695
Total capital	**$ 791,332**	$ 696,131
Debt capitalization ratio	**52 %**	47 %

The Corporation is in compliance with all financial covenants and limitations associated with its credit facilities and its long-term debt.

Hydro Ottawa Limited is deemed by the OEB to have a capital structure that is funded by 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure only as a basis for setting distribution rates. As such, the Corporation's actual capital structure may differ from the OEB deemed structure.

The Corporation met its capital management objectives, which have not changed during the year.

16. SHARE CAPITAL

(a) Authorized

Unlimited number of voting first preferred shares, redeemable at one dollar per share
Unlimited number of non-voting second preferred shares, redeemable at ten dollars per share
Unlimited number of non-voting third preferred shares, redeemable at one hundred dollars per share
Unlimited number of voting fourth preferred shares [10 votes per share], redeemable at one hundred dollars per share
Unlimited number of voting Class A common shares
Unlimited number of non-voting Class B common shares
Unlimited number of non-voting Class C common shares, redeemable at the price at which such shares are issued

The above shares are without nominal or par value.

Holders of second preferred shares, fourth preferred shares and common shares are entitled to receive dividends as and when declared by the Board of Directors at their discretion.

16. SHARE CAPITAL [CONTINUED]

(b) Issued

	2013	2012
214,901,003 Class A common shares	**$ 228,453**	$ 228,453

Any invitation to the public to subscribe for shares of the Corporation is prohibited by shareholder resolution.

Shareholder resolution directs the Corporation to target dividends at the greater of 60% of its annual consolidated net income or $14,000, provided that the Corporation is in compliance with the *Business Corporations Act (Ontario)* and relevant OEB guidelines, is not in breach of any covenants on its senior unsecured debentures or credit facility obligations, and does not negatively impact its credit rating as a result of the dividend payment.

On April 4, 2013, the Board of Directors declared an $18,600 dividend to the City of Ottawa, which was paid on April 10, 2013 [2012 – April 3, the Board of Directors declared a $16,600 dividend to the City of Ottawa, which was paid on April 5, 2012].

On May 1, 2008, TOHI sold the shares of both its subsidiaries creating a balance in its refundable dividend tax on hand ['RDTOH'] account. On December 5, 2013, TOHI paid an intercompany dividend to the Corporation to recover its RDTOH balance. This amount is included in payments in lieu of corporate income taxes receivable on the consolidated balance sheet at year end and has been removed from the change in payments in lieu of corporate taxes receivable/payable on the statement of cash flows.

17. NON-CONTROLLING INTEREST

The non-controlling interest as at December 31, 2013 represents the sum of:

- IGRS non-controlling interest [40%] in the net assets of PowerTrail;
- IGRS and Moose Creek GP's combined non-controlling interest [49.90%] [2012 – 49.95%] in the net assets of Moose Creek LP; and
- Hydro Québec's non-controlling interest [33.33%] in the net assets of CWPI [effective November 20, 2012].

During 2013, Moose Creek LP issued 1,002,000 Class A units and 998,000 Class B units to its limited partners [Energy Ottawa and IGRS] at a price of one dollar per unit, respectively. These issuances were made to fund the completion of Moose Creek LP's gas collection and generation plant and to provide sufficient working capital during the initial stage of operations.

18. ACQUISITION OF ASSETS

On November 20, 2012, the Corporation, through its subsidiary Chaudiere Hydro L.P., completed an acquisition of generation assets from Domtar Inc. in exchange for $46,339 in cash through an Agreement of Purchase and Sale ['Purchase Agreement']. Identifiable assets acquired included three hydro-electric generation plants, the tangible and intangible assets related thereto and all of Domtar Inc.'s 38.33% interest in the CWPI joint venture. The acquisition of assets was accounted for as an acquisition of a business under Section 1582 Business Combinations of pre-changeover Canadian GAAP. The acquisition has brought the Corporation recurring revenue through a long-term power purchase agreement with Hydro Québec. As part of this transaction, a small group of employees previously employed by Domtar Inc. were transferred to the Corporation.

The following table summarizes the fair values of the assets acquired as part of the transaction with Domtar Inc.:

	Acquisition date fair value
Land	$ 6,256
Buildings and fixtures	1,900
Generating plant and equipment	8,494
Reservoirs, dams and waterways	8,050
Power purchase agreement	4,578
Water rights	16,941
Prepaids	62
Retirement benefit asset	481
Accounts payable and accrued liabilities	(163)
Employee future benefits	(260)
Total cash paid for net assets acquired	$ 46,339

The amounts above relating to prepaids, accounts payable and accrued liabilities and employee future benefits were removed from their respective operating line items in the consolidated statement of cash flows as they did not arise in the ordinary course of business.

The Corporation incurred transaction costs relating to the acquisition of $1,492 which were expensed in operating costs in the previous year. In addition, $313 of operating costs relating to repairs and maintenance were expensed in the previous year as they did not meet the criteria of an asset. From the date of acquisition to December 31, 2012, the assets acquired contributed $1,011 of revenue and $204 of net income. As the Corporation did not have access to the financial information of Domtar Inc., it was not possible to determine the revenue, income or loss the Corporation would have realized had the acquisition occurred on January 1, 2012.

The acquisition of Domtar Inc.'s shares in CWPI increased the Corporation's total effective common share interest in CWPI from 28.33% to 66.67%. Consequently, the Corporation was required to consolidate CWPI as of the acquisition date in accordance with AcG-15. The impact on the Corporation's net assets upon consolidation was not significant.

18. ACQUISITION OF ASSETS [CONTINUED]

Due to the timing of this acquisition, the retirement benefit asset and employee future benefits were provisional and subject to change. Measurement was finalized in 2013 and no significant adjustments were necessary. Moreover, in 2013, reclass adjustments totaling $1,400 were made out of generating plant and equipment and into buildings and fixtures to more accurately portray the componentization of the assets acquired. As a result, the fixed asset information presented for comparative year purposes has been reclassified to conform to such presentation adopted for the current year.

19. FINANCIAL INSTRUMENTS

(a) Carrying values

The Corporation's financial instruments consist of cash, accounts receivable, unbilled revenue, bank indebtedness, accounts payable and accrued liabilities, customer deposits and notes payable. The only financial instrument recorded at fair value is bank indebtedness and it is classified as level 1 in the pre-changeover Canadian GAAP Section 3862 fair value hierarchy. The carrying values of the Corporation's remaining financial instruments, except for notes payable, approximate fair value because of the short maturity of these instruments.

The Corporation has estimated the fair value of the senior unsecured debentures notes payable as at December 31, 2013 as amounting to $414,176 [2012 – $264,955]. The fair value has been determined based on discounting all future payments of interest and the principal repayments on February 9, 2015, December 19, 2036 and May 14, 2043 at the estimated interest rate of 4.0% [2012 – 4.0%] that would be available to the Corporation on December 31, 2013.

The Corporation cannot determine the fair value of the IGRS promissory note as the amount is non-interest bearing and has no specific repayment terms other than as agreed upon from time to time between Energy Ottawa and IGRS.

(b) Risk factors

In the normal course of business, the Corporation is exposed to market risk, credit risk and liquidity risk. The Corporation’s risk exposure and strategies to mitigate these risks are noted below.

(i) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risk: interest rate risk, currency risk and other price risk such as equity risk.

The Corporation is exposed to interest rate risk on its borrowings. The Corporation mitigates exposure to interest rate risk by issuing long-term fixed interest rate debt. Under the Corporation’s credit facility, any advances on its operating line expose it to fluctuations in short-term interest rates related to prime rate loans and bankers' acceptances. In addition, the fees payable on bankers' acceptances via the operating and capital lines are based on a margin determined by reference to the Corporation's credit rating.

As at December 31, 2013, the Corporation has nil [2012 – $60,000] of outstanding bankers' acceptances on its operating line. Borrowing requirements on this line are typically for a short duration as advances serve to bridge gaps between the cash outflow related to Hydro Ottawa Limited's monthly power bill and the inflows related to the settlements with customers and, as such, there is limited exposure to interest rate risk.

19. FINANCIAL INSTRUMENTS [CONTINUED]

(b) Risk factors [continued]

(i) Market risk [continued]

As at December 31, 2013, the Corporation has nil [2012 – $14,000] of outstanding bankers' acceptances on its capital line. Borrowing requirements on this line are typically for a short duration as advances serve to bridge gaps between the cash outflow related to significant business development acquisitions and the inflows related to the issuance of additional long-term fixed rate debt to finance such acquisitions. Consequently, there is limited exposure to interest rate risk.

As at December 31, 2013, the Corporation has limited exposure to fluctuations in foreign currency exchange rates. The Corporation does purchase a small proportion of goods and services which are denominated in foreign currencies, predominately the US dollar. The impact of the fluctuation of foreign currencies on the gains or losses of accounts payable denoted in foreign currencies is not material.

As at December 31, 2013, the Corporation has not entered into any hedging transactions or derivative contracts.

(ii) Credit risk

Credit risk is the risk that a counterparty will default on its obligations, causing a financial loss. Concentration of credit risk associated with accounts receivable and unbilled revenue is limited due to the large number of customers the Corporation services. Hydro Ottawa Limited has approximately 315,000 customers, the majority of which are residential. As a result, the Corporation did not earn a significant amount of revenue and does not have a significant receivable from any individual customer.

Hydro Ottawa Limited performs ongoing credit evaluations of its customers and requires collateral to support customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. Effective October 2010, the OEB instituted changes to the Distribution System Code requirements for residential security deposits. Security deposits on hand must be applied to active residential accounts in arrears prior to the customer entering into a payment arrangement, rather than as a deposit to be applied to the final bill. Further, additional amendments prohibit Hydro Ottawa Limited from collecting deposits from low income residential customers. Management has concluded that residential security deposits are no longer as effective for mitigating credit risk. Effective January 1, 2011, Hydro Ottawa Limited ceased collecting residential security deposits, and began refunding all residential deposits on hand. Hydro Ottawa Limited continues to hold collateral to support customer accounts receivable on non-residential accounts. As at December 31, 2013, the Corporation held security deposits related to power recovery and distribution sales in the amount of $14,514 [2012 – $12,882].

Energy Ottawa and its subsidiaries limit credit risk by dealing with customers that are considered to be of high credit quality.

The Corporation monitors and limits its exposure to credit risk on a continuous basis.

19. FINANCIAL INSTRUMENTS [CONTINUED]

(b) Risk factors [continued]

(ii) Credit risk [continued]

The carrying amount of accounts receivable and unbilled revenue is reduced by an allowance for doubtful accounts based on the credit risk applicable to particular customers and historical and other information. The Corporation records an allowance for doubtful accounts when the recoverability of an amount becomes doubtful. The amount of the related impairment loss is recognized in income in the period during which such assessment is made. When the receivable amount is deemed to be uncollectible, it is written off and the allowance for doubtful accounts is adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written off result in a reduction of operating costs in the consolidated statement of income, comprehensive income and retained earnings. As at December 31, 2013, the allowance for doubtful accounts was $2,191 [2012 – $1,618] and there have been no significant fluctuations in the allowance during the year.

Credit risk associated with accounts receivable and unbilled revenue is as follows:

	2013	2012
Accounts receivable	**$ 72,261**	$ 76,958
Total unbilled revenue	**106,757**	90,003
Less allowance for doubtful accounts	**(2,191)**	(1,618)
	176,827	165,343
Of which:		
Outstanding for 30 days or less	**64,637**	69,595
Outstanding for more than 30 days but not more than 120 days	**5,665**	5,845
Outstanding for 120 days or more	**1,959**	1,518
Unbilled revenue	**106,757**	90,003
Less allowance for doubtful accounts	**(2,191)**	(1,618)
	$ 176,827	$ 165,343

As at December 31, 2013, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties and approximately 10% [2012 – 10%] of the Corporation's accounts receivable was aged more than 30 days. The Corporation's maximum exposure to credit risk is equal to the carrying value of accounts receivable and unbilled revenue less customer deposits held.

(iii) Liquidity risk

Liquidity risk is the risk that the Corporation will not meet its financial obligations as they come due. The Corporation regularly monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and capital investment requirements. The Corporation achieves this objective by ensuring that sufficient facilities, as described in Note 9, are maintained to meet obligations as they come due while minimizing standby fees and interest.

19. FINANCIAL INSTRUMENTS [CONTINUED]

(b) Risk factors [continued]

(iii) Liquidity risk [continued]

Liquidity risks associated with financial commitments are as follows:

	2013		
	Due within 1 year	Due between 1 year and 5 years	Due after 5 years
Bank indebtedness	**8,853**	**$ -**	**$ -**
Accounts payable and accrued liabilities	**132,348**	**-**	**-**
Notes payable			
4.930% senior unsecured debentures, Series 2005-1	**-**	**199,762**	**-**
4.968% senior unsecured debentures, Series 2006-1	**-**	**-**	**49,762**
3.991% senior unsecured debentures, Series 2013-1	**-**	**-**	**148,869**
IGRS promissory note	**340**	**2,020**	**-**
	$ 141,541	**$ 201,782**	**$ 198,631**

20. FINANCING COSTS

	2013	2012
Interest on notes payable	**$ 16,404**	$ 12,593
Short-term interest and fees, net of interest income	**652**	564
Less AFUDC	**(2,411)**	(2,056)
	$ 14,645	$ 11,101

21. PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates. A reconciliation between the statutory and effective tax rates is provided as follows:

	2013	2012
Federal and Ontario statutory income tax rate	**26.50 %**	26.50 %
Income before provision for PILs	**$ 41,958**	$ 40,209
Provision for PILs at statutory rate	**$ 11,119**	$ 10,655
Increase (decrease) resulting from:		
Permanent differences	**1,093**	952
Impact of changes to expected future tax rates on opening temporary differences	**-**	(636)
Regulatory offset to temporary differences and changes in future tax rates	**(3,001)**	(996)
Future tax benefit recognized on actuarial gains (losses) recorded in OPEB deferral account	**495**	(1,319)
Prior year adjustments	**(58)**	412
Tax credits	**(162)**	(249)
Change in valuation allowance	**42**	19
Other	**(118)**	90
	$ 9,410	$ 8,928
Effective income tax rate	**22.43 %**	22.20 %

The Corporation as a rate-regulated enterprise is required to recognize future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future electricity rates.

Provision for PILs consists of the following:

	2013	2012
Current PILs corporate income tax provision	**$ 8,126**	$ 8,257
Future PILs corporate income tax provision		
Future income tax provision before regulatory adjustment	**5,367**	1,632
Regulatory adjustment for the recovery of future income tax provision	**(4,083)**	(961)
	$ 9,410	$ 8,928

21. PAYMENTS IN LIEU OF CORPORATE INCOME TAXES [CONTINUED]

The Corporation's future income tax assets and liabilities are presented on the consolidated balance sheet as follows:

		2013		2012
Assets				
Future income tax assets, current	**$**	**818**	$	628
Future income tax assets, non-current		**19,947**		24,222
		20,765		24,850
Liabilities				
Future income tax liabilities, non-current		**(6,464)**		(5,179)
	$	**14,301**	$	19,671

Significant components of the Corporation's future income tax assets and liabilities are as follows:

		2013		2012
Property, plant and equipment and intangible assets	**$**	**9,844**	$	14,295
Employee future benefits		**3,354**		3,990
Non-capital loss carryforwards		**697**		909
Other temporary differences		**406**		477
	$	**14,301**	$	19,671

The Corporation's regulatory liabilities for the amounts of future income taxes expected to be refunded to customers in future electricity rates are presented on the consolidated balance sheet as follows:

		2013		2012
Regulatory liability for future income tax assets, current	**$**	**818**	$	628
Regulatory liability for future income tax assets, non-current		**19,893**		24,165
	$	**20,711**	$	24,793

The Corporation did not have any unused non-capital tax losses at December 31, 2013 or December 31, 2012. At December 31, 2013, the Corporation had capital losses of $700 [December 31, 2012 – $700] which have not been recognized in the consolidated financial statements.

As at December 31, 2013, Energy Ottawa had corporate minimum tax ['CMT'] carryforwards of nil [2012 – $190].

As at December 31, 2013, PowerTrail had non-capital tax loss carryforwards of $2,627 [2012 – $3,392]. These losses expire between 2026 and 2030.

22. CONTINGENT LIABILITIES

Purchasers of electricity in Ontario, including Hydro Ottawa Limited, through the Independent Electricity System Operator ['IESO'], are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. As at December 31, 2013, the Corporation had drawn standby letters of credit in the amount of $16,000 [2012 – $16,000] against its credit facility to cover its prudential support obligation.

The Corporation participates with other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. The Corporation is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred. If any additional assessments were required in the future, their cost would be charged to income in the year during which they occur.

In December 2012, Hydro Ottawa Limited was charged with five charges under the Occupational Health and Safety Act with respect to an incident occurring on March 22, 2012, which resulted in the fatality of an employee of a third party subcontractor. No charges have been or can be brought against directors, officers or employees arising from this incident. The maximum fine for each count is $500. Hydro Ottawa Limited, through external counsel, is defending the charges. At this time, it is not possible to quantify the effect, if any, of these charges on these consolidated financial statements.

Various lawsuits have been filed against the Corporation for incidents that arose in the ordinary course of business. In the opinion of management, the outcomes of the lawsuits, now pending, are neither determinable nor material. Should any loss result from the resolution of these claims, such losses would be claimed through the Corporation’s insurance carrier, with any unrecoverable amounts charged to income in the year of resolution.

23. COMMITMENTS

Hydro Ottawa Limited has $40,714 in total open commitments, of which $32,312 are for 2014, $6,806 for 2015, $1,552 for 2016, $44 for 2017 and nil for 2018. This includes commitments relating to a customer information system services agreement, construction projects, spare parts and standby equipment and overhead and underground services.

PowerTrail is committed, under a Gas Utilization License of Occupation Agreement with the City of Ottawa, to provide a 5.5% royalty of its gross annual receipts derived from the sale of electricity associated with the use of gas from the Trail Road landfill site through 2024. In exchange, the City of Ottawa provides facilities for the collection and use of gas generated by the Trail Road landfill site.

Moose Creek LP is committed, under a Gas Utilization and Lease Agreement with a third party, to provide a royalty on its gross generation revenues ranging from 4% to 12% through 2033. These royalties are based on certain annual net generation thresholds as defined within the agreement and in 2013 was 6% [2012 – N/A as operations had not yet commenced]. In exchange, the third party provides the use of land for the collection and use of gas generated by the Laflèche landfill site.

23. COMMITMENTS [CONTINUED]

The operating lease obligations of the Corporation are as follows:

2014	$ 101
2015	133
2016	126
2017	118
2018	114
Thereafter	1,566
	$ 2,158

24. RELATED PARTY TRANSACTIONS

The following table provides the transactions entered into with related parties as well as outstanding balances at year end. These transactions occur in the normal course of business, and are transacted at the amount of consideration determined and agreed to by the related parties. Trade amounts due from and to related parties are non-interest bearing, result from normal operations and are due within one year.

	2013		2013	
	Transactions during the year		Balances at year end	
	Sales to related parties	Purchases from related parties	Due from related parties	Due to related parties
City of Ottawa				
Electricity [1]	**$ 33,852**	**$ -**	**$ -**	**$ -**
Commercial energy services [2]	**3,584**	**-**	**-**	**-**
Other services [2]	**7,684**	**-**	**-**	**-**
Fuel, permits and other services [3]	**-**	**1,183**	**-**	**-**
Property taxes [3]	**-**	**2,053**	**-**	**-**
Royalties [3]	**-**	**176**	**-**	**-**
Conservation and demand management initiatives[3]	**-**	**57**	**-**	**-**
Accounts receivable	**-**	**-**	**6,197**	**-**
Accounts payable and accrued liabilities	**-**	**-**	**-**	**268**
	$ 45,120	**$ 3,469**	**$ 6,197**	**$ 268**

[1] Included in power recovery and distribution sales revenue
[2] Included in other revenue and contributions in aid of construction
[3] Included in operating costs

24. RELATED PARTY TRANSACTIONS [CONTINUED]

	2012 Transactions during the year		2012 Balances at year end	
	Sales to related parties	Purchases from related parties	Due from related parties	Due to related parties
City of Ottawa				
Electricity [1]	$ 33,995	$ -	$ -	$ -
Commercial energy services [2]	3,370	-	-	-
Other services [2]	4,017	-	-	-
Fuel, permits and other services [3]	-	730	-	-
Property taxes [3]	-	1,849	-	-
Royalties [3]	-	165	-	-
Conservation and demand management initiatives [3]	-	254	-	-
Accounts receivable	-	-	5,800	-
Accounts payable and accrued liabilities	-	-	-	89
	$ 41,382	$ 2,998	$ 5,800	$ 89
CWPI [January 1, 2012 - November 19, 2012]				
Prepaids	$ -	$ 15	$ -	$ -
Operating and maintenance expenses [3]	-	359	-	-
Property, plant and equipment	-	11	-	-
	$ -	$ 385	$ -	$ -
Total	$ 41,382	$ 3,383	$ 5,800	$ 89

[1] Included in power recovery and distribution sales revenue
[2] Included in other revenue and contributions in aid of construction
[3] Included in operating costs

25. SUBSEQUENT EVENTS

On February 7, 2014, Energy Ottawa's subsidiary Chaudiere Hydro L.P., was granted a forty year Hydroelectric Standard Offer Program – Municipal Stream Contract ['HESOP Contract'] by the OPA to produce renewable waterpower. As a result of this contract, Chaudiere Hydro L.P. will expand its generation facilities increasing Energy Ottawa's total capacity from 38 megawatts to 58 megawatts [‘Chaudiere expansion’]. The Chaudiere expansion will require a significant investment, and have a significant impact on the operations of this entity in the coming years. The anticipated commercial operation date is in the fourth quarter of 2017.

26. COMPARATIVE FIGURES

In certain instances, the 2012 information presented for comparative purposes has been reclassified to conform to the consolidated financial statement presentation adopted for the current year.

Statement of Executive Compensation

The Governance and Management Resources Committee of the Board, made up entirely of independent directors, is responsible for developing and recommending the approval of the compensation framework for the Corporation and each of its subsidiaries.

In developing the compensation framework, the Governance and Management Resources Committee is guided by two principles: the need to provide a total compensation package that will attract and retain qualified and experienced executives, and linking compensation to performance.

Executive compensation is reviewed by the Governance and Management Resources Committee and approved by the Board of Directors. In making its recommendations to the Board, the Committee examines the responsibilities and performance of individual executives, and considers the recommendations of the President and Chief Executive Officer.

In an effort to attract and retain qualified and experienced executives, the Corporation aims to offer a total compensation package that is competitive with other organizations of a similar size and scope. Executive compensation is reviewed on an annual basis and compared to market data, with the assistance of independent consultants, every two to three years to ensure competitiveness. In line with best practices for the sector, as identified by the Ontario Minister of Energy's Agency Review Panel in 2007, Hydro Ottawa applies a 50/50 weighting of market data from public and private comparators. The industry component of the market comparator group has a strong sector affiliation [e.g. Transportation and Utilities sector], and is assessed by revenue levels to ensure comparability.

Total cash compensation for Executives consists of two components*: base salary and an at risk performance incentive. Total cash compensation is benchmarked to companies of comparable size and scope in both the Ontario and national markets, with the target for total cash compensation set at the 50th percentile, or midpoint, of the market.

The at risk performance incentive component is paid on an annual basis, and is expressed as a percentage of base salary. It is designed to retain and motivate executives, to reward them for their performance during the preceding year, and to ensure alignment with shareholder objectives. Payments are based on the achievement of corporate and division objectives, both financial and non-financial, which are established each year by the Board of Directors. Non-financial targets are designed to achieve continuous improvement in relation to a number of strategic objectives including, but not limited to, customer service, operational and organizational efficiency and effectiveness, and service reliability.

Executives participate in a benefits program, which includes extended health care, dental care, basic and optional life insurance, and short-term and long-term disability insurance. This same program is available to all management group employees of the Corporation.

Executives also participate in the OMERS pension plan. This plan is a multi-employer, contributory, defined benefit pension plan established by the Province for employees of municipalities, local boards and school boards in Ontario. Pension benefits are determined by a formula based on the highest consecutive five-year average of contributory earnings and years of service. Pension benefits are indexed to increases in the Consumer Price Index subject to an annual maximum of 6 percent. Both participating employers and participating employees are required to make equal contributions to the plan based on the participating employees' contributory earnings. Earnings for pension purposes are capped based on recent plan changes.

*The total cash compensation for the President and Chief Executive Officer consists of a base salary only.

SUMMARY OF COMPENSATION

Officers of the Corporation

NAME AND PRINCIPAL POSITION[1]	YEAR	BASE SALARY ($)[2]	AT RISK PERFORMANCE INCENTIVE ($)[3]	OTHER COMPENSATION ($)[4]
Bryce Conrad President and Chief Executive Officer	2013 2012 2011	$354,579 $344,230 $112,500[5]	N/A N/A N/A	$35,240 $15,734 $4,557
Geoff Simpson Chief Financial Officer	2013	$63,301[6]	N/A	$3,362
Norm Fraser Chief Operating Officer – Distribution and Customer Service	2013 2012 2011	$216,082 $215,919 $211,346	$73,900 $67,367 $89,629	$8,894 $8,714 $9,058
Gregory Clarke Chief Operating Officer – Generation	2013 2012 2011	$175,116 $174,984 $171,256	$59,890 $52,535 $75,064	$8,687 $9,550 $8,545

1 Officers whose earnings are reported are those who occupied the position at December 31, 2013

2 Amounts shown in this column have been rounded to the nearest dollar

3 Amounts shown in this column reflect the at risk performance incentive for the executive in respect of the achievement of the performance objectives for the previous financial year, paid in the reporting year

4 Amounts in this column include Board approved discretionary payments such as payment of earned and unused vacation credits, car allowance, computer allowance and employer's share of basic life insurance premiums

5 Mr. Conrad assumed the position on August 15, 2011. Had Mr. Conrad been employed for the entire year, his base salary would have been $325,000

6 Mr. Simpson assumed the position on August 6, 2013. Had Mr. Simpson been employed in this position for the entire year, his base salary would have been $172,500

Corporate Governance

Hydro Ottawa is committed to establishing and maintaining leading governance practices for a company of its size and mandate. Because governance standards and best practices are always evolving, the company seeks to continuously improve its governance practices.

Hydro Ottawa Holding Inc. is a private company, incorporated under the *Business Corporations Act* (Ontario). At the same time, the company is wholly owned by the City of Ottawa and fulfills a public mandate, and is therefore mindful of its responsibility to be accountable both to its shareholder and the public. The company's governance practices are guided not simply by legal obligations, but by best business practices and standards established by independent agencies.

While Hydro Ottawa is not a reporting issuer under the Securities Act and is therefore not subject to governance standards that apply to publicly-traded companies, the company is guided by these standards and seeks to meet or exceed them. In addition, Hydro Ottawa regularly compares its governance practices to those of private and public sector organizations, and to standards set by agencies such as the Canadian Securities Administrators and the Ontario Securities Commission.

Governance Structure

Accountability for the effective oversight of the Corporation and its subsidiaries rests with an eleven-member Board of Directors, which provides direction to the Corporation on behalf of the shareholder, the City of Ottawa. The Board provides leadership for the company within a framework of effective controls that enables risks to be assessed and managed, and is responsible for supervising the management of the business and affairs of the company and its subsidiaries. In carrying out its oversight function, the Board of Directors is guided by a Shareholder Declaration issued by Ottawa City Council and revised from time to time. The company's Code of Business Conduct, its Director Conflict of Interest and Conduct Guidelines and a Related Party Transaction Disclosure Policy and Process also govern the actions of the Board.

In 2006, a separate Board of Directors was established to oversee the operations of Hydro Ottawa Limited, in accordance with the Affiliate Relationships Code for Electricity Distributors and Transmitters issued by the Ontario Energy Board. The powers and functions of that Board are set out in a Shareholder Declaration issued by the Hydro Ottawa Holding Inc. Board of Directors. A majority of the members of both Boards are independent of management and the shareholder.

On a day-to-day basis, the Corporation is led by an Executive Management Team, comprising the Corporation's President and Chief Executive Officer, the Chief Financial Officer and the senior executives of the subsidiaries and critical functional areas. This team oversees the alignment of business practices and strategies with the goals of the Corporation, and drives performance by managing risks and opportunities. The Executive Management Team is accountable to the Corporation's Board of Directors through the President and Chief Executive Officer.

Key Governance Processes and Controls

Hydro Ottawa has established a number of leading governance processes and controls to assist the Board and executive management in carrying out their oversight functions.

Risk Management: An extensive, corporate-wide risk management system has been established to track indicative and predictive measures of risk. Risk assessments are included with regular reporting to the Board on all areas of the Corporation's operations.

Internal Audit: Hydro Ottawa conducts a rigorous internal audit program to verify controls and maximize business efficiency and effectiveness. A number of business processes and functions are audited annually based on an audit plan approved by the Board. The use of experienced auditors both internal and external to the Corporation ensures rigour and objectivity.

Business Continuity Plans: Plans are in place to ensure the continuance of critical operations in the event of a major emergency such as a pandemic, and to return the Corporation to normal operations as quickly as possible after such an event. They include detailed strategies for the re-assignment of resources to critical processes, and redundant supply arrangements with critical external suppliers.

Appointments to the Board of Directors

The governance structure for the Corporation (Hydro Ottawa Holding Inc.) and its subsidiaries (Hydro Ottawa Limited and Energy Ottawa Inc.) includes two boards of directors — the Hydro Ottawa Holding Inc. Board and the Hydro Ottawa Limited Board.

In accordance with the terms of the Shareholder Declaration, the City of Ottawa appoints all Directors to the Boards except the President and Chief Executive Officer. In doing so, the City considers candidates recommended by the Nominating Committee of the Board of Hydro Ottawa Holding Inc., but is not obliged to select these candidates. The Nominating Committee is assisted by outside consultants in its search for candidates for appointment to the Boards.

As set out in the Shareholder Declaration, all candidates for appointment to the Boards must meet certain requirements, including demonstrated integrity and high ethical standards, relevant career experience and expertise, and an understanding of the role of Hydro Ottawa both as a service to local ratepayers and an asset of taxpayers.

In addition, the nomination and selection process is designed to maintain a Board that includes the following overarching competencies among one or more directors: strong business background including competitive business experience and strategic planning; a strong financial background including financial accreditation and public or private market financing experience; industry sector experience in the areas of business of the subsidiary companies; board experience; and merger and acquisition experience.

Committees

The following committees were created to help the Boards of Directors carry out their duties. The committees meet regularly and provide feedback on their discussions to their respective Boards.

HYDRO OTTAWA HOLDING INC.

Audit: The Audit Committee reviews financial statements, accounting practices and policies, auditing processes and the results of internal and external audits and related matters. It also oversees financial risk management and assesses internal controls. In 2009, the committee was consolidated with the Audit Committee of Hydro Ottawa Limited to improve the efficiency of committee oversight. Its membership includes representatives of the Board of Directors of Hydro Ottawa Limited.

Governance and Management Resources: The Governance and Management Resources Committee reviews the Corporation's governance structures and practices to ensure that the Board of Directors can fulfill its mandate. It reviews management resources and compensation practices to ensure systems are in place to attract, retain and motivate qualified management employees. It also reviews and assesses the performance of the President and Chief Executive Officer, oversees the Board Assessment process, and monitors compliance with codes of conduct. Its membership includes representatives of the Board of Directors of Hydro Ottawa Limited.

Investment Review: The Investment Review Committee, created by the Board of Directors effective April 2010, is responsible for assisting management and the Board of Directors in the review and pursuit of business development, acquisition and investment opportunities. In carrying out these functions, the Committee focuses on the consistency of opportunities with strategic plans and investment guidelines, the maximization of shareholder value and the management of risk.

Nominating: The Nominating Committee, with the assistance of outside consultants, identifies and evaluates potential candidates for appointment as Directors. The Nominating Committee makes recommendations to the shareholder [represented by Ottawa City Council] for the appointment of directors.

Strategic Initiatives Oversight: The Strategic Initiatives Oversight Committee, created by the Board of Directors effective November 2013, is responsible for assisting the Board of Directors in guiding management and providing support and focus for large-scale capital project efforts as identified by the Board from time to time.

Board and Committee Meeting Attendance

The following tables illustrate the attendance of members at meetings of the Boards of Directors and their committees.

HYDRO OTTAWA HOLDING INC.

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Pierre Richard* (Outgoing Chair)	2/2	7/7
Bryce Conrad (President and CEO)	6/6	N/A
Jim Durrell (Incoming Chair)	6/6	7/8
Dale Craig***	2/3	1/1
Manon Harvey	6/6	7/7
Peter Hume	5/6	1/1
Douglas McLarty	6/6	5/5
Maria McRae	5/6	1/1
Ford Ralph	6/6	7/7
Jim Watson	3/6	3/3
Ken Wigglesworth	6/6	7/7
Carole Workman	6/6	4/4

HYDRO OTTAWA LIMITED

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Pierre Richard* (Outgoing Chair)	2/2	N/A
George Anderson*	2/2	2/2
Bryce Conrad (President and CEO)	6/6	N/A
Jim Durrell** (Incoming Chair)	4/4	N/A
Manon Harvey	6/6	N/A
Kalai Kalaichelvan**	4/4	2/2
Bob Monette	3/6	N/A
Phil Murray	6/6	4/4
Zaina Sovani	5/6	5/5

* Depicts outgoing Board members who departed in June 2013

** Depicts incoming Board members effective July 2013

*** Depicts incoming Board members effective October 2013

Members of the Board of Directors

Hydro Ottawa Holding Inc.*

Jim Durrell, C.M. (Chair)

Bryce Conrad

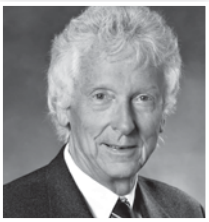
Dale Craig

Manon Harvey

Councillor Peter Hume

Douglas McLarty

Councillor Maria McRae


Ford Ralph

Mayor Jim Watson

Ken Wigglesworth

Carole Workman

Hydro Ottawa Limited*

Jim Durrell, C.M. (Chair)

Bryce Conrad

Manon Harvey

Kalai Kalaichelvan

Councillor Bob Monette

Phil Murray

Zaina Sovani

* As at December 31, 2013.

Note: George Anderson served on the Hydro Ottawa Limited Board of Directors from September 12, 2007 to June 30, 2013. Pierre Richard was first appointed to the Hydro Ottawa Holding Inc. Advisory Board on January 17, 2002, and was appointed to the Hydro Ottawa Holding Inc. Board of Directors on November 1, 2004, where he served as Chair until his departure in June 2013. Pierre was also appointed to the Hydro Ottawa Limited Board of Directors on July 1, 2006, and served as Chair from that time onwards. We wish to convey our sincere appreciation to both of these individuals for their dedicated service.

Glossary of Terms

Electricity Industry

IESO The Independent Electricity System Operator is responsible for day-to-day operation of Ontario's electrical system. It operates the wholesale electricity market, forecasting demand and ensuring an adequate supply to meet that demand.

MDM/R The Meter Data Management and Repository system stores and manages consumption data received from Smart Meters, enabling Time-of-Use billing as part of the provincial Smart Meter Initiative.

OEB The Ontario Energy Board regulates the provincial electricity and natural gas industries in the public interest.

OPA The Ontario Power Authority is responsible for ensuring an adequate long-term supply of electricity for Ontario. It creates and implements conservation and demand management programs, ensures adequate investment in new supply infrastructure, performs long-term electricity system planning, and facilitates the development of a more sustainable and competitive electricity system.

Smart Meters Smart Meters measure and store data about when customers use electricity as the foundation for Time-of-Use billing.

TOU A Time-of-Use rate structure charges customers higher rates for electricity used during peak times of the day and lower rates for off-peak usage.

Internal Systems and Processes

GIS Geographic information systems capture, store, analyze, and display geographically referenced spatial information.

OMS The Outage Management System, when integrated with the GIS (see above) results in a single computerized map of the electricity distribution system to facilitate system planning and outage response.

SCADA Supervisory control and data acquisition refers to large-scale measurement and control systems used to monitor power generation and other distribution processes.

Financial Reporting

AcSB Accounting Standards Board is an independent body with the authority to develop and establish standards and guidance governing financial accounting and reporting in Canada.

CPA Canada Chartered Professional Accountants Canada represents the CPA profession nationally. It supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government, and issues guidance on control and governance.

Pre-changeover Canadian GAAP Pre-changeover Canadian Generally Accepted Accounting Principles are the common set of accounting principles, standards and procedures companies use to prepare their financial statements in Canada before the introduction of IFRS.

IFRS International Financial Reporting Standards are standards and interpretations adopted by the International Accounting Standards Board (IASB). Hydro Ottawa will be required to report under IFRS rather than pre-changeover Canadian GAAP (see above) on January 1, 2015.

Earnings

There are a number of different ways of looking at how much a company earns. The most common is “net income”, but other measurements, such as EBITDA, can be useful in judging the company’s ability to borrow and to expand its business.

EBITDA Earnings Before Interest, Taxes, Depreciation and Amortization is a measure of financial health that helps to show how much money a company generates to pay for its obligations (such as interest on money borrowed and taxes) and fund its future growth (through depreciation and amortization).

Net Income Net income is a company’s total earnings (or profit). It is determined by subtracting expenses and losses from revenues and gains during the period.

Cash Sources and Uses

Operating Operating activities primarily measure the cash-generating abilities of Hydro Ottawa’s core operations rather than its ability to raise capital or purchase assets.

Investing Investing activities relate to Hydro Ottawa’s purchases or sales of capital assets (assets that appear on the balance sheet and have a useful life of more than one year). Capital assets include property, plant and equipment, and intangible assets.

Financing Financing activities result in changes in the size and composition of the Company’s equity capital and borrowings. A major source of cash from financing activities is the money received from long-term bond issuances.

twitter

Hydro Ottawa @hydroottawa 3h
Very nice. RT @judithregion3: just saw hydro Ottawa going down our road. thank you to all the hydro workers helping us this weekend ^mb
Expand

Hydro Ottawa @hydroottawa 4h
Proud of our crews, who had a busy weekend restoring 15K people in Peterborough area affected by last Friday's storm. ow.ly/i/1TvRE

Hydro Ottawa @hydroottawa 4h
Nice! RT @markjhaug: SHOUT OUT to Hydro Ottawa for driving 9 trucks and people down to help @Pto_Canada #blessyou pic.twitter.com/9J2D76JpbT
View photo

Hydro Ottawa @hydroottawa 4h
RT @caltek79: Drove past 12+ Hydro Ottawa vehicles heading west on Fleming Drive. Help has arrived for those still without power. #onstorm

Hydro Ottawa Holding Inc.
3025 Albion Road North
PO Box 8700
Ottawa, Ontario K1G 3S4
Tel (613) 738-5499
Fax (613) 738-6402
www.hydroottawa.com

30% Post-Consumer Waste

RATING AGENCY REPORTS

Attachment A-4(D) is the current "Rating Report" for Hydro Ottawa Holding Inc. issued in May 2014 by Dominion Bond Rating Service.

Attachment A-4(E) is the current "Rating Report" for Hydro Ottawa Holding Inc. issued in December 2014 by Standard & Poor's.

Rating Report

Report Date:
May 12, 2014

Previous Report:
May 21, 2013

Hydro Ottawa Holding Inc.

Analysts

Tom Li
+1 416 597 7378
tli@dbrs.com

Eric Eng, MBA
+1 416 597 7578
eeng@dbrs.com

James Jung, CFA, FRM, CMA
+1 416 597 7577
jjung@dbrs.com

The Company

Hydro Ottawa Holding Inc. is a holding company that wholly owns the following subsidiaries: (1) Hydro Ottawa Limited (the LDC), a regulated electricity distributor (Hydro Ottawa's primary business); (2) Energy Ottawa Inc., a non-regulated power generation company also involved in energy management services; and (3) Telecom Ottawa Holding Inc.

Hydro Ottawa Holding Inc. is wholly owned by the City of Ottawa.

Rating

Debt	Rating	Rating Action	Trend
Senior Unsecured Debt	A	Confirmed	Stable
Issuer Rating	A	Confirmed	Stable

Rating Update

DBRS has confirmed the Issuer Rating and the Senior Unsecured Debt rating of Hydro Ottawa Holding Inc. (Hydro Ottawa or the Company) at "A," both with Stable trends. The ratings reflect the Company's reasonable financial risk profile as well as the low business risk associated with its regulated electricity distribution business. However, DBRS is concerned over rising earnings and cash flows contributed from the higher risk non-regulated segment. Hydro Ottawa's business risk profile could be negatively affected should non-regulated earnings exceed the 20% threshold for the current rating category (18.4% of 2013 EBIT).

Hydro Ottawa's business risk profile of "A" is supported by the reasonable regulatory framework in Ontario and the relatively stable earnings and cash flows from the Company's regulated operations (approximately 82% of 2013 EBIT). Hydro Ottawa currently operates under the 3rd Generation Incentive Rate Mechanism (IRM) but is expected to transition to 4th Generation Incentive Rate-setting (IR) or to Custom IR under the Ontario Energy Board's (OEB) Renewed Regulatory Framework. DBRS views the regulatory risk under the renewed framework as modestly higher than under IRM as the longer minimum term (four plus years versus three years) could potentially result in greater regulatory lag. This risk is partially mitigated by the ability of Hydro Ottawa to initiate a regulatory review if actual return on equity (ROE) is 300 basis points (bps) below the approved ROE.

Hydro Ottawa's exposure to non-regulated earnings increased significantly in 2013, following the acquisition of three hydroelectric plants and a further 38.3% interest in the Ring Dam at Chaudière Falls (total Hydro Ottawa ownership: 67%) in late 2012. Earnings and cash flows from this segment are considered more volatile because of the greater associated volume risk. Commodity price risk for the Company is minimal as it has been mitigated through long-term fixed-price contracts with a creditworthy counterparty. However, increasing exposure to non-regulated operations remains a concern.

Hydro Ottawa's financial risk profile is in the "A" rating range, supported by a reasonable balance sheet and strong credit metrics. All three of the Company's key ratios weakened slightly in 2013 as a result of a considerable increase in debt to $410 million from $329 million in 2012. Although the Company's debt-to-capital ratio may further deteriorate during this period of high capex in order to enhance the reliability of the system and expand generation capacity at Chaudière Falls (see DBRS press release, DBRS Comments on Hydro Ottawa's Expansion at Chaudière Falls, dated March 7, 2014), DBRS expects Hydro Ottawa to continue to have reasonable financial flexibility for the current rating category going forward.

Rating Considerations

Strengths
(1) Stability from regulated business
(2) Strong franchise area
(3) Long-term contracts in non-regulated generation

Challenges
(1) Higher risk non-regulated business
(2) Large capital expenditures
(3) Unable to access equity markets

Financial Information

Hydro Ottawa Holding Inc. (CA$ millions)	For the year ended December 31 2013	2012	2011	2010	2009
Total debt	410	329	252	252	252
Total debt in capital structure (1)	51.6%	47.3%	41.7%	42.4%	43.4%
Cash flow/Total debt (1)	17.8%	21.0%	29.1%	28.5%	28.2%
EBIT gross interest coverage (times) (1)	3.52	4.16	3.85	4.49	4.51
Net income before extraordinary items	33	32	29	30	29
Cash flow from operations	73	69	73	72	71

(1) Includes operating leases.

Rating Considerations Details

Strengths

(1) **Stability from regulated business.** Approximately 82% of the Company's EBIT is contributed by its low-risk regulated distribution business, which operates under a reasonable regulatory framework. Earnings and cash flows have also been relatively stable, underpinned by a reasonable allowed ROE (9.42% for 2013) and full and timely recovery of purchased power costs.

(2) **Strong franchise.** Hydro Ottawa is one of the largest municipally owned local distribution companies in Ontario, serving the densely populated areas within the City of Ottawa and the Village of Casselman. The majority of Hydro Ottawa's electricity sales are to residential customers, the federal government, and the municipalities, universities, schools and hospitals (MUSH) sector, which have relatively stable year-over-year demand as they are less sensitive to economic cycles.

(3) **Long-term contracts for non-regulated power generation.** Although Hydro Ottawa's non-regulated power generation business provides opportunities for earnings growth, it also entails higher business risk than the regulated distribution business. However, commodity price risk is mitigated by long-term contracts with creditworthy counterparties, such as the Ontario Power Authority (rated A (high)).

Challenges

(1) **Increasing exposure to higher risk non-regulated business.** DBRS considers the non-regulated business as higher risk than Hydro Ottawa's core regulated electricity distribution business. This is largely due to the greater volume risk associated with non-regulated operations. Although commodity price risk has been mitigated through long-term contracts, increasing exposure to the non-regulated segment could result in greater volatility in the Company's earnings and cash flows going forward.

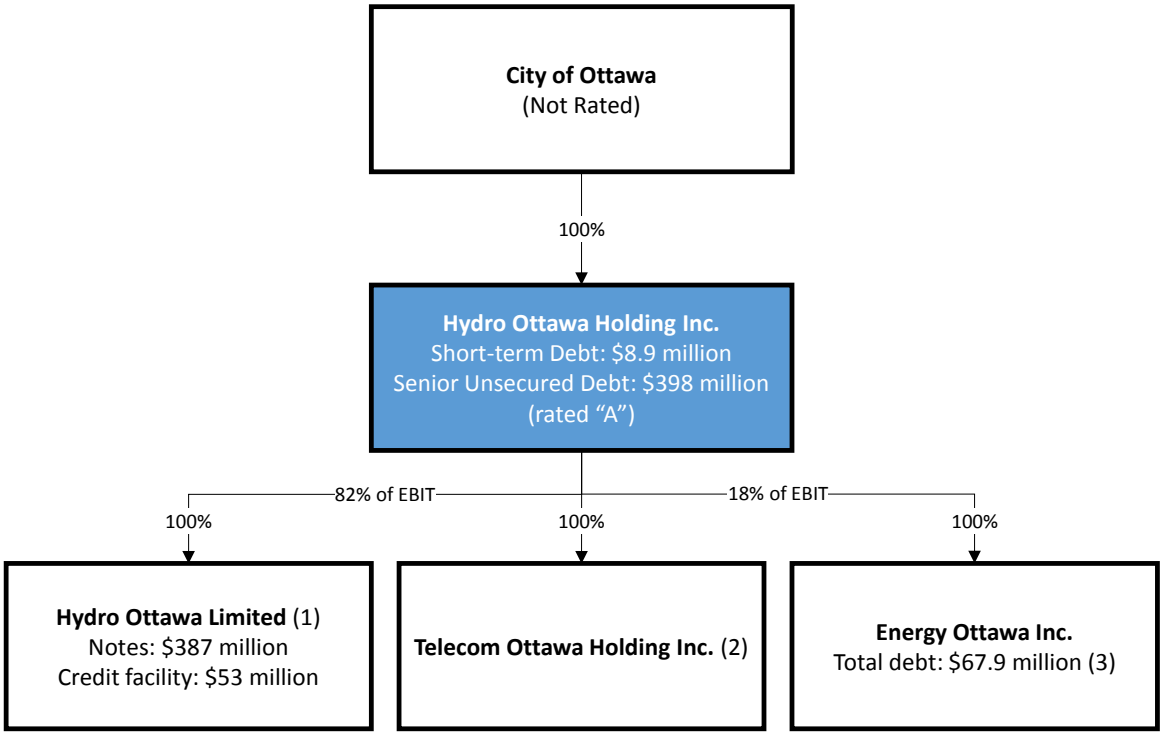
(2) **Large capital expenditures.** The company is in the midst of major capex programs to 1) enhance the reliability of the system and meet growing demographic demands and 2) to construct a new 29-megawatt (MW) facility at Chaudière Falls. This is expected to result in the Company continuing to generate free cash flow deficits over the medium term.

(3) **No access to the equity markets.** Hydro Ottawa's ownership structure (100% owned by the City of Ottawa) limits its ability to directly access the equity markets. As a result, Hydro Ottawa's cash flow deficits are being financed largely through its revolving credit facilities and debt issuances.

Hydro Ottawa Holding Inc.

Report Date:
May 12, 2014

Corporate Structure



(1) The debt at Hydro Ottawa Limited is owed to Hydro Ottawa Holding Inc., mostly in the form of promissory notes.
(2) Telecom Ottawa Holding Inc. does not maintain active operations.
(3) $65.6 million was owed to Hydro Ottawa Holding Inc., and $2.4 million (non-interest bearing) was owed to Integrated Gas Recovery Services Inc.

Hydro Ottawa Holding Inc.

Report Date:
May 12, 2014

Earnings and Outlook

(Consolidated)	For the year ended December 31				
(CA$ millions)	**2013**	**2012**	**2011**	**2010**	**2009**
Net revenues	976.4	900.8	840.1	799.6	754.7
Net sales	211.2	193.2	179.6	179.1	170.5
EBITDA	98.0	89.5	93.9	100.9	98.7
EBIT	57.7	52.4	48.5	56.5	56.7
Gross interest expense	16.4	12.6	12.6	12.6	12.6
Net income before non-recurring items	32.9	31.6	29.1	29.9	29.3
Reported net income	32.1	31.0	26.3	31.2	29.4
Return on equity	8.8%	8.8%	8.4%	8.9%	9.0%
Regulated rate base	669	669	546	546	546
Approved regulated return on equity	9.42%	9.42%	8.57%	8.57%	8.57%
Actual regulated return on equity	9.44%	10.19%	9.08%	10.33%	10.70%

EBIT by subsidiary (estimate)

(CA$ millions)	**2013**	**2012**	**2011**	**2010**	**2009**
Hydro Ottawa Limited	47.9	48.0	53.0	53.6	48.5
Energy Ottawa Inc.	10.8	4.7	5.7	4.1	4.9
Telecom Ottawa Holdings Inc.	0.0	0.0	0.0	0.3	0.3
	58.7	52.7	58.7	57.9	53.7
Hydro Ottawa Holdings Inc. (non-cons.)	(1.0)	(0.3)	(2.7)	(1.2)	(2.7)
Hydro Ottawa Holdings Inc. (consolidated)	57.7	52.4	56.0	56.7	51.1

2013 Summary

- Hydro Ottawa's earnings improved modestly over 2013 as a result of stronger results from its non-regulated operations. Earnings from the regulated electricity distribution segment were largely in line with 2012 earnings.
- Non-regulated earnings at Energy Ottawa Inc. benefitted from commercial operations commencing at a landfill gas-to-energy plant at the Laflèche landfill, and from a full year's impact of acquiring the three hydro-electric plants operating at Chaudière Falls from Domtar Inc.
- Net income increased as a result of higher earnings from non-regulated operations, offset by increased interest expenses from larger consolidated debt.
- As a result, non-regulated operations increased to 18.4% of EBIT from 9.0% in 2012.

2014 Outlook

- Hydro Ottawa's earnings are expected to be slightly more volatile as a result of the Company's greater exposure to non-regulated operations.
- Earnings from the non-regulated generation business are typically more volatile as this sector is subject to greater volume risk.
- The regulated distribution business is expected to continue to provide relatively stable earnings.
- Going forward, DBRS expects the distribution segment to continue to contribute at least 80% of Hydro Ottawa's earnings. However, should non-regulated earnings exceed the 20% threshold for the current rating category, the Company's business risk profile could be negatively affected.

Hydro Ottawa Holding Inc.

Report Date:
May 12, 2014

Financial Profile

(Consolidated)	For the year ended December 31				
(CA$ millions)	**2013**	**2012**	**2011**	**2010**	**2009**
Net income before non-recurring items	32.9	31.6	29.1	29.9	29.3
Depreciation & amortization	40.3	37.1	45.4	44.4	42.0
Deferred income taxes and other	(0.3)	0.5	(1.1)	(2.0)	0.2
Cash flow from operations	73.0	69.2	73.5	72.2	71.5
Dividends paid	(18.6)	(16.6)	(17.5)	(17.6)	(17.2)
Capital expenditures	(113.9)	(96.4)	(78.0)	(60.7)	(59.0)
Free cash flow (bef. working cap. changes)	(59.6)	(43.8)	(22.0)	(6.1)	(4.7)
Changes in working capital	(23.5)	11.6	26.0	(2.1)	(16.2)
Net free cash flow	(83.1)	(32.2)	4.0	(8.1)	(20.9)
Acquisitions & long-term investments	0.0	(46.3)	0.0	0.0	0.0
Net equity change	1.0	0.0	0.0	0.0	0.0
Net debt change (2)	71.1	2.6	(0.2)	0.2	0.0
Other financing	2.2	(1.3)	(0.9)	4.4	2.8
Change in cash (2)	(8.9)	(77.4)	2.9	(3.5)	(18.2)
Total debt	410	329	252	252	252
Total debt in capital structure (1)	51.6%	47.3%	41.7%	42.4%	43.4%
Cash flow/Total debt (1)	17.8%	21.0%	29.1%	28.5%	28.2%
EBIT gross interest coverage (times) (1)	3.52	4.16	3.85	4.49	4.51
Dividend payout ratio	56.5%	52.5%	60.1%	58.9%	58.6%

(1) Includes operating leases. (2) Adjusted for bank indebtedness.

2013 Summary

- Hydro Ottawa's credit metrics weakened as a result of the higher debt level in 2013. However, the Company's key ratios remain commensurate with the current rating.
- Cash flow from operations improved as a result of stronger earnings in the unregulated business.
- Dividends of $18.6 million were in line with the Company's dividend policy. Hydro Ottawa pays dividends equal to the greater of $14 million or 60% of the previous year's net income.
- The Company generated a significant negative free cash flow largely because of the high level of capex needed in the regulated distribution business to sustain the reliability of the system. This deficit was largely funded through incremental debt.

2014 Outlook

- DBRS expects cash flow from operations to be slightly more volatile as a result of the Company's greater exposure to non-regulated operations.
- DBRS anticipates elevated capex in 2014 as the Company continues to invest in renewing the infrastructure of the distribution system and begins construction on the new facility at Chaudière Falls.
- Free cash flow deficits are expected to persist over the medium term during this period of high capex. Free cash flow is also restricted by the Company's dividend policy. DBRS expects Hydro Ottawa to fund these deficits in a prudent manner in order to maintain key credit metrics in line with the current rating category.

Liquidity, Bank Lines and Long-Term Debt Maturities

Liquidity

Credit facilities as at Dec. 31, 2013

(CA$ millions)	Amount	Drawn	Available	Expiry
364-day revolving operating credit line	75.00	4.95	70.05	02-Aug-14
Revolving credit line	100.00	-	100.00	02-Aug-15
Letters of credit and other guarantees	17.50	16.00	1.50	
Commercial card facility	1.00	-	1.00	
Total consolidated credit facilities	**193.50**	**20.95**	**172.55**	

- Hydro Ottawa's liquidity remained reasonable, reflecting stable cash flows and available credit facilities.
- DBRS believes that the Company's liquidity is sufficient to finance its capex and working capital needs.
- Hydro Ottawa renewed its credit facility in 2013, cancelling its $0.15 million corporate Visa facility. The current facility is made up of the following four types of credit availability:
  - $75 million 364-day revolving operating line.
  - $100 million two-year revolving line to fund capex and growth opportunities.
  - $17.5 million line to fund letters of credit and other guarantees.
  - $1 million commercial card facility.
- The credit facility contains customary covenants and events of default, including a covenant to maintain the consolidated tangible net worth in excess of $175 million at all times. It also requires the debt-to-capitalization ratio to be at or below 75% on a consolidated basis.

Long-Term Debt

Long-Term Debt Maturity as at Dec. 31, 2013

(CA$ millions)	Amount	Rate	Maturity
Senior Unsecured Debentures, Series 2005-1	199.76	4.9%	Feb. 2015
Senior Unsecured Debentures, Series 2006-1	49.76	5.0%	Dec. 2036
Senior Unsecured Debentures, Series 2013-1	148.87	4.0%	May 2043
Total	**398.39**		

- On May 14, 2013, Hydro Ottawa issued $150 million of Senior Unsecured Debentures (Series 2013-1 debentures) maturing on May 14, 2043, with an interest rate of 3.991% per annum. The net proceeds from the Series 2013-1 debentures were used to refinance its credit facilities and for general corporate purposes, including capex requirements.
- The trust indenture contains the following covenants for the Series 2005, Series 2006, and Series 2013 debentures:
  - Any additional indebtedness is subject to a 75% capitalization ratio test.
  - Negative pledge clause.
  - Restrictions on asset sales and amalgamations.
- An Integrated Gas Recovery Services Inc. (IGRS) promissory note of $3.1 million was issued by PowerTrail Inc. to fund the construction of the gas collection and generation plant at the Trail Road landfill site. The note is unsecured and non-interest bearing. Hydro Ottawa repaid $0.42 million in 2013 and intends to pay an additional $0.34 million in 2014. IGRS does not intend to call the remaining $2.02 million this year.
- DBRS expects re-financing risk on the Company's Series 2005-1 debentures maturing in 2015 to be manageable.

Regulation

- Hydro Ottawa Limited (the LDC; a regulated subsidiary of Hydro Ottawa) is regulated by the OEB under *the Ontario Electricity Act, 1998.*
- The LDC currently operates under the 3rd Generation IRM framework and is subject to a formula price cap that allows for an annual increase in distribution rates based on inflation less a productivity factor, which can be reset annually.
- Under the IRM framework, if the LDC's actual rate of ROE is 300 bps above or below the allowed ROE, the OEB will undertake a review, and earnings above 300 bps may be shared with customers.
- The IRM framework also allows the Company to file under the Incremental Capital Module (ICM) during the IRM period if the capex was material and determined to be necessary and prudently spent.
- The LDC is allowed to fully recover its purchased power costs (except doubtful accounts on power cost, which are manageable) in a timely fashion, eliminating its exposure to power price risk. DBRS views this as a positive factor in the current regulatory system in Ontario.
- Additionally, the LDC is allowed to file a Cost of Service (COS) application, which is expected every four years.
- In the rebasing year, subject to the OEB's approval, the LDC could be allowed to add prudently incurred capex that was already spent during the IRM period to its rate base. The Company last rebased in 2012.
- Beginning in January 2012, the OEB approved the following: ROE at 9.42%, deemed equity at 40% (both of which are reasonable), and the rate base of $669 million. The OEB also allowed the LDC to invest appropriate capital amounts.
- In August 2013, the LDC filed an IRM application for 2014 electricity distribution rates, effective for January 1, 2014. The LDC proposed 2014 rates to be adjusted by a price cap adjustment and to include rate riders for deferral/variance account disposition, and for the derecognition of assets in the transition to IFRS.
- In December 2013, the OEB approved a price cap adjustment of 1.4%, which includes an inflation factor of 1.7% less a productivity factor of 0% and a stretch factor of 0.3%. DBRS views the price cap adjustment as reasonable. The OEB also approved the LDC's request for the disposition of certain deferral/variance accounts over a one-year period from January 1, 2014, to December 31, 2014. However, the OEB did not approve the creation of a new variance account for the purpose of recording the costs of assets derecognized following the change in accounting standards.
- The regulatory framework for electricity distribution companies in Ontario will change from the current IRM framework to the Renewed Regulatory Framework. DBRS expects the LDC to either transition to 4th Generation IR following the next rebasing year (expected to be in 2016) or apply for the Custom IR framework.
- The chart below reflects DBRS's assessment of the current regulatory environment for Hydro Ottawa based on DBRS's methodology.

Criteria	Score	Analysis
(1) Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows the LDC to have a deemed equity of 40%, which is consistent with the other electricity distribution companies in Ontario. As a result of the need to maintain the regulatory capital structure, Hydro Ottawa's leverage has been in line with the "A" rating range.
(2) Allowed ROE	Excellent **Good** Satisfactory Below Average Poor	The LDC has an allowed ROE of 9.42% for 2014. The difference in ROE between Hydro Ottawa and other distribution companies is mainly due to the timing of the regulatory filings and the interest environment prevalent at that time.

(3) Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk for Hydro Ottawa Limited as it is not responsible for purchasing power from generation facilities or the wholesale market. Power costs are passed on to rate payers at rates set by the OEB, and Hydro Ottawa Limited collects the payments from its customers on a monthly basis.
(4) Capital Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Under IRM, Some capital costs are pre-approved at the time of the COS application. Subsequent capital spending after the base year will not be approved until the next rate application and approval of the rate base. If incremental capital costs are significant, non-discretionary and prudent, Hydro Ottawa can file under ICM to request for the recovery of the costs.
(5) COS Versus IRM	Excellent Good **Satisfactory** Below Average Poor	Hydro Ottawa is regulated under an IRM framework, with three years in between the COS rebasing year. Hydro Ottawa rebased in 2012 and was allowed to recover prudently spent capex from 2008 to 2011. In 2013, Hydro Ottawa returned to the IRM. During the IRM period, Hydro Ottawa can also file under the ICM if there are significant, non-discretionary and prudent incremental capital needs between rebasing years. DBRS notes that efficiency targets have been reasonable for Hydro Ottawa. Going forward, DBRS expects the Company to remain on IRM for the remaining term and rebase under 4th Generation IR, or apply for Custom IR under the Renewed Regulatory Framework.
(6) Political Interference	Excellent Good Satisfactory **Below Average** Poor	The government of Ontario plays a significant role in the electricity sector in Ontario, given that the majority of the utilities are government owned (Hydro Ottawa is owned by the City of Ottawa). Further, stakeholders, such as the Ontario Power Authority (rated A (high)) and the Independent Electricity System Operator, are also government owned. As a result, the government has direct and indirect influence in Ontario's electricity industry.
(7) Retail Rate	Excellent Good **Satisfactory** Below Average Poor	The cost of power in Hydro Ottawa's service territory is set by the OEB. On average, electricity prices for Hydro Ottawa's residential customers are around 13.5 cents per kilowatt hour. This is comparable with other service territories in Ontario.
(8) Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Minimal stranded costs exist in the Ontario market. DBRS notes that the recovery of the costs is also subject to some regulatory lag. Although stranded costs have been fully recovered in the past years, assets could potentially be written down if the OEB does not approve the recovery of the costs.

(9) Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	Distribution rates were frozen for a short time in the early 2000s, but this did not have a material impact on Hydro Ottawa's financial profile. Since distribution costs represent approximately 20% of a customer's overall electricity bill, an increase in rates would have a greater nominal impact on customers' bills. This could increase the risk of potential rate freezes.
(10) Market Structure (Deregulation)	Excellent **Satisfactory** Poor	Following the restructuring of Ontario Hydro in 1999, Ontario's electricity market became partially deregulated, specifically for the generation segment. Distribution (including Hydro Ottawa) and transmission remains fully regulated under the OEB. DBRS notes that no single utility in Ontario is fully integrated.

Hydro Ottawa Holding Inc.

Report Date:
May 12, 2014

Hydro Ottawa Holding Inc.

Balance Sheet (CA$ millions)	Dec. 31 2013	Dec. 31 2012	Dec. 31 2011		Dec. 31 2013	Dec. 31 2012	Dec. 31 2011
Assets				**Liabilities & Equity**			
Cash & equivalents	0	0	3	S.T. borrowings	9	77	0
Accounts receivable	70	75	65	Accounts payable	132	133	123
Inventories	0	0	0	Current portion L.T.D.	0	1	0
Prepaid expenses & other	113	97	99	Other current liab.	20	23	11
Total Current Assets	183	172	167	**Total Current Liab.**	162	234	134
Net fixed assets	726	670	589	Long-term debt	400	251	252
Future income tax assets	20	24	25	Provisions	9	11	9
Goodwill & intangibles	66	52	25	Deferred income taxes	6	5	4
Investments & others	13	8	9	Other L.T. liab.	46	56	61
				Shareholders' equity	384	368	353
Total Assets	1,008	926	814	**Total Liab. & SE**	1,008	926	814

Balance Sheet & Liquidity & Capital Ratios	For the year ended December 31 2013	2012	2011	2010	2009
Current ratio	1.13	0.73	1.25	1.45	1.35
Total debt in capital structure	51.6%	47.3%	41.7%	42.3%	43.2%
Total debt in capital structure (1)	51.6%	47.3%	41.7%	42.4%	43.4%
Cash flow/Total debt	17.8%	21.0%	29.1%	28.6%	28.4%
Cash flow/Total debt (1)	17.8%	21.0%	29.1%	28.5%	28.2%
(Cash flow-dividends)/Capex (times)	0.48	0.55	0.72	0.90	0.92
Dividend payout ratio	56.5%	52.5%	60.1%	58.9%	58.6%
Coverage Ratios (times)					
EBIT gross interest coverage	3.52	4.16	3.86	4.49	4.52
EBIT interest coverage (1)	3.52	4.16	3.85	4.49	4.51
EBITDA gross interest coverage	5.97	7.11	7.47	8.02	7.86
Fixed-charge coverage	3.52	4.16	3.86	4.49	4.52
Profitability Ratios					
EBITDA margin	46.4%	46.3%	52.3%	56.3%	57.9%
EBIT margin	27.3%	27.1%	27.0%	31.5%	33.3%
Profit margin	15.6%	16.4%	16.2%	16.7%	17.2%
Return on equity	8.8%	8.8%	8.4%	8.9%	9.0%
Return on capital	5.8%	6.0%	6.2%	6.4%	6.4%

(1) Includes operating leases.

Hydro Ottawa Holding Inc.

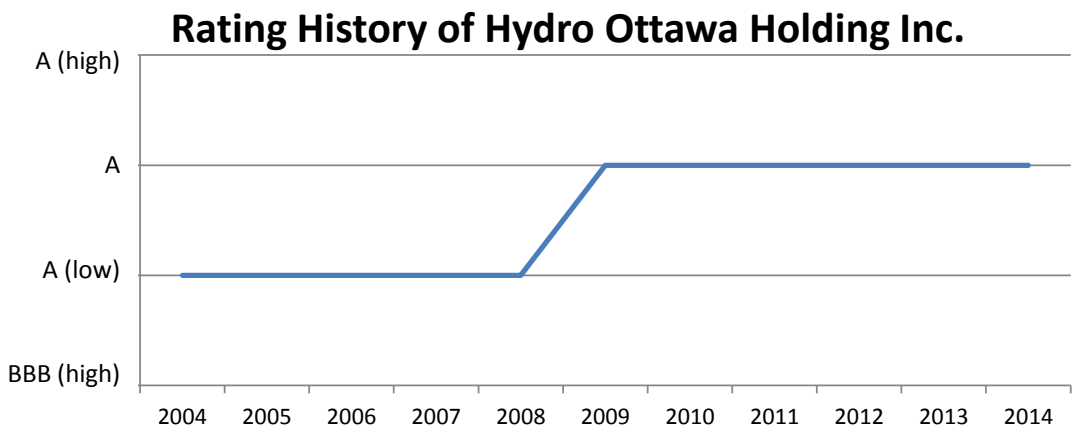
Report Date:
May 12, 2014

Rating

Debt	Rating	Rating Action	Trend
Senior Unsecured Debt	A	Confirmed	Stable
Issuer Rating	A	Confirmed	Stable

Rating History

	Current	2013	2012	2011	2010	2009
Senior Unsecured Debt	A	A	A	A	A	A
Issuer Rating	A	A	A	NR	NR	NR



Note:
All figures are in Canadian dollars unless otherwise noted.

Copyright © 2014, DBRS Limited, DBRS, Inc. and DBRS Ratings Limited (collectively, DBRS). All rights reserved. The information upon which DBRS ratings and reports are based is obtained by DBRS from sources DBRS believes to be accurate and reliable. DBRS does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. Ratings and other opinions issued by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness or recommendations to purchase, sell or hold any securities. A report providing a DBRS rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS receives compensation for its rating activities from issuers, insurers, guarantors and/or underwriters of debt securities for assigning ratings and from subscribers to its website. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT http://www.dbrs.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON http://www.dbrs.com.

STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

Research

Summary:

Hydro Ottawa Holding Inc.

Primary Credit Analyst:
Stephen R Goltz, Toronto (416) 507-2592; stephen.goltz@standardandpoors.com

Secondary Contact:
Andrew Ng, Toronto (416) 507-2545; andrew.ng@standardandpoors.com

Table Of Contents

Rationale

Outlook

Standard & Poor's Base-Case Scenario

Business Risk

Financial Risk

Liquidity

Government Influence

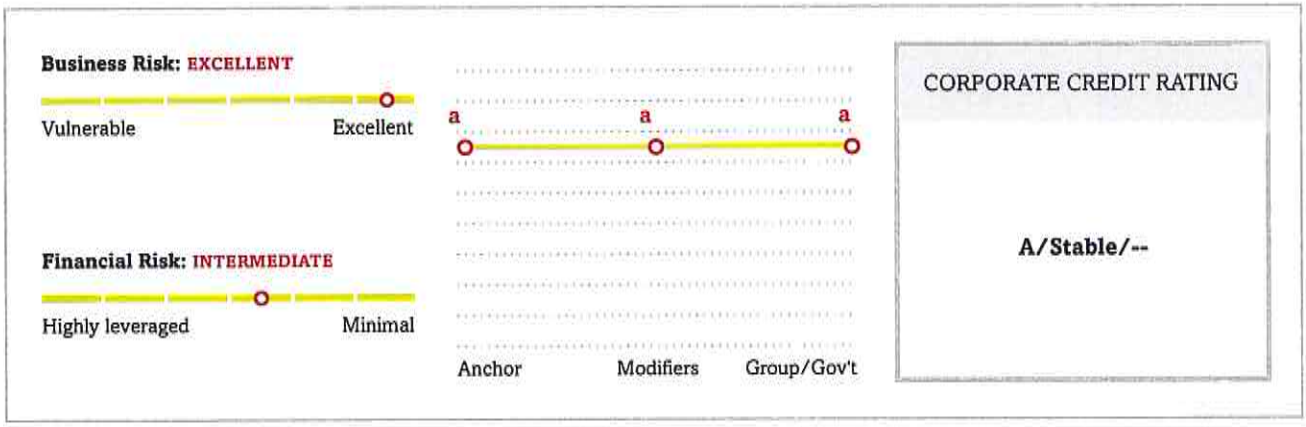
Ratings Score Snapshot

Related Criteria And Research

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page.

Summary:

Hydro Ottawa Holding Inc.



Rationale

Business Risk: Excellent	Financial Risk: Intermediate
• A relatively transparent and predictable regulatory regime • Passed-through commodity costs • The ability to recover all prudently spent fixed and variable operating costs • A well-diversified local economy • Expansion in unregulated operations (hydroelectric power generation) increases business risk	• Stable, regulated cash flow • Large upcoming capital program, especially with the Chaudière Falls expansion project • Volume risk and volatility in cash flows associated with unregulated hydroelectric power generation • "Low" likelihood of extraordinary support from its municipal government shareholder

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page1373412 | 300642892

Outlook: Stable

The stable outlook reflects Standard & Poor's Ratings Services' expectation that Hydro Ottawa Holdings Inc. (HOHI) will continue to generate stable and predictable cash flow from its regulated electricity distribution business during our two-year outlook horizon. In addition, we expect the company will continue to focus on its regulated operations and remain contained in its unregulated power business.

Downside Scenario

Although we do not expect a downgrade during the outlook horizon, we could lower the rating on HOHI if the company continues to expand its unregulated power business, resulting in 20% or higher of unregulated EBITDA in proportion to regulated EBITDA, increasing HOHI's overall business risk. We expect HOHI to continue focusing on its regulated electricity distribution operations. In addition, any material adverse regulatory decisions, substantial delays or additional capital required for the new Chaudière Falls project, or other changes that we believe might lead to significant and sustained increase in leverage resulting in deterioration of adjusted funds from operations (AFFO)-to-debt below 13% could lead to a downgrade. In the event of a cash flow shortfall, we expect the company to decrease its capital spending or suspend dividend payments to preserve credit metrics.

Upside Scenario

An upgrade would require HOHI to demonstrate sustainable long-term financial growth or to improve its financial position, resulting in AFFO-to-debt of 23%-25%. However, we believe this is highly unlikely, given the company's heavy capital spending in the next few years.

Standard & Poor's Base-Case Scenario

HOHI is an Ontario-based local electricity distribution company operating in Ottawa. The rating's key driver continues to be the Ontario Energy Board's (OEB) regulatory framework and the utility's performance within it.

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page1373412 | 300642892

Assumptions

- The regulatory structure will be relatively stable, and HOHI will not experience any material, adverse regulatory decisions
- HOHI will continue to earn close to its allowed return on equity of 9.42% established in 2012 by the OEB based on its deemed capital structure
- Distribution rates for 2014 and 2015 will be set based on the fourth-generation incentive rate-making mechanism (IRM)
- The OEB has approved HOHI to raise its distribution rate by 1.40% (1.70% inflation rate, 0.30% stretch factor) for 2015
- HOHI will file for a cost-of-service application in 2015 to re-base its distribution rates using the new IRM from 2016 through 2020
- Capital expenditures of approximately C$100 million in each of 2015 and 2016 for the regulated electricity distribution business
- The Chaudière Falls expansion project will cost approximately C$160 million. There will be no material delay and cost overruns. The new facility will commission in late 2017 or early 2018. The cash flows and debt from this project are consolidated to those of HOHI

Key Metrics

	2013A	2014E	2015E
AFFO/debt	17.2%	14%-17%	12%-14%
Debt-to-debt and equity	52.3%	53%-58%	56%-61%

AFFO--Adjusted funds from operations. A--Actual. E--Estimated.

Business Risk: Excellent

In our view, HOHI's business risk profile is "excellent," reflecting our assessment of the regulatory structure provided by the OEB. The OEB continues to provide a transparent, consistent, and independently operated regulatory framework that supports a stable and predictable cash flow model, which we view as a key credit strength. Historically, electricity rates are established under a cost-of-service framework, with rates for the subsequent three years under an IRM. In 2012, the OEB proposed additional alternatives to electricity rate setting. We expect HOHI will adapt the IRM method to reflect the revenue requirement based on the large multiyear capital programs the company is committed to in the next few years. HOHI's most recent cost-of-service hearing was in 2012; the next one and a rate base reset are scheduled in 2016. The regulatory framework also limits the utility's exposure to commodity risk and associated cash flow volatility because the tariff structure allows the cost of electricity to flow through directly to customers. The tariff structure also allows the utility operator to recover prudently spent operating costs, capital expenditures, or other unexpected material losses in a timely manner.

Further supporting the excellent business risk profile is HOHI's large and diverse customer base with no meaningful

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page1373412 | 300642892

concentration risk. Residential customers account for approximately 80% of HOHI's customers and 55% of HOHI's distribution revenue. In our view, this customer profile is less sensitive to macroeconomic stress and business cycles. Nevertheless, the residential customer base has some sensitivity to volume fluctuations, primarily weather-driven, although we do not believe the fluctuations would pressure credit metrics for the rating. We do not expect HOHI's customer composition to change materially in the next two years.

Aside from the regulated electricity distribution business, HOHI also operates an unregulated power business via one of its subsidiaries, Energy Ottawa Inc.. Currently, the unregulated business accounts for approximately 15% of HOHI's consolidated EBITDA and revenue. We do not expect this to change in the next two years. However, when the Chaudière Falls expansion project commissions in late 2017 or early 2018, cash flow (EBITDA) contribution from the unregulated business could account for about 20% of HOHI's overall EBITDA.

We expect HOHI will not pursue further unregulated business and that the 20% unregulated EBITDA contribution will decrease gradually as HOHI's regulated business continues to grow. Therefore, we continue to use the low-volatility table for HOHI and to maintain its current business risk profile with the assumption that unregulated EBITDA will peak near 20% in 2018 when the Chaudière project commissions, and will gradually decrease.

Financial Risk: Intermediate

Our view of HOHI's financial risk profile is "intermediate". We use the low-volatility table, reflecting the stability and predictability with regulated utilities and the supportive regulatory framework. We expect HOHI will continue generating stable cash flow, a key credit strength. It has large capital programs, including replacement of aging infrastructure and expansion of the Chaudière Falls renewable power generation in the next few years, and relies on the combination of internally generated funds and external debt to fund these capital expenditures.

HOHI plans to externally finance the Chaudière Falls expansion and we have consolidated the debt and cash flow from the project into the company per our ratios and adjustments criteria. Consolidating the cash flow from the Chaudière expansion project creates downward pressure on the credit metrics, especially the AFFO-to-debt ratio from 2015 to 2016 during the construction phase, when there will be no cash inflow from the project. During this period, we expect HOHI will maintain AFFO-to-debt in the 12%-14% range. We do not expect improvement to this ratio until late 2017 or early 2018 when the Chaudière plant commissions. For 2014, we expect AFFO-to-debt to be in the range of 14%-17% because much of the Chaudière expansion project capital spending is in 2015 and 2016.

Because the company is going through a capital-intensive period and we are consolidating the debt and cash flow from the Chaudière project into HOHI, we expect leverage to increase modestly in the next few years to about 63% debt-to-capital by 2018, slightly above the regulatory deemed capital structure of 60% debt-to-capital. However, we do not expect HOHI to deviate materially from the regulatory guideline. The dividend policy has been consistent, with dividends set at the greater of 60% of current year consolidated net income or C$14 million, and we expect this to remain the same.

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page1373412 | 300642892

Liquidity: Adequate

HOHI's liquidity is "adequate," in our view. We expect that liquidity sources will be sufficient to cover uses more than 1.1x in the next six months. We expect that in the event of a 10% decline in earnings, the company's sources of funds would still exceed its uses. In our view, HOHI has sound relationships with its banks and generally prudent financial risk management.

Principal Liquidity Sources	Principal Liquidity Uses
• Projected FFO of approximately C$74 million-C$77 million in 2015 • Undrawn committed credit facility of approximately C$325 million in capacity, with C$150 million expiring in August 2015 and C$175 million expiring in 2017	• Capital spending of approximately C$140 million in 2015 • Cash dividends of approximately C$18 million in 2015 • Debenture maturity of C$200 million in February 2015

Government Influence

We believe there is a "low" likelihood that the company's owner, the City of Ottawa, would provide timely and sufficient extraordinary support in the event of financial distress. We base this on our assessment that there is a "limited" link and "limited importance" role to HOHI's government owner, as our government-related entity criteria define these terms. We believe HOHI has a role of "limited importance" to Ottawa, given that the province has oversight of both electricity regulation and water licensing, not the city, and that a private enterprise could provide the utility's services. We believe there is a "limited" link between the utility and Ottawa, given our view that in a stress scenario, although the city might provide some temporary liquidity support, it is unlikely to support HOHI with taxpayer dollars in the long term.

Ratings Score Snapshot

Corporate Credit Rating

A/Stable/--

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: a

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page1373412 | 300642892

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a

- **Likelihood of government support:** Low (no impact)

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	**a+/a**	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page1373412 | 300642892

Copyright © 2014 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc.All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

PROSPECTUS FOR PLANNED AND RECENT SHARE ISSUES

Hydro Ottawa Limited's sole shareholder is Hydro Ottawa Holding Inc. (the "Holding Company"). The Holding Company is 100% owned by the City of Ottawa (the "City"). There are no plans for additional share issues to the City or otherwise.

ACCOUNTING ORDERS

Hydro Ottawa Limited confirms that it has complied with the Uniform System of Accounts ("USoA") as set out in the OEB's Accounting Procedures Handbook ("APH"), and with the following utility-specific accounting orders:

- Sub-Accounts to Account 1508 – Other Regulatory Assets, effective January 1, 2012, relating to OPEB Deferral Account[1]
- Account 1555 - Smart Meter Capital and Recovery Offset Variance Account, Sub Account Stranded Meter Costs (EB-2011-0054 & EB-2007-0713)

[1] EB-2011-0054, Decision and Order (January 26, 2012)

ACCOUNTING STANDARDS

In compliance with the Board's direction, Hydro Ottawa Limited ("Hydro Ottawa") filed its 2012 Cost of Service Application on June 17, 2011 using modified International Financial Reporting Standards ("MIFRS") as the accounting basis, and adopted MIFRS for regulatory accounting and reporting purposes on January 1, 2012 with a January 1, 2011 transition date. Consequently, all International Financial Reporting Standards ("IFRS") conversion issues were dealt with in that rate application. At the time of filing, it was anticipated that external financial reporting would align with regulatory reporting, however a late deferral was issued by the Canadian Accounting Standards Board ("AcSB") and Hydro Ottawa decided to defer adoption.

Hydro Ottawa continues to report under MIFRS to the Board while providing reconciliation to its audited financial statements, prepared in accordance with Part V of the *Chartered Professional Accountants Canada Handbook* for publicly accountable entities ("CGAAP"). To limit the differences caused by the different accounting basis, Hydro Ottawa has sought to align its CGAAP accounting policies with IFRS requirements wherever possible as of January 1, 2012. Nonetheless, a difference in the effective implementation dates gave rise to a $ 502k difference in the carrying values of certain Property, Plant and Equipment for CGAAP and MIFRS reporting purposes. Consequently, Hydro Ottawa recorded a one-time adjustment to align MIFRS and CGAAP. For more information, refer to Exhibit B, Tab 2, Schedule 1.

Originally, IFRS did not contain a standard governing rate-regulated activities ("RRA"), which led to numerous deferrals issued by AcSB. Hydro Ottawa continued to report under CGAAP during this time as it was believed that if an interim standard was issued on RRA, it would only be applicable to first time adopters. On January 30, 2014, the IASB issued interim standard *IFRS 14 - Regulatory Deferred Accounts* ("IFRS 14") which permits rate-regulated entities that have not yet transitioned to IFRS to use its existing RRA practices. This standard is effective January 1, 2016 with early adoption permitted therefore Hydro Ottawa adopted IFRS and early adopted IFRS 14 on January 1, 2015.

Under IFRS, Hydro Ottawa is required to present one year of comparative information in its first set of IFRS financial statements. The first day of the comparative year is referred to as the “transition date” and the first day of the year in which the utility has chosen to adopt IFRS for financial reporting purposes is referred to as the “changeover date”. For Hydro Ottawa, the transition date was January 1, 2014, and the changeover date was January 1, 2015.

CONFIRMATION OF ACCOUNTING TREATMENT FOR LDC OWNED GENERATION

Hydro Ottawa Limited confirms that the accounting for non-utility businesses has been segregated from its rate-regulated activities.

MATERIALITY THRESHOLD

Section 2.4.5 of the Chapter 2 Filing Requirements for Transmission and Distribution Applications, issued by the Ontario Energy Board (the "Board") on July 14, 2014 require that *"The applicant must provide justification for changes from year to year to its rate base, capital expenditures, OM&A and other items above a materiality threshold."*

For a utility the size of Hydro Ottawa Limited ("Hydro Ottawa"), the default materiality threshold is defined as 0.5% of the distribution revenue requirement for distributors with a revenue requirement greater than $10 million and less than or equal to $200 million. Hydro Ottawa's base revenue requirement for 2016 is $177M so the default materiality threshold would be $880k. In this application, Hydro Ottawa has generally explained variances based on a threshold of $750k.

Hydro Ottawa notes that the $880K materiality threshold will apply to Hydro Ottawa for any future Z factor application unless its distribution revenue requirement exceeds $200 million for that year in which case its materiality threshold would be $1 million.

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, as amended;

AND IN THE MATTER OF an Application by Hydro Ottawa Limited for an Order or Orders approving or fixing just and reasonable distribution rates and other charges effective January 1, 2016 to December 31, 2020

APPLICATION & APPROVALS SOUGHT

The Applicant, Hydro Ottawa Limited (herein referred to as "the Applicant", "Hydro Ottawa", "HOL", "the Company, or "the Utility") is a corporation incorporated pursuant to the *Business Corporations Act* (Ontario) and is licensed by the Ontario Energy Board (the "Board") pursuant to distribution license (ED-2002-0556) to distribute electricity to customers residing within the City of Ottawa and Village of Casselman.

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

a) Final distribution rates effective January 1, 2016 determined from a service revenue requirement of $187,269,000 as set out in Exhibit F-1-1;
b) Custom IR rate-setting model wherein Hydro Ottawa's capital requirements are recovered on a five year forecasted cost of service basis and its operations, maintenance and administrative ("OM&A") requirements are recovered pursuant to an "I-X" formula and the model includes a Y factor and an earnings sharing mechanism as set out in Exhibit A-2-1;
c) Final electricity distribution rates for the years commencing January 1, 2017, January 1, 2018, (collectively the Future Test Years), determined in accordance with Hydro Ottawa's forecast revenue requirements of $197,235,000 for 2017

and $208,120,000 for 2018 and to be adjusted for the years commencing January 1, 2019 and January 1, 2020 determined in accordance with Hydro Ottawa's forecast revenue requirements of $217,816,000 and $224,430,000 as adjustments to reflect updated inflation and cost of capital parameters; and

d) all specific other relief sought as set out below.

This Application is prepared pursuant to the requirements set out in:

a) Filing Requirements for Electricity Transmission and Distribution Companies' Cost of Service Rate Applications, Based on a Forward Test Year – of the Board's *Filing Requirements for Transmission and Distribution Applications* dated July, 2014 (the "Filing Requirements"); and

b) Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance Based Approach as issued by the OEB on October 18, 2012 pursuant to the proceedings initiated by EB-2010-0377, EB-2010-0378, EB-2010-0379, EB-2011-0043 and EB-2011-0004 (the "RRFE Report").

This application is supported by written evidence as enumerated in Exhibit A-2-6. Hydro Ottawa may amend or supplement this written evidence prior to or during the course of the Board's hearing of the Application or the rendering of its final decision.

Hydro Ottawa accordingly proposes the following title for the proceeding that is commenced by this Application:

Hydro Ottawa Limited
2016-2020 Electricity Distribution Rates.

Hydro Ottawa requests that this application be disposed of by way of a written and oral hearing but recognizes that the Board may choose a different process as deemed appropriate.

Hydro Ottawa requests that the OEB make its Rate Order(s) emanating from the current proceeding effective January 1, 2016. In the event that the OEB's Decision with Reasons and Rate Order(s) cannot be delivered until after December 1, 2015, then Hydro Ottawa requests that the Board grant an Order making its current distribution rates and charges interim effective January 1, 2016 and establish an account allowing Hydro Ottawa to recover any differences between the interim rate and the approved rates as determined by the OEB in its final Decision and Order.

The Tariff of Rates and Charges proposed in this application is set out in Exhibit H-10. In this application Hydro Ottawa provides evidence to support all rates and charges for the 2016 Test year as well as evidence to support all rates and charges resulting from its proposed Custom IR rate setting model.

Specific Relief Requested

Hydro Ottawa accordingly applies to the Board for the following Order or Orders:

a) Approval of 2016-2018 revenue requirement and 2019-2020 distribution revenue requirement as adjusted as proposed in Exhibit F-1-1 including;
    i. Rate base and capital expenditures as set out in B-1;
    ii. Working capital allowance as set out in B-3-1;
    iii. Cost of capital and debt to fund rate base as set out in Exhibit E-1-1
    iv. Revenue Offset forecasts as set out in Exhibit C-2;
    v. Operations, maintenance and administrative expenses set out in Exhibit D-1-2;
    vi. Depreciation expenses as set out in Exhibit D-3-1;
    vii. Payment in lieu of taxes as set out in Exhibit D-4-1;

b) Approval of 2016-2018 electricity distribution rates and charges as proposed in Exhibit H-10 and 2019-2020 distribution rates and charges as adjusted;
c) Approvals related to deferral and variance accounts as proposed in Exhibit I including;

i. to dispose of balances in existing deferral and variance accounts as at December 31, 2014 as set out in Exhibit I-8-1;
ii. Approval for the continuation of existing deferral and variance accounts as set out in Exhibit 1-8-1;
iii. Approval of six new deferral and variance accounts as proposed in Exhibit I-1-2:
    i. Y Factor Deferral and Variance account to record costs to be recovered from the construction of Hydro Ottawa's new head office and operations buildings;
    ii. Proceeds of Sale of Existing Facilities to capture the after tax gain/loss from the sale of Hydro Ottawa current facilities;
    iii. Energy East – Trans Canada Pipeline – Hydro Ottawa requests a sub-account be added to US ofA 1508 Other Regulatory Assets deferral account to capture costs associated with consultations regarding the TransCanada Pipeline Limited's Proposed Energy East Pipeline Project;
    iv. Monthly Billing – Hydro Ottawa requests a deferral account to record costs associated with the transition to monthly billing per EB-2014-0198;
    v. Loss on Disposal of Fixed Assets
    vi. Earnings Sharing Mechanisms to record earnings to be shared above prescribed threshold.

d) Approval of a rate adjustment process to be initiated in 2017 to set final rates for 2019 and 2020 as discussed in Exhibit A-2-1;
e) Approval for the inclusion of a transformer substation called South28 Substation with assets that operate above 50kV form part of the Hydro Ottawa distribution system.
f) Approval of other items or amounts that may be requested by the Applicant in the course of the proceeding and such other relief or entitlements as the OEB may grant.

Hydro Ottawa requests, pursuant to subsection 17(1) of the Statutory Powers Procedure Act, that the Board give reasons in writing for its final decision and order(s) in this proceeding.

The names of Hydro Ottawa's authorized representative and its legal counsel, with their contact information, are set out below and in the evidence that is filed with the Application. Hydro Ottawa requests that all documents issued or filed in connection with this proceeding be served on its authorized representative and its legal counsel.

Authorized Representative:

Geoff Simpson
Chief Financial Officer
Hydro Ottawa Limited

3025 Albion Road North
P.O. Box 8700
Ottawa, Ontario
K1G 3S4

Telephone: 613-738-5499 ext. 7606
E-mail: RegulatoryAffairs@HydroOttawa.com

Counsel:

Mr. Fred D. Cass
Aird & Berlis LLP

Brookfield Place
181 Bay Street, Suite 1800
P.O. Box 754

Telephone: 416-865-7742
E-mail: fcass@airdberlis.com

Dated at Ottawa, Ontario, this 29th Day of April, 2015.

Applicant Hydro Ottawa Limited ("Hydro Ottawa")

3025 Albion Road North, PO Box 8700
Ottawa, Ontario
K1G 3S4

Signed by:

Geoff Simpson
Chief Financial Officer
Hydro Ottawa Limited

Appendix to Application

Title of Proceeding:	an Application by Hydro Ottawa Limited for an Order or Orders approving or fixing just and reasonable distribution rates and other charges effective January 1, 2016 to December 31, 2020
Applicant's Name:	Hydro Ottawa Limited ("Hydro Ottawa" or "HOL")
Applicant's Address:	3025 Albion Road North P.O. Box 8700 Ottawa, Ontario K1G 3S4 RegulatoryAffairs@HydroOttawa.com
Applicant's Counsel:	Mr. Frederick D. Cass
Counsel's Contact Information:	Mr. Fred D. Cass Aird & Berlis LLP Brookfield Place 181 Bay Street, Suite 1800 P.O. Box 754 Telephone: 416-865-7742 E-mail: fcass@airdberlis.com

2015 Cost of Service Checklist

HYDRO OTTAWA LIMITED

EB-2015-0004

Filing Requirement Page # Reference

Date: April 29, 2015

		Yes/No/N/A	Evidence Reference, Notes
GENERAL			
Ch 1 p3 & 4	Confidential Information - Practice Direction has been followed	**N/A**	No confidential information filed
2 & 3	In advance of scheduled application - meet threshold established in Board letter (April 20, 2010)	**N/A**	Early rebasing not sought
3	Align rate year with fiscal year - request for proposed alignment	**N/A**	Rate and fiscal year aligned as of 2012
4	Text searchable and bookmarked PDF documents	**Yes**	
Accounting Standards and Modified IFRS Applications			
6	State accounting standard(s) used in historical, bridge and test years	**Yes**	A-4-7
6	Summary of changes to accounting policies and quantification of revenue requirement impact (Appendix 2-Y)	**N/A**	Addressed in previous rebasing application (EB-2011-0054)
7	Identify all material changes, quantify and explain the changes in the adoption of IFRS, if none state that and explain why it would not be material	**Yes**	B-2-1
Performance Evaluation			
8	Discuss performance for each of the Board's performance outcomes over the last five years, and current performance	**Yes**	A-2-2; B-1-2; D-1-5
8	Discuss how self-assessment has informed the utility's business plan and the application, and what measures are planned to achieve continuous improvement	**Yes**	A-2-2; B-1-2; D-1-5
EXHIBIT A - ADMINISTRATIVE DOCUMENTS			
Alignment With the RRFE			
9 & 10	Overall business strategy past and expected performance including narrative of how they align with the four objectives of the RRFE	**Yes**	A-1-1
Executive Summary			
10	Revenue Requirement - service RR, increase from previously approved, main drivers	**Yes**	A-2-1
10	Budgeting Assumptions - economic overview and identification of accounting standard used for test year and brief explanation of impacts arising from any change in standards	**Yes**	A-2-1
10	Load Forecast Summary - load and customer growth, change in kWh and customer numbers, methodology description	**Yes**	A-2-1
10 &11	Rate Base and Capital Plan - major drivers of DSP, rate base for test year, change from last approved, capex for test year, change from last approved, costs for any REG-related capital investments	**Yes**	A-2-1
11	OM&A for test year and change from last approved, summary of drivers, inflation assumed, total compensation for test year and change from last approved.	**Yes**	A-2-1
11	Statement regarding use of Board's cost of capital parameters; summary of any deviations	**Yes**	A-2-1
11	Cost Allocation & Rate Design - summary of any deviations from Board methodologies, significant changes and summary of proposed mitigation plans	**Yes**	A-2-1
11	Deferral and Variance Accounts - total disposition (RPP and non-RPP), disposition period, new accounts requested	**Yes**	A-2-1
11	Bill Impacts - total impacts ($ and %)for all classes for typical customers	**Yes**	A-2-1
Customer Engagement			
11 & 12	Overview of customer engagement activities; description of plans and how customer needs have been reflected in the application.	**Yes**	A-3-1; Attachment A-3(A)
12	Discuss how customers were informed of the proposals being considered for inclusion in the application and the value of those proposals to customers i.e. costs, benefits, and the impact on rates	**Yes**	A-3-1; Attachment A-3(A)
12	Discuss any feedback provided by customers and how the feedback shaped the final application	**Yes**	A-3-1; Attachment A-3(A)
12	Reference any other communication sent to customers about the application i.e. bill inserts, town hall meetings or other forms of out reach and the feedback received from customers through these engagement activities	**Yes**	A-3-1; Attachment A-3(A)
12	Explanation if no customer engagement done and whether any is planned for the future	**N/A**	
12	Complete Appendix 2-AC Customer Engagement Activities Summary	**N/A**	Included in A-3-1

2015 Cost of Service Checklist

HYDRO OTTAWA LIMITED

EB-2015-0004

Filing Requirement Page # Reference

Date: April 29, 2015

		Yes/No/N/A	Evidence Reference, Notes
Financial Information			
12 & 40	Non-consolidated Audited Financial Statements for 2 most recent years (i.e. 3 years of historical actuals)	**Yes**	A-4-1
12	Detailed reconciliation of AFS with regulatory financial results filed in the application, with identification of any deviations that are being proposed	**Yes**	A-4-2
13	Annual Report and MD&A for most recent year of parent company, if applicable	**Yes**	A-4-3
13	Rating Agency Reports, if available; Prospectuses, etc. for recent and planned public issuances	**Yes**	A-4-4; A-4-5
13	Any change in tax status	**N/A**	No change in tax status
13	Existing accounting orders and departures from USoA including references to the accounting orders	**Yes**	A-4-6
13	Accounting Standards used for financial statements and when adopted	**Yes**	A-4-6
13	Confirmation that accounting treatment of any non-utility business has segregated activities from rate regulated activities	**Yes**	A-4-7
Materiality Thresholds			
13 & 14	Materiality threshold; additional details beyond the threshold if necessary	**Yes**	A-5-1
Administration			
Ch 1 p2			
14	Table of Contents	**Yes**	A-6-3
14	Primary contact information (name, address, phone, fax, email)	**Yes**	A-6-5
14	Identification of legal (or other) representation	**Yes**	A-6-5
14	Applicant's internet address for viewing of application and any social media accounts used by the applicant to communicate with customers	**Yes**	A-6-5
14	Statement of who will be affected by application	**Yes**	A-6-5
14	Bill impacts - distribution only impacts for 800 kWh residential and 2000 kWh GS<50 (sub-total A of Appendix 2-W)	**Yes**	A-6-5
14	Form of hearing requested and why	**Yes**	A-6-1
14	Requested effective date	**Yes**	A-6-1
14	List of approvals requested (and relevant section of legislation), including accounting orders	**Yes**	A-6-1
14	Statement identifying all deviations from Filing Requirements	**Yes**	A-6-6
15	Statement identifying and describing any changes to methodologies used vs previous applications	**Yes**	A-6-8
15	Identification of Board Directives from previous Board Decisions, and how addressed	**Yes**	A-6-9
15	Reference to Conditions of Service - LDC does not need to file Conditions of Service, but must provide reference to website and confirm version is current; identify if there are changes to Conditions of Service as a result of application	**Yes**	A-6-10
15	Description of Operating Environment (including map, list of neighbouring utilities)	**Yes**	A-7-1
15	Identification of embedded and/or host distributors	**Yes**	A-7-1
15	Statement as to whether or not the distributor has had any transmission or high voltage assets deemed by the Board as distribution assets and whether or not there are any such assets the distributor is seeking approval for in this application	**Yes**	A-7-1
15, 16 & 17	Corporate Governance: Number of Directors on Board, number of independent directors, how independent judgement is facilitated - Board Mandate; Schedule of Board Meetings - Orientation and Continuing Education for directors - Ethical Business Conduct - written code where available - Process for Nomination of Directors - Committees - function and charter for each committee - Audit Committee - number of independent members, whether members are financially literate	**Yes**	A-8-1
17	Responses to matters raised in letters of comment filed	**N/A**	To be submitted after application filed

2015 Cost of Service Checklist

HYDRO OTTAWA LIMITED

EB-2015-0004

Filing Requirement Page # Reference

Date: April 29, 2015

		Yes/No/N/A	Evidence Reference, Notes
EXHIBIT B - RATE BASE			
Overview			
17	Completed Fixed Asset Continuity Schedule (Appendix 2-BA)	**Yes**	B-1-1
17 & 18	Opening and closing balances, average of opening and closing balances for gross assets and accumulated depreciation; working capital allowance (historical actuals, bridge and test year forecast)	**Yes**	B-1-1
18	Continuity statements (year end balance, including interest during construction and overheads). Year over year variance analysis; explanation where variance greater than materiality threshold Hist. Brd-Approved vs Hist. Actual Hist. Act. Vs previous Hist. Act. Bridge vs. Test	**Yes**	B-1-1; B-1-2
18 & 19	Opening and closing balances of gross assets and accumulated depreciation must correspond to fixed asset continuity statements. If not, an explanation must be provided (eg. WIP, ARO, smart meter balances). Reconciliation must be between YE 2014 and YE 2015 net book value balances reported on Appendix 2-BA and balances included in rate base calculation	**Yes**	B-1-1
Gross Assets - PP&E and Accumulated Depreciation			
19	Breakdown by function and by major plant account; description of major plant items for test year	**Yes**	B-2-1
19	Summary of approved and actual costs for any ICM(s) approved in previous IRM applications	**Yes**	B-2-1
19 & 40	Continuity statements must reconcile to calculated depreciation expenses and presented by asset account	**Yes**	B-2-1
Allowance for Working Capital			
19	Working Capital - 13% allowance or Lead/Lag Study or Previous Board Direction	**Yes**	B-3-1
20	Cost of Power must be determined by split between RPP and non-RPP customers based on actual data, use most current RPP price, use current UTR. Should include SME charge.	**Yes**	B-3-1; Attachment B-3(A)
20	Lead/Lag Study - leads and lags measured in days, dollar-weighted	**Yes**	A-6-9
Treatment of Stranded Assets Related to Smart Meter Deployment			
20 & 21	Stranded Meters - if the recovery of stranded conventional meters replaced by smart meters has not been reviewed and approved, a proposal for a Stranded Meter Rate Rider must be made Explanation for approaches that are not the Board approach Completed Appendix 2-S.	**Yes**	B-4-1
Planning			
22	As applicable - file evidence that demonstrates that regional issues have been appropriately considered and where applicable addressed in developing the applicant's proposed capital expenditure plan. As part of its planning an applicant should consider municipal planning, including any plans for expansion of boundaries from a regional perspective to demonstrate the most cost effective solutions are being considered.	**Yes**	B-1-2 section 3.1.9; Attachment B-1(A)
Capital Expenditures/Distribution System Plan			
23	DSP filed as a stand-alone document	**Yes**	B-1-2
Ch 5 p9	Where applicable, explanation for section headings other than Chapter 5 headings; cross reference table	**Yes**	B-1-2 section 1.0
Ch 5 p9-10	Distribution System Plan Overview - key elements, sources of cost savings, period covered, vintage of information on investment drivers, changes to asset management process since last DSP filing, dependencies	**Yes**	B-1-2 section 1.1
Ch 5 p10-11	Coordinated Planning with 3rd parties - description of consultations - deliverables of the Regional Planning Process, or status of deliverables - OPA letter in relation to REG investments (Ch 5 p8&9) and Dx response letter	**Yes**	B-1-2 section 1.2;
Ch 5 p11	Performance Measurement - identify and define methods and measures used to monitor DSP performance - summary of performance and trends over historical period. Must include SAIFI and SAIDI for all interruptions and all interruptions excluding loss of supply - explain how information has affected DSP	**Yes**	B-1-2 section 1.3

2015 Cost of Service Checklist

HYDRO OTTAWA LIMITED

EB-2015-0004

Filing Requirement Page # Reference

Date: April 29, 2015

		Yes/No/N/A	Evidence Reference, Notes
Ch5 p12	Asset Management Process Overview - description of AM objectives/corporate goals and how Dx ranks objectives for prioritizing investments	**Yes**	B-1-2 section 2.1
Ch5 p12	Inputs/Outputs of the AM process and information flow for investments; flowchart recommended	**Yes**	B-1-2 section 2.1
Ch 5 p13	Overview of Assets Managed - description of service area (including evolution of features in forecast period affecting DSP), - description of system configuration - service profile and condition by asset type (tables and/or figures) - date data compiled - assessment of degree the capacity of system assets is utilized	**Yes**	B-1-2 section 2.2
Ch 5 p13-14	Asset Lifecycle Optimization - description of asset lifecycle optimization policies and practices, including asset replacement and refurbishment, maintenance planning criteria and assumptions - description of asset life cycle risk management policies and practices, assessment methods and approaches to mitigation	**Yes**	B-1-2 section 2.3
Ch 5 p14-15	Capital Expenditure Plan Summary for significant projects and activities to be undertaken - capability to connect new load or Gx customers, total annual capex over forecast period by investment category, description of how AMP and Capex planning have affected capital expenditures for each category - list, description and total capital cost of material capital expenditures sorted by category (table recommended) - information related to Regional Planning Process (Needs Assessment Report, Regional Planning Status Letter, Regional Infrastructure Plan - as appropriate) - description of customer engagement - Dx expectations of system development over next 5 years - list, description and total capital cost of projects planned in response to customer preferences, to take advantage of technology based opportunities, to study innovative processes (table recommended)	**Yes**	B-1-2 section 3.1
Ch 5 p15	Capital Expenditure Planning Process Overview - description of capex planning objectives/criteria/ assumptions, relationship with AM objectives, policy on consideration of non-distribution alternatives, processes used to identify projects in each investment category, customer feedback and impact on plan, method and criteria used to prioritise REG investments	**Yes**	B-1-2 section 3.2
Ch 5 p16	System Capability Assessment for REG - REG applications > 10 kW, number and MW of REG connections for forecast period, capacity of Dx to connect REG, connection constraints	**Yes**	B-1-2 section 3.3
Ch 5 p16-18 **Ch 2 p23**	Capital Expenditure Summary by Investment Category - completed Table 2 of Ch 5 for historical and forecast period, explanation of markedly different variances plan vs actual, explanation of markedly different variances year over year Table 2 of Ch 5 is provided in Excel format in Appendix 2-AB	**Yes**	B-1-2 section 3.4; Appendix 2-AB also available in B-5-1
Ch5 p19	Overall Plan - comparative expenditures by category over historical period, forecast impact of system investment on O&M, drivers of investments by category, information related to Dx system capability assessment	**Yes**	B-1-2 section 3.5.1
Ch 5 p19-25	Material Investments - For each project that meets materiality threshold set in Ch 2 p10 - general information - total capital, customer attachments, dates, risks, variances, REG investments - evaluation criteria - may include: efficiency, customer value, reliability, etc. - category specific requirements for each project - system access, system renewal, system service, general plant (as applicable)	**Yes**	B-1-2 section 3.5.2
23 & 24	Capital Expenditures - completed Appendix 2-AA showing capex on a project specific basis for 4 historical years, bridge and test; explanation of variances, accounting treatment for projects with life cycle greater than one year	**Yes**	B-5-1
24	Non-distribution activities - capital expenditures and reconciliation to total capital budget	**Yes**	A-6-7
7 & 24	Capitalization policy, changes to capitalization since previous rebasing - explanations must be provided. The changes must be identified and the causes of the changes must also be identified.	**Yes**	B-5-2; B-5-3

2015 Cost of Service Checklist

HYDRO OTTAWA LIMITED

EB-2015-0004

Filing Requirement Page # Reference

Date: April 29, 2015

		Yes/No/N/A	Evidence Reference, Notes
24	Capitalization of overhead - Completed Appendix 2-D regarding overhead costs on self-constructed assets Burden rates must be identified; changes from last rebasing must be identified; LDC must identify burden rates prior to and after the change	**Yes**	B-5-3
Costs of Eligible Investments for Connection of Qualifying Generation Facilities			
25	For Eligible Investments - proposal to divide costs per O.Reg. 330/09	**N/A**	Not applicable to Hydro Ottawa
25	Where applicable, file a draft accounting order to establish variance account tracking IESO payment revenues against actual spending	**N/A**	Not applicable to Hydro Ottawa
25	As Applicable appendices 2-FA through 2-FC must be filed identifying eligible investments, as applicable	**N/A**	Not applicable to Hydro Ottawa
25	Ensure that Capital Costs of the Distributor are entered into the Rate Base for the Test Year	**N/A**	Not applicable to Hydro Ottawa
New Policy Options for the Funding of Capital			
25	Policy Options - can propose an approach for the funding of capital based on the proposed policy options	**N/A**	Not applicable to Hydro Ottaawa
Addition of ICM Assets to Rate Base			
25 & 26	Distributor with previously approved ICM(s) - schedule of ICM amounts, variances and explanation	**N/A**	Not applicable to Hydro Ottawa
26	Balances in Account 1508 sub-accounts, reconciliation with proposed rate base amounts; recalculated revenue requirement should be compared with rate rider revenue	**N/A**	Not applicable to Hydro Ottawa
Service Quality and Reliability			
26	5 historical years of ESQRs, explanation for any under-performance and actions taken	**Yes**	B-5-4
26	5 historical years of SAIDI and SAIFI - for all interruptions and all interruptions excluding loss of supply, explanation for any under-performance and actions taken	**Yes**	B-5-4
26	Completed Appendix 2-G	**Yes**	B-5-4
EXHIBIT C - OPERATING REVENUE			
Load and Revenue Forecasts			
27 & 30	Customer, volume and revenue forecast methodologies and data	**Yes**	C-1-1; Attachment C-1(A); Appendix 2-IA
27	Explanation of causes, assumptions and adjustments for volume forecast. Economic assumptions and data sources for customer and load forecasts	**Yes**	C-1-1; Attachment C-1(A)
27	Completed Appendix 2-IA	**Yes**	C-1-3; Appendix 2-IA
28	Regression Model - rationale for choice, regression statistics, explanation for any unintuitive relationships, explanation of modeling approaches and alternative models tested, explanation of weather normalization methodology, sources of data for endogenous and exogenous variables, explanation of any constructed variables; data used in load forecast must be provided in Excel format, including derivation of constructed variables	**Yes**	C-1-3; Appendix 2-IA; Exhibit C-1-1,Attachment C-1(A)
29	NAC Model - rationale for choice, data supporting NAC variables, description of accounting for CDM including licence conditions, discussion of weather normalization considerations	**Yes**	C-1(A) Itron Report
29 & 30	CDM Adjustment - 2014 and 2015 CDM reductions must take into account 2011 - 2013 CDM program results reported by OPA. CDM adjustment should take into account historical CDM results factored into base load forecast before CDM adjustment	**Yes**	Appendix 2-I
29	CDM savings for 2015 LRAMVA balance and adjustment to 2015 load forecast; data by customer class	**Yes**	C-1-1
29 & 30	Completed Appendix 2-I, or alternative with explanation	**Yes**	C-1-1; Appendix 2-I
Accuracy of Load Forecast and Variance Analyses			
30	Schedule of volumes, revenues, customer/connection count by class and total system load: 5 years historical, Board approved, 5 years historical weather normalized, bridge year and test year.	**Yes**	Appendix 2-V
30	Customer count increases or decreases for test year - explanation by class; confirmation of year end or average format	**Yes**	Appendix 2-V
31	Explanation for any changes in definition or composition of class	**N/A**	no class changes
31	Weather normalized average consumption per customer for historical 5 years, bridge and test	**Yes**	Attachment C-1(A)

2015 Cost of Service Checklist

HYDRO OTTAWA LIMITED

EB-2015-0004

Filing Requirement Page # Reference

Date: April 29, 2015

		Yes/No/N/A	Evidence Reference, Notes
31	Explanation of net change in average consumption from last Board approved, and actual historical, bridge and test - for each rate class	**Yes**	C-1-2
31	Details of development of billed kW	**Yes**	C-1-2
31	Revenues on existing and proposed rates for the test year	**Yes**	H-1-1
31	Variance analysis of volumes, revenues, customer/connection count and total system load: Historical Board approved vs Historical Actual (and Historical Actual weather normalized) Year over year historical weather normalized variance, weather normalized bridge, test year	**Yes**	C-1-2; Appendix 2-IA
31	Data used to determine forecast should be filed as live Excel spreadsheet	**Yes**	C-1 (C) Itron's Load Forecast
Other Revenue			
31	Breakdown of other distribution revenue accounts; completed Appendix 2-H	**Yes**	C-2-1; Appendix 2-H
31	Variance analysis - year over year, historical, bridge and test	**Yes**	C-2-1
31	Any new proposed specific service charges, or proposed changes to rates or application of existing specific service charges	**Yes**	C-2-2; H-7-1
31	Revenue from affiliate transactions, shared services, corporate cost allocation	**Yes**	C-2-1. D-2-1
EXHIBIT D - OPERATING COSTS			
Overview			
33	Brief explanation of test year OM&A levels, cost drivers, significant changes, trends, inflation rate assumed, business environment changes	**Yes**	D-1-1
Summary and Cost Driver Tables			
33	Summary of recoverable OM&A expenses; Appendix 2-JA	**Yes**	D-1-2; Appendix 2-JA
33	OM&A cost drivers; Appendix 2-JB	**Yes**	D-1-3; Appendix 2-JB
33	Recoverable OM&A Cost per customer and per FTE; Appendix 2-L	**Yes**	D-1-2; Appendix 2-L
33	Identification of change in OM&A in test year in relation to change in capitalized overhead.	**N/A**	No change to capitalized policy
33	OM&A variance analysis for test year with respect to bridge and historical years; Appendix 2-D	**Yes**	D-1-3; Appendix 2-D
Program Delivery Costs with Variance Analysis			
33 &34	Completed Appendix 2-JC OM&A Programs Table - completed by program or major functions; include variance analysis limited to variances that are outliers, between test year and last Board approved and most recent actuals, including an explanation for each significant change whether the change was within or outside the applicant's control and explanation of why.	**Yes**	D-1-3; Appendix 2-JC
34	For each significant change within the applicant's control describe business decision that was made to manage the cost increase/decrease and the alternatives	**Yes**	D-1-3
34	Employee Compensation - completed Appendix 2-K	**Yes**	D-1-8
34	Description of compensation strategy	**Yes**	D-1-8
34 & 35	Explanation for material changes to head count and compensation: year over year variances, inflation, plans for new employees, details on collective agreements, basis for performance pay, filing of any relevant studies	**Yes**	D-1-8
35	Details of employee benefit programs including pensions for last Board approved, historical, bridge and test; must agree with tax section	**Yes**	D-1-8
35	Most recent actuarial report on employee benefits, pension and OPEBs	**Yes**	Attachment D-1(B); D-1-8
35	Identification of all shared services among affiliates and parent company	**Yes**	D-2-1
35	Allocation methodology for corporate and shared services, list of costs and allocators, including any third party review	**Yes**	D-2-1
36	Completed Appendix 2-N for service provided or received for historical, bridge and test; including reconciliation with revenue included in Other Revenue	**Yes**	D-2-1
36	Identification of any Board of Director costs for affiliates included in LDC costs	**Yes**	D-2-1
36	Shared Service and Corporate Cost Variance analysis - test year vs last Board approved and most recent actual	**Yes**	D-2-1

2015 Cost of Service Checklist

HYDRO OTTAWA LIMITED

EB-2015-0004

Date: April 29, 2015

Filing Requirement Page # Reference		Yes/No/N/A	Evidence Reference, Notes
36	Purchased Non-Affiliated Services - file a copy of procurement policy (signing authority, tendering process, non-affiliate service purchase compliance)	Yes	D-2-2; Attachment D-2(A)
36	Explanation for procurements above materiality threshold without competitive tender	Yes	D-2-2; Attachment D-2(A)
36	Identification of one-time costs in historical, bridge, test; explanation of cost recovery in test (or future years)	Yes	D-2-3
37	Regulatory costs - breakdown of actual and forecast, supporting information related to CoS application, proposed recovery (ie amortized?). Completed Appendix 2-M	Yes	D-2-4
37	LEAP - the greater of 0.12% of forecasted service revenue requirement or $2,000 should be included in OM&A and recovered from all rate classes	Yes	D-2-5
37	Statement whether test year revenue requirement includes legacy low income energy assistance programs. If yes, identify programs	Yes	D-2-5
38	Charitable Donations - amounts paid from last Board approved up to test year	Yes	D-2-6
38	Detailed information for any proposal to recover charitable donations (outside of assistance for payment of electricity bills)	Yes	D-2-6
38	Any non-recoverable contributions identified and removed from revenue requirement. Confirm that no political contributions have been included for recovery	Yes	D-2-7
Depreciation, Amortization and Depletion			
38	Explanations for any useful lives of an asset that are proposed that are not within the ranges contained in the Kinectrics Report	N/A	
18 & 38	Depreciation, Amortization and Depletion details by asset group for historical, bridge and test years. Include asset amount and rate of depreciation/amortization. Must agree to accumulated depreciation in Appendix 2-BA under rate base.	Yes	D-3-1
38	Identify any Asset Retirement Obligations and associated depreciation	Yes	D-3-1
38 & 39	May propose an approach that differs from Board's general policy of capital additions attracting six months of depreciation expense when they enter service in the test year, based on the Board's proposed new policy options for the Board's consideration	Yes	D-3-1
39	Identify historical depreciation practice and proposal for test year. Variances from half year rule must be documented and with supporting rationale	Yes	D-3-1
39	Copy of depreciation/amortization policy, or equivalent written description; summary of changes to depreciation/amortization policy since last CoS	Yes	D-3-1
39	Explanation of any deviations from the practice of significant parts or components of PP&E being depreciated separately	N/A	
39 & Appendices	Regulatory Accounting changes for depreciation - use of Kinectrics study or another study to justify changes in useful life - list detailing all asset service lives tied to USoA, detail differences in TUL from Kinetrics and explain differences outside of minimum and maximum TUL range from Kinectrics - Appendix 2-BB - recalculation to determine average remaining service life of opening balance on date of making depreciation changes - If further depreciation expense policy changes or changes in asset service lives are made they must be identified and provide a detailed explanation of the changes -File applicable depreciation appendices as provided in Chapter 2 MIFRS Appendices (Appendix 2-CA to 2-CI)	N/A	This was addressed by HOL as part of last rebasing application (EB-2011-0054) and no material changes have since been made to depreciation and capitalization.
PILs and Property Taxes			
40	Completed version of the PILs model (PDF and Excel); derivation of adjustments for historical, bridge, test years	Yes	D-4-1; Attachments D-4(C) through D-4(L)
40	Supporting schedules and calculations identifying reconciling items	N/A	N/A
40	Most recent federal and provincial tax returns	Yes	D-4-1; Attachments D-4(A) and D-4(D)

2015 Cost of Service Checklist

HYDRO OTTAWA LIMITED

EB-2015-0004

Filing Requirement Page # Reference

Date: April 29, 2015

		Yes/No/N/A	Evidence Reference, Notes
12 & 40	Financial Statements included with tax returns if different from those filed with application	**N/A**	
40	Calculation of Tax Credits	**Yes**	D-4-1
40	Supporting schedules, calculations and explanations for other additions and deductions	**Yes**	D-4-1
40	Explanation of how property tax amounts are derived	**N/A**	N/A
40 & 41	Exclude from regulatory tax calculation any non-recoverable or disallowed expenses	**Yes**	D-4-1
41	Completion of Integrity checks listed on p.41; statement confirming completion	**Yes**	D-4-1
Conservation and Demand Management			
43	LRAM and LRAMVA - disposition of balance(s) for any pre-2011 and 2011-2014 account balances - statement indicating use of most recent input assumptions when calculating lost revenue - statement indicating reliance on most recent CDM evaluation report from OPA; copy of report - Tables for each rate class showing lost revenue by year - lost revenue calculations - energy savings by class and Board approved variable charge - statement that indicates if carrying charges are requested - Third party report for any Board-approved programs	**Yes**	D-5-1; D-5-2
EXHIBIT E - COST OF CAPITAL AND CAPITAL STRUCTURE			
Capital Structure			
44	Statement that LDC adopting Board's guidelines for cost of capital and confirming updates will be done. Alternatively - utility specific cost of capital with supporting evidence	**Yes**	E-1-1
4 & 44 Appendices	Completed Appendix 2-OA for last Board approved and test year; total capitalization (debt and equity) must equate to total rate base	**Yes**	E-1-1, Appendix 2-OA
44	Completed Appendix 2-OB for historical, bridge and test years	**Yes**	E-1-1, Appendix 2-OB
44	Explanation for any changes in capital structure	**N/A**	Not applicable to HOL
44	Calculation of cost for each capital component	**N/A**	E-1-1
44	Profit or loss on redemption of debt	**N/A**	E-1-1
45	Copies of promissory notes or other debt arrangements with affiliates	**Yes**	Attachments E-1(A) through E-1(F)
45	Explanation of debt rate for each existing debt instrument	**Yes**	E-1-1
45	Forecast of new debt in bridge and test year - details including estimate of rate	**Yes**	E-1-1
Not-for-Profit Corporations			
45	Not for Profit Corporations - evidence that excess revenue is used to build up operating and capital reserves	**N/A**	Not applicable to HOL
45	Detailed calculation for its test year revenue requirement based on its Reserve Requirement	**N/A**	Not applicable to HOL
45	The proposed reserves and rationale for the need to establish each reserve, the time period of building up the reserves, and the procedure and policy of each reserve	**N/A**	Not applicable to HOL
46	Description of the governance of the not-for-profit corporation -policy on Reserve Requirement -roles and responsibilities of the Board of Directors and management with regards to the need for types of reserves -authorization and approval process for access and use -investment objectives and policies for the reserve funds -reporting requirements and monitoring	**N/A**	Not applicable to HOL
46	If there are approved reserves from previous Board decisions provide the following: -any changes to the reserve policies and rationale for the changes since last CoS -limits of any capital and/or operating reserves as approved by the Board and identify decisions -current balances of any established capital and/or operating reserves -list withdrawals from capital and operating reserves, identify amounts and purpose of withdrawal -if limits on capital and operating reserves achieved provide a proposal for utilization of amounts -if limits on reserves not achieved provide rationale and the detail for its forecast of the Reserve Requirement for the test year	**N/A**	Not applicable to HOL

2015 Cost of Service Checklist

HYDRO OTTAWA LIMITED

EB-2015-0004

Filing Requirement Page # Reference

Date: April 29, 2015

		Yes/No/N/A	Evidence Reference, Notes
EXHIBIT F - REVENUE DEFICIENCY/SUFFICIENCY			
47	Calculation of delivery-related Revenue Deficiency/Sufficiency (excluding cost of power and associated costs): net utility income, rate base, actual return on rate base, indicated rate of return, requested rate of return, deficiency/sufficiency, gross deficiency/sufficiency. Deficiency/sufficiency must also be net of other costs (e.g. LV costs, RSVAs, smart meter and other DVA balances).	**Yes**	F-1-1, F-1(A), F-1(B), F-1(C), F-1(D), F-1(E)
47	Summary of drivers for test year deficiency/sufficiency, how much each driver contributes; references in application evidence mapped to drivers	**Yes**	F-1-1
47	Impacts of any changes in methodologies to deficiency/sufficiency	**N/A**	Calculation has remained the same
Revenue Requirement Work Form			
48	RRWF - in PDF and Excel. Revenue requirement, def/sufficiency, data entered in RRWF must correspond with other exhibits	**Yes**	Attachments F-1(A), F-1(B), F-1(C), F-1(D), F-1(E)
EXHIBIT G - COST ALLOCATION			
Cost Allocation Study Requirements			
48	Completed cost allocation study reflecting test year loads and costs. Excel version of 2015 cost allocation model (updated load profiles or scaled version of HONI CAIF). Appendix 2-P completed as well.	**Yes**	G-1-1; Attachment G-1(A); Appendix 2-P
48	Description of weighting factors, and rationale for use of default values (if applicable)	**Yes**	G-1-1; Attachment G-1(A)
48	Hard copy of sheets I-6, I-8, O-1 and O-2 (first page)	**Yes**	G-1-1; Attachments G-1(B), G-1(C), G-1(D), G-1(E), G-1(F)
49	Host Distributor - evidence of consultation with embedded Dx - Statement regarding embedded Dx support for approach to allocation of costs - If embedded Dx is separate class - class in cost allocation study and Appendix 2-P - If new embedded Dx class - rationale and supporting evidence (cost of serving, load served, asset ownership information, distribution charges); include in cost allocation study and Appendix 2-P - If embedded Dx billed as GS customer - , include with the GS class in cost allocation model and Appendix 2-P. Provide cost of serving, load served, asset ownership information, distribution charges, appropriateness of rate class. LDC may choose to file Appendix 2-Q.	**N/A**	HOL does not have any embedded distributors in its service territory
Unmetered Load			
50	Confirmation of communication with unmetered load customers when proposing changes to the level of the rates and charges or the introduction of new rates and charges	**N/A**	See G-1-2
50	New customer class or eliminated customer class - rationale and restatement of revenue requirement from previous CoS	**N/A**	See G-1-2
Class Revenue Requirements and Revenue to Cost Ratios			
51	Completed Appendix 2-P; supporting information for any proposal to re-balance rates	**Yes**	Appendix 2-P
52	Proposal to re-balance to bring R:C ratio within Board policy ranges; any proposal to for further re-balancing beyond test year.	**Yes**	G-3-1
52	If Cost Allocation Model other than Board model used - exclude LV, exclude DVA such as smart meters	**Yes**	G-3-1
EXHIBIT H - RATE DESIGN			
52	Monthly fixed charges - 2 decimal places; variable charges - 4 decimal places	**Yes**	H-1-1
53	Current and Proposed F/V proportion with explanation for any changes	**Yes**	H-1-1
53	Table comparing current and proposed fixed charge with floor and ceiling from cost allocation study. Explanation for Monthly Fixed Charge(s) that exceed the ceiling; analysis must be net of adders and riders	**Yes**	H-1-1
53	Policy Options - can propose fixed monthly charge based on the proposed policy options	**Yes**	H-2-1
53	Explanation of the method used to design the fixed charge for distribution service (if applicable)	**Yes**	H-2-1
RTSRs and Other Charges			

2015 Cost of Service Checklist

HYDRO OTTAWA LIMITED

EB-2015-0004

Filing Requirement Page # Reference

Date: April 29, 2015

		Yes/No/N/A	Evidence Reference, Notes
53	Retail Transmission Service Rate Work Form - PDF and Excel	**Yes**	H-3-1; Attachment H-3(A); Live Excel filed as well
53	RTSR information must be consistent with working capital allowance calculation	**Yes**	H-3-1
54	If proposing changes to Retail Service Charge - evidence of consultation and notice	**Yes**	H-4-1
54	Wholesale Market Service Rate - reflect $0.0057 in application or justify otherwise	**Yes**	H-5-1
54 & 55	Smart Metering Charge - reflect $0.79 in application for Residential and GS<50	**Yes**	H-6-1
55	Specific Service Charge description/purpose/reason for new and revised SSC; calculations to support charges	**Yes**	H-7-1; Attachment H-7(A)
55	Identify any rates and charges in Conditions of Service that do not appear on tariff sheet Explain nature of costs, schedule outlining revenues 2010-2013, bridge and test Whether these charges are included on tariff sheet	**Yes**	H-7-2
55	Ensure revenue from SSCs corresponds with Operating Revenue evidence	**Yes**	C-2,2; H-7-1;
55	Can propose activities or initiatives that will reduce cost of transition to monthly billing	**N/A**	Transitioned to monthly billing March, 2014
56	Forecast of LV cost, sum of host distributors charges	**Yes**	H-8-1
56	Low Voltage Cost (historical, bridge, test), variances and explanations for substantive changes	**Yes**	H-8-1
56	Support for forecast LV, e.g. Hydro One Sub-Transmission charges	**Yes**	H-8-1
56	Allocation of LV cost to customer classes (typically proportional to Tx connection revenue)	**Yes**	H-8-1
56	Proposed LV rates by customer class	**Yes**	H-8-1

2015 Cost of Service Checklist

HYDRO OTTAWA LIMITED

EB-2015-0004

Filing Requirement Page # Reference

Date: April 29, 2015

		Yes/No/N/A	Evidence Reference, Notes
Loss Factors			
56	Proposed SFLF and Total Loss Factor for test year	**Yes**	H-9-1; Appendix 2-R
56	Statement as to whether LDC is embedded including whether fully or partially	**Yes**	H-9-1
56	Study of losses if required by previous decision	**N/A**	Not applicable to HOL
56	3-5 years of historical loss factor data - Completed Appendix 2-R	**Yes**	H-9-1, Appendix 2-R
56	Explanation of losses >5%	**N/A**	Not applicable to HOL
56	If proposed loss factor >5%, action plan to reduce losses going forward	**Yes**	Not applicable to HOL
56	Explanation of SFLF if not standard	**N/A**	Not applicable to HOL
Rates and Bill Impacts			
57	Current Tariff of Rates and Charges	**Yes**	H-10-1; Attachment H-10(A)
57	Proposed Tariff of Rates - Appendix 2-Z	**Yes**	H-10-1; Appendix 2-V
57	Explanation of changes to terms and conditions of service if changes affect application of rates	**N/A**	Not applicable to HOL
57	Calculations of revenue per class under current and proposed rates; reconciliation of rate class revenue and other revenue to total revenue requirement	**Yes**	Appendix 2-V
57	Completed Appendix 2-V (Revenue Reconciliation)	**Yes**	H-11-1; Appendix 2-V
57	Bill Impacts - completed Appendix 2-W for all classes for representative samples of end-users. Must provide residential 800 kWh and GS<50 2,000 kWh. Commodity and regulatory charges held constant	**Yes**	H-12-1; Appendix 2-W
58 & 59	Mitigation plan if total bill increase for any customer class is >10% including: specification of class and magnitude of increase, description of mitigation measures, justification, revised impact calculation	**N/A**	None over 10%
59	Rate Harmonization Plans, if applicable - including impact analysis	**N/A**	Not applicable to HOL
EXHIBIT I - DEFERRAL AND VARIANCE ACCOUNTS			
59	List of all outstanding DVA and sub-accounts; provide description of DVAs that were used differently than as described in the APH	**Yes**	I-1-1
59	Completed DVA continuity schedule for period following last disposition to present - Excel format	**Yes**	Attachment I-8(A); filed as separate live Excel as well
59	Interest rates applied to calculate carrying charges (month or quarter)	**Yes**	I-1-1
59	Explanation if account balances in continuity schedule differs from trial balance in RRR and AFS	**Yes**	I-1-1
60	Identification of Group 2 accounts that will continue/discontinue going forward, with explanation	**Yes**	I-1-1
60	Statement as to any new accounts, and justification.	**Yes**	I-1-2
60	Statement whether any adjustments made to DVA balances previously approved by Board on final basis; explanation, amount of adjustment and supporting documents	**Yes**	I-1-1
60	Breakdown of energy sales and cost of power by USoA - as reported in AFS mapped and reconciled to USoA. Provide explanation if making a profit or loss on commodity.	**Yes**	I-1-1
60	Statement confirming that IESO GA charge is pro-rated into RPP and non-RPP; provide explanation if not pro-rated.	**Yes**	I-1-1
60	If not addressed previously, disposition of Account 1592 - Completed Appendix 2-TA	**N/A**	Addressed in previous rebasing application (ED-2011-0054)
61	If not addressed previously, disposition of Account 1592 sub-account HST/OVAT ITC - analysis that supports conformity with Dec 2010 APH FAQ (particularly #4) Applicant must state the period that the account covers (i.e. Jul 1-2010 up to start of new rate year (year of rebasing))	**Yes**	I-3-1

2015 Cost of Service Checklist

HYDRO OTTAWA LIMITED

EB-2015-0004

Filing Requirement Page # Reference

Date: April 29, 2015

		Yes/No/N/A	Evidence Reference, Notes
61 & 62	Request for disposition of Account 1508 sub-account IFRS transition costs - completed Appendix 2-U - statement whether any one time IFRS transition costs are embedded in 2015 revenue requirement, where and why it is embedded, and the quantum - explanation for each category of cost recorded in 1508 sub-account, how it meets criteria of one time IFRS admin incremental costs - explanation for material variances in Account 1508 sub-account IFRS Transition Costs Variance - statement that no capital costs, ongoing IFRS compliance costs are recorded in 1508 sub-account; provide explanation if this is not the case	**Yes**	I-4-1; Appendix 2-U
62 & 63	1575 IFRS-CGAAP PP&E account - Account 1575 and 1576 can't be used interchangeably - breakdown of balance, Appendix 2-EA - listing and quantification of drivers - a breakdown for quantification of any accounting changes arising from IFRS in relation to PP&E - volumetric rate rider to clear 1575; - rate of return component is to be applied to 1575 but not recorded in 1575 - statement confirming no carrying charges applied to 1575 - explanation for the basis of the proposed disposition period to clear Account 1575 rate rider - show the balance in DVA continuity schedule	**N/A**	This was addressed by HOL as part of last rebasing application (EB-2011-0054) and no material changes have since been made to depreciation and capitalization.
63, 64 & 65	Changes to depreciation and capitalization in 2012 or 2013 - 1576 IFRS-CGAAP PP&E account - Appendix 2-BA must not be adjusted for 1576 - breakdown of balance related to 1576, Appendix 2-EB or 2-EC - volumetric rate rider to clear 1576; - rate of return component is to be applied to 1576 but not recorded in 1576 - statement confirming no carrying charges applied to 1576 - explanation for the basis of the proposed disposition period to clear Account 1576 rate rider - show the balance in DVA continuity schedule	**N/A**	This was addressed by HOL as part of last rebasing application (EB-2011-0054) and no material changes have since been made to depreciation and capitalization.
65	Retail Service Charges - material balance in 1518 or 1548 - confirm variances are incremental costs of providing retail services - identify drivers - provide schedule identifying all revenues and expenses listed by USoA for 2013, actual/forecast for bridge and test year - state whether Article 490 of APH has been followed; explanation if not followed	**Yes**	I-7-1
65	Retail Service Charges - zero balance in 1518 or 1548 - state whether Article 490 of APH has been followed; explanation if not followed	**Yes**	I-7-1
5 & 65	Identify all accounts for which LDC is seeking disposition; identify DVA for which LDC is not proposing disposition and the reasons why Proposal for disposition of deferral accounts for renewable generation connection and smart grid as set out in FR "Distribution System Plans - Filing Under Deemed Conditions of Licence"	**Yes**	I-8-1
59 & 65	Statement whether DVA balances before forecasted interest match the last AFS	**Yes**	I-8-1
65	Provide an explanation of variance > 5% between amounts proposed for disposition and amounts reported in RRR for each account. Provide explanations even if such variances are < 5% threshold if the variances in question relate to: (1) matters of principle (i.e. conformance with the APH or prior Board decisions, and prior period adjustments); and/or, (2) the cumulative effect of immaterial differences over several accounts totaling to a material difference between what is proposed for disposition in total before forecasted interest and what is recorded in the RRR filings	**Yes**	I-8-1

2015 Cost of Service Checklist

HYDRO OTTAWA LIMITED

EB-2015-0004

Filing Requirement Page # Reference

Date: April 29, 2015

		Yes/No/N/A	Evidence Reference, Notes
66	Show relevant calculations: rationale for allocation of each account, proposed billing determinants and length of disposition period.	**Yes**	I-8-1
66	If applicant is proposing to allocate an account which the Board has not established an approved allocator for the applicant must: -propose and allocator based on the cost driver(s) -propose the charge type (fixed or variable) for recovery purposes -include this in the continuity schedule	**N/A**	HOL is not proposing to establish non-approved allocators
66	Propose rate riders for recovery or refund of balances that are proposed for disposition. The default disposition period is one year; if the applicant is proposing an alternative recovery period must provide explanation.	**Yes**	I-8-1
66	Establish separate rate riders to recover balances in the RSVA's from Market Participants who must not be allocated the RSVA balances related to charges for which the MP's settle directly with the IESO.	**Yes**	I-8-1
66	Establish separate rate riders to recover the balance of account 1589. Distributors who serve class A customers per O.Reg 429/04 must propose an appropriate allocation for their recovery of the global adjustment variance balance based on their settlement process with the IESO.	**Yes**	I-8-1
66	New DVA - must meet causation, materiality, prudence criteria; include draft accounting order	**Yes**	I-1-2
	TOTAL "NO"	**0**	

TABLE OF CONTENTS

Exhibit	Tab	Schedule	Appendix/ Attachment	Contents
A Administration				
	1			**Management Discussion And Analysis**
		1		Management Discussion And Analysis
	2			**Executive Summary**
		1		Executive Summary
		2		Alignment with RRFE
	3			**Customer Engagement**
		1		Customer Engagement Overview
			Appendix 2AC	*Customer Engagement*
			Attachment A-3(A)	*Customer Engagement Report*
	4			**Financial Information**
		1		Audited Financial Statements
			Attachment A-4(A)	*2013 Audited Financial Statements*
			Attachment A-4(B)	*2014 Audited Financial Statements*
		2		Reconciliation of Audited Financial Statements
			Attachment A-4(F)	*2012 Reconciliation of Audited Financial Statements*
			Attachment A-4(G)	*2013 Reconciliation of Audited Financial Statements*

Exhibit	Tab	Schedule	Appendix/ Attachment	Contents
	4			**Financial Information**
			Attachment A-4(H)	*2014 Reconciliation of Audited Financial Statements*
		3		Annual Report and Management Discussion Analysis
			Attachment A-4(C)	*2013 Annual Report of Parent Company*
		4		Rating Agency Reports
			Attachment A-4(D)	*Ratings Report for Hydro Ottawa Holding issued by Dominion Bond Rating Service*
			Attachment A-4(E)	*Ratings Report for Hydro Ottawa Holding issued by Standard and Poors*
		5		Prospectors for Planned and Recent Share Issues
		6		Accounting Orders
		7		Accounting Standards
		8		Confirmation of Accounting Treatment for LDC owned Generation
	5			**Materiality Threshold**
		1		Materiality Threshold
	6			**Administration**
		1		Application and Approval Sought
		2		COS Checklist
		3		Table of Contents
		4		Abbreviations and Defined Terms
		5		Notice of Application

Exhibit	Tab	Schedule	Appendix/ Attachment	Contents
	6			**Administration**
		6		Compliance with OEB's Filing Requirements
		7		Materiality Threshold and Accounting Treatment of Non-Utility Business
		8		Changes to Methodologies Used in Previous Applications
		9		OEB Directives from Previous Board Applications
		10		Conditions of Service
	7			**Applicant Overview**
		1		Applicant Overview
	8			**Corporate Governance**
		1		Organizational Structure
			Attachment A-8(A)	*Shareholder Declaration – Hydro Ottawa Holding Inc.*
			Attachment A-8(B)	*Shareholder Declaration – Hydro Ottawa Limited*
			Attachment A-8(C)	*Charter of the Hydro Ottawa Holding Inc. Board of Directors*
			Attachment A-8(D)	*Charter of the Hydro Ottawa Limited Board of Directors*
			Attachment A-8(E)	*Charter of the Nominating Committee*
			Attachment A-8(F)	*Charter of the Audit Committee*
			Attachment A-8(G)	*Charter of the Governance and Management Resources Committee*
			Attachment A-8(H)	*Charter of the Investment Review Committee*

Exhibit	Tab	Schedule	Appendix/ Attachment	Contents
	8			**Corporate Governance**
			Attachment A-8(I)	*Charter of Strategic Initiatives and Oversight Committee*
			Attachment A-8(J)	*2014 Meeting Schedule*
			Attachment A-8(K)	*Director Orientation and Continuity Education Policy and Process*
			Attachment A-8(L)	*Code of Business Conduct*
			Attachment A-8(M)	*Director Conflict of Interest and Conduct Guidelines*
			Attachment A-8(N)	*Related Party Transactions Disclosure Policy and Process*
			Attachment A-8(O)	*Business Conduct Hotline Brochure*
B Rate Base				
	1			**Rate Base Overview**
		1		Rate Base
			Appendix 2-BA	*Fixed Asset Continuity Schedule*
		2		HOL Distribution System Plan
			Attachment B-1(A)	*DSP Material Investments*
			Attachment B-1(B)	*2014 Annual Planning Report*
			Attachment B-1(C)	*Grid Transformation Plan*
			Attachment B-1(D)	*3rd Party Review Kinetrics Review Letter*
		3		Information Technology Strategy
			Attachment B-1(E)	*IT Strategy*

Exhibit	Tab	Schedule	Appendix/ Attachment	Contents
		4		CIS Transition Project
	2			**Gross Assets**
		1		Assets – Property Plant and Equipment Continuity Schedule
		2		Variance Analysis
	3			**Allowance for Working Capital**
		1		Working Capital Requirement
			Attachment B-3(A)	*COP 2016 to 2020*
	4			**Smart Meter Stranded Assets**
		1		2016 Proposed treatment for Recovery of Stranded Meters
			Appendix 2-S	*Stranded Meter Treatment*
	5			**Capital Expenditures**
		1		Capital Expenditure Overview
			Appendix 2-AA	*Capital Projects Table*
			Appendix 2-AB	*Capital Expenditures*
		2		Capitalization Policy
			Attachment B-5(A)	*Capitalization Policy*
		3		Capitalization of Overhead
			Appendix 2-D	*Overhead Expenses*
		4		Service Quality and Reliability Performance

Exhibit	Tab	Schedule	Appendix/ Attachment	Contents
			Appendix 2-G	*Service Reliability Indicators*
C Operating Revenue				
	1			**Load and Revenue Forecasts**
		1		Load Forecast
			Appendix 2-I	*Load Forecast CDM Adjustment Work Form*
		2		Accuracy of Load Forecast and Variance Analyses
			Appendix 2-IA	*Summary and Variance of Actual and Forecast Data*
	2			**Other Revenue**
		1		Other Revenue Summary
			Appendix 2-H	*Other Operating Revenue*
		2		New Proposed Specific Service Charges
			Attachment C-1(A)	Cop 2016 to 2020
			Attachment C-1(B)	Weather Normalized Comparison
			Attachment C-1(C)	Ottawa Rpt with CDM
			Attachment C-1(D)	Weather Date Sept 18 2014
			Attachment C-1(E)	Calendar
			Attachment C-1(F)	CDM
			Attachment C-1(G)	Econ Data Sept 2014
			Attachment C-1(H)	Monthly Data

Exhibit	Tab	Schedule	Appendix/ Attachment	Contents
			Attachment C-1(J)	Demand Factor
			Attachment C-1(K)	Loss Fct
			Attachment C-1(L)	Price
D Operating Expenses				
	1			**Operating Expenses Overview**
		1		Operating Expenses Summary
		2		Operating Maintenance and Administration Expense
			Appendix 2-JA	*Summary of Recoverable OM&A Expenses*
			Appendix 2-L	*Recoverable OM&A Cost per Customer and per Full Time Equivalent*
			Attachment D-1(A)	*Budget Memo*
	1	3		OM&A Cost Drivers and Program Variance Analysis
			Appendix 2-JB	*OM&A Cost Drivers*
			Appendix 2-JC	*OM&A Programs Table and Variance Analysis*
			Attachment D-1(B)	*OM&A Programs*
		4		Historical and Forward Looking Productivity Initiatives
			Attachment D-1(C)	*Productivity Scorecard for Q4*
		5		Productivity & Benchmarking Overview
			Attachment D-1(D)	*PSE Benchmarking Report*
		6		Customer Service Strategy
			Attachment D-1(E)	*Customer Persona*

Exhibit	Tab	Schedule	Appendix/ Attachment	Contents
		7		Workforce Planning Strategy
		8		Employee Compensation Strategy 2016
			Appendix 2-K	*Employee Costs*
			Attachment D-1(F)	*Actuarial Report*
		9		Health, Safety and Environment
	2			**Program Delivery Costs**
		1		Shared Services and Corporate Cost Allocation
			Appendix 2-N	*Shared Services and Corporate Cost Allocation*
		2		Purchases of Non-Affiliate Services
	2		*Attachment D-2(A)*	*Procurement Policy*
			Attachment D-2(B)	*Procurement and Disbursements Policy*
			Attachment D-2(C)	*Procurement Process*
		3		One-Time Costs
		4		Regulatory Costs
			Appendix 2-M	*Regulatory Costs*
		5		Low-Income Energy Assistance Program
		6		Charitable and Political Donations
		7		Non-Recoverable Contributions

Exhibit	Tab	Schedule	Appendix/ Attachment	Contents
	3			**Depreciation, Amortization and Depletion**
		1		Depreciation, Amortization and Depletion
	4			**Taxes or Payments in Lieu of Taxes**
		1		Taxes or Payments in Lieu of Taxes
			Attachment D-4(A)	*HOL 2012 Tax Return Redacted*
			Attachment D-4(B)	*HOL 2013 Tax Return Redacted*
			Attachment D-4(C)	*PILS Workform 2016*
			Attachment D-4(D)	*PILS Workform 2017*
			Attachment D-4(E)	*PILS Workform 2018*
			Attachment D-4(F)	*PILS Workform 2019*
	4		*Attachment D-4(G)*	*PILS Workform 2020*
			Attachment D-4(H)	*PILS Workform 2016 PDF*
			Attachment D-4(I)	*PILS Workform 2017 PDF*
			Attachment D-4(J)	*PILS Workform 2018 PDF*
			Attachment D-4(K)	*PILS Workform 2019 PDF*
			Attachment D-4(L)	*PILS Workform 2020 PDF*
	5			**Conservation and Demand Management**
		1		Lost Revenue Adjustment Mechanism

Exhibit	Tab	Schedule	Appendix/ Attachment	Contents
			Attachment D-5(A)	*OPA Final Verified Annual 2013 CDM Report*
			Attachment D-5(B)	*OEB 2013 CDM Annual Report*
		2		LRAM Variance Account
E Cost of Capital and Capital Structure				
	1			**Cost of Capital and Capital Structure**
		1		Capital Structure
			Appendix 2-OA	*Capital Structure*
			Appendix 2-OB	*Debt Instruments*
			Attachment E-1(A)	*Credit Agreement as Amended*
	1		*Attachment E-1(B)*	*Grid Promissory Note*
			Attachment E-1(C)	*HOL $50 million Promissory Note*
			Attachment E-1(D)	*HOL $107.185 million Promissory Note*
			Attachment E-1(E)	*HOL $138.667 million Promissory Note*
			Attachment E-1(F)	*HOL $121.333 million Promissory Note*

Exhibit	Tab	Schedule	Appendix/ Attachment	Contents
F Calculation or Revenue Deficiency or Surplus				
	1			**Calculation or Revenue Deficiency or Surplus**
		1		Calculation or Revenue Deficiency or Surplus
			Attachment F-1(A)	*Revenue Requirement Workform 2016*
			Attachment F-1(B)	*Revenue Requirement Workform 2017*
			Attachment F-1(C)	*Revenue Requirement Workform 2018*
			Attachment F-1(D)	*Revenue Requirement Workform 2019*
			Attachment F-1(E)	*Revenue Requirement Workform 2020*
G Cost Allocation				
	1			**Cost Allocation Study Requirements**
		1		Cost Allocation
			Appendix 2-P	*Cost Allocation*
	1		*Attachment G-1(A)*	*Hydro Ottawa CA Report*
			Attachment G-1(B)	*Hydro Ottawa 2016 Cost Allocation Model*
			Attachment G-1(C)	*Hydro Ottawa 2017 Cost Allocation Model*
			Attachment G-1(D)	*Hydro Ottawa 2018 Cost Allocation Model*
			Attachment G-1(E)	*Hydro Ottawa 2019 Cost Allocation Mode*

Exhibit	Tab	Schedule	Appendix/ Attachment	Contents
			Attachment G-1(F)	*Hydro Ottawa 2020 Cost Allocation Mode*
		2		Unmetered Loads
H Rate Design				
	1			**Fixed / Variable Proportion**
		1		Fixed / Variable Proportion
	2			**Policy Consultation**
		1		Rate Design Policy Consultation
	3			**Retail Transmission Service Rates**
		1		Retail Transmission Service Rates
			Attachment H-3(A)	*2015 RTSR Model*
	4			**Retail Service Charges**
		1		Retail Service Charges
	5			**Wholesale Market Service Rate**
		1		Wholesale Market Service Rate
	6			**Smart Metering Charge**
		1		Smart Metering Charge

Exhibit	Tab	Schedule	Appendix/ Attachment	Contents
	7			**Specific Service Charges**
		1		Specific Service Charges
	8			**Low Voltage Service Rates**
		1		Low Voltage Service Rates
	9			**Lost Adjustment Factors**
		1		Lost Adjustment Factors
			Appendix 2-R	*Loss Factor*
	10			**Tariffs of Rates and Charges**
		1		Current and Proposed Tariff of Rates and Charges
			Appendix 2-Z	*Proposed Tariff of Rates and Charges*
	11			**Revenue Reconciliation**
		1		Revenue per Rate Class under Current and Proposed Rates
	11		*Appendix 2-V*	*Revenue Reconciliation*
	12			**Bill Impact Information**
		1		Bill Impact Information

Exhibit	Tab	Schedule	Appendix/ Attachment	Contents

			Appendix 2-W	*Bill Impacts*
I Deferral and Variance Accounts				
	1			**Status of Deferral and Variance Accounts**
		1		Current Deferral and Variance Accounts
			Attachment 1-8(A)	*EDDVAR Continuity Schedule*
		2		New Deferral and Variance Accounts
	2			**PILS and Tax Variance: Account 1592**
		1		PILS and Tax Variances for 2006 and Subsequent Years – Account 1592
	3			**Harmonized Sales Tax Deferral Account**
		1		Harmonized Sales Tax Deferral Account
	4			**One-Time Incremental IFRS Cost**
	4	1		One-Time Incremental IFRS Cost
			Appendix 2-U	*IFRS Transition Costs*
	5			**Account 1575**
Exhibit	**Tab**	**Schedule**	**Appendix/ Attachment**	**Contents**
		1		Breakdown of Balance related to IRFS-CGAAP Transitional PP&E
	6			**Account 1576**

	1	Account Changes under CGAAP
7		**Retail Service Charges**
	1	Retail Service Charges
8		**Disposition of Deferral and Variance Accounts**
	1	Disposition of Deferral and Variance Accounts

ABBREVIATIONS AND DEFINED TERMS

1.0 ABBREVIATIONS

"2012 AMP" – Hydro Ottawa 2012 Asset Management Plan
"2GIRM" – Second Generation Incentive Regulation Mechanism
"3GIRM" – Third Generation Incentive Regulation Mechanism
"4GIRM" – Fourth Generation Incentive Regulation Mechanism
"AFUDC" – Allowance for funds used during construction
"AMCD" – Advanced Metering Communications Device
"AMI MT" – Advanced Metering Infrastructure Management Tool
"AMI" – Advanced Metering Infrastructure
"AMP" – Arrears Management Plan
"APH" – Accounting Procedures Handbook
"ARC" – Affiliate Relationships Code for Electricity Transmitters and Distributors
"ARO" – Asset Retirement Obligation
"BA" – Bankers' Acceptance
"Billing Practices Report" – Draft Report of the Board, Electricity and Natural Gas Distributors' Residential Customer Billing Practices and Performance (EB-2014-0198) issued September 18, 2014
"Board Filing Requirements" – Update to Chapter 2 of the Filing Requirements for Transmission and Distribution Applications, issued July 18, 2014
"Board" – the Ontario Energy Board"
"BOMA" – Building Owners and Managers Association
"BRR" – Base Revenue Requirement
"C&M" – Construction and Maintenance division
"CAFM" – Computer Aid Facilities Management
"Canadian AcSB" – Canadian Accounting Standards Board
"CAPEX" – Capital Expenditures
"CC&B" – Customer Care & Billing
"CCA" – Capital Cost Allowance

"CDD" – Cooling Degree Days
"CDM" – Conservation and Demand Management
"CEA" – Canadian Electricity Association
"CEC" – Cumulative Eligible Capital
"CGAPP" – Canadian Generally Accepted Accounting Principles
"CICA" – Canadian Institute of Chartered Accountants
"CIO" – Chief Information Officer
"CIP" – Construction-Work-in-Progress
"CIS" – Customer Information System
"City" – the City of Ottawa
"CLD" – Coalition of Large Distributors
"COO" – Chief Operating Officer
"COS" – Cost of Service
"Cost Allocation Report" – Report of the Board, Review of Electricity Distribution Cost Allocation Policy, issued March 31, 2011
"Cost Allocation Report" – Staff Report to the Board, Implementation of the Revisions to the Board's Electricity Distributor Cost Allocation Policy (EB-2010-0219) issued August 4, 2011
"CPI" – Consumer Price Index
"CRTC" – Canadian Radio-television and Telecommunications Commission
"CSA" – Canadian Standards Association
"CSSP" – Customer Service Strategy Plan
"CVR" – Conservation Voltage Reduction
"D&T" – Deloitte and Touche
"DAM" – Distribution Asset Management division
"DBA" – Data Base Administrator
"DRC" – Debt Retirement Charge
"DSC" – Distribution System Code
"DRRM" – Distribution Reliability Response Maintainer
"EBT" – Electronic Business Transactions
"ECE" – Eligible Capital Expenditure

"EDA" – Electricity Distributors Association
"EDDVAR Report" – Electricity Distributors' Deferral and Variance Account Review Initiative – Report of the Board (EB-2008-0046) issued July 31, 2009
"EDR" – Electricity Distribution Rate
"EI" – Employment Insurance
"EIT" – Engineer in Training
"Emp" – Employment
"EMT" – Executive Management Team
"Energy Ottawa" – Energy Ottawa Inc.
"ENV" – Environment
"ERM" – Enterprise Risk Management
"ESA" – Electrical Safety Authority
"ESQR" – Electricity Service Quality Requirement
"FCI" – Fault Circuit Indicator
"FIT" – Feed in Tariff
"FMV" – Fair Market Value
"FTE" – Full time equivalent
"GA" – Global Adjustment
"GDP" – Gross Domestic Product
"GEA" – Green Energy and Green Economy Act (Ontario), 2009
"GHG" – Greenhouse Gas
"GIS" – Geographic Information System
"GPS" – Geographic Positioning System
"GRM" – Geographic Resource Management
"GS >50kW" – General Service with average monthly demand greater than 50 kilowatts
"GS <50kW" – General Service with average monthly demand less than 50 kilowatts
"GST" – Goods and Service Tax
"H&S" – Health and Safety
"HDD" – Heating Degree Days
"Holding Company" – Hydro Ottawa Holding Inc.
"HR" – Human Resources

"HST" – Harmonized Sales Tax
"Hydro One" – Hydro One Networks Inc.
"Hydro Ottawa" – Hydro Ottawa Limited
"IAS 16" – IAS 16 Property, Plant and Equipment
"IAS 19" – IAS 19 Employee Benefits
"IAS 23" – IAS 23 Borrowing Costs
"IAS" – International Accounting Standard
"IASB" – International Accounting Standards Board
"IBEW" – International Brotherhood of Electrical Workers
"IESO" – Independent Electricity System Operator
"IFRS" – International Financial Reporting Standards
"IGRS" – Integrated Gas Recovery Services Inc.
"IM/IT" – Information Management and Information Technology
"IPSP" – Integrated Power System Plan
"IRM" – Incentive Regulation Mechanism
"IS&T" – Information Services and Technology
"ISO" – International Organization for Standardization
"IT" – Information Technology
"ITC" – Input Tax Credit
"IVR" – Interactive Voice Recording
"JDE" – J.D. Edwards
"Kinectrics" – Kinectrics Inc.
"KPI" – Key Performance Indicators
"kW" – Kilowatt
"kWhs" – Kilowatt hours
"LAC" – Locate Alliance Consortium
"LCBF" – Long Canada Bond Forecast
"LCT" – Large Corporation Tax
"LDC" – Local Distribution Company
"LEAP" – Low-Income Energy Assistance Program

"LEAP Report" – Report of the Board, Low-Income Energy Assistance Program (EB-2008-0150) issued March 10, 2009
"LRAM" – Lost Revenue Adjustment Mechanism
"LRT" – Light Rail Transit Line
"LTLT" – Longer Term Load Transfer
"LV" – Low Voltage
"MAPE" – Mean Absolute Percentage Error
"MDM/R" – Meter Data Management/Repository
"MEARIE" – Municipal Electric Association Reciprocal Insurance Exchange
"MER" – Metering and Electricity Revenue
"MEUs" – Municipally Owned Hydro-Electric Utilities
"MicroFIT" – Micro Feed in Tariff
"MIFRS" – Modified International Financial Reporting Standards
"MOE" – Ministry of Energy
"MOL" – Ministry of Labour
"MSC" – Monthly Service Charge
"MSP" – Meter Service Provider
"MTS" – Municipal Transformer Station
"MUSH" – Municipalities, Universities, Schools and Hospitals
"MW" – Megawatt
"MWh" – Megawatt hour
"NBV" – Net Book Value
"New Policy Options for the Funding of Capital Investments" – Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module (EB-2014-0219) issued September 18, 2014
"NManEmp" – Non-Manufacturing Employment
"non RPP" – Non Regulated Price Plan
"NPV" – Net Present Value
"O&M" – Operations and Maintenance
"ODI" – Oracle Data Integrator
"OEA" – Ontario Energy Association

"OEFC" – Ontario Electricity Financial Corporation
"OH&S" – Occupational Health, Safety and Environment
"OHSAS" – Occupational Health and Safety Assessment Series
"OM&A" – Operations, Maintenance and Administration
"OMERS" – Ontario Municipal Employees Retirement System
"OMS" – Outage Management System
"OP" – Operational Technologies
"OPA" – Ontario Power Authority
"OPC" – Ontario Price Credit
"ORCGA" – Ontario Regional Common Ground Alliance
"PARs" – Production Action Reports
"PBR" – Performance Based Regulation
"PC" – Personal Computer
"PCBs" – Polychlorinated Biphenyls
"PEG" – Pacific Economics Group
"PILC" – Paper Insulated Lead Cable
"PILs" – Payments in Lieu of Taxes
"PLM" – Power line Maintainer
"PM" – Project Manager
"PMP" – Program Management Plan
"PP&E" – Property, plant and equipment
"PSWHA" – Public Service Works on Highways Act
"PTO" – Power Take Off
"PUC" – Paid-up Capital
"QA" – Quality Assurance
"QC" – Quality Control
"Rate Design Report" – Draft Report of the Board, Rate Design for Electricity Distributors (EB-2012-0410) issued March 31, 2014
"RCVA" – Retail Cost Variance Account
"Region" – Regional Municipality of Ottawa-Carleton

"Reliability Measures and Targets Paper" – Staff Discussion Paper, Electricity System Reliability Measures and Targets (EB-2014-0189) issued July 15, 2014
"Revenue Decoupling Report" – Staff Report to the Board, Distribution Revenue Decoupling (EB-2010-0060) issued January 18, 2011
"RFP" – Request for Proposal
"ROE" – Return on Equity
"RPI" – Real Personal Income
"RPP" – Regulated Price Plan
"RRFE Report" – Report of the Board, Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, issued October 18, 2012
"RRFE" – Renewed Regulatory Framework for Electricity Distributors
"RRR" – Reporting and Record Keeping Requirements
"RRWF" – Revenue Requirement Work Form
"RSC" – Retail Settlement Code
"RSVA" – Retail Settlement Variance Account
"RTU" – Remote Terminal Unit
"SAIDI" – System Average Interruption Duration Index
"SAIFI" – System Average Interruption Frequency Index"
"SAN" – Storage Area Network
"SCADA" – Supervisory Control and Data Acquisition
"SLAs" – Service Level Agreements
"SM" – Smart Meter
"SMC" – Smart Metering Charge
"SME" – Smart Meter Entity
"SMI" – Smart Meter Initiative
"SOA" – System of Accounts
"SOM" – Switching Optimization Module
"SPC" – Special Purpose Charge
"SPL" – SPL WorldGroup Inc.
"SQI" – Service Quality Indicator
"SSM" – Shared Savings Mechanism

"STRs" – Service transaction requests
"TDRP" – Total Demand Response Initiative
"THESL" – Toronto Hydro Electric System Limited
"TOC" – Transformer Ownership Credit
"TOU" – Time of Use
"UCC" – Undepreciated Capital Cost
"USL" – Unmetered Scattered Load
"USofA" – Uniform System of Accounts
"VEE" – Validation, Editing and Estimation
"WCA" – Working Capital Allowance
"WMP" – Wholesale Market Participant
"WSCP" – Work-order Supply Chain Process
"WSIB" – Workplace Safety and Insurance Board
"XLPE" – Crosslink Polyethylene

2.0 DEFINED TERMS

'Historical Years' means 2012, 2013, 2014
"Most recent Board Approved Test Year 2012
'Bridge Year' means 2015
'Test Year' means 2016

'Capital expenditure' is the amount spent on a capital project/program in a given year. 'Capital additions' are the amounts that are capitalized for the project/program in a given year and are equal to the sum of the capital expenditures in the year plus the construction work in progress from the previous year minus the construction work in progress for the given year minus any deletions in the year.

NOTICE OF APPLICATION

Pursuant to the OEB's filing requirements set out in Chapter 2 Filing Requirements for Electricity Distribution Rate Applications dated July 18, 2014 this schedule provides the following administrative information:

1. Notice of Application, including:
    a. Statement of who will be affected by this application;
    b. Summary of Bill Impacts
    c. Publication information;
    d. Contact Information; and
    e. Internet address for viewing the application.

1.0 NOTICE OF APPLICATION

a) Affected Customers

Hydro Ottawa Limited has approximately 315,000 distribution customers across its service territories that will be affected by this rate application. More information regarding Hydro Ottawa's customer base is available in the Executive Summary to this application available in Exhibit A, Tab 2, Schedule 1 and Hydro Ottawa's Customer Engagement evidence provided in Exhibit A, Tab 3, Schedule 1.

b) Summary of Bill Impacts

Table 1 below provides a high level summary of distribution bill impacts for a typical residential customer using 800kWh per month and for a General Service <50kW customer using 2000kWh per month. Hydro Ottawa proposes to include in its Notice of Application a summary of bill impact information that will be published pursuant to OEB directions or as set out below.

Table 1 – Bill Impacts Summary

Residential (800kWh)					
Distribution Bill	**2016**	**2017**	**2018**	**2019**	**2020**
Total ($)	$2.66	$1.44	$1.29	$0.90	$0.47
Total Bill (% Δ)	1.84%	1.06%	0.93%	0.65%	0.34%
General Service <50kW (2000kWh)					
Distribution Bill	**2016**	**2017**	**2018**	**2019**	**2020**
Total ($)	$65.95	$70.55	$74.85	$78.95	$81.60
Total Bill (% Δ)	2.11%	1.41%	1.30%	1.22%	0.78%

c) Publication Information

Hydro Ottawa proposes to publish a notice of this application in the Ottawa Citizen and LeDroit newspapers and post a copy of the application on Hydro Ottawa's website www.hydroottawa.com . LeDroit is a daily newspaper serving the French speaking communities in the Ottawa Gatineau area. The Ottawa Citizen is a daily newspaper serving the Ottawa area. Both LeDroit and the Ottawa Citizen have a paid circulation of approximately 30,669 and 94,449 respectfully. Hydro Ottawa choose these publications due to their significant reach into the French and English speaking communities within the city of Ottawa and the village of Cassleman.

d) Contact Information

The names and contact information of Hydro Ottawa Limited's authorized representative and legal counsel for this Custom IR application to the Board are:

a. Authorized Representative

Mr. Geoff Simpson
Chief Financial Officer
Hydro Ottawa Limited

3025 Albion Road North
P.O. Box 8700
Ottawa, Ontario
K1G 3S4

Telephone: 613-738-5499 ext. 7606
E-mail: RegulatoryAffairs@HydroOttawa.com

b. Counsel

Mr. Fred D. Cass
Aird & Berlis LLP

Brookfield Place
181 Bay Street, Suite 1800
P.O. Box 754

Telephone: 416-865-7742
E-mail: fcass@airdberlis.com

e) Internet address for viewing the application

This application and related documents are available for viewing on Hydro Ottawa's website, www.hydroottawa.com . Additionally, Hydro Ottawa's Communications Team will be communicating via twitter and Facebook through the company's official handles, respectively "@hydroottawa" and "Hydro Ottawa".

COMPLIANCE WITH THE OEB'S FILING REQUIREMENTS

Hydro Ottawa's Custom IR Application is guided by the requirements set out in Chapters 2 and 5 of the OEB's Filing Requirements for Electricity Distribution Rate Applications Issued July 18, 2014 ("the filing requirements") as well as the requirements set by the Board in the Renewed Regulatory Framework for Electricity Distributors ("RRFE"). See Exhibit A-6-2 for a checklist that relates Hydro Ottawa's exhibits and evidence to the OEB's filing requirements and RRFE requirements.

MATERIALITY THRESHOLD AND ACCOUNTING TREATMENT OF NON-UTILITY BUSINESS

1.0 HYDRO OTTAWA'S MATERIALITY THRESHOLD

Pursuant to section 3.2.2.2 of the Filing Requirements, Hydro Ottawa's materiality threshold is $880K based on a distribution revenue requirement of $177 million for 2016. Hydro Ottawa has adopted a $750K materiality threshold for the purposes of this application.

2.0 ACCOUNTING TREATMENT OF NON-UTILITY BUSINESS

Hydro Ottawa confirms that it has segregated the business activities of its non-utility business from its rate-regulated business.

CHANGES TO METHODOLOGIES USED IN PREVIOUS APPLICATIONS

Since Hydro Ottawa's last rebasing in 2011 (EB-2011-0054) Hydro Ottawa has made changes to the Accounting standard used for financial reporting purposes. Specifically, Hydro Ottawa has completed the transition to International Financial Reporting Standards ("IFRS") for financial reporting. This transition became effective January 1, 2015.

OEB DIRECTIVES FROM PREVIOUS BOARD DECISIONS AND/OR ORDERS

Below is a summary of previous OEB directives and a description of how such directives are addressed by Hydro Ottawa in the current application.

a) In Decision EB-2011-0054 the OEB directed Hydro Ottawa to prepare a new lead-lag study to be filed in its next cost of service application to reflect the move to monthly billing at the end of 2013. Hydro Ottawa is not filing a new lead lag study in the context of the current proceeding due to insufficient monthly billing data available to support reliable findings. Hydro Ottawa expects to be in a position to provide a new lead/lag study in Q3 of 2015.

b) In EB-2012-0383 the Board indicated that unmetered load (kW) and consumption (kWh) data should ultimately be used to update load profile data for the purpose of the distributor's next cost allocation filing with the Board, which occurs during the distributor's next cost of service application to the Board. As noted in Exhibit G-1-2, Hydro Ottawa is aware of a study being undertaken by Navigant Consulting Limited ("Navigant") and related working group activities examining unmetered loads as initiated by the Ontario Energy Board (OEB) pursuant to the proceeding EB-2012-0383 Review of Cost Allocation Policy for Unmetered Loads. Based on the record of the proceeding, the Navigant study and a revised cost allocation model are expected to be completed prior to the 2016 Board filing requirements release. Should the cost allocation model be updated with the 2016 filing requirements, Hydro Ottawa intends to review the model for any material impacts to the Company's current proposed cost to revenue allocation ratios.

CONDITIONS OF SERVICE

Hydro Ottawa recently updated its Conditions of Service ("COS"), Version 5, which is available on its website under Rates and Conditions at the following link: https://hydroottawa.com/about/policies/conditions-of-service/. This current version went into effect April 1, 2015. On this same date, a confirmation letter was sent to the Board.

In alignment with the customer value objective of the RRFE, over the course of 2014 Hydro Ottawa engaged key internal and external stakeholders to assess the effectiveness of Hydro Ottawa's COS from the perspective of stakeholders. These groups included residential and business customers, developers, city planners, city councillors and internal employees. Feedback sessions were led by professional facilitator Janet Leblanc and Associates Inc. Further details on this customer engagement initiative and the associated outcomes are provided in Exhibit A-3, Section 2.1.4.

In follow-up to several recommendations identified through the customer engagement process, Hydro Ottawa secured the professional services of The Masha Krupp Translation Group Ltd to edit the document for consistency and conciseness. A second phase to the document enhancement plan will render a copy of Hydro Ottawa's Conditions of Service in web content for easy access and search ability (Q2/Q3 2015). This phase will utilize a third-party editor to improve the document's navigability, accessibility, and flow.

Ultimately Hydro Ottawa anticipates that its new version of Conditions of Service will improve the customer experience when accessing information on Hydro Ottawa services.

1.0 REVISION HIGHLIGHTS

In addition to updating COS V5 to reflect current regulatory and business requirements, the following key changes were made:

- Section 1.6 updated and expanded customer rights and responsibilities with regard to maintenance of their own equipment and lead times for service isolation requests;
- Section 2.3.2.12 updated power outage reporting procedures;
- Section 2.3.7.2 updated to advise that a fee will be charged when Hydro Ottawa must manually read an interval meter, due to an outstanding, inoperable phone line;
- Section 2.4.3 revised requirement for residential security deposits;
- Section 2.4.3.4 added provision of a third-party guarantor, in lieu of a deposit;
- Section 2.4.4 added billing and payment process for generation accounts;
- Section 2.4.4.5 notes the phasing out of the transformer ownership credit for customer-owned transformers;
- Section 2.4.6.7 added conditions under which credit balances on accounts may be transferred
- Section 2.4.6.8 added process for generator payments;
- Section 2.4.7 added a new section dedicated to Eligible Low-Income Consumers and the low-income energy assistance provisions and qualifications;
- Section 3.1.1.3 removed provision that ownership of underground secondary service conductors would be transferred at no cost;
- Section 3.1.3.7 added provision that Hydro Ottawa will extend the overhead distribution system to provide for a single standard, 1-phase, secondary residential service within its service area;
- Section 3.5 removed mandatory Micro-FIT insurance provision;
- Section 3.9.1 revised temporary underground service requirement from 400-A to “up to 400 A;
- Section 4.0 revised, added and removed numerous Definitions;

- Appendix B – added provision of a 25-year revenue horizon for some MUSH projects;
- Appendix D - revised account set up information requirements; and
- Appendix G – added more exceptions to current technical standards and related business processes.

APPLICANT OVERVIEW

Hydro Ottawa Limited ("Hydro Ottawa") was created in November 2000 following the amalgamation of the municipalities of the former Region of Ottawa-Carleton. Hydro Ottawa acquired the assets of Casselman Hydro Inc. in April 2002, and therefore, as Attachment A-7(A) reveals, the Hydro Ottawa service territory also includes the Village of Casselman. The Village of Casselman and the City of Ottawa are separated by the territory of Hydro One Networks Inc. ("Hydro One").

Hydro Ottawa is one of 73 distinct local distribution companies ("LDCs") in Ontario regulated by the Ontario Energy Board. While all of these operate under the same fundamental direction from the Board, each is confronted with their own unique qualities. Hydro Ottawa's foremost distinctiveness is its physical size; with a service territory made up of 650 km^2 rural area and 454 km^2 of urban area, its total service area of 1,104 km^2 makes it the fifth physically largest in the province. For context, Hydro Ottawa's service territory is geographically larger than the combined service territories of Toronto Hydro-Electric System Limited ("THESL") and Horizon Utilities Corporation ("Horizon").

With roughly 315,000 customers within its service territory, it is also one of the largest LDCs in the province in terms of customer count, with only PowerStream Inc., Toronto Hydro and Hydro One surpassing Hydro Ottawa with regard to number of customers.

Hydro Ottawa's service territory is a geographically diverse area, with significant population dispersion. The Hydro Ottawa service territory sits at the convergence of three major rivers: the Ottawa River, the Gatineau River and the Rideau River. The Ottawa River functions as the northern border of Hydro Ottawa's service territory, beyond being the province of Quebec. Hydro Ottawa is otherwise completely surrounded by the service territory of Hydro One. The Rideau Canal, which by-passes unnavigable sections of the Rideau River, winds itself through Hydro Ottawa's service territory. Around the main urban area of the city of Ottawa is an extensive greenbelt comprised of mostly forest, farmland and marshland. Outside of the greenbelt, there are a number of

rapidly expanding suburban communities. These distinct geographical features present Hydro Ottawa with unique circumstances in terms of response time and ultimately, operating costs. For more information regarding the unique features of Hydro Ottawa's serving territory refer to Hydro Ottawa's Executive Summary available in A-2-1. A map of Hydro Ottawa Limited's service territory is available in Exhibit A-7-1, Attachment A.

Host Distributor vs. Embedded

Hydro Ottawa's service area is surrounded by the service area of Hydro One Network Inc. ("Hydro One"). Hydro Ottawa accordingly contains no licensed distributors embedded in its service area. Hydro Ottawa's load is primarily delivered through transmission connection points; however, there are a number of delivery points embedded in the Hydro One distribution system, primarily in rural areas.

High Voltage Distribution Assets

The following list of substations in Table 1 includes all of Hydro Ottawa's assets that operate at or above 50kV and form part of the distribution system. Table 1 was filed in Exhibit A1-4-1 of EB-2011-0054 and approved pursuant to a settlement agreement filed with the Board November 1, 2011. The approvals extended to the Cyrville and Ellwood substations as well as the expanded capacity at Fallowfield DS and the Terry Fox substation.

Table 1 – Transformer Substations above 50 kW[1]

Transformer Substations above 50 kV and Part of Hydro Ottawa's Distribution System	
Epworth DS	Marchwood MS
Merivale DS	Bridlewood MS(27.6kV)
Manordale DS	Bridlewood MS (8kV)
Centrepointe DS	Kanata MTS
Uplands MS (27.6kV)	Cyrville MS

[1] DS means distribution station, MS means municipal station, MTS means municipal transformer station. This terminology is historical, often based on past ownership arrangements.

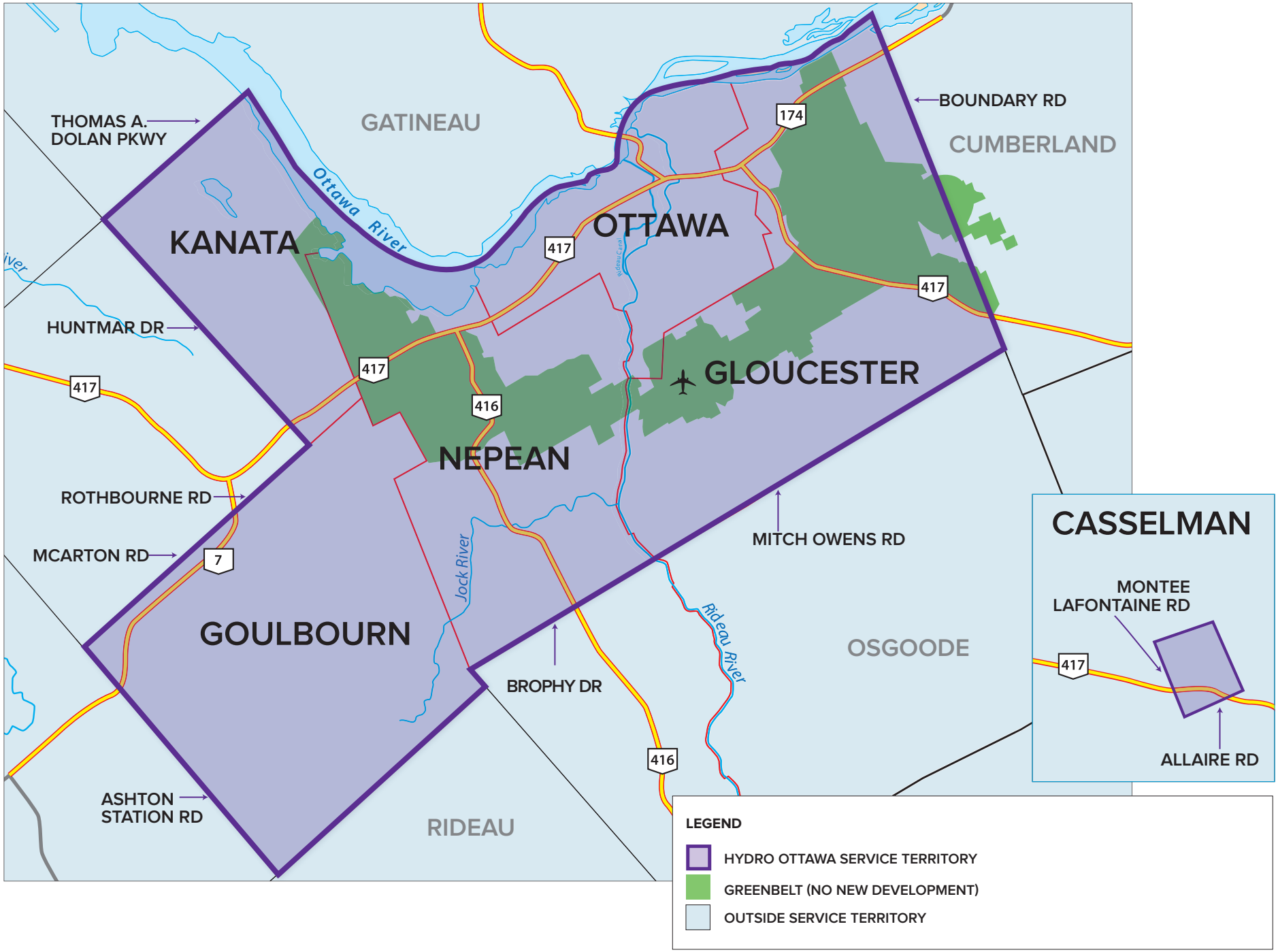
Limebank MS Moulton MS	Ellwood MS Fallowfield DS Richmond South DS Terry Fox DS

Table 2 shows the transformer stations which Hydro Ottawa plans to add assets above 50kV over the period of 2015-2020.

Table 2 – Transformer Substations above 50 kV to be added

Transformer Substations with assets being added above 50 kV and Part of Hydro Ottawa's Distribution System	
Station Name	**Planned In Service Date**
South 28kV Substation (yet to be named)	2020

Hydro Ottawa is therefore seeking approval from the Board that this substation form part of Hydro Ottawa's distribution system, and that the amount be included in rate base. Exhibit A-6-1 includes the specific request for approvals pertaining to the South 28kV substation. Hydro Ottawa records these stations per the Uniform System of Accounts as Account 1815 Transformer Station Equipment - Normally Primary above 50 kV.


THOMAS A. DOLAN PKWY
GATINEAU
Ottawa River
BOUNDARY RD
174
CUMBERLAND
KANATA
OTTAWA
417
417
HUNTMAR DR
417
GLOUCESTER
416
NEPEAN
ROTHBOURNE RD
MCARTON RD
7
Jock River
MITCH OWENS RD
CASSELMAN
MONTEE LAFONTAINE RD
417
ALLAIRE RD
GOULBOURN
BROPHY DR
Rideau River
OSGOODE
416
ASHTON STATION RD
RIDEAU
LEGEND
HYDRO OTTAWA SERVICE TERRITORY
GREENBELT (NO NEW DEVELOPMENT)
OUTSIDE SERVICE TERRITORY

CORPORATE GOVERNANCE

Pursuant to section 2.4.8 of the OEB's Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2014 Edition for 2015 Rates Applications (July 18, 2014) (hereinafter "the filing requirements"), Hydro Ottawa Limited herein provides information regarding the corporate and utility organizational structure, and corporate governance practices. This schedule includes the following attachments:

- Attachment A-8 (A) – Shareholder Declaration – Hydro Ottawa Holding Inc.
- Attachment A-8 (B) – Shareholder Declaration – Hydro Ottawa Limited
- Attachment A-8 (C) – Charter of the Hydro Ottawa Holding Inc. Board of Directors
- Attachment A-8 (D) – Charter of the Hydro Ottawa Limited Board of Directors
- Attachment A-8 (E)- Charter of the Nominating Committee
- Attachment A-8 (F) – Charter of the Audit Committee
- Attachment A-8 (G) – Charter of the Governance and Management Resources Committee
- Attachment A-8 (H) – Charter of the Investment Review Committee
- Attachment A-8 (I) – Charter of the Strategic Initiatives and Oversight Committee
- Attachment A-8 (J) – 2014 Meeting Schedule - Hydro Ottawa Holding Inc. Board, its committees, and its subsidiary board, Hydro Ottawa Limited Board
- Attachment A-8 (K) - Director Orientation and Continuing Education Policy and Process
- Attachment A-8 (L) – Code of Business Conduct
- Attachment A-8 (M) – Director Conflict of Interest and Conduct Guidelines
- Attachment A-8 (N) – Related Party Transaction Disclosure Policy and Process
- Attachment A-8 (O) – Business Conduct Hotline Brochure

1.0 CORPORATE AND UTILITY ORGANIZATIONAL STRUCTURE

Hydro Ottawa Holding Inc. (HOHI / Hydro Ottawa / the Corporation) was created as a result of the Electricity Act, 1998, which required all hydro utilities to operate as business corporations. Under this structure, HOHI is a for-profit company that continues to be

wholly owned by the City of Ottawa, and is governed by an independent Board of Directors appointed by its shareholder. The core businesses of the Corporation are electricity distribution, renewable energy generation and related services. In 2014, HOHI owned and operated two subsidiary companies: Hydro Ottawa Limited, a regulated distribution company operating in the City of Ottawa and the Village of Casselman; and Energy Ottawa Inc., the largest municipally-owned producer of green power in Ontario and a provider of commercial energy management services.

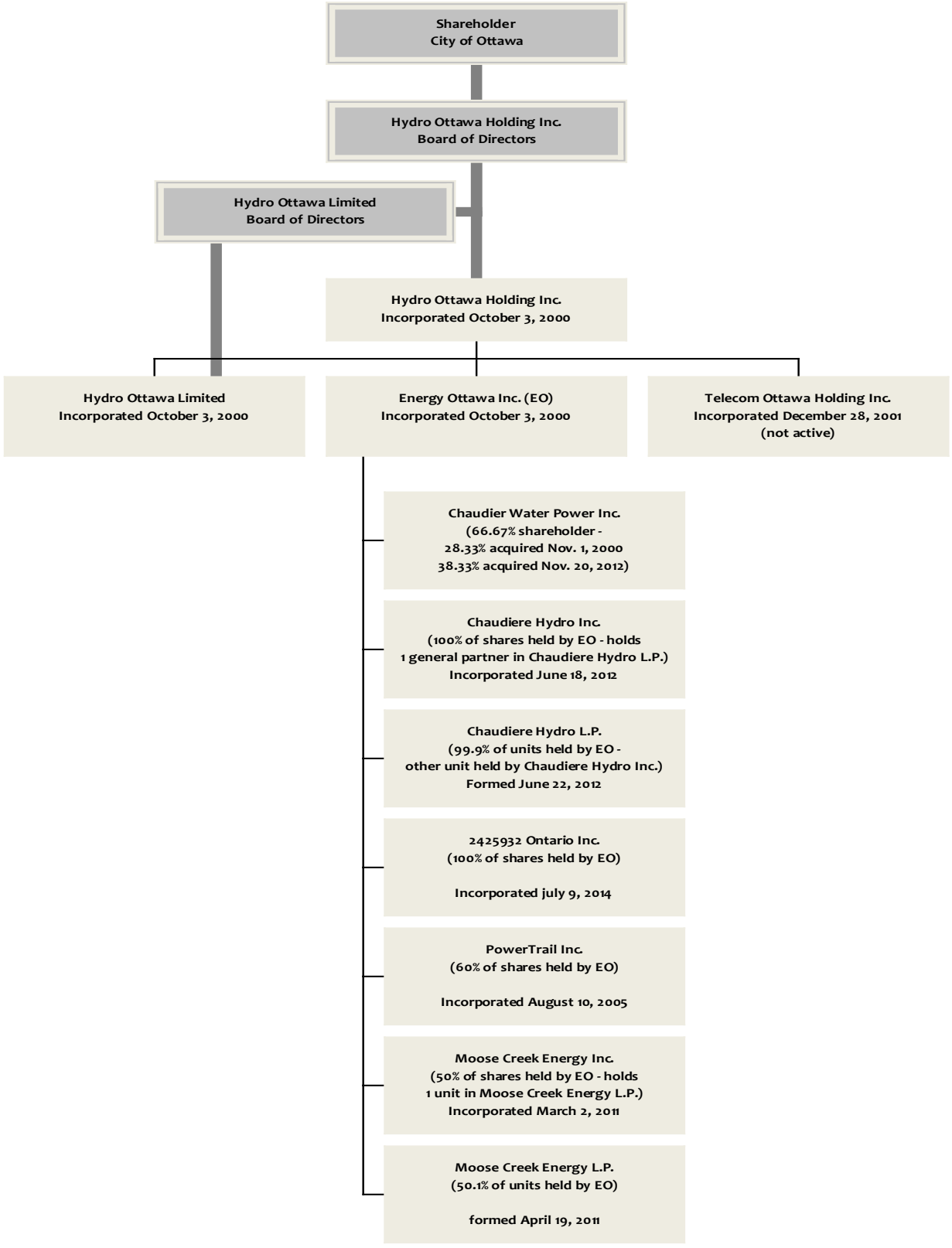
1.1 Current Governance Structure

Accountability for the effective oversight of Hydro Ottawa Holding Inc. (the Corporation) and its wholly-owned subsidiaries (Hydro Ottawa Limited and Energy Ottawa Inc.) rests with an eleven-member Hydro Ottawa Holding Inc. (HOHI) Board of Directors, which provides direction to the Corporation on behalf of the shareholder, the City of Ottawa. The HOHI Board provides leadership within a framework of effective controls that enables risks to be assessed and managed, and is responsible for supervising the management of the business and affairs of the Corporation and its wholly-owned subsidiaries. In carrying out its oversight function, the HOHI Board of Directors is guided by a Shareholder Declaration issued by Ottawa City Council (Attachment A-8 (A)) and revised from time to time. The Corporation's Code of Business Conduct (Attachment A-8 (L)), its Director Conflict of Interest and Conduct Guidelines (Attachment A-8 (M)) and a Related Party Transaction Disclosure Policy and Process (Attachment A-8 (N)) also govern the actions of the HOHI Board.

In 2006, a separate subsidiary Board of Directors was established to oversee the operations of Hydro Ottawa Limited (HOL), in accordance with the Affiliate Relationships Code for Electricity Distributors and Transmitters issued by the Ontario Energy Board. The powers and functions of that Board are set out in a Shareholder Declaration issued by the Hydro Ottawa Holding Inc. Board of Directors (Attachment A-8 (B)). The chart shown below depicts the relationship between the various corporate entities.

The composition of the utility company board, HOL, includes three members, two of whom also serve on the parent board (Hydro Ottawa Holding Inc. - HOHI), and one who is a member of the management of HOL but who is not employed by an affiliate of HOL. The members include the HOHI Board Chair, the President and Chief Executive Officer of HOHI and HOL, and the Chief Operating Officer – Distribution and Customer Service, HOL.

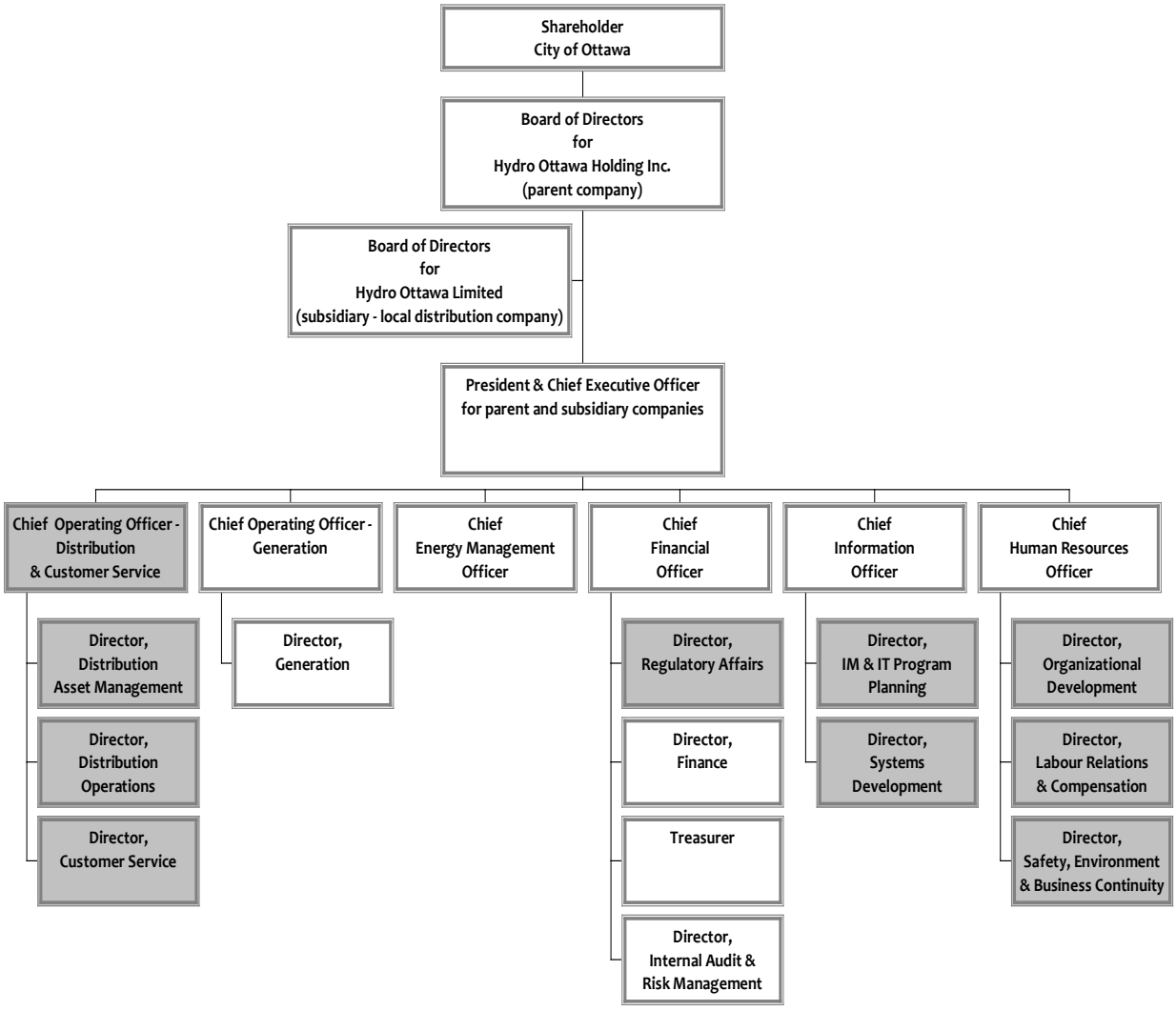
Figure 1 - Corporate Entities Relationship Chart



1.2 Executive Management Team and Reporting Relationship between Utility Management and Parent Company Officials

On a day-to-day basis, the Corporation is led by an Executive Management Team, comprising the Corporation's President and Chief Executive Officer, the Chief Financial Officer and the senior executives of the subsidiaries and critical functional areas. This team oversees the alignment of business practices and strategies with the goals of the Corporation, and drives performance by managing risks and opportunities. The Executive Management Team is accountable to the Corporation's Board of Directors through the President and Chief Executive Officer. The chart shown below depicts the relationship between utility management (shaded boxes) and parent company officials.

Figure 2 – Utility Management and Parent Company Relationship



2.0 CORPORATE GOVERNANCE PRACTICES

2.1 Board of Directors

a. The composition of the parent board, Hydro Ottawa Holding Inc. (HOHI), includes eleven members, eight of whom are independent of management and the sole shareholder, the City of Ottawa.

The composition of the subsidiary board, Hydro Ottawa Limited (HOL), includes three members: the Chair of the HOHI Board; the President and Chief Executive Officer of HOHI and HOL; and the Chief Operating Officer – Distribution and Customer Service, HOL. One of the three members, the Chief Operating Officer – Distribution and Customer Service, HOL, is independent from any affiliate as required by the provisions of subsection 2.1.3 of the Ontario Energy Board's Affiliate Relationships Code for Electricity Distributors and Transmitters.

The number and proportion of independent directors on the HOL Board is set out in Section 2 of its charter (Attachment A-8 (D)), which requires that one third of the Board, shall at all times, be independent of any affiliate.

b. To facilitate its exercise of independent judgement in carrying out its responsibilities,

i. the parent board, the HOHI Board, is comprised of a majority of independent directors;

ii. the subsidiary board, the HOL Board, has met its charter requirements to have one third of the Board independent of any affiliate;

iii. a number of internal policies and processes are in place to address related party transactions (see Attachment A-8 (N) – Related Party Transaction Disclosure Policy and Process) including among other things,

- an agenda item at each meeting of the boards and committees that requires Board members to make declarations of interest

and to disclose any transactions in which they could have an interest but also to disclose any entities in which they have come to have a financial interest that could be involved in transactions with HOHI or its wholly-owned subsidiary companies;

- an annual disclosure to the Governance and Management Resources Committee of related party transactions involving directors of Hydro Ottawa Holding Inc. and its wholly-owned subsidiary companies; and
- an annual disclosure to the shareholder, through the City Manager, of related party transactions involving directors of Hydro Ottawa Holding Inc. and its wholly-owned subsidiary companies, including certification of compliance with the restrictions contained in the Shareholder Declaration relating to restrictions on payments to directors, their family members and entities in which directors have a substantive ownership interest;

iv. the Audit Committee is comprised solely of independent directors, both the internal and external auditors attend the Audit Committee meetings, and the Audit Committee has a closed session with the external auditors at every meeting;

v. the parent (HOHI) and subsidiary (HOL) Boards receive regular briefings on a variety of strategic issues; and

vi. the parent (HOHI) and subsidiary (HOL) Boards conduct a periodic self-evaluation to assess the performance and effectiveness of the boards, board committees, the board and committee chairs. All information supplied by members of the boards is kept confidential and is not accessible by members of management of the Corporation. All results of the assessment process are reported out to the Board on a confidential basis without attribution.

2.2 Board Mandate

As part of its commitment to implementing good governance practices consistent with a corporation of its size and nature of business activities, Hydro Ottawa Holding Inc., including its wholly-owned subsidiary companies, Hydro Ottawa Limited and Energy Ottawa Inc., is committed to regularly assessing its practices to ensure that this continues to be the case.

With respect to board mandates, the Governance and Management Resources Committee of the parent board, Hydro Ottawa Holding Inc., has been assigned the responsibility to maintain charters for the boards and committees, including for the Hydro Ottawa Limited Board, and annually reviews roles, responsibilities and terms of reference to ensure that they are consistent with good governance practices for a corporation of Hydro Ottawa's size and mandate.

The written mandate of the Hydro Ottawa Limited Board of Directors is set out in its charter appended at Attachment A-8 (D).

2.3 Board Meetings

A schedule of the 2014 meetings of the parent board, Hydro Ottawa Holding Inc., its committees, and its subsidiary board, Hydro Ottawa Limited, is appended at Attachment A-8 (J).

2.4 Orientation and Continuing Education

As part of its commitment to implementing good governance practices consistent with a corporation of its size and nature of business activities, Hydro Ottawa Holding Inc. (HOHI), including its wholly-owned subsidiary companies Hydro Ottawa Limited and Energy Ottawa Inc., is committed to ensuring that members of the Board of Directors receive both an initial orientation and on-going education that will assist them in undertaking their roles as directors of the corporation and its subsidiaries.

To this end, the HOHI Board has put in place a Director Orientation and Continuing Education Policy and Process (see Attachment A-8 (K)), and has assigned

responsibility to the Governance and Management Resources Committee for ensuring that appropriate and relevant practices are in place for board director orientation and continuing education. The Corporation encourages board directors to participate in external professional development education programs to assist in the execution of their roles as board directors, and also funds the participation of one board director per year for a recognized director education program providing board director certification.

2.5 Ethical Business Conduct

The Corporation's Code of Business Conduct (Attachment A-8 (L)), its Director Conflict of Interest and Conduct Guidelines (Attachment A-8 (M)) and a Related Party Transaction Disclosure Policy and Process (Attachment A-8 (N)) govern the actions of the parent board, Hydro Ottawa Holding Inc. (HOHI), and its subsidiary board, Hydro Ottawa Limited (HOL). Moreover, the charters of the HOHI Board (Attachment A-8 (C)), the Governance and Management Resources Committee (Attachment A-8 (G)), and the HOL Board (Attachment A-8 (D)) each include specific provisions as these relate to Code of Conduct and Compliance.

In accordance with their charter requirements, the Governance and Management Resources Committee (GMRC), and the HOHI and HOL Boards, annually receive a report confirming that directors, members of management and those in key financial positions have signed an attestation acknowledging acceptance of the company's Code of Business Conduct.

Additionally, the Corporation has established a Business Conduct Hotline (see Attachment A-8 (O)), a third party service that allows employees and Board members to anonymously report any concerns they might have related to perceived improper activities in the workplace and/or non-compliance with the Code of Business Conduct, or even suggestions for improvement. The Audit Committee of the HOHI Board receives annual Business Conduct Hotline updates and more frequent reports if a serious complaint is received.

2.6 Nomination of Directors

In accordance with the requirements of the Shareholder Declaration for the parent board, Hydro Ottawa Holding Inc. (Attachment A-8 (A)), the City of Ottawa, the sole shareholder, appoints all directors to the Boards of HOHI and its wholly-owned subsidiaries, including Hydro Ottawa Limited, except for the President and Chief Executive Officer. In doing so, the City considers candidates recommended by the Nominating Committee of the HOHI Board (see charter at Attachment A-8 (E), but is not obliged to select these candidates. The Nominating Committee is assisted by outside consultants in its search for candidates for appointment to the Boards.

As set out in the Shareholder Declaration, all candidates for appointment to the boards must meet certain requirements, including demonstrated integrity and high ethical standards, relevant career experience and expertise, and an understanding of Hydro Ottawa both as a service to local ratepayers and an asset of taxpayers.

In addition, the nomination and selection process is designed to maintain boards that includes the following overarching competencies among one or more directors: strong business background including competitive business experience and strategic planning; a strong financial background including financial accreditation and public or private market financing experience; industry sector experience in the areas of business of the subsidiary companies; board experience; and merger and acquisition experience.

In 2014, the *Institute on Governance* assisted with the process of identifying and evaluating potential candidates. The process used by the *Institute on Governance* to source qualified candidates for the Nominating Committee's consideration was designed to target recruitment priorities identified by the Governance and

Management Resources Committee as part of its annual review of the board competency profile. It included:

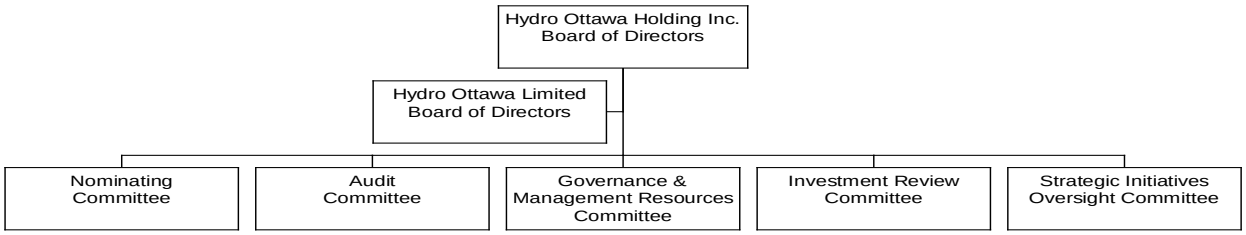
- A recruitment posting on the Hydro Ottawa website;
- A review of the Institute of Corporate Directors Register;
- A search of the Canadian Board Diversity Council database;
- A recruitment posting that connected with the Canadian Bar Association Women's Lawyer Forum;
- A review of the Women's Law Association of Ontario member directory;
- A search of Lexpert's database of law firms to identify local organizations that have individuals with legal expertise and M&A expertise; and
- Submission of the Recruitment Posting link to a contact at the Association of Power Producers of Ontario for display on their employment opportunities page.

The *Institute on Governance* assessed applications against the selection criteria set out in the Shareholder Declaration as well as the recruitment priorities identified for 2014, and then provided the Nominating Committee a report including a candidate listing, biographies and a summary competency assessment for each potential candidate.

As per usual practice, the Nominating Committee then met to discuss the candidate listing provided by the *Institute on Governance,* giving consideration to the recruitment priorities identified through the board profile review conducted earlier in the year. Following its deliberation, the Nominating Committee resolved to recommend candidates for appointments to the Boards to the shareholder, and the recommended candidate names were included as part of Hydro Ottawa's AGM report to City Council for its meeting of June 25, 2014.

2.7 Board Committees

The following five committees have been created to assist the parent board (HOHI) and its subsidiary board, Hydro Ottawa Limited, in carrying out their duties.



Nominating: The Nominating Committee, with the assistance of outside consultants, identifies and evaluates potential candidates for appointment as board directors. The Nominating Committee makes recommendations to the shareholder (represented by Ottawa City Council) for the appointment of board directors. The Committee charter is appended at Attachment A-8 (E).

Audit: The Audit Committee reviews financial statements, accounting practices and policies, auditing processes and the results of internal and external audits and related matters. It also oversees financial risk management and assesses internal controls. The Committee charter is appended at Attachment A-8 (F).

The Audit Committee is comprised solely of independent directors. Financial expertise is one of the overarching competencies for all board directors, and all Audit Committee directors are financially literate. In addition, both the internal and external auditors attend the Audit Committee meetings, and the Audit Committee has a closed session with the external auditors at every meeting.

Governance and Management Resources: The Governance and Management Resources Committee reviews the Corporation's governance structures and practices to ensure that the Board of Directors can fulfill its mandate. It reviews management resources and compensation practices to ensure systems are in place to attract, retain and motivate qualified management employees. It also reviews and assesses the performance of the President and Chief Executive Officer, oversees the Board Assessment process, and monitors compliance with codes of conduct. The Committee charter is appended at Attachment A-8 (G).

Investment Review: The Investment Review Committee, created by the Board of Directors effective April 2010, is responsible for assisting management and the Board of Directors in the review and pursuit of business development, acquisition and investment opportunities. In carrying out these functions, the Committee focuses on the consistency of opportunities with strategic plans and investment guidelines, the maximization of shareholder value and the management of risk. The Committee charter is appended at Attachment A-8 (H).

Strategic Initiatives Oversight: The Strategic Initiatives Oversight Committee, created by the Board of Directors effective November 2013, is responsible for assisting the Board of Directors in guiding management and providing support and focus for large-scale capital project efforts as identified by the Board from time to time. The Committee charter is appended at Attachment A-8 (I).

SHAREHOLDER DECLARATION dated the 25th day of June 2014.

BY: **CITY OF OTTAWA**
Being the sole shareholder of Hydro Ottawa Holding Inc.

WHEREAS subsection 108(2) of the *Ontario Business Corporations Act* permits all of the shareholders of a corporation to enter into a unanimous shareholder agreement;

AND WHEREAS pursuant to subsection 108(3) of such Act, a written declaration by a sole shareholder of a corporation that restricts in whole or in part the powers of the directors to manage or supervise the management of the business and affairs of the corporation is deemed to be a unanimous shareholder agreement;

AND WHEREAS pursuant to subsection 108(5) of such Act, to the extent that a unanimous shareholder agreement restricts the discretion or powers of the directors of a corporation to manage or supervise the management of the business and affairs of a corporation, a shareholder who is a party to the unanimous shareholder agreement assumes such powers and the related duties and liabilities and the directors are thereby relieved of their duties and liabilities;

AND WHEREAS the City of Ottawa is the sole owner of all the issued and outstanding shares of Hydro Ottawa Holding Inc./Société de Portefeuille d'Hydro Ottawa Inc. and desires to make this Declaration with the intent that to the extent that it restricts the discretion and powers of the directors of Hydro Ottawa Holding Inc./Société de Portefeuille d'Hydro Ottawa Inc., it shall constitute a unanimous shareholder agreement with respect to only those restrictions;

AND WHEREAS the City of Ottawa wishes that the shareholder declaration show that it is an objective of Hydro Ottawa Holding Inc. and its Subsidiary Hydro Ottawa Limited to have electricity customers in the whole of the geographic area of the City of Ottawa receive electricity distribution services from Hydro Ottawa Limited;

AND WHEREAS the City of Ottawa wishes to establish certain principles of governance and other fundamental principles and policies relating to Hydro Ottawa Holding Inc./Société de Portefeuille d'Hydro Ottawa Inc. and its subsidiaries;

NOW THEREFORE, the City of Ottawa hereby declares as follows:

ARTICLE I
INTERPRETATION

1.1 Definitions

In this Declaration the following terms will have the meanings set out below:

"Act" means the Ontario *Business Corporations Act*, as now enacted or as the same may from time to time be amended, re-enacted or replaced;

"Affiliate" means a Body Corporate that is affiliated with Holdco as such relationship is defined in the Act;

"Board" means the board of directors of Holdco;

"Body Corporate" means a firm, partnership, unincorporated association, joint venture, corporation, bank, trust, pension fund, union, governmental agency, board, tribunal, ministry of commission or other legal entity of any kind whatsoever, but excludes an individual or natural person;

"Business Day" means a day, other than a Saturday or Sunday, on which the principal commercial banks located at Ottawa, Ontario are open for business during normal banking hours;

"City" means the City of Ottawa being the body corporate by which, on January 1, 2001, the inhabitants of the municipal areas, as defined in the *City of Ottawa Act, 1999*, are constituted as a body corporate as provided in subsection 2.(1) of such act;

"Competitive Affiliates" means Energy Ottawa Inc./Énergie Ottawa Inc. and Telecom Ottawa Holding Inc.;

"External" means, with respect to a member of the Board, (a) an individual who is not the Mayor (or his/her designee), a councillor or employee of the City; or (b) an individual who is not an officer or employee of Holdco or any Affiliate;

"Holdco" means Hydro Ottawa Holding Inc./Société de Portefeuille d'Hydro Ottawa Inc., a corporation incorporated under the Act;

"Municipal Electric Utilities" means collectively The Hydro-Electric Commission of the City of Ottawa, The Hydro-Electric Commission of the City of Nepean, The Hydro-Electric Commission of The City of Kanata, The Hydro-Electric Commission of the City of Gloucester and Goulbourn Hydro-Electric Commission;

"Person" means an individual, a natural person or a Body Corporate;

"Regulator" means the Ontario Energy Board, the Independent Electricity System Operator, the Ontario Power Authority or any other governmental or regulatory authority having jurisdiction over Holdco or a Subsidiary;

"Subsidiary" means, with respect to Holdco, each of the Utility Affiliate, the Competitive Affiliates and any body corporate of which more than 50% of its outstanding securities of any class carrying exercisable voting rights are beneficially owned, directly or indirectly, by Holdco, and includes any Body Corporate in like relation to a Subsidiary;

"Third Party" means a person who deals at arm's length (as interpreted by subsection 251 (1) of the *Income Tax Act* (Canada) with Holdco or a Subsidiary; and

"Utility Affiliate" means Hydro Ottawa Limited/Hydro Ottawa Limitée, a corporation incorporated under the Act.

1.2 Calculation of Time

In this Declaration, unless otherwise specified, time periods within or following which any payment is to be made or act is to be done shall be calculated by excluding the day on which the period commences and including the day which ends the period and by extending the period to the next Business Day following if the last day of the period is not a Business Day.

1.3 Regulatory Matters

In the event of any conflict between any approval or direction or other requirement of the City of Ottawa and Holdco or a Subsidiary under this Declaration and any decision, order or policy of any Regulator, the decision, order or policy of the Regulator shall govern and Holdco and the Subsidiaries will at all times comply with any decision, order or policy of the Regulator whether or not an approval or direction has first been given in respect thereof by the City of Ottawa under this Declaration. For greater certainty, Holdco and the Subsidiaries will not seek any order from any Regulator for any matter that would require the approval of the City of Ottawa under this Declaration without first giving notice of their intention to seek such an order to the City of Ottawa.

ARTICLE 2
BUSINESS OF HOLDCO

2.1 Permitted Business Activities

Subject to its compliance with the *Energy Competition Act, 1998*, Holdco, either directly or through a Subsidiary, may engage in any of the following business activities:

(a) Transmitting and distributing electricity;

(b) providing the standard supply service of electricity to Persons connected to the distribution system of Holdco or a Subsidiary;

(c) owning, managing, operating and having an ownership interest in electricity generation facilities;

(d) providing meter installation, repair, calibration and reading services;

(e) providing energy-related products and services;

(f) providing services related to the promotion of energy conservation, energy efficiency, load management or the use of cleaner energy sources, including alternative and renewable energy sources and services to assist

the Government of Ontario in achieving its goals in electricity conservation;

(g) providing energy procurement and energy efficiency services;

(h) renting or selling hot water heaters;

(i) providing street lighting services;

(j) distributing gas or any other energy product which is carried through pipes or wires to the user;

(k) retailing electricity produced at a generating facility owned, operated or managed by a Subsidiary;

(l) participating in the retailing of electricity (other than as set out in paragraph (k) above) or gas on a basis that is limited to normal commercial risk and does not subject Holdco or a Subsidiary to risk created by variations in the market price of the commodity;

(m) using the real property that Holdco or a Subsidiary has the right to use for the purpose of providing telecommunications services, or entering into agreements with any Third Party, or Subsidiary, authorizing such Third Party or Subsidiary to use such real property for the purpose of providing telecommunications services;

(n) managing or operating on behalf of the City of Ottawa the provision of a public utility, water or sewage service;

(o) conducting business activities the principal purpose of which is to use more effectively the assets of a Subsidiary;any other business activities carried on by the Municipal Electric Utilities at the time the assets of the latter were transferred to Holdco and/or a Subsidiary, the principal purpose of which is to use more effectively the assets of Holdco or a Subsidiary; and

(p) subject to the restrictions set out in paragraph (l), any other business activities permitted, pursuant to provincial legislation, to be carried on by an electricity distributor or its affiliates where the voting securities carrying more than 50 per cent of the voting rights attached to the voting securities of the electricity distributor are owned directly or indirectly by a municipal corporation .

2.2 Other Business Activities with Prior Approval

Subject to compliance with the *Energy Competition Act, 1998,* and with the prior written approval of the City of Ottawa, Holdco, either directly or through a Subsidiary, may engage in any of the following business activities:

(a) retailing electricity or gas on a basis which exposes Holdco or a Subsidiary to the risk of fluctuations in the market price of the commodity.

2.3 City of Ottawa Consent

The Board shall have the authority to prepare a business case for consideration by the City of Ottawa whether or not related to any business activity set out in section 2.2. hereof which business case shall include an assessment of whether or not the new business activity is financially viable or otherwise commercially prudent to be pursued by Holdco or a Subsidiary. Upon a review of the business case, the City of Ottawa shall advise Holdco in writing whether or not the new business activity may be pursued by Holdco or its Subsidiary.

2.4 Service Territory

Holdco shall have an objective of having electricity customers in the whole of the geographic area of the City of Ottawa receive electricity distribution services from its Subsidiary Hydro Ottawa Limited.

ARTICLE 3
OPERATION AND CONTROL

3.1 Number of Directors

Holdco shall be managed by the Board which shall be comprised of not less than five (5) and not more than eleven (11) directors, and which will consist of eleven (11) directors elected by the City of Ottawa, of whom:

(a) one (1) shall be the Mayor of the City of Ottawa or a member of the Council of the City of Ottawa designated by such Council in the event that such Mayor chooses not to act as a director;

(b) two other members of the Council of the City of Ottawa, until November 30, 2014 and shall be reduced to one other member of the Council of the City of Ottawa effective December 1, 2014;

(c) the Chair of the Board of Directors of Hydro Ottawa Limited (unless such office shall be held at the same time by the Chair of the Board);

(d) one shall be the President and Chief Executive Officer of Holdco; and

(e) the balance shall be External, one of whom shall become Chair of the Board.

Paragraph (c) shall be repealed effective December 1, 2014.

3.2 Governance Practices

The Board of Directors of Holdco shall prepare and make available to the City of Ottawa upon request a manual setting out its governance practices. The manual shall include a description of the roles and responsibilities of the Board of Directors, of the Chair of the Board of Directors, of individual directors and of the President and Chief Executive Officer.

3.3 Role of the Chair of the Board

The Chair of the Board of Directors shall carry out the following duties and responsibilities:

(a) provide leadership to the company and its Board of Directors;

(b) provide leadership in the good governance of the corporation;

(c) set the agenda for meetings of the Board of Directors;

(d) chair the meetings of the Board of Directors ;

(e) ensure that the Board of Directors and its committees work effectively in carrying out their responsibilities;

(f) attend to the assessment of the performance of the Board of Directors;

(g) facilitate the relationship between the Board of Directors and management;

(h) represent the company at meetings with the shareholder and to the public;

(i) attend to the evaluation of the performance of the President and Chief Executive Officer of Holdco;

(j) assist the President in the evaluation of the performance of senior management of Holdco and its subsidiaries and in the proper succession planning for the Senior Management;

(k) collaborate with the Shareholder to allow for the proper succession planning for the Board of Directors; and

(l) carry out such other functions and responsibilities as may be determined by the Board of Directors.

3.4 Committees

The Board may appoint one or more committees which shall have such powers as may be assigned by the Board. The Board may appoint additional members of a committee from outside the Board for their particular expertise, but a majority of the members of committees with responsibilities relating to the operations of Holdco shall be members of the Board.

3.5 Nominating Committee

The City of Ottawa shall consider candidates nominated by the Nominating Committee, being a Committee established to assist in the selection of directors of Holdco and its wholly-owned Subsidiaries, but shall not be obliged to select such candidates. It is expected that the Nominating Committee will develop a process to identify and evaluate potential Board candidates in order to recommend a slate of qualified candidates to the City of Ottawa The Nominating Committee shall utilize the services of a placement service to search for members of the Board.

3.6 Criteria For Selection of Directors

The process used by the Nominating Committee shall be designed to ensure that each director satisfies the following criteria:

(a) demonstrates integrity and high ethical standards;

(b) has career experience and expertise relevant to Holdco's business purposes, financial responsibilities and risk profile;

(c) demonstrates an appreciation of the fiduciary duties of a Director;

(d) demonstrates well-developed listening, communicating and influencing skills;

(e) demonstrates an interest in and a commitment to devote the time necessary so that the individual Directors can actively participate in Board and Committee discussions and debate;

(f) demonstrates an understanding of the role of Hydro Ottawa as a service to local ratepayers; and

(g) demonstrates an understanding of the role of Hydro Ottawa as an asset of taxpayers;

The process used by the Nominating Committee shall also be designed to maintain a Board having the following competencies among one or more directors:

(a) strong business background;

(b) strong financial background including financial accreditation;

(c) industry sector experience in the areas of business of the Subsidiary companies;

(d) strategic planning and corporate stewardship experience;

(e) competitive business experience;

(f) an awareness of the needs of the Corporation's customers;

(g) public or private market financing experience; and

(h) board experience.

3.7 Term of Office

The term of office for a director shall be:

(a) In the case of a director who is the Mayor of the City, or City Council's designee, as the case may be, for a term which ends on the earlier of: (i) the date on which the term of office of such Mayor ends; or (ii) the date on which his or her successor takes office;

(b) In the case of the director who is the President and Chief Executive Officer of Holdco, for so long as the director holds such office;

(c) In the case of members of the Council of the City of Ottawa other than the Mayor, for the balance of the term for which the member of Council has been elected and

(d) In the case of any other directors, for such terms, which will be staggered, as may, from time to time, be provided in the by-laws of Holdco.

Any director may stand for re-election to the Board at the expiry of his or her term, subject to any limitations as may, from time to time, be provided in the by-laws of Holdco.

3.8 Remuneration

The remuneration of the members of the Board or the board of directors of a Subsidiary for their respective services as directors will be as determined by the City of Ottawa from time to time. For greater certainty, only one annual stipend will be paid where an individual is a director of both Holdco and a Subsidiary. Notwithstanding the foregoing:

(a) the directors who are members of the Council of the City of Ottawa (including the Mayor) will receive no remuneration; and
(b) the President and Chief Executive Officer of Holdco will receive no remuneration in his or her capacity as director,

although the individuals described in paragraphs (a) and (b) will, along with all other directors, be reimbursed by Holdco for their out-of-pocket expenses upon presentation of supporting receipts therefor.

The Board of Directors shall review every other year the remuneration paid to members of the Board of Directors of Holdco and its Subsidiaries (including the Chair) and bring forward

recommendations to the City of Ottawa for consideration in connection with the presentation of the financial statements for such year.

No amount shall be paid to the Chair, directors, members of their immediate families or entities in which they have a substantive ownership interest over and above the remuneration for directors determined by the City of Ottawa from time to time.

3.9 Vacancies

If a member of the Board ceases to be a director for any reason, the City of Ottawa will fill the vacancy created thereby as soon as reasonably possible having regard to the provisions of section 3.1. If a member of the board of directors of a Subsidiary ceases to be a director for any reason, Holdco will cause the vacancy to be filled by another director as soon as reasonably possible.

ARTICLE 4
SHAREHOLDER MATTERS

4.1 Shareholder Approval under the Act

In accordance with the provisions of the Act, Holdco will not, without the prior written approval of the City of Ottawa:

(a) amend its articles or make, amend or repeal any by-law;

(b) amalgamate (except for an amalgamation with one or more Subsidiaries), apply to continue as a body corporate under the laws of another jurisdiction, merge, consolidate or reorganize, or approve or effect any plan of arrangement, in each case whether statutory or otherwise;

(c) take or institute proceedings for any winding-up, arrangement, reorganization or dissolution;

(d) create new classes of shares or reorganize, consolidate, subdivide or otherwise change its outstanding securities;

(e) change its auditor;

(f) make any change to the number of directors comprising the Board; or

(g) enter into any other transaction or take any other action that requires shareholder approval pursuant to the Act.

4.2 Additional Matters Requiring Shareholder Consent

The powers of the Board, including without limitation any committee thereof, from time to time are hereby restricted, in part, such that Holdco shall not without the prior written approval of the City of Ottawa:

(a) make any change in the issued capital of Holdco;

(b) enter into any agreement or make any offer or grant any right capable of becoming an agreement to allot or issue any shares of Holdco;

(c) permit the ratio of consolidated funded obligations to total consolidated capitalization of Holdco to exceed 75 percent, as calculated in accordance with market standard practice for local distribution utilities in the Province of Ontario;

(d) make directly or indirectly loans or advances in excess of fifty thousand dollars ($50,000) to any Person, other than a Subsidiary;

(e) give security for or guarantee debts in excess of fifty thousand dollars ($50,000) of any Person, other than a Subsidiary;

(f) declare any dividend prior to consultation with the City or any dividend which is inconsistent with the dividend policy communicated, from time to time in writing, by the City of Ottawa to the Board;

(g) appoint any auditor to fill any vacancy in the position of auditor which may occur during a year;

(h) appoint any director to fill any vacancy in the position of director of the Board or director of the board of directors of Subsidiary directly or indirectly wholly owned by the City of Ottawa, as contemplated by section 3.5 hereof;

(j) establish any financial year end of Holdco which is not December 31; or

(k) sell or otherwise dispose of, by conveyance, transfer, lease, sale and leaseback or other transaction, ten percent (10%) or more of its assets or undertaking,

4.3 Liability of the City of Ottawa

In the exercise of the rights, duties and powers assumed and transferred under this Declaration, the City of Ottawa, as the sole shareholder of Holdco, shall be subject to the same obligations and liabilities to which the Board would otherwise have been subject if this Declaration had not been made and the Board is hereby wholly relieved of all powers, duties and liabilities as directors of Holdco to the extent that the City of Ottawa is subject thereto.

4.4 Residual Power of Boards

Without restricting the application of sections 4.1 and 4.2 hereof, the Board and the boards of directors of a Subsidiary shall have, subject to the Act and this Declaration, the full authority to manage the business and affairs of Holdco and a Subsidiary, respectively, including the authority to develop and recommend to the City of Ottawa decisions with respect to any of the matters specified in sections 4.1 and 4.2 hereof.

4.5 City of Ottawa Power to Consent

The rights, powers and duties vested in the City of Ottawa pursuant to the provisions of this Declaration shall be exercised by or pursuant to a resolution or by-law of the City of Ottawa.

ARTICLE 5
REPORTING TO CITY OF OTTAWA

5.1 Reports

Holdco will report to the City of Ottawa on any and all matters as requested by the City of Ottawa from time to time including reports relating to a Subsidiary. Without limiting the foregoing, Holdco shall provide, in a timely manner, to the City of Ottawa an annual financial report containing such financial and other information as the City of Ottawa may reasonably request and which information Holdco is legally entitled to provide. Holdco shall provide to the City of Ottawa a report of material facts and material changes as they occur and shall be guided by securities laws applicable to publicly traded corporations when assessing the extent and timing of such disclosure.

ARTICLE 6
GENERAL PROVISIONS

6.1 Reference on Certificates

Holdco shall cause a reference to this Declaration to be noted conspicuously on every share certificate issued by Holdco. Holdco shall cause each Subsidiary to ensure that a reference to the Declaration delivered to it pursuant to section 6.4 hereof is noted conspicuously on every share certificate issued by such Subsidiary.

6.2 Termination

This Declaration shall be effective as of the date hereof and shall continue in full force and effect until the City of Ottawa has given written notice to the Board of the revocation and termination of this Declaration.

6.3 Amendment of Declaration

This Declaration may be amended by the City of Ottawa from time to time as circumstances may require and the City of Ottawa will consult with the Board prior to completing any amendments and will promptly provide the Board with copies of such amendments.

6.4 Revocation of Previous Declarations

The Declaration dated June 29, 2006 passed by the City of Ottawa is hereby revoked and replaced by this Declaration.

6.5 Governing Law

This Declaration shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

6.6 Effective Date

This Declaration shall be effective as of and from July 1, 2014, except as otherwise expressly provided.

IN WITNESS WHEREOF, the City of Ottawa has executed this Declaration as a unanimous shareholder agreement pursuant to subsections 108(2) and 108(3) of the Act.

CITY OF OTTAWA
Per:

By: _____

Name: Jim Watson
Title: Mayor

By: _____

Name: M. Rick O'Connor
Title: City Clerk and Solicitor

SHAREHOLDER DECLARATION dated the 28th day of August 2014.

BY: **HYDRO OTTAWA HOLDING INC./SOCIÉTÉ DE PORTEFEUILLE D'HYDRO OTTAWA INC.**
A corporation incorporated under
The laws of the Province of Ontario
("Holdco").

WHEREAS subsection 108(2) of the *Ontario Business Corporations Act* permits all of the shareholders of a corporation to enter into a unanimous shareholder agreement;

AND WHEREAS pursuant to subsection 108(3) of such Act, a written declaration by a sole shareholder of a corporation that restricts in whole or in part the powers of the directors to manage or supervise the management of the business and affairs of the corporation is deemed to be a unanimous shareholder agreement;

AND WHEREAS pursuant to subsection 108(5) of such Act, to the extent that a unanimous shareholder agreement restricts the discretion or powers of the directors of a corporation to manage or supervise the management of the business and affairs of a corporation, a shareholder who is a party to the unanimous shareholder agreement assumes such powers and the related duties and liabilities and the directors are thereby relieved of their duties and liabilities;

AND WHEREAS Holdco is the registered and beneficial owner of all the issued and outstanding shares of Hydro Ottawa Limited/Hydro Ottawa Limitée and desires to make this Declaration with the intent that to the extent that it restricts the discretion and powers of the directors of Hydro Ottawa Limited/Hydro Ottawa Limitée, it shall constitute a unanimous shareholder agreement with respect to only those restrictions;

AND WHEREAS Holdco, together with its subsidiaries Hydro Ottawa Limited/Hydro Ottawa Limitée and Energy Ottawa Inc./Énergie Ottawa Inc., are the successors to the businesses formerly carried on by the Municipal Electric Utilities (as herein defined);

AND WHEREAS Holdco wishes that this declaration show that it is an objective of Hydro Ottawa Limited to provide electricity distribution services to all customers in the geographic area of the City of Ottawa;

AND WHEREAS Holdco wishes to establish certain principles of governance and other fundamental principles and policies relating to Hydro Ottawa Limited/Hydro Ottawa Limitée and its subsidiaries;

NOW THEREFORE, Holdco hereby declares as follows:

ARTICLE I
INTERPRETATION

1.1 Definitions

In this Declaration the following terms will have the meanings set out below:

"Act" means the Ontario *Business Corporations Act*, as now enacted or as the same may from time to time be amended, re-enacted or replaced;

"Affiliate" means a Body Corporate that is affiliated with Hydro Ottawa Limited as such relationship is defined in the Act;

"Board" means the board of directors of Hydro Ottawa Limited;

"Body Corporate" means a firm, partnership, unincorporated association, joint venture, corporation, bank, trust, pension fund, union, governmental agency, board, tribunal, ministry of commission or other legal entity of any kind whatsoever, but excludes an individual or natural person;

"Business Day" means a day, other than a Saturday or Sunday, on which the principal commercial banks located at Ottawa, Ontario, are open for business during normal banking hours;

"External" means, with respect to a member of the Board, (a) an individual who is not the Mayor, a councillor or employee of the City; or (b) an individual who is not an officer and employee of Hydro Ottawa Limited or any Affiliate;

"Hydro Ottawa Limited" means Hydro Ottawa Limited/Hydro Ottawa Limitée, a corporation incorporated under the laws of Ontario;

"Municipal Electric Utilities" means collectively The Hydro-Electric Commission of the City of Ottawa, the Hydro-Electric Commission of the City of Nepean, The Hydro-Electric Commission of The City of Kanata, The Hydro-Electric Commission of the City of Gloucester and Goulbourn Hydro-Electric Commission;

"Person" means an individual, a natural person or a Body Corporate;

"Regulator" means the Ontario Energy Board, the Independent Electricity System Operator, the Ontario Power Authority or any other governmental or regulatory authority having jurisdiction over Hydro Ottawa Limited or a Subsidiary;

"Subsidiary" means, any body corporate, the incorporation of which has been approved by Holdco as contemplated by subsection 4.2(a) hereof, of which more than 50% of its outstanding

securities of any class carrying exercisable voting rights are beneficially owned, directly or indirectly, by Hydro Ottawa Limited, and includes any Body Corporate in like relation to a Subsidiary;

"Third Party" means a person who deals at arm's length (as interpreted by subsection 251 (1) of the *Income Tax Act* (Canada) with Hydro Ottawa Limited;

1.2 Calculation of Time

In this Declaration, unless otherwise specified, time periods within or following which any payment is to be made or act is to be done shall be calculated by excluding the day on which the period commences and including the day which ends the period and by extending the period to the next Business Day following if the last day of the period is not a Business Day.

1.3 Regulatory Matters

In the event of any conflict between any approval or direction or other requirement of Holdco and Hydro Ottawa Limited or a Subsidiary under this Declaration and any decision, order or policy of any Regulator, the decision, order or policy of the Regulator shall govern and Hydro Ottawa Limited and a Subsidiary will at all times comply with any decision, order or policy of the Regulator whether or not an approval or direction has first been given in respect thereof by Holdco under this Declaration. For greater certainty, Hydro Ottawa Limited and a Subsidiary will not seek any order from any Regulator for any matter that would require the approval of Holdco under this Declaration without first giving notice of their intention to seek such an order to Holdco.

ARTICLE 2
BUSINESS OF HYDRO OTTAWA LIMITED

2.1 Permitted Business Activities

Subject to its compliance with the *Energy Competition Act,* 1998, Hydro Ottawa Limited, either directly or through a Subsidiary, may engage in any of the following business activities:

(a) Transmitting and distributing electricity;

(b) providing the standard supply service of electricity to Persons connected to the distribution system of Hydro Ottawa Limited or a Subsidiary;

(c) providing meter installation, repair, calibration and reading services;

(d) providing services related to the promotion of energy conservation, energy efficiency, load management or the use of cleaner energy sources, including alternative and renewable energy sources and services to assist

the Government of Ontario in achieving its goals in electricity conservation

(e) providing street lighting services;

(f) managing or operating on behalf of the City of Ottawa the provision of a public utility, water or sewage service;

(g) using the real property that Hydro Ottawa Limited or a Subsidiary has the right to use for the purpose of providing telecommunications services for the purpose of electricity transmission or distribution, or entering into agreements with any Third Party, or Subsidiary, authorizing such Third Party or Subsidiary to use such real property for the purpose of providing telecommunications services for the purpose of electricity transmission or distribution;

(h) any other business activities carried on by the Municipal Electric Utilities at the time the assets of the latter were transferred to Hydro Ottawa Limited, the principal purpose of which is to use more effectively the assets of Hydro Ottawa Limited; and

(i) any other business activities permitted, pursuant to provincial legislation, to be carried on by an electricity distributor where the voting securities carrying more than 50 per cent of the voting rights attached to the voting securities of the electricity distributor are owned directly or indirectly by a municipal corporation.

2.2 Other Business Activities with Prior Approval

Subject to compliance with the *Energy Competition Act, 1998,* and with the prior written approval of Holdco, Hydro Ottawa Limited, either directly or through a Subsidiary, may engage in any of the following business activities:

(a) business activities which Hydro Ottawa Limited is not otherwise permitted to undertake which are not prohibited by section 71 of the *Ontario Energy Board Act, 1998.*

2.3 Holdco Consent

The Board shall have the authority to prepare a business case for consideration by Holdco related to any business activity set out in section 2.2. hereof which business case shall include an assessment of whether or not the new business activity is financially viable or otherwise commercially prudent to be pursued by Hydro Ottawa Limited or a Subsidiary. Upon a review of the business case, Holdco shall advise Hydro Ottawa Limited in writing whether or not the new business activity may be pursued by Hydro Ottawa Limited or its Subsidiary.

2.4 Service Territory

Hydro Ottawa Limited shall have an objective of providing electricity distribution services to all electricity customers in the geographic area of the City of Ottawa.

ARTICLE 3
OPERATION AND CONTROL

3.1 Number of Directors

Until November 30, 2014, Hydro Ottawa Limited shall be managed by the Board which shall be comprised of not less than five (5) and not more than seven (7) directors, and which initially will consist of seven (7) directors elected by Holdco, of whom:

(a) one (1) shall be the President and Chief Executive Officer of Holdco;

(b) one shall be a member of the Council of the City of Ottawa;

(c) one shall be the Chair of Holdco (unless such office shall be held at the same time by the Chair of the Board) and

(d) the balance shall be External, one of whom may become Chair of the Board.

provided that one-third of the Board shall, at all times, be independent from any Affiliate as required by the provisions of subsection 2.1.3 of the Ontario Energy Board's Affiliate Relationships Code for Electricity Distributors and Transmitters.

Effective December 1, 2014, Hydro Ottawa Limited shall be managed by the Board which shall be comprised of not less than two (2) and not more than three (3) directors, and which initially will consist of three (3) directors elected by Holdco, of whom:

(a) one shall be the President and Chief Executive Officer of Holdco;
(b) one shall be the Chair of Holdco; and
(c) one shall be a member of the management of Hydro Ottawa Limited who is not employed by an affiliate of Hydro Ottawa Limited

For greater certainty, notwithstanding the fact that the size of the Board may vary within the range specified above, the Board shall at all times be comprised of the director holding the office referred to in paragraph (a) above.

3.2 Term of Office

The term of office for a director shall be:

(a) In the case of the director who is the President and Chief Executive Officer of Holdco for so long as the director holds such office;

(b) Until November 30, 2014,in the case of members of the Council of the City of Ottawa, for the balance of the term for which the member of Council has been elected; and

(c) In the case of any other directors, for terms, which will be staggered, as may, from time to time, be provided in the by-laws of Hydro Ottawa Limited.

Any director may stand for re-election to the Board at the expiry of his or her term.

3.3 Chair of the Board

The Chair of the Board of Hydro Ottawa Limited shall be appointed by Holdco from among the members of the Board of Directors who are also members of the Board of Directors of Holdco.

3.4 Vacancies

If a member of the Board ceases to be a director for any reason, Holdco will fill the vacancy created thereby as soon as reasonably possible having regard to the provisions of section 3.1. If a member of the board of directors of a Subsidiary ceases to be a director for any reason, Hydro Ottawa Limited will cause the vacancy to be filled by another director, to be identified by Holdco, as soon as reasonably possible.

3.5 Remuneration

The remuneration of the members of the Board or the board of directors of a Subsidiary for their respective services as directors, will be as determined by Holdco from time to time. For greater certainty, only one annual stipend will be paid where an individual is a director of both Hydro Ottawa Limited and an Affiliate. Notwithstanding the foregoing,

(a) the director who is a member of the Council of the City of Ottawa will receive no remuneration; and
(b) the President and Chief Executive Officer of Holdco will receive no remuneration in his or her capacity as director,

(c) the member of the management of Hydro Ottawa Limited who is not employed by an affiliate of Hydro Ottawa Limited will receive no remuneration in his or her capacity as a director,

although the individuals described in paragraphs (a) and (b) will, along with all other directors, be reimbursed by Hydro Ottawa Limited for their out-of-pocket expenses upon presentation of supporting receipts therefor.

No amount shall be paid to the Chair, directors, members of their immediate families or entities in which they have a substantive ownership interest over and above the remuneration for directors determined by Holdco from time to time.

ARTICLE 4
SHAREHOLDER MATTERS

4.1 Shareholder Powers

In accordance with the provisions of the Act, Hydro Ottawa Limited will not, without the prior written approval of Holdco:

(a) amend its articles or make, amend or repeal any by-law;

(b) amalgamate (except for an amalgamation with one or more Subsidiaries), apply to continue as a body corporate under the laws of another jurisdiction, merge, consolidate or reorganize, or approve or effect any plan of arrangement, in each case whether statutory or otherwise;

(c) take or institute proceedings for any winding-up, arrangement, reorganization or dissolution;

(d) create new classes of shares or reorganize, consolidate, subdivide or otherwise change its outstanding securities;

(e) change its auditor;

(f) make any change to the number of directors comprising the Board; or

enter into any other transaction or take any other action that requires shareholder approval pursuant to the Act.

4.2 Additional Matters Requiring Shareholder Consent

The powers of the Board, including without limitation any committee thereof, from time to time are herby restricted, in part, such that Hydro Ottawa Limited shall not without the prior written approval of Holdco:

(a) cause a Subsidiary to be incorporated;

(b) make any change in the issued capital of Hydro Ottawa Limited;

(c) enter into any agreement or make any offer or grant any right capable of becoming an agreement to allot or issue any shares of Hydro Ottawa Limited;

(d) give shareholder approval, as shareholder of a Subsidiary, in respect of any matter which shareholder approval for a Subsidiary is required;

(e) implement a business plan other than a business plan approved by Holdco;

(f) incur operating or capital expenditures that exceed the budget for Hydro Ottawa Limited approved by Holdco;

(g) submit an application to a Regulator for the approval of rates to be charged by Hydro Ottawa Limited that seeks a rate of return on equity other than the rate approved by Holdco;

(h) borrow any money on the credit of Hydro Ottawa Limited other than from Holdco;

(i) grant any security or create an encumbrance on the assets of Hydro Ottawa Limited;

(j) make directly or indirectly loans or advances except advances made to employees to defray expenses to be incurred in the course of the business of Hydro Ottawa Limited;

(k) give security for or guarantee debts;

(l) make donations or contributions to any Person contrary to policies established by Holdco;

(m) permit any conduct contrary to codes of conduct or ethical standards established by Holdco applicable to directors, officers, employees, contractors or other representatives of Hydro Ottawa Limited;

(m.1) adopt any governance practices applicable to directors of Hydro Ottawa Limited other than governance practices established by Holdco;

(n) make any payment of remuneration to officers or employees of Hydro Ottawa Limited in any form in excess of guidelines or directives established by Holdco;

(o) declare any dividend prior to consultation with Holdco or any dividend which is inconsistent with the dividend policy communicated, from time to time in writing, by Holdco to the Board;

(p) appoint any auditor to fill any vacancy in the position of auditor which may occur during a year;

(q) appoint any director to fill any vacancy in the position of director, as contemplated by section 3.4 hereof;

(r) enter into any partnership or any arrangement for the sharing of profits, union of interests, joint venture or reciprocal concession with any Person; and

(s) establish any financial year end of Hydro Ottawa Limited which is not December 31;

4.3 Liability of Holdco

In the exercise of the rights, duties and powers assumed and transferred under this Declaration, Holdco, as the sole shareholder of Hydro Ottawa Limited, shall be subject to the same obligations and liabilities to which the Board would otherwise have been subject if this Declaration had not been made and the Board is hereby wholly relieved of all powers, duties and liabilities as directors of Hydro Ottawa Limited to the extent Holdco is subject thereto.

4.4 Residual Power of Boards

Without restricting the application of sections 4.1 and 4.2 hereof, the Board and the boards of directors of a Subsidiary shall have, subject to the Act and this Declaration, the full authority to manage the business and affairs of Hydro Ottawa Limited and a Subsidiary, respectively, including the authority to develop and recommend to Holdco decisions with respect to any of the matters specified in sections 4.1 and 4.2 hereof.

4.5 Holdco Power to Consent

The rights, powers and duties vested in Holdco pursuant to the provisions of this Declaration shall be exercised by or pursuant to a resolution or by-law of Holdco.

ARTICLE 5
REPORTING TO HOLDCO

5.1 Reports

Hydro Ottawa Limited will report to Holdco on any and all matters as requested by Holdco from time to time including reports relating to a Subsidiary. Without limiting the foregoing, Hydro Ottawa Limited shall provide, in a timely manner, to Holdco, an annual financial report containing such financial and other information as Holdco may reasonably request and which information Hydro Ottawa Limited is legally entitled to provide. Hydro Ottawa Limited shall provide to Holdco a report of material facts and material changes as they occur and shall be guided by securities laws applicable to publicly traded corporations when assessing the extent and timing of such disclosure

ARTICLE 6
GENERAL PROVISIONS

6.1 Reference on Certificates

Hydro Ottawa Limited shall cause a reference to this Declaration to be noted conspicuously on every share certificate issued by Hydro Ottawa Limited. Hydro Ottawa Limited shall cause each Subsidiary to ensure that a reference to the Declaration delivered to it pursuant to subsection 6.4 hereof is noted conspicuously on every share certificate issued by such Subsidiary.

6.2 Termination

This Declaration shall be effective as of the date hereof and shall continue in full force and effect until Holdco has given written notice to the Board of the revocation and termination of this Declaration.

6.3 Amendment of Declaration

This Declaration may be amended from time to time by Holdco as circumstances may require and Holdco will consult with the Board prior to completing any amendments and will promptly provide the Board with copies of such amendments.

6.4 Declaration re Subsidiaries

In the event that, with the approval of Holdco contemplated by subsection 4.2(a) hereof, Hydro Ottawa Limited causes a Subsidiary to be incorporated, and so often as the same may occur, Hydro Ottawa Limited shall execute and deliver a declaration to each such Subsidiary in the form of this Declaration, mutatis mutandis.

6.5 Revocation of Previous Declarations

The Declaration dated January 17, 2002 is hereby revoked and replaced by this Declaration.

6.6 Governing Law

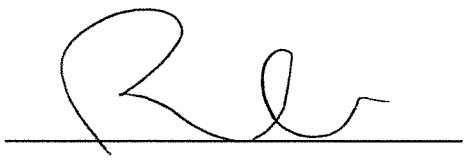
This Declaration shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

6.7 Effective Date

This Declaration shall be effective as of and from August 28, 2014, except as otherwise expressly provided.

IN WITNESS WHEREOF, Holdco has executed this Declaration as a unanimous shareholder agreement pursuant to subsections 108(2) and 108(3) of the Act.

HYDRO OTTAWA HOLDING INC./SOCIÉTÉ DE PORTEFEUILLE D'HYDRO OTTAWA INC.



By:

Name: J. Bryce Conrad
Title: President and Chief Executive Officer

Approved by the Board of Directors: April 2, 2009
Revised on: August 27, 2009
Revised on: November 14, 2013
Revised on: August 28, 2014

HYDRO OTTAWA HOLDING INC

(HOHI)

CHARTER OF THE BOARD OF DIRECTORS

1. PRIMARY ROLE OF THE BOARD

"HOHI" means "Hydro Ottawa Holding Inc.", a corporation existing under the Ontario Business Corporations Act.

The Board of Directors (the "Board") of "HOHI" is appointed by the City of Ottawa (the sole Shareholder of HOHI) and is charged with the careful and responsible management of HOHI and, subject to the provisions of the shareholder declaration, *is the highest decision making authority within the organization*. This responsibility of the Board consists primarily of managing or supervising those who manage the business and affairs of HOHI. As such, the overarching role of the Board of Directors focuses on ***governance and stewardship*** rather than on running the day-to-day operations of HOHI – the latter of which is the responsibility of management. The Board is further authorized to delegate to an officer or officers of HOHI certain powers to manage the business and affairs of HOHI. As such,

a) the Board delegates to the Chief Executive Officer of HOHI (the "CEO") the powers and authority to manage the business and affairs of HOHI; and

b) the Board assumes the role of supervising the CEO's management of the business and affairs of HOHI (the "Supervisory Role").

The governance goal of the Board of Directors is to enhance executive decision making for the purpose of improving the performance of the organization. Accordingly, every member of the Board (a "Director") must, in discharging his or her Supervisory Role and other responsibilities,

c) act honestly and in good faith ***with a view to the best interests of HOHI***; and

d) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Board of Directors is accountable to the Corporation's Shareholder.

2. COMPOSITION

The Board of HOHI shall be appointed by the City of Ottawa and shall be comprised of not less than five (5) and not more than eleven (11) directors, and which will consist of eleven (11) directors of whom:

a) one (1) shall be the Mayor of the City of Ottawa or a member of the Council of the City of Ottawa designated by such Council in the event that such Mayor chooses not to act as a director;

b) two other members of the Council of the City of Ottawa until November 30, 2014 and shall be reduced to one other member of the Council of the City of Ottawa effective December 1, 2014;

c) the Chair of the Board of Directors of Hydro Ottawa Limited (unless such office shall be held at the same time by the Chair of the Board);

d) the President and Chief Executive Officer of HOHI; and

e) all other directors shall be External, one of whom shall become Chair of the Board.

Paragraph c) shall be repealed effective December 1, 2014.

3. THE SUPERVISORY ROLE

No provision of this Charter is intended to or may be construed to impose on the Board of Directors or any member thereof any duties, standard of care or liabilities in any way more onerous or extensive than those otherwise existing at law. In particular, to the extent that HOHI, acting as a shareholder, has not restricted the discretion or powers of the directors of an affiliated or subsidiary corporation to manage or supervise the management of its business and affairs, the Board of Directors and any member thereof shall not be considered to have assumed any duties, standard of care or liabilities in respect of the management or supervision of the management of the affairs of such affiliated or subsidiary corporation.

Without limiting the scope or nature of the Supervisory Role, the Board acknowledges and accepts that the Supervisory Role includes the following obligations and responsibilities of the Board:

3.1 Financial Reporting

a) The Board must gain and maintain reasonable assurance that HOHI meets all financial reporting and disclosure obligations imposed on HOHI by applicable laws, regulations, rules, policies and other requirements relating to financial reporting and disclosure promulgated by governments and regulatory agencies ("Financial Reporting Obligations"). The Board shall satisfy itself as to the quality and integrity of financial statements, internal controls, information systems and disclosure controls.

The Board recognizes that it has the responsibility to review and provide guidance to Management about:

i. financial strategies;
ii. capital and debt structures
iii. proposed mergers, acquisitions, divestitures and strategic investments;
iv. policies relating to financial management, including cash flow management, working capital and dividend distributions;
v. financial risk, including relevant policies, risk management and insurance; and
vi. other transactions or financial issues that management desires to have reviewed by the Board.

The Board must also gain reasonable assurance that:

1. HOHI's annual and interim financial statements present fairly HOHI's financial position, the results of its operations and its cash flows in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as well as certain industry related regulatory requirements;

2. HOHI's annual financial statements are audited and reported on by a reputable firm of chartered accountants (the "external auditor") which is objective and independent; and

3. Material financial information concerning HOHI is disseminated to its sole Shareholder in a timely manner and all financial information concerning HOHI which is disseminated to the Shareholder is accurate, complete and fairly presented.

b) The Board must also:

1. appoint and maintain an audit committee (the "Audit Committee") to assist the Board in discharging its responsibility to gain reasonable assurance that HOHI meets the Financial Reporting Obligations;

2. nominate a firm of chartered accountants for appointment by the Shareholder of HOHI as the external auditor of HOHI and its subsidiaries;

3. fix the compensation of the external auditor;

4. adopt policies governing HOHI's hiring of partners, employees and former partners and employees of the present and any former external auditor; and

5. approve the payment of dividends to the Shareholder in compliance with legal requirements and requirements of the Shareholder dividend policies.

3.2 Strategic Planning

a) The Board, in conjunction with the CEO, must develop a statement of the strategy which HOHI intends to pursue in carrying on business (the "Strategic Plan") which includes: (1) determining those long-term goals (i.e. mission, vision and values) and objectives which reflect an organization's sources of competitive advantage and which address important stakeholder needs; and (2) identifying the scope (or domain) of business activities within which those goals and objectives are to be achieved.

b) If at any time the Board is of the opinion that the then-existing Strategic Plan is no longer appropriate, the Board – in conjunction with the CEO - must develop a revised Strategic Plan.

c) After the Board has approved the Strategic Plan, the Board must monitor on an ongoing basis HOHI's implementation of the Strategic Plan and HOHI's progress toward achieving the Strategic Plan.

3.3 Business Planning

a) The Board must review and consider for approval the Business Plans of HOHI and its subsidiaries as presented by the CEO of HOHI.

b) The Board must review and consider for approval the annual budgets of HOHI and its subsidiaries as presented by the CEO of HOHI.

c) After the Board has approved the budget of HOHI the Board must monitor its progress and achievement at each regular meeting of the HOHI Board.

3.4 Risk Management

The Board must gain and maintain reasonable assurance that the risks confronting HOHI ("Risks") are identified, monitored and managed by the senior management of HOHI ("Management") (Note: Senior management is defined as being comprised of the CEO and those reporting directly to the CEO.)

In particular, the Board must gain and maintain reasonable assurance that:

a) Management has identified the most significant Risks currently confronting HOHI;

b) New significant Risks which confront HOHI will be identified in a timely manner and brought to the attention of the Board;

c) appropriate risk assessment processes to identify, assess and manage significant risks are implemented; and

d) Management directly and effectively monitors and manages HOHI's significant risks.

3.5 Human Resources

a) The Board must gain and maintain reasonable assurance that there exists within HOHI and its subsidiaries effective human resource policies and practices to enable HOHI to attract and retain the people required by HOHI to meet the Strategic Plan. In particular, the Board must annually gain and maintain reasonable assurance that:

1. HOHI's overall compensation philosophy for Management balances the objectives of (i) attracting and retaining highly competent managers, (ii) appropriately and fairly rewarding strong performance by managers, (iii) maintaining HOHI's employee costs at competitive levels, and (iv) linking managers' compensation to the achievement of HOHI's strategic objectives;

2. HOHI establishes and maintains a succession plan which identifies the potential successors to the holders of all Management positions in HOHI; and

3. HOHI establishes and maintains effective policies and practices for training and continuously improving the skills of high-potential managers and employees; and

4. HOHI is in compliance with its approved human resources policies, procedures and guidelines as well as all applicable laws, regulations, rules, policies and other requirements of governments and regulatory agencies relating to human resources.

b) The Board must also:

1. establish and regularly review a job description for the CEO which reflects the Board's delegation to the CEO of the powers and authority to manage the business and affairs of HOHI;

2. establish and execute processes for the recruitment, selection, motivation, evaluation and compensation of the CEO which will enable HOHI to achieve the Strategic Plan;

3. establish and approve the terms and conditions of the CEO's employment by HOHI;

4. Establish and approve a formal process for annually assessing the performance of the CEO; and

5. discharge the CEO when the Board believes he or she is no longer capable of managing the business and affairs of HOHI.

The Board may delegate to a Board committee (the "Governance and Management Resources Committee" or "GMRC") the authority to perform any of the tasks (a1) through (b5) in this section and to make recommendations to the Board concerning them.

3.6 Pension Governance

The Board must satisfy itself as to the oversight and governance of, and approve all material amendments to, any and all pension plans sponsored by the Corporation and its subsidiaries. In particular, the Board must annually gain and maintain reasonable assurance that

a) Appropriate pension plan governance structures are in place related to its obligations as plan sponsor and administrator in accordance with applicable legislation, regulations and industry guidelines;
b) Mandates regarding pension plan and fund administration are clearly described for the board, relevant committee(s), pension fund agents and trustees and other participants in the governance process;
c) Measures to implement the mandates are established and the plan governance structure is reviewed on a regular basis;
d) Documentation that evidences implementation of plan administration is developed and maintained;
e) The board or its relevant committee(s) receives and considers regular reports from the responsible executive involved in plan administration; and

f) The operation of the plan is made transparent through communication to plan members.

Subject to applicable law, the Board may delegate to a committee or committees appointed by the Board, various aspects of the operation and administration of any and all pension plans sponsored by the Corporation and its subsidiaries.

3.7 Code of Conduct, Compliance and Communication

The Board must:

a) establish, maintain and monitor compliance with a written code of business conduct and ethics (the "Code") applicable to Directors, Officers and employees of the Corporation. The Code must constitute standards reasonably designed to promote integrity, the protection and proper use of assets, avoid conflicts of interest and both deter and report wrongdoing;

b) require every HOHI and subsidiary Director, member of Management and those in key financial positions to annually sign an attestation acknowledging acceptance of the Code of Conduct;

c) gain reasonable assurance that every employee of HOHI and its subsidiaries receives training on the Code of Conduct and signs an attestation acknowledging when they received it;

d) require waivers of compliance with the Code which shall be granted only by the Board or an appropriately empowered Board committee;

e) gain and maintain reasonable assurance as to the integrity, comprehensiveness and effectiveness of those elements of HOHI (including its resources, management information systems, processes, culture, structure and tasks) which, taken together (the "Internal Controls"), support HOHI's personnel in meeting HOHI's objectives and obligations, including the Financial Reporting Obligations;

f) adopt an external communications policy for HOHI and its subsidiaries;

g) gain and maintain reasonable assurance (i) as to the integrity of the CEO and the other members of Management, and (ii) that the CEO and the other members of Management create and maintain a culture of integrity throughout HOHI; and

h) gain and maintain reasonable assurance that Management, the Board, and the Corporation comply with the applicable laws, regulations, rules, policies and other requirements promulgated by legislation and applicable industry regulation and that appropriate policies and processes exist for compliance with environmental, health and safety laws and regulations.

The Board may delegate to a Board committee (the "Governance and Management Resources Committee" or "GMRC") the authority to perform any of the tasks (a) through (h) in this section and to make recommendations to the Board concerning them.

4. GOVERNANCE

4.1 Governance Structures and Practices

a) The Board must gain and maintain reasonable assurance that the governance structures and practices of HOHI and its subsidiaries comply with the requirements of the Shareholder Declaration and enable the HOHI Board to discharge the Board's responsibilities in a highly effective manner. In particular, the Board must gain and maintain reasonable assurance that:

1. With the exception of the President and CEO, all HOHI Directors are independent. For the purposes of this charter, a Director is independent if the Director has no relationship with HOHI which, in the view of the Board, could reasonably be expected to interfere with the exercise of the Director's independent judgment;

2. the Chair of the Board is an External Director and not a member of Management;

3. every Board committee is comprised of a majority of independent directors;

4. the Board, as a whole, possesses the competencies and skills required to enable the Board to discharge the Supervisory Role and the Board's other responsibilities;

5. the number of Directors constituting the Board facilitates effective decision-making by the Board; and

6. as a part, or by means, of regularly scheduled meetings, the Board holds separate meetings of the Directors at which no member of Management is present.

b) The Board must also:

1. develop HOHI's approach to corporate governance, including a set of governance principles and guidelines specifically applicable to HOHI;

2. appoint and maintain any committees of the Board as the Board deems necessary in discharging its responsibilities;

3. develop and maintain written charters for the Board and each committee of the Board as well as written position descriptions for the individual Director and all Board leadership positions;

4. develop and implement processes for regularly assessing the effectiveness of the Board, each Board committee, the individual Directors and all Board leadership positions taking into account their respective charters and position descriptions;

5. identify the skills and knowledge required for directors and provide an orientation and continuing education process directed at enabling Directors to fully understand the nature and operation of HOHI's business(es) and affairs as well as the individual Director's and the Board's roles and responsibilities for the successful performance of HOHI; and

6. establish and maintain a process, that includes Board approval, by which any Director may, at the expense of HOHI, engage independent counsel or other advisors to provide advice to the

Director with respect to the Director's liabilities or the discharge of his or her responsibilities as a Director; and

The Board may delegate to a Board committee (the "Governance and Management Resources Committee" or "GMRC") the responsibility to perform any of the tasks (1) through (6) in this section and to make recommendations to the Board concerning them.

4.2 Governance Principles

The Board must use its best efforts to establish and sustain amongst all Directors governance principles which incorporate the following:

a) acceptance of the Board's accountability for HOHI's performance;

b) recognizing the responsibility to act in the best interest of the Corporation;

c) recognizing, that the Board as a whole, through the Chair, has the authority to direct the actions of the CEO and Management and that no individual director has the authority to direct such actions unless specifically authorized by the Board to do so;

d) recognizing that directors must comply with the Code of Business Conduct and that personal and external interests are not to be permitted to conflict with the interests of the Corporation;

e) recognizing the importance of solidarity ("the board speaks only with one voice") once decisions are taken;

f) recognizing that no member of the Board has the authority to speak or act on behalf of the Corporation unless specifically authorized to do so; and

g) respecting and preserving the confidentiality of corporate information.

Approved by the Board:
April 2, 2009
Revised on: August 27, 2009
Revised on: November 14, 2013
Revised on: August 28, 2014

CHARTER OF THE BOARD OF DIRECTORS

HYDRO OTTAWA LIMITED
(HOL)

1. Primary Role Of The Board

"HOL" means "Hydro Ottawa Limited", a corporation existing under the Ontario Business Corporations Act.

The Board of Directors (the "Board") of "HOL" is appointed by the City of Ottawa, on behalf of Hydro Ottawa Holding Inc (the sole Shareholder of HOL), and is charged with the supervision of the business activities of HOL. As such, the overarching role of the Board of Directors focuses on ***governance and stewardship*** rather than on running the day-to-day operations of HOL – the latter of which is the responsibility of management. The Board is further authorized to delegate to an officer or officers of HOL certain powers to manage the business and affairs of HOL. As such,

a) the Board delegates to the Chief Executive Officer of HOL (the "CEO") the powers and authority to manage the business and affairs of HOL; and

b) the Board assumes the role of supervising the CEO's management of the business and affairs of HOL (the "Supervisory Role").

The governance goal of the Board of Directors is to enhance executive decision making for the purpose of improving the performance of the organization. Accordingly, every member of the Board (a "Director") must, in discharging his or her Supervisory Role and other responsibilities,

c) act honestly and in good faith ***with a view to the best interests of HOL***; and

d) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Board of Directors is accountable to the Corporation's sole Shareholder, Hydro Ottawa Holding Inc. ("HOHI")

2. Composition

The Board of Hydro HOL shall be appointed by the City of Ottawa and, until November 30, 2014, shall be comprised of not less than five (5) and not more than seven (7) directors of whom:

a) one shall be the President and Chief Executive Officer of HOHI;

b) one shall be a member of Council of the City of Ottawa;

c) one shall be the Chair of HOHI; and

d) all other directors shall be External, independent Directors, one of whom may become Chair of the HOL Board.

Effective December 1, 2014, the Board of Hydro Ottawa Limited shall be comprised of not less than two (2) and not more than three (3) directors, and which initially will consist of three (3) directors elected by Holdco, of whom:

(a) one shall be the President and Chief Executive Officer of Holdco;
(b) one shall be the Chair of Holdco; and
(c) one shall be a member of the management of Hydro Ottawa Limited who is not employed by an affiliate of Hydro Ottawa Limited.

One-third of the Board shall, at all times, be independent from any Affiliate as required by the provisions of subsection 2.1.3 of the Ontario Energy Board's Affiliate Relationships Code for Electricity Distributors and Transmitters.

For greater certainty, notwithstanding the fact that the size of the Board may vary within the range specified above, the Board shall at all times be comprised of the director holding the office referred to in paragraph (a) above.

3. The Supervisory Role

Without limiting the scope or nature of the Supervisory Role, the Board acknowledges and accepts that the Supervisory Role includes the following obligations and responsibilities of the Board:

Financial Reporting and Disclosure

The Board must gain and maintain reasonable assurance that HOL meets all financial reporting and disclosure obligations imposed on HOL by applicable law and applicable regulations, rules, policies and other requirements relating to financial reporting and disclosure promulgated by governments and regulatory agencies ("Financial Reporting Obligations"). The Board shall satisfy itself as to the integrity of financial statements, internal controls, information systems and disclosure controls.

The Board recognizes that it has the responsibility:

a) To ensure that HOL's annual and interim financial statements present fairly HOL's financial position, the results of its operations and its cash flows in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as well as certain industry related regulatory requirements;

b) To ensure that HOL's annual financial statements are audited and reported on by a firm of chartered accountants (the "external auditor") which is objective and independent;

c) To review and approve the financial statements of HOL;

d) To approve the payment of dividends to HOHI in compliance with legal requirements and requirements of the shareholder dividend policy; and

e) To ensure that material financial information concerning HOL is disseminated to its sole Shareholder, HOHI, in a timely manner and all financial information concerning HOL which is disseminated to the Shareholder must be accurate, complete and fairly presented.

Business Planning

a) The Board, in conjunction with the CEO and subject to HOHI direction and approval, must develop a business plan which indicates the over-arching strategy that HOL intends to pursue in carrying on business. The Business Plan must align to the enterprise strategic plan established by HOHI.

b) The Board must regularly review the integrity of the business plan and, if at any time the HOL Board is of the opinion that the then-existing Business Plan is no longer appropriate, the Board – in conjunction with the CEO - must develop a revised Business Plan.

c) After the Board has approved the Business Plan, submitted the Business Plan to HOHI and received the approval of the Business Plan by the Board of HOHI, the Board must monitor on an ongoing basis HOL's implementation of the Business Plan and HOL's progress toward achieving it.

d) The Board must annually consider for approval the budget of HOL as presented by the CEO of HOL, subject to the approval of HOHI.

e) After the Board has approved the budget, submitted the budget to HOHI and received the approval of the budget by the Board of HOHI, the Board must monitor its progress and achievement at each regular meeting of the HOL Board.

Risk Management

The Board must gain and maintain reasonable assurance that the risks confronting HOL ("Risks") are identified, monitored and managed by the senior management of HOL

("Management") (Note: Senior management is defined as being comprised of the CEO and those reporting directly to the CEO).

In particular, the Board must gain and maintain reasonable assurance that:

a) Management has identified the most significant Risks currently confronting HOL;

b) New significant Risks which confront HOL will be identified in a timely manner and brought to the attention of the Board;

c) ensure the implementation of appropriate risk assessment processes to identify, assess and manage significant risks are implemented; and

d) Management directly and effectively monitors and manages HOL's significant risks.

Human Resources

The Board must gain and maintain reasonable assurance that there exists within HOL effective human resource policies and practices to enable HOL to attract and retain the people required by HOL to meet the Business Plan and the enterprise Strategic Plan.

In particular, the Board must annually gain and maintain reasonable assurance that:

a) HOL establishes and maintains effective policies and practices for training and continuously improving the skills of high-potential managers and employees; and

b) HOL is in compliance with its approved human resources policies, procedures and guidelines as well as all applicable laws, regulations, rules, policies and other requirements of governments and regulatory agencies relating to human resources.

Code of Conduct and Compliance

The Board must:

a) establish, maintain and monitor compliance with the written code of business conduct and ethics (the "Code") approved by HOHI and applicable to Directors, Officers and employees of the Corporation;

b) require that every HOL Director, member of Management and those in key financial positions annually sign an attestation acknowledging acceptance of the Code of Business Conduct;

c) gain and maintain reasonable assurance that every employee of HOL receives training on the Code of Business Conduct and signs an attestation acknowledging when they receive it;

d) gain and maintain reasonable assurance (i) as to the integrity of the members of Management, and (ii) that the members of Management create and maintain a culture of integrity throughout HOL; and

e) gain and maintain reasonable assurance that Management, the Board, and the Corporation comply with the applicable laws, regulations, rules, policies and other requirements promulgated by legislation and applicable industry regulation and that appropriate policies and processes exist for compliance with environmental, health and safety laws and regulations.

4. Governance Practices

The Board also acknowledges and accepts the following responsibilities and obligations of the Board.

a) As a part, or by means, of regularly scheduled meetings of the Board, the Board will hold separate meetings of the Directors at which no member of Management or the general public is present;

b) The Board will provide an orientation and continuing education process directed at enabling Directors to understand fully the nature and operation of HOL's business and affairs as well as the individual Director's and the Board's roles and responsibilities for the successful performance of HOL;

c) The Board will implement processes for regularly assessing the effectiveness of the Board, any Board committee, the individual Directors and all Board leadership positions taking into account their respective charters and position descriptions; and

d) The Board will establish and maintain a process that includes Board approval, by which any Director may, at the expense of HOL, engage independent counsel or other advisors to provide advice to the Director with respect to the Director's liabilities or the discharge of his or her responsibilities as a Director.

The Board must use its best efforts to establish and sustain amongst all Directors governance principles which incorporate the following values, and convictions:

a) acceptance of the Board's accountability for HOL's performance;

b) recognizing the responsibility to act in the best interest of the Corporation;

c) recognizing that the Board as a whole, through the Chair, has the authority to direct the actions of the CEO and Management and that no individual director has the authority to direct such actions unless specifically authorized by the Board to do so;

d) recognizing that directors must comply with the Code of Business Conduct and that personal and external interests are not to be permitted to conflict with the interests of the Corporation;

e) recognizing the importance of solidarity ("the board speaks only with one voice") once decisions are taken;

f) recognizing that no member of the Board has the authority to speak or act on behalf of the Corporation unless specifically authorized to do so; and

g) respecting and preserving the confidentiality of corporate information.

Approved by the Board of Directors:
May 14, 2009
Revised on August 28, 2014:

HYDRO OTTAWA HOLDING INC
(HOHI)

Nominating Committee ("NC") Charter

1. Composition

a) The Nominating Committee ("NC") of Hydro Ottawa Holding Inc. ("HOHI") is a Board Committee which shall be comprised of up to 5 members of which:

(i) A majority shall be external directors of HOHI;
(ii) One (1) shall be the Mayor of the City of Ottawa;
(iii) Until November 30, 2014, two members shall be members of the Council of the City of Ottawa who are members of the Board of Directors of HOHI (as long as the City of Ottawa remains as the sole shareholder of HOHI) and shall be reduced to one member effective December 1, 2014 in the event the Mayor of the City of Ottawa chooses to act as a Director;
(iv) One (1) shall be the Board Chair as an *ex officio* voting member.

b) The following skill set is normally looked for in the selection of NC members:
- Previous Board experience
- Familiarity with the legal and regulatory requirements of directorships and executive human resources management
- Previous experience in the recruitment, selection, motivation, evaluation and leadership of directors and senior executives
- Excellent interpersonal and conflict resolution skills

It is not necessary for any one member of the Committee to posses all of the skill set items. However, each skill set item (and parts thereof) should be present in the NC's composition.

c) The Chair of HOHI shall recommend, for HOHI Board approval, the members to serve on the NC.
d) The Chair of the Nominating Committee shall be the Chair of the Board of Directors.

2. Terms of Reference

a) The purpose of the Nominating Committee is to identify and evaluate potential candidates for appointment as Directors to the Boards of HOHI and its subsidiaries.

b) The NC shall make recommendations to the Shareholder of HOHI and its subsidiaries regarding the appointment of candidates as Directors.

c) For the purpose of carrying out items (a) through (c) in this section, the NC shall:

i. review with the Board, or the GMRC, the selection criteria for the appointment of Directors to the Boards of HOHI and its subsidiaries and any suggested changes to the selection criteria set out in the Shareholder Declaration;

ii. receive from the Board, or the GMRC, any selection criteria for the appointment of Directors to the Boards of HOHI and its subsidiaries in addition to those set out in the Shareholder Declaration;

iii. develop processes to identify, evaluate and nominate potential candidates for appointment as Directors to the Boards of HOHI and its subsidiaries in accordance with the requirements of the Shareholder Declaration;

iv. have the authority, in its sole discretion, to retain such outside consultants to help the NC identify candidates and to investigate their suitability for appointment as Directors; and

v. examine and report on any other matters necessary to meet the purposes of the Committee.

3. Operating Principles

The NC shall fulfill its responsibilities within the context of the following principles:

a) Conduct

The NC expects its Committee members and nominees for appointment to the Board of HOHI and its subsidiaries to operate in compliance with HOHI's Code of Business Conduct and policies and with all applicable laws and regulations governing HOHI.

b) Communications

The Chair and members of the NC expect to have direct, open and frank communications throughout the year with the Board, Management and other key NC advisors as applicable.

c) Committee Expectations and Information Needs

The NC shall communicate its expectations to the Board, Management and/or Governance and Management Resources Committee ("GMRC") with respect to the nature, timing and extent of its information needs. The Committee expects that all reasonably required and available information (including minutes) relating to each matter to be dealt with by the NC at its meetings will be received from the Board, Management and/or the GMRC within a reasonable time frame in advance of each Committee meeting.

d) Reliance on Experts

In contributing to the NC's discharging of its duties under this Charter, each member of the NC shall be entitled to rely in good faith upon:

i) the reports of HOHI represented to him or her by the Board Chair, the Chair of the GMRC, an officer of HOHI or in a written report of external advisors with respect to the recruitment and selection of Board members; and

ii) any report of a lawyer, accountant, appraiser or other person whose profession lends credibility to a statement made by any such person.

e) In Camera Meetings

The members of the NC shall meet in private session as part of each meeting, (i.e., without Management present). The NC shall meet in private session as often as it deems necessary.

4. Operating Procedures

a) The NC shall meet as circumstances dictate to carry out the responsibilities set out in its Terms of Reference. Meetings shall be held at the call of the Chair or upon the request of two (2) members of the Committee;

b) a quorum shall be a majority of the members;

c) in the absence of the Chair, the Committee members present shall appoint an Acting Chair;

d) NC meeting agendas shall be the responsibility of the Chair of the Committee in consultation with the Board Chair, Committee members and Management.

e) To assist the NC in discharging its responsibilities, the NC may, after consultation with the Board Chair, retain at the expense of HOHI, one or more persons having special expertise that will assist the NC in discharging its responsibilities.

f) The NC shall report to the shareholders its recommendations for the appointment of directors to the Boards of Directors of HOHI and its subsidiaries.

5. Limitations on Committee's Duties

In contributing to the Committee's discharging of its duties under this Charter, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of the Committee's duties is to gain reasonable assurance (but not to ensure) that the nominating policies, procedures and practices of HOHI (i) are being conducted effectively and in compliance with all applicable laws, statutes and regulations; (ii) are reasonable and appropriate in the circumstances given the nature of the organization and its strategy; and (iii) are sufficiently and accurately reported upon to the Board.

Approved by the Board of Directors: May 14, 2009
Revised on: August 22, 2013
Revised: November 14, 2013
Revised: November 27, 2014

AUDIT COMMITTEE ("AC") CHARTER

HYDRO OTTAWA HOLDING INC
(HOHI)

1. Composition

a) The Audit Committee ("AC") of Hydro Ottawa Holding Inc. ("HOHI") is a Board Committee which shall be comprised of that number of Directors as shall be determined from time to time by the Board, of which:

i. A majority shall be External Directors of HOHI;
ii. One (1) shall be the Board Chair as an *ex officio* voting member; and
iii. All members of the AC shall be independent of the management of HOHI and its subsidiaries.

b) The following skill set is normally looked for in the selection of AC members:

i. All members should be *financially literate* (i.e. have the expertise and capability to read and understand the financial statements of HOHI and its related subsidiaries);
ii. One of the members shall hold a financial accreditation and that person should normally be the Chair;
iii. Previous audit committee experience;
iv. Risk management experience;
v. Mergers and acquisitions experience; and
vi. Internal control, corporate disclosure and regulatory compliance experience.

Except as specifically set out above, it is not necessary for any one member of the committee to possess all of the skill set items. However, each skill set item (or parts thereof) should be present in the AC's composition.

c) The Chair of HOHI shall recommend, for HOHI Board approval, both the members to serve on the AC and the Chair of the AC.

2. Terms of Reference

The AC's role is to oversee the financial affairs of HOHI (which includes its subsidiaries) and to assist the Board of HOHI and any subsidiary board(s) in monitoring the organization's financial reporting and disclosure.

Reporting by the AC will be solely to the HOHI Board. However, the two HOL Board members on the AC, along with the Chief Executive Officer and the Chief Financial Officer, will be expected to advise the HOL Board of any matters of concern raised by the AC in reviewing HOL's financial affairs.

The objective of the Board's monitoring of HOHI financial reporting and disclosure (the "Financial Reporting Objective") is to gain reasonable assurance of the following:

a) that HOHI and its subsidiaries comply with all applicable laws, regulations, rules, policies and other requirements of governments, regulatory agencies relating to financial reporting and disclosure;

b) that the accounting principles, significant judgments and disclosures which underlie or are incorporated in HOHI and subsidiary financial statements, are the most appropriate in the prevailing circumstances;

c) that HOHI's and its subsidiaries' interim and annual financial statements present fairly HOHI's financial position as a result of its operations in accordance with:
(i) generally accepted accounting principles ("GAAP"); and
(ii) certain industry related regulatory requirements,
and together with the annual Management Discussion and Analysis (i.e., the document containing a complete and integrated view of the organization's historical operations, prospective analysis and financial condition explaining the 'why" behind performance and prospects) constitute a fair presentation of HOHI's financial condition; and

d) that appropriate information concerning the financial position and performance of HOHI is disseminated to the Board in a timely manner.

3. Fundamental Activities

The Board is of the view that the Financial Reporting Objective cannot be reliably met unless the following activities are conducted effectively:

a) HOHI's accounting functions are performed in accordance with a system of internal financial controls designed to capture and record properly and accurately all of HOHI's and its subsidiaries financial transactions;

b) HOHI's internal financial controls are regularly assessed for effectiveness and efficiency; and

c) HOHI's and its subsidiaries' interim financial results and annual financial statements are prepared promptly by management and are prepared in accordance with GAAP - as well as certain industry related regulatory requirements.

To fulfill its roles and responsibilities, the AC shall:

4. Financial Reporting

a) review HOHI's and its subsidiaries' annual financial statements with Management and the external auditors, to gain reasonable assurance that the statements are prepared in accordance with GAAP, are complete, represent fairly HOHI's financial position and performance, and together with the Management's Discussion and Analysis ensure fair presentation of the HOHI's and subsidiaries' financial condition and report thereon to the Board;

b) receive from Management a copy of the engagement letter provided to the external auditors;

c) receive from the external auditors a copy of the "Management Letter" and Management's response to it;

d) review all aspects of the annual report which pertain to the historical, current or projected financial performance of the Corporation;

e) review HOHI's consolidated interim financial results with Management to gain reasonable assurance that the statements are prepared in accordance with GAAP, are complete, represent fairly HOHI's financial position and performance, and ensure fair presentation of HOHI's consolidated financial condition and report thereon to the Board;

f) receive from Management any additional representations required by the AC;

g) satisfy itself that adequate procedures are in place for the review of HOHI's disclosure of financial information extracted or derived from HOHI's financial statements (especially ratio and trend analyses) in order to satisfy itself that such information is fairly presented and periodically assess the adequacy of these procedures; and

h) obtain summaries of complex financings and other significant transactions and other potentially difficult matters whose treatment in the annual financial statements merits advance disclosure;

5. Accounting Policies

a) review with Management and the external auditors the appropriateness of HOHI's accounting policies, disclosures, reserves, key estimates and judgments, including changes or variations thereto and obtain reasonable assurance that they are presented fairly in accordance with GAAP; and

b) review major issues regarding accounting principles and financial statement presentation including any significant changes in the selection or application of accounting principles to be observed in the preparation of the accounts of HOHI and its subsidiaries;

6. Risk and Uncertainty

In consultation with Management, to identify the principal financial risks facing HOHI and its subsidiaries and HOHI's tolerance for financial risk and approve financial risk management policies, the AC shall gain reasonable assurance that financial risk is being effectively managed or controlled.

7. Compliance with Legal, Ethical and Regulatory Requirements

Obtain reasonable assurance that HOHI has implemented appropriate systems of internal control to ensure compliance with legal, ethical and regulatory requirements and that these systems are operating effectively by:

a) reviewing summaries of matters reported pursuant to the Corporation's "Business Conduct Hotline" and actions taken in relation thereto;

b) inquiring about the policies and procedures the company has in place for monitoring compliance with laws and regulations and HOHI's own code of business conduct;

c) informing senior management and external auditors which matters the AC wishes them to report should such matters come to the auditors' attention during the course of the auditors' work;

d) asking senior management to provide a summary concerning compliance and any changes in the acts or regulations governing HOHI and its subsidiaries;

e) considering whether the CFO or others should be asked to undertake special assignments to monitor compliance with regulatory requirements;

f) reviewing no less than annually the reasonableness of the expenses reimbursed to the Chair and members of the Boards; and

g) receiving no less than annually the Board Chair's oral report with respect to his/her semi-annual review of the reasonableness of expenses reimbursed to the President and Chief Executive Officer.

8. Internal Audit

a) assess periodically the need for internal audit function within HOHI and, if needed, is adequately staffed and effectively carried out;

b) review and recommend the internal audit charter (i.e. the terms of reference, program of audit activities and resources of the internal audit function) to ensure its primary reporting relationship to the AC;

c) review and approve any internal audit plan; and

d) review any reports and recommendations of the internal auditors and monitor the implementation of recommendations.

9. Financial Controls

a) review both Management's overall approach to control and the plans of the CFO and external auditors to gain reasonable assurance that the combined evaluation and testing of internal financial controls is comprehensive, coordinated and cost-effective;

b) inquire specifically about HOHI's compliance with its internal control policies and procedures; and

c) receive regular reports from Management, the external auditors and HOHI's legal advisors on all significant deviations or any indications/detections of fraud and the corrective activity undertaken in respect thereto.

10. Relationship with External Auditors

a) recommend to the Shareholder, through the Board, the need for the annual financial statements of HOHI to be audited by external auditors;

b) approve the compensation to be paid to the external auditor;

c) recommend to the Shareholder, through the Board, the appointment of the external auditors;

d) review the performance of the external auditors annually or more frequently as required;

e) if deemed necessary, receive a report annually from the external auditors with respect to their independence, such report to include a disclosure of all engagements (and fees related thereto) for non-audit services by HOHI;

f) review with the external auditors the scope of the audit, the areas of special emphasis to be addressed in the audit and the materiality levels which the external auditors propose to employ;

g) meet with the external auditors in the absence of Management to determine, that no Management restrictions have been placed on the scope and extent of the audit examinations by the external auditors or the reporting of their findings to the AC;

h) establish effective communication processes with Management and HOHI's CFO and external auditors to assist the AC in monitoring objectively the quality and effectiveness of the relationship among the external auditors, Management and the Committee;

i) oversee the work of the external auditors and the resolution of disagreements between Management and the external auditors with respect to financial reporting;

j) request that the external auditors provide to the AC, at least annually, an oral and/or written report describing the external auditors' internal quality assurance policies and procedures as well as any material issues raised in the most recent internal quality assurance reviews; and

k) approve additional engagements of the external auditors for non-audit assignments.

11. Other Responsibilities

a) Investigate any matters that, in the AC’s discretion, fall within the Committee’s responsibilities; and

b) Perform such other functions as may from time to time be assigned to the AC by the Board.

12. Operating Principles

The AC shall fulfill its responsibilities within the context of the following principles:

a) Conduct

The AC expects the Management of HOHI to operate in compliance with HOHI's Code of Business Conduct and policies; with laws and regulations governing HOHI; and to maintain strong financial reporting and control processes.

b) Communications

The Chair and members of the AC expect to have direct, open and frank communications throughout the year with Management, other Committee Chairs, the external auditors, the Chief Financial Officer ("CFO") and other key AC advisors as applicable.

c) Financial Literacy

All AC members shall have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by HOHI's financial statements.

d) Annual AC work Plan

The AC, in consultation with Management and the external auditors, shall develop and present to the Board for the Board's approval a work plan which, amongst other things, will describe the activities in which the AC will engage for the purpose of carrying out the AC's responsibilities as set out in this Charter. In addition, the AC, in consultation with Management and the external auditors, shall develop and participate in a process for review of important financial topics that have the potential to impact HOHI's financial disclosure;

e) Committee Expectations and Information Needs

The AC shall communicate its expectations to Management and the external auditors with respect to the nature, timing and extent of its information needs. The Committee expects that all reasonably required and available information (including minutes) relating to each matter to be dealt with by the AC at its meetings will be received from Management and the external auditors within a reasonable time frame in advance of each Committee meeting.

f) Reliance on Experts

In contributing to the AC's discharging of its responsibilities under this Charter, each member of the AC shall be entitled to rely in good faith upon:

i. The financial statements of HOHI represented to him or her by the Management of HOHI or in a written report of the external auditors to present fairly the financial position of HOHI in accordance with generally accepted accounting principles; and

ii. Any report of a lawyer, accountant, appraiser or other person whose profession lends credibility to a statement made by any such person.

g) In Camera Meetings

The members of the AC shall meet in private session and separately with the external auditors annually; and, as part of each meeting, with the AC members only (i.e., without Management present). The Committee shall meet in private session as often as it deems necessary.

h) Committee Self-Assessment

The AC shall regularly review, discuss and assess its own performance. In addition, the AC shall periodically review its role, responsibilities and terms of reference as specified in this Charter.

i) The External Auditors

The AC expects that, in discharging their responsibilities to the Board, the external auditors shall be accountable to the Board through the AC. The external auditors shall report all material issues or potentially material issues to the AC.

13. Operating Procedures

a) The AC shall meet at least twice annually, or more frequently as circumstances dictate. Meetings shall be held at the call of the Chair, or upon the request of two (2) members of the Committee or at the request of the external auditors;

b) A quorum shall be a majority of the members;

c) in the absence of the Chair, the Committee members present shall appoint an Acting Chair;

d) AC meeting agendas shall be the responsibility of the Chair of the Committee in consultation with the Board Chair, Committee members, Management and the external auditors;

e) In addition to the external auditors, the AC may, after consultation with the Chair of the Board, retain one or more persons having special expertise that will assist the AC in discharging its responsibilities; and

f) The AC, through its Chair, shall report after each Committee meeting to the Board at the Board's next regular meeting.

14. Limitations on the Audit Committee's Responsibilities

In contributing to the AC's discharging of its responsibilities under this Charter, each member of the AC shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended, or may be construed, to impose on any member of the AC a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of the AC's responsibilities is monitoring and reviewing to gain reasonable assurance (but not to ensure) that the Fundamental Activities are being conducted effectively and that the Financial Reporting Objective is being met and to enable the AC to report thereon to the Board.

Approved by the Board of Directors: May 14, 2009
Revised: November 5, 2013
Revised: November 14, 2013
Revised: November 27, 2014

GOVERNANCE AND MANAGEMENT RESOURCES COMMITTEE ("GMRC") CHARTER

HYDRO OTTAWA HOLDING INC.

(HOHI)

1. Composition

a) The Governance & Management Resources Committee ("GMRC") of Hydro Ottawa Holding Inc. is a Board Committee which shall be comprised of up to 6 members of which:

i. A majority shall be external directors of HOHI;
ii. One (1) shall be the Board Chair as an *ex officio* voting member; and
iii. All members of the GMRC shall be independent of the management of HOHI and its subsidiaries;

b) The following skill set is normally looked for in the selection of GMRC members:

i. Previous governance committee and human resources committee experience
ii. Familiarity with the legal and regulatory requirements of directorships and executive human resources management
iii. Previous experience in the recruitment, selection, motivation, evaluation and leadership of senior executives
iv. General corporate human resource management expertise

It is not necessary for any one member of the committee to possess all of the skill set items. However, each skill set item (and parts thereof) should be present in the GMRC's composition.

c) The Chair of HOHI shall recommend, for HOHI Board approval, both the members to serve on the GMRC and the Chair of the GMRC.

2. Terms of Reference

a) The GMRC's role is to assist the Board in monitoring both the governance and human resources structures, processes and policies of HOHI (which includes its subsidiaries).

b) Reporting by the GMRC will be solely to the HOHI Board. However, the HOL Board members on the GMRC, along with the CEO and members of senior management reporting directly to the CEO will be expected to advise the HOL Board of any matters of concern raised by the GMRC affecting HOL.

3. Governance Structures and Practices

a) The GMRC must gain and maintain reasonable assurance that the governance structures and practices of HOHI and its subsidiaries comply with the requirements of the shareholder declaration and enable the HOHI Board to discharge the Board's roles and responsibilities in a highly effective manner. In particular, the GMRC must gain and maintain reasonable assurance that:

i. With the exception of the President and CEO and members of the Council of the City of Ottawa, all HOHI Directors are independent. For the purposes of this charter, a Director is independent if the Director has no relationship with HOHI which, in the view of the Board, could reasonably be expected to interfere with the exercise of the Director's independent judgment;
ii. the Chair of the Board is an external director and not a member of Management;
iii. every Board committee is comprised of a majority of external directors;
iv. the Board, as a whole, possesses the competencies and skills required to enable the Board to discharge the its responsibilities and roles; and
v. the number of Directors constituting the Board facilitates effective decision-making by the Board.

b) The GMRC must also:

i. develop and recommend to the Board HOHI's approach to corporate governance, including a set of governance principles and guidelines specifically applicable to HOHI;
ii. review and make recommendations with respect to the Bylaws and Shareholder Declaration of HOHI;
iii. recommend the creation of any committees of the Board as the GMRC deems necessary for the Board to discharge its responsibilities;
iv. develop and maintain written Charters for the Board and each committee of the Board;
v. review and recommend the enterprise risk management charter;
vi. develop and maintain written position descriptions for the Chair of the Board, the CEO, the Chairs of Board or Standing Committees and an individual Director;
vii. for the purpose of Board and Director development (and taking into account their respective charters and position descriptions), make recommendations to the Board of Directors regarding *the process* for ongoing and regular evaluations of the Board, each Board & Standing Committee, each individual Director, the Chair of the Board and the Chairs of Board and Standing Committees;
viii. identify the skills and knowledge required for directors and provide an orientation and continuing education process directed at enabling Directors to fully understand the nature and operation of HOHI's business(es) and affairs as well as the individual Director's and the Board's roles and responsibilities for the successful performance of HOHI;
ix. establish and maintain a process, that includes Board approval, by which any Director may, at the expense of HOHI, engage independent counsel or other advisors to provide advice to the Director with respect to the Director's liabilities or the discharge of his or her roles responsibilities as a Director;
x. develop policies and procedures for communication by HOHI and its subsidiaries with the Shareholder and other stakeholders;
xi. carry out any governance process adopted by the Board of Directors; and

xii. perform such other governance functions as may, from time to time, be assigned to the GMRC by the Board of Directors.

4. Risk Management

The GMRC shall review the risk management program to provide the Board reasonable assurance that appropriate risk management processes have been developed and implemented to identify, assess and manage significant risks.

5. Human Resources Management

a) The GMRC must gain and maintain reasonable assurance that:

i. HOHI's overall compensation philosophy for Management balances the objectives of (i) attracting and retaining highly competent managers, (ii) appropriately and fairly rewarding strong performance by managers, (iii) maintaining HOHI's employee costs at competitive levels, and (iv) linking managers' compensation to the achievement of HOHI's strategic objectives;
ii. the comprehensive compensation programs for the CEO and for other members of senior management is appropriate;
iii. HOHI establishes and maintains a succession plan which identifies the potential successors to the holders of key Management positions in HOHI; and
iv. HOHI establishes, maintains and is in compliance with its approved human resources policies, procedures and guidelines as well as all applicable laws, regulations, rules, policies and other requirements of governments and regulatory agencies relating to human resources.

b) The GMRC must also:

i. establish and regularly review a job description for the CEO which reflects the Board's delegation to the CEO of the powers and authority to manage the business and affairs of HOHI;
ii. recommend processes for the recruitment, selection, motivation, evaluation and compensation of the CEO which will enable HOHI to achieve the Strategic Plan;
iii. recommend the terms and conditions of the CEO's employment by HOHI;
iv. make appropriate recommendations to the HOHI Board of Directors for the for approval of the terms of employment or termination of the Chief Executive Officer ("CEO");
v. make recommendations to the Board of Directors regarding a formal process for annually assessing the performance of the CEO;
vi. establish the criteria against which the performance of HOHI and the CEO will be evaluated for the purposes of receiving any compensation adjustments;
vii. conduct an annual performance review of the CEO against the performance criteria approved by the Board and report thereon to the Board of Directors;

viii. review and recommend to the Board for approval any organization-wide benefit policies and practices related to the achievement of HOHI's strategy as well as general terms and conditions of employment at HOHI;
ix. review the CEO's report to the Board annually *summarizing* the results of his/her performance evaluations and compensation changes for senior managers;
x. review regularly the implementation of the evaluation, planning and development processes that focus attention on Management succession within HOHI;
xi. review and approve the criteria recommended by the CEO against which the performance of other members of senior management will be evaluated for the purpose of receiving any compensation adjustments;
xii. review and recommend to the Board of Directors for approval the organization wide human resources policies and procedures related to the achievement of HOHI's strategy *and any significant changes in them;*
xiii. identify with Management the risks associated with human resource activities at HOHI and to review Management's plan to control them; and
xiv. perform such other human resource functions as may, from time to time, be assigned to the GMRC by the Board of Directors.

6. Pension Governance

a) The GMRC must, on behalf of the Board, satisfy itself that any and all pension plans sponsored by the Corporation and its subsidiaries are properly operated and administered, and that the fiduciary obligations of the pension plan sponsor and administrator are met. In particular, the GMRC must annually gain and maintain reasonable assurance that

i. Mandates regarding pension plan and fund administration are clearly described for the board, relevant committee(s), pension fund agents and trustees and other participants in the governance process;
ii. Measures to implement the mandates are established and the plan governance structure is reviewed on a regular basis;
iii. Documentation that evidences implementation of plan administration is developed and maintained;
iv. The board or its relevant committee(s) receives and considers regular reports from others involved in plan administration; and
v. The operation of the plan is made transparent through communication to plan members.

b) The GMRC shall perform the specific duties, responsibilities and actions pursuant to the authority delegated to it by the Board, and shall make recommendations to the Board concerning them.

7. Code of Conduct & Compliance

The GMRC shall also, on behalf of the Board:

a) establish, maintain and monitor compliance with a written code of business conduct and ethics (the "Code") applicable to Directors, Officers and employees of the Corporation. The

Code must constitute standards reasonably designed to promote integrity, the protection and proper use of assets, avoid conflicts of interest and both deter and report wrongdoing;

b) require every HOHI and subsidiary Director, member of Management and those in key financial positions to annually sign an attestation acknowledging acceptance of the Code of Business Conduct;

c) gain reasonable assurance that every employee of HOHI and its subsidiaries receive training on the Code of Business Conduct and sign an attestation acknowledging when they received it;

d) gain reasonable assurance that waivers of compliance with the Code are granted only by the Board or an appropriately empowered Board committee;

e) gain and maintain reasonable assurance (i) as to the integrity of the CEO and the other members of Management, and (ii) that the CEO and the other members of Management create and maintain a culture of integrity throughout HOHI;

f) gain and maintain reasonable assurance that Management, the Board, and the Corporation comply with the applicable laws, regulations, rules, polices and other requirements promulgated by legislation and applicable industry regulation; and

g) review and recommend the governance process and procedures relating to the Business Conduct Hotline.

8. Operating Principles

The GMRC shall fulfill its responsibilities within the context of the following principles:

a) Conduct

The GMRC expects the Management (defined as being comprised of the CEO and his/her direct reports) of HOHI to operate in compliance with HOHI's Code of Business Conduct and policies and with laws and regulations governing HOHI.

b) Communications

The Chair and members of the GMRC expect to have direct, open and frank communications throughout the year with Management, other Committee Chairs and other key GMRC advisors as applicable.

c) Annual GMRC Work Plan

The GMRC, in consultation with Management shall develop and present to the Board for the Board's approval an annual Committee work plan which, amongst other things, will describe the

activities in which the GMRC will engage for the purpose of carrying out the GMRC's responsibilities as set out in this Charter.

In addition, the GMRC, in consultation with Management shall develop and participate in a process for review of important governance and human resources topics that have the potential to impact HOHI's effective operation.

d) Committee Expectations and Information Needs

The GMRC shall communicate its expectations to Management with respect to the nature, timing and extent of its information needs. The Committee expects that all reasonably required and available information (including minutes) relating to each matter to be dealt with by the GMRC at its meetings will be received from Management within a reasonable time frame in advance of each Committee meeting.

e) Reliance on Experts

In contributing to the GMRC's discharging of its roles and responsibilities under this Charter, each member of the GMRC shall be entitled to rely in good faith upon:

i. the reports of HOHI represented to him or her by the Management of HOHI or in a written report of external advisors with respect to the governance policies and human resources policies of HOHI ; and
ii. any report of a lawyer, accountant, appraiser or other person whose profession lends credibility to a statement made by any such person.

f) In Camera Meetings

The members of the GMRC shall meet in private session as part of each meeting, (i.e., without Management present). The GMRC shall meet in private session as often as it deems necessary.

g) Committee Self-Assessment

The GMRC shall regularly review, discuss and assess its own performance. In addition, the GMRC shall periodically review its role, responsibilities and terms of reference as specified in the Charter.

9. Operating Procedures

a) The GMRC shall meet at least twice annually, or more frequently as circumstances dictate. Meetings shall be held at the call of the Chair or upon the request of two (2) members of the Committee;

b) A quorum shall be a majority of the members;

c) In the absence of the Chair, the Committee members present shall appoint an Acting Chair;

d) GMRC meeting agendas shall be the responsibility of the Chair of the Committee in consultation with the Board Chair, Committee members and Management;

e) To assist the GMRC in discharging its responsibilities, the GMRC may, after consultation with the Board Chair, retain at the expense of HOHI, one or more persons having special expertise that will assist the GMRC in discharging its responsibilities.

f) The GMRC, through its Chair (or the Chair's designate), shall report after each Committee meeting to the Board at the Board's next regular meeting.

10. Limitations on Committee's Responsibilities

In contributing to the Committee's discharging of its responsibilities under this Charter, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of the Committee's responsibilities is to gain reasonable assurance (but not to ensure) that the governance and human resources policies, procedures and practices of HOHI (i) are being conducted effectively and in compliance with all applicable laws, statutes and regulations; (ii) are reasonable and appropriate in the circumstances given the nature of the organization and its strategy; and (iii) are sufficiently and accurately reported upon to the Board.

Approved by the Board of Directors on:
May 13, 2010
Revised on: None

HYDRO OTTAWA HOLDING INC.
(HOHI)

INVESTMENT REVIEW COMMITTEE ("IRC") CHARTER

1. Composition

a) The Investment Review Committee ("IRC") of Hydro Ottawa Holding Inc. ("HOHI") is a Board Committee which shall be comprised of up to 5 members of which:

(i) A majority shall be external directors of HOHI;
(ii) One (1) shall be the Chair of the Audit Committee of HOHI;
(iii) One (1) shall be the Mayor of the City of Ottawa if that person is a member of the Board of Directors of HOHI;
(iv) Two members shall be directors who are members of the Board of Directors of HOHI who are independent of the management of HOHI and its subsidiaries;
(v) One (1) shall be the Board Chair as an *ex officio* voting member.

b) The following skill set is normally looked for in the selection of IRC members:
- Board experience
- Experience in relation to mergers and acquisitions;
- Experience in business development;
- Experience in the design, construction or development of capital projects;
- Experience in public or private financing or project financing

It is not necessary for any one member of the Committee to posses all of the skill set items. However, each skill set item (and parts thereof) should be present in the IRC's composition.

c) The Chair of HOHI shall recommend, for HOHI Board approval, the members to serve on the IRC.

d) The Chair of the IRC shall be the Chair of the Board of Directors.

2. Terms of Reference

a) The purpose of the Investment Review Committee is to assist management and the Board of Directors in the review and pursuit of business development, acquisition and investment opportunities.

b) For the purpose of carrying out its purpose, the IRC shall:

i. Review and consider potential business development, acquisition or investment opportunities and make recommendations to the Board of Directors with respect thereto, with a focus on:
   1) The consistency of the opportunity with the strategic plan adopted by the Board of Directors;
   2) The consistency of the opportunity with investment guidelines and acquisition criteria approved by the Board of Directors;
   3) The maximization of shareholder value;
   4) The financial resources as well as other resources required to benefit from the opportunity over the short and long-term;
   5) The material risks related to the opportunity;
   6) The compliance with legislative and regulatory restrictions on business activities in exercising the opportunity; and
   7) Such other matters as the Committee may consider relevant to the assessment and evaluation of the opportunity;

ii. Approve the submission of letters of intent, expressions of interest or other documents brought by management to the Committee for its consideration indicating the interest of the corporation in pursuing an investment or acquisition, subject to any applicable final decision of the Board of Directors with respect to the investment or acquisition;

iii. Provide guidance and advice to management in relation to potential acquisition or investment opportunities; and

iv. Perform such other functions as may be assigned by the Board of Directors.

3. Operating Principles

The IRC shall fulfill its responsibilities within the context of the following principles:

a) Conduct

The IRC expects its Committee members to operate in compliance with HOHI's Code of Business Conduct and policies and with all applicable laws and regulations governing HOHI.

b) Committee Expectations and Information Needs

The Chair and members of the IRC expect to have direct, open and frank communications throughout the year with Management, other Committee Chairs and other key IRC advisors as applicable.

c) Reliance on Experts

In contributing to the IRC's discharging of its duties under this Charter, each member of the IRC shall be entitled to rely in good faith upon:

i) the reports of HOHI represented to him or her by the Board Chair, the Chair of the IRC, an officer of HOHI or in a written report of external advisors; and

ii) any report of a lawyer, accountant, appraiser or other person whose profession lends credibility to a statement made by any such person.

4. Operating Procedures

a) The IRC shall meet as circumstances dictate to carry out the responsibilities set out in its Terms of Reference. Meetings shall be held at the call of the Chair;

b) a quorum shall be a majority of the members;

c) in the absence of the Chair, the Committee members present shall appoint an Acting Chair;

d) IRC meeting agendas shall be the responsibility of the Chair of the Committee in consultation with Management.

e) To assist the IRC in discharging its responsibilities, the IRC may, after consultation with the Board Chair, retain at the expense of HOHI, one or more persons having special expertise that will assist the IRC in discharging its responsibilities.

f) The IRC, through its Chair (or the Chair's designate), shall report after each Committee meeting to the Board at the Board's next regular meeting.

5. Limitations on Committee's Duties

In contributing to the Committee's discharging of its duties under this Charter, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject.

Approved by the Board:
November 14, 2013

HYDRO OTTAWA HOLDING INC.
(HOHI)

STRATEGIC INITIATIVES OVERSIGHT COMMITTEE ("SIOC") CHARTER

1. Composition

a) The Strategic Initiatives Oversight Committee ("SIOC") of Hydro Ottawa Holding Inc. ("HOHI") is a Board Committee which shall be comprised of that number of Directors as shall be determined from time to time by the Board, of which:

(i) A majority shall be external directors of HOHI;
(ii) One (1) shall be the Board Chair as an *ex officio* voting member; and
(iii) All other members shall be directors who are members of the Board of Directors of HOHI who are independent of the management of HOHI and its subsidiaries.

b) The following skill set is normally looked for in the selection of SIOC members:

- Board experience;
- Merger and acquisition experience including change and transition management and transformation capacity;
- Experience in business development;
- Experience in the design, construction or development of capital projects; and
- Experience in public or private financing or project financing.

It is not necessary for any one member of the Committee to posses all of the skill set items. However, each skill set item (and parts thereof) should be present in the SIOC's composition.

c) The Chair of HOHI shall recommend, for HOHI Board approval, both the members to serve on the SIOC and the Chair of the SIOC.

2. Terms of Reference

a) The purpose of the Strategic Initiatives Oversight Committee is to assist the Board of Directors in overseeing the development and implementation of certain key strategic initiatives set out in the annual corporate scorecard adopted by the Board of Directors in support of the strategic plan.

b) To fulfill its purpose, the SIOC shall:

(i) Oversee the planning and implementation of certain key strategic initiatives as identified by the Board of Directors from time to time;
(ii) Receive timely reports from management;
(iii) Review progress on planning as well as relevant communication, stakeholder engagement, and implementation plans;
(iv) Provide guidance and advice to management;

(v) Ensure that management has considered all significant risks in the development of plans;
(vi) Review and advise on the approval of major project decisions and monitor execution;
(vii) Keep the Board of Directors apprised of progress and results, as well as the most significant risks and risk mitigation strategies, and make recommendations to the Board of Directors on such matters; and
(viii) Perform such other functions as may be assigned by the Board of Directors.

3. Operating Principles

The SIOC shall fulfill its responsibilities within the context of the following principles:

a) Conduct

The SIOC expects its Committee members to operate in compliance with HOHI's Code of Business Conduct and policies and with all applicable laws and regulations governing HOHI.

b) Committee Expectations and Information Needs

The Chair and members of the SIOC expect to have direct, open and frank communications throughout the year with Management, other Committee Chairs and other key SIOC advisors as applicable.

c) Reliance on Experts

In contributing to the SIOC's discharging of its duties under this Charter, each member of the SIOC shall be entitled to rely in good faith upon:
(i) the reports of HOHI represented to him or her by the Board Chair, the Chair of the SIOC, an officer of HOHI or in a written report of external advisors; and
(ii) any report of a lawyer, accountant, appraiser or other person whose profession lends credibility to a statement made by any such person.

4. Operating Procedures

a) The SIOC shall meet as circumstances dictate to carry out the responsibilities set out in its Terms of Reference. Meetings shall be held at the call of the Chair;

b) a quorum shall be a majority of the members;

c) in the absence of the Chair, the Committee members present shall appoint an Acting Chair;

d) SIOC meeting agendas shall be the responsibility of the Chair of the Committee in consultation with Management;

e) To assist the SIOC in discharging its responsibilities, the SIOC may, after consultation with the Board Chair, retain at the expense of HOHI, one or more persons having special expertise that will assist the SIOC in discharging its responsibilities; and

f) The SIOC, through its Chair (or the Chair's designate), shall report after each Committee meeting to the Board at the Board's next regular meeting.

5. Limitations on Committee's Duties

In contributing to the Committee's discharging of its duties under this Charter, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject.

2014 Meeting Schedule - Hydro Ottawa Holding Inc. Board, its committees, and its subsidiary board, Hydro Ottawa Limited Board

	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
AUDIT COMMITTEE		Feb 04 9-11:30 a.m.	Mar 25 9-11:30 a.m.		May 13 9-11:30 a.m.			Aug 19 9-11:30 a.m.			Nov 18 9-11:30 a.m.	
GOVERNANCE & MANAGEMENT RESOURCES COMMITTEE			Mar 25 12-3 p.m.		May 13 12-3 p.m.			Aug 19 12-3 p.m.			Nov 18 12-3 p.m.	
INVESTMENT REVIEW COMMITTEE				Apr 02 1-2 p.m.	May 21 1-2 p.m.			Aug 26 1-2 p.m.			Nov 25 3:30-4:30 p.m.	
HYDRO OTTAWA LIMITED BOARD				Apr 03 9-11:30 a.m.	May 22 9-11:30 a.m.			Aug 28 9-11:30 a.m.	Joint Board Strategy Session Sept 18 8:30 a.m.- 5 p.m.		Nov 27 9-11:30 a.m.	
HYDRO OTTAWA HOLDING INC. BOARD				Apr 03 12-3 p.m.	May 22 12-3 p.m.			Aug 28 12-3 p.m.			Nov 27 12-3 p.m.	
ANNUAL GENERAL MEETING (Board Chair Only)						Jun 25 10-noon						
NOMINATING COMMITTEE						Jun 13 9:45 a.m.						
STRATEGIC INITIATIVES OVERSIGHT COMMITTEE		Feb 20 3-4:30 p.m.			May 20 2-3:30 p.m.				Sept 9 9-10:30 a.m.		Nov 17 1-2:30 p.m.	

Approved by the Board of Directors on:
November 22, 2007

HYDRO OTTAWA HOLDING INC
(HOHI)

Director Orientation and Continuing Education
Policy and Process

As part of its commitment to ensuring that the corporation implements good governance practices consistent with a corporation of its size and nature of business activities, Hydro Ottawa Holding Inc. and its subsidiaries are committed to ensuring that members of the Board of Directors receive both an initial orientation and on-going education that will assist them in undertaking their roles as directors of the corporation and its subsidiaries. The Governance and Management Resources Committee shall be responsible for ensuring that appropriate and relevant practices are in place to director orientation and continuing education.

Orientation of Directors

The program for the orientation of new directors will be tailored to reflect the knowledge, unique skills, experience and education of new directors.

Each new director shall receive an orientation package to assist the director in understanding the nature and structure of the businesses, an outline of current issues and an explanation of the expected roles and responsibilities of the directors. The overview of the businesses of the corporation will include a review of strategic directions, business, financial and capital plans, financial results, significant business issues and key areas of risk. The orientation package will also explain legal requirements applicable to the corporation and its subsidiaries including the regulatory environment within which the businesses operate, significant components of shareholder agreements (or declarations), by-laws, codes of conduct and key corporate and Board policies and procedures. The orientation package will also outline the structure of the organization and explain the roles and responsibilities of the Board, its committees and members of the executive.

In addition to the provision of an orientation package, new directors meet with members of the executive to review business activities and key functions and to review the roles and responsibilities of directors. The Chair will also meet with new directors during which the workload and expected time commitments will be further reviewed.

Continuing Education

Management will ensure that the members of the Board of Directors receive timely access to information needed to carry out their duties. Directors may contact the Chair, committee chairs and the Chief Executive Officer to recommend that matters be included in the agendas for meetings of the Board and its committees. Directors will receive a comprehensive information package in advance of meetings and may request further information to assist in the fulfillment of their roles as directors.

The corporation shall provide to directors with information relating to significant, specialized and complex business operations and activities. Management will also provide directors with information relating to good governance practices and other areas to assist the Board and its committees in fulfilling their responsibilities.

The corporation encourages directors to participate in external professional development education programs to assist in the execution of their roles as directors. The following process will apply to encourage participation in the programs:

1. The Corporate Secretary will disseminate information about external education opportunities brought to the attention of the corporation and directors are encouraged to provide to the Corporate Secretary information about other educational opportunities.
2. Directors may make a request to the Corporate Secretary to attend a specific educational program or to attend an undefined program addressing a defined topic or area. The Corporate Secretary will, in turn, forward requests to the Chair of the Board of Directors and the Chair of the Governance and Management Resources Committee.
3. The Chair of the Board of Directors, in consultation with the Chair of the Governance and Management Resources Committee, shall consider requests and determine which requests shall be approved having regard to the following:
    a. The educational needs of the individual director;
    b. The relevance of a particular program to the fulfillment of the role and responsibilities of the director;
    c. The scope of knowledge of the matters addressed by the program already held by the individual director and other members of the Board of Directors;
    d. The cost and quality of the program, including related travel costs;
    e. The existence, availability and quality of comparable programs;
    f. Existing budgetary restrictions of the corporation;
    g. The need to provide education opportunities for other members of the Board of Directors; and
    h. Any other matters relevant to participation in the educational program.
4. Where the Chair of the Board of Directors requests to participate in an external education program, such request shall be considered by the Chair of the Governance and Management Resources Committee who will determine whether such request shall be approved.

5. The corporation will also fund the participation of one director per year for a recognized director education program providing director certification. Priority for approval of participation of a director shall be provided first to the Chair of the Board of Directors, then to committee chairs followed by other members of the Board of Directors. The Chair shall determine which director shall be permitted to attend the director education program in a given year at the cost of the corporation.
6. For the purposes of this policy, participation and attendance at an external education program shall include receipt of educational information by electronic means.
7. Where the Chair approves the participation of a director at an external education program, such approval may be on the basis of funding of all expenses related to the participation of the director in the external education program (including travel, accommodation and program registration expenses) or on the basis of an agreed sharing of costs.
8. The payment or reimbursement of expenses incurred by the director in connection with the attendance or participation in an external education program shall be subject to any policies or guidelines established by the Board of Directors. No remuneration shall be paid to a director for participation or attendance at an external education program.

CODE OF BUSINESS CONDUCT

HydroOttawa

OUR VISION

Hydro Ottawa — a leading and trusted integrated utility services company.

OUR MISSION

To create long-term value for our shareholder, benefiting our customers and the communities we serve.

Effective January 1, 2014

TABLE OF CONTENTS

I. INTRODUCTION 4
- Why do we have a Code of Business Conduct? 4
- Who does the Code apply to? 5
- Specific Roles 5
- When the Code Does Not Have an Answer 7

II. OUR ORGANIZATIONAL VALUES 8

III. OUR STANDARDS OF BUSINESS CONDUCT 13
- **Financial Stewardship 14**
- Protection of Company Assets 14
- Financial Decisions 15
- Competing Fairly and Protecting Competitive Advantage 15
- **Business Reporting and Records 16**
- Financial Reporting 16
- Operational Information and Records 16
- **Use of Technology 17**
- **Audits and Investigations 19**
- **Respect for Individuals 19**
- Dignity and Fairness 20
- Diversity 21
- Professionalism 21
- Safety 22
- Environmental Protection 23
- Confidentiality and Privacy 24
- **Conflict of Interest 25**
- Personal Investments 26
- Insider Information 26
- External Employment 26
- Employment of Family Members 27
- Service on Boards of Directors 27
- Professional Associations 28
- Volunteerism 28
- Political or Charitable Activity 28
- **Accepting/Giving Gifts and Entertainment 29**
- **Dealing With the Media 32**

IV. COMPLIANCE WITH THE CODE 33
- Reporting Non-Compliance/Potential Non-Compliance 33
- Consequences for Non-Compliance 34

I. INTRODUCTION

WHY DO WE HAVE A CODE OF BUSINESS CONDUCT?

Every day, individuals at Hydro Ottawa[1] strive to make the right choices in accordance with applicable laws and regulations, contractual commitments, company policies, professional standards, our standards of business conduct and our organizational values of Teamwork, Integrity, Excellence and Service. We do this because we know that how we accomplish our objectives, individually and as a company, is as important as what we achieve.

The Code of Business Conduct (also referred to as 'the Code') helps us make the right choices by:

- Guiding us as we make decisions and take action.
- Helping us understand where personal choices can be in conflict with our standards of business conduct, our values and our obligations to the company and each other.
- Providing examples of behaviours and attitudes that further define our values and the standard of business conduct required of each and every one of us.
- Describing a high standard that can be applied to any situation, including situations not specifically addressed in the Code.
- Setting specific, ethical direction and expectations.
- Explaining what we can do when we experience or observe non-compliance with the Code.

The Code outlines general principles of appropriate business conduct, with examples[2], rather than attempting to cover every situation we may possibly encounter. It is not a substitute for the use of sound judgement, and the seeking of advice as required, in assessing a particular situation.

WHO DOES THE CODE APPLY TO?

The Code applies to all employees, members of the Boards of Directors and, to the extent feasible, our external business partners – agents, representatives, consultants, contractors, vendors and suppliers.

The Code is not intended to conflict with our commitments to employees as stated in our collective agreements, terms and conditions of employment or contracts, nor with the professional standards by which certain of our employees and Board members are bound.

SPECIFIC ROLES

Each and every one of us has the responsibility to model the behaviours and attitudes that are outlined in the Code.

All Employees and Board Members

All employees and Board members are required to know, understand and apply the Code, as well as the related policies that apply to them. They must all complete any required training on the Code, acknowledge receipt of the Code and training, and report non-compliance with the Code in accordance with the Compliance section of the Code.

[1] Hydro Ottawa refers to Hydro Ottawa Holding Inc. and all of its subsidiaries.
[2] As time progresses, examples may be added, removed or updated to reflect best practices and changes in the workplace; any such changes will be posted on the Intranet.

Additional Roles for All Those with Direct Reports

The importance of seeking the advice of your direct supervisor is stressed throughout the Code. As such, the company places added expectations on those with direct reports; we expect that they will:

- Respond when their advice regarding the Code is sought, making it comfortable for advice to be sought; and seek guidance from their next level of management, legal counsel or Human Resources when required, to ensure the advice provided is sound.
- Ensure that their direct reports understand the Code and the impact of individual behaviour on the company.
- Agree, in writing, to abide by the Code. This also applies to all Board members.
- Champion the Code; ensure that any required training on the Code and applicable documents are completed.
- Support those who report non-compliance with the Code.
- Immediately address issues of non-compliance by involving their next level of management, legal counsel, or Human Resources as appropriate.

Additional Roles for Executive and Senior Management

Executives and senior management are responsible, in addition to all of the above, for establishing internal controls, ensuring that monitoring of compliance is in place, reviewing this Code on a regular basis to ensure it includes all necessary references, and ensuring that appropriate action is taken to investigate suspected or actual non-compliance.

Annual Recommitment

Board members, members of the executive team, senior management and those in key financial positions are required to recommit to the Code, in writing, on an annual basis.

WHEN THE CODE DOES NOT HAVE AN ANSWER

Codes of business conduct cannot address every possible situation. However, our Code sets a standard against which all situations can be assessed.

Ask yourself these questions:

- Does this feel right? Does it make me feel uncomfortable?
- Would I be proud to tell someone what I have decided or done?
- Am I adhering to the letter and spirit of the laws, regulations and contracts that may be involved?
- Is there any specific guidance in the Code, or in company policies? If not, do the Code and/or a policy give me a sense of the standard that I must apply in this situation?

If, after reading the Code and considering these questions, you are uncertain how to act or react in a given situation, or sense you may be in contravention of the Code if you take a certain action, speak to your direct supervisor, your next level of management, legal counsel or Human Resources without delay.

While all the laws and regulations, and contractual commitments, as well as all the policies that apply to us as individuals and as a company are not specifically described in the Code, the company requires compliance with all applicable laws and regulations and company policies. In situations where the law, policy and the Code appear to be different, each of us must always comply with the highest standard.

II. OUR ORGANIZATIONAL VALUES

This section includes the definitions for our organizational values and examples of associated behaviours and attitudes, provided by our employees, which describe what our values look like in action. Our values are the '**TIES**' that link our conduct to our vision and our mission; they speak to who we are and the kind of business we want.

TEAMWORK is getting the job done through cooperation. Working as a team means sharing our knowledge and skills, and willingly supporting each other. It's striving toward a common goal, while respecting each other's viewpoints and opinions, and acknowledging each other's contributions.

You are living the value of **TEAMWORK** when you demonstrate behaviours and attitudes like these:

- Ensure clarity of team goals by communicating them at the outset and/or confirming your understanding.
- Trust colleagues to fulfill their responsibilities.
- Encourage and provide honest, courteous and constructive feedback, identifying what works and offering alternatives for what does not.
- Listen to what others have to say, and take the time to understand their reasons.
- Respect the workspace of others and the necessary limitations when working in open concept areas.
- Seek information and ideas from across the company, leveraging and relying on the diverse experience, background and knowledge of all team members.
- Willingly share workload; adapt your schedule/duties for team members who are away and participate positively in discussions and completion of tasks.
- Share information and ideas with those who need to know.
- Respect other people's time and schedules, and be on time for meetings.
- Celebrate the achievement of milestones.
- Participate in activities that bring people together, to build team spirit.
- Share credit, by promoting and acknowledging the ideas and contribution of all team members.

INTEGRITY is doing what is right. It means we are trustworthy, we fulfill our commitments with honesty and fairness and we adhere to the highest ethical standards – no matter what the circumstance. It's taking responsibility for our actions and being transparent about our business practices.

You are living the value of **INTEGRITY** when you demonstrate behaviours and attitudes like these:

- Be fair and honest in your dealings with others.
- Do what is right, not what is convenient.
- Say what you will do and do what you say; promise only what you believe you can deliver – and follow through.
- Admit when you have made a mistake.
- Identify when a mistake has been made; don't cover up a mistake that is in your favour.
- Speak up when you recognize that something is wrong.
- Lead by example. Walk your own talk – don't tell someone to do something and then do it differently yourself.
- Give a full day's work for a full day's pay.
- Declare any potential or actual conflict of interest.
- Protect confidential or sensitive information.
- Let people know what you can and cannot tell them.
- Ensure that those who need to understand our business practices are given clear and transparent explanations.

EXCELLENCE is achieved through our commitment to quality, safety and learning. It means using our assets effectively to achieve the best possible outcomes, protecting the environment and caring for our employees by maintaining a positive and safe workplace. It means embracing innovation and continuous improvement, and developing our talent.

You are living the value of **EXCELLENCE** when you demonstrate behaviours and attitudes like these:

- Follow and encourage others to follow safety, environmental, and quality standards.
- Give and/or take assignments that develop new skills.
- Be proactive about learning and stay informed.
- Help others learn and perform, through proper instruction and documentation, coaching and mentoring.
- Keep company assets in good working order; identify when assets are not working properly.
- Ensure that your work is thorough, accurate and in line with what is needed. Take ownership, and take steps to ensure quality work.
- Encourage and/or apply creativity, while effectively managing the risks inherent in innovation.
- Always think about what can be done to add value to your work.
- Identify best practices - do not be satisfied with the status quo.
- Recognize and make use of diversity.

SERVICE is what we say and do to ensure satisfaction. It's all the actions and interactions that meet or exceed the expectations of our customers, our shareholder, our community and our colleagues. Satisfaction is rooted in being treated fairly and with respect, and being kept informed. Through effective service, we increase trust and recognition of the value we provide.

You are living the value of **SERVICE** when you demonstrate behaviours and attitudes like these:

- Take time to understand what the person wants—see yourself as an ambassador in every situation.
- Treat co-workers as valued customers.
- Ensure you provide/have the proper resources to provide good service.
- Respond to requests clearly, accurately and in a timely manner; acknowledge needs and follow through on your commitments. If your response will be delayed, explain why.
- Monitor products and services—so you know there is a problem before the customer knows—and keep the customer informed.
- When providing service, listen fully and with interest, and don't use terminology that the person may not understand.
- Address the person you are serving professionally; be honest, fair, objective and sensitive, without jeopardizing the company's interests.
- Whenever possible address the customer's issue during the first contact.
- Ask customers and other stakeholders for feedback and provide convenient avenues for feedback.
- Clearly and politely explain a policy when it conflicts with what the person wants, while working towards a solution.

III. OUR STANDARDS OF BUSINESS CONDUCT

This section provides guidance and direction regarding key responsibilities and accountabilities, including specific required behaviours and attitudes that align with our organizational values. We are all responsible and accountable to disclose any concerns we have, and decline involvement in any decision or action that is contrary to these expected behaviours and attitudes.

FINANCIAL STEWARDSHIP

We are accountable to our shareholder, and the stewards of significant assets. We must effectively and responsibly use and protect the assets entrusted to us.

PROTECTION OF COMPANY ASSETS[3]

We are all entrusted with protecting our company assets, the assets of our customers, and the assets of our employees and external business partners which are brought into our places of work, from theft, fraud, vandalism, embezzlement and illegal copying of licensed materials.

Additionally, we must protect our assets from neglect – through regular maintenance and care, from unauthorized use, and from inappropriate disclosure of information, any of which could damage our reputation or our success.

For instance:

- Only use company assets for activities associated with work; unauthorized personal use of any company asset is not permitted.
- Do not take company supplies home for personal use, such as pens, paper, electrical tape, batteries, cleaning supplies/tools, etc.
- If you see someone doing something improper or unsafe with a company asset you must report it to your direct supervisor.
- Maintain and make use of the systems Hydro Ottawa has in place to manage and safeguard assets and information.
- Safeguard keys and property access cards.
- Ask any unfamiliar, unescorted persons who are not displaying proper identification to identify themselves.
- Take all steps to protect information against disclosure, recognizing that corporate information and knowledge are amongst our most valuable assets; never share information with anyone who does not have a solid business need to know, and be careful about discussing company business in public venues.
- Do not make unauthorized or illegal copies of intellectual property belonging to or licensed to Hydro Ottawa.
- Dispose of assets only when the appropriate Executive or designate has given permission in writing, or when the method for disposal is clearly outlined in a policy.

FINANCIAL DECISIONS

We apply sound business principles and practices, and make decisions about purchases or expenses that are based on merit and value to the company.

For instance:

- Make purchasing decisions based on pre-set, objective criteria and fully disclose all transactions and payments.
- Conduct thorough cost/value analysis.
- Ensure that business expenses are reasonable and necessary for business or commercial needs.
- Obtain approval or pre-authorization before committing Hydro Ottawa funds.
- Ensure all payments made are appropriate for the level of goods/products and/or services received.
- Adhere to all legal and accounting standards when making purchases and subsequent payments.
- Take the necessary steps to ensure that our external business partners are paid in accordance with agreed terms.

COMPETING FAIRLY AND PROTECTING COMPETITIVE ADVANTAGE

Hydro Ottawa is committed to running our business in compliance with all competition laws, regulations, standards and practices. Unfair tactics such as bribery, extortion or bid rigging are prohibited.

For instance:

- Protect our competitive advantage by refraining from discussing, with outsiders, our customer lists or product and service development initiatives, except where there is a solid business requirement.
- Protect the competitive advantage of our external business partners by not sharing information contained in their bids or quotations with anyone who does not have a solid business need to know.

[3] Assets include, but are not limited to, cash, properties and their contents, furnishings, information, intellectual property, trademarks, logos, data, software, computing and communication devices, tools and equipment, vehicles, clothing, inventory, supplies and materials, etc.

BUSINESS REPORTING AND RECORDS

To meet our financial and legal obligations, and to effectively manage our affairs, we must maintain and produce accurate and reliable records and reports.

FINANCIAL REPORTING

Any records impacting on financial results – such as timesheets, sales reports, financial reports and expense reports - must accurately and clearly reflect the true nature of all business transactions. Revenues, expenses, assets and liabilities must all be disclosed, and documents and records must never be altered, hidden, or falsified. Anyone responsible for accounting must be diligent and insist on proper accounting practices.

For instance:

- Take the necessary steps to ensure there are no errors, misstatements or omissions in accounting documents, systems and analyses.
- Handle all transactions in a manner that avoids any impropriety or perception of impropriety.
- Never report financial transactions in a way that unlawfully evades tax or other charges imposed by government.

OPERATIONAL INFORMATION AND RECORDS

Unless making valid corrections, operational information and records must be left intact. When corrections are made, we must make certain that colleagues who are already in possession of the information/record are advised and provided with an appropriate explanation.

USE OF TECHNOLOGY

Technology is a resource that we must use carefully and ethically, with consideration of our business needs and reputation and with respect for all those associated with Hydro Ottawa.

Hydro Ottawa's systems and the content (business records, data, information, messages, etc.) in those systems are the property of the company. Hydro Ottawa has the right to access, monitor, read and examine any content transmitted and/or stored on its systems/equipment, to ensure productive, ethical, legal and authorized use. This means content in any part of our systems, including the electronic communications system – Internet, Intranet and Email, shared directories and folders, hard drives and portable or removable electronic storage devices - such as compact discs, DVDs and memory sticks. You should not expect that any of your Email, Internet, Intranet or other technology activities on Hydro Ottawa systems which includes, but is not limited to, computers, laptops, tablets and smartphones, or the corresponding content, is private.

Our systems are intended for business purposes. Limited personal use of the electronic communications system - Internet and Email - is permissible, outside of the time you are expected to be working, provided that the time spent and the content of your electronic communications does not interfere with your productivity or the productivity of your colleagues, damages or have the potential to damage the reputation of Hydro Ottawa, negatively impact any individuals or violate the law.

Under no circumstances are you to use Hydro Ottawa systems and equipment which includes, but is not limited to, computers, laptops, tablets and smartphones to access, download, upload, receive or distribute pornographic content or any content that could be considered sexist, racist, discriminatory or hate-based.

Acting in any manner that is detrimental to the interests and/or reputation of Hydro Ottawa on Internet forums, blogs and social networking sites, including but not limited to, Facebook, YouTube and Twitter or chat rooms, regardless from where or how the Internet is accessed, is not acceptable. The company regularly monitors such sites.

For instance:

- Avoid using careless, exaggerated or inaccurate statements in electronic communications, which could be used against Hydro Ottawa.
- Do not download software, large electronic files from the Internet or any content such as images, stream video or music, as these could impact the performance of our technology by using bandwidth on the network needed for business activities or by introducing viruses into our systems.
- Pause and think before you post on social media sites and on the Intranet.
- Use social media only for personal reasons and never for business purposes unless you have been authorized to publish content on behalf of Hydro Ottawa.
- Do not associate or affiliate yourself with Hydro Ottawa when sending e-mails or using social media in a way which could reflect negatively on the company.
- Only install and use software approved by the Information Management and Information Technology Division; and never illegally reproduce software protected by copyright.

AUDITS AND INVESTIGATIONS

We cooperate fully with investigations by authorized internal and external parties, including regulators, law enforcement agencies and auditors. We expect that you will cooperate by providing accurate and factual information to the authorized investigators and that you will never tamper with records or make misleading comments – such as a business rationale designed to mislead - or ask anyone else to do so.

RESPECT FOR INDIVIDUALS

At Hydro Ottawa, we are committed to providing positive and respectful working environments where:

- You feel valued and appreciated
- The well-being of employees, customers, and external business partners is safeguarded
- Diversity is welcomed
- It is safe to discuss what is not working and focus on solutions
- Inappropriate or disrespectful behaviour is dealt with according to clearly established standards and in a timely manner

DIGNITY AND FAIRNESS

Employees, customers, and external business partners will be treated with dignity and fairness.

Employees will be provided with fair compensation and working conditions in exchange for their performance.

All work locations – including customer premises and locations of Hydro Ottawa sponsored events - will be free from discrimination (treating someone differently based on a category), personal or sexual harassment (making someone feel intimidated, threatened, anxious or persecuted), and any form of direct or veiled threats of violence.

We will respect the dignity of our colleagues and treat them as they would like to be treated.

For instance:

- Demonstrate respect and dignity by the tone and words you use in writing and in conversation.
- Do not maliciously gossip about colleagues.
- Do not tolerate discrimination, harassment, violence or threats of violence, and report such incidents immediately.

If you are in a leadership role, address any such incidents brought to your attention immediately; or, report the incident to the employee's direct supervisor if they do not report to you.

Allow others to respectfully voice their thoughts and opinions without fear of retribution.

Avoid conduct that creates an uncomfortable situation or an unfriendly work environment such as inappropriate comments, jokes, intimidation, bullying or physical contact.

Recognize that certain actions generally considered inoffensive might trouble some individuals, and respect the wishes of those individuals.

DIVERSITY

Diversity is about recognizing, respecting and valuing differences across an infinite range of unique individual characteristics and experiences. Hydro Ottawa values diverse backgrounds; we appreciate the different perspectives and experiences that everyone brings to the work environment.

For instance:

- Make it easy for our colleagues who reflect the diverse population of the communities we serve to become part of our company.
- Foster an inclusive work environment that embraces the diversity of our colleagues.
- Do not discriminate in hiring and employment practices on grounds prohibited by law.

PROFESSIONALISM

By presenting ourselves professionally, we demonstrate respect for co-workers, customers and business partners, and ensure that Hydro Ottawa's reputation is viewed positively. Professionalism speaks to demeanour, positive attitude, style of dress, tone of voice and use of personal workspace.

For instance:

- Dress appropriately for the work situation.
- If you have been provided with Hydro Ottawa clothing to perform your duties, ensure that it is used for that purpose.
- Speak at a volume that does not impact the productivity of others or result in others hearing confidential information.
- Avoid inappropriate office decorations.
- Promote the company positively, both internally and externally, in appropriate forums. Do not share personal negative viewpoints about Hydro Ottawa in any public forum, including, but not limited to, social networking sites such as Facebook, YouTube and Twitter.

SAFETY

The safety of our employees, contractors, subcontractors, external business partners, customers and members of the public and visitors is paramount. We acknowledge that, integral to business success, is the establishment and continuous improvement of a safe workplace. We expect individuals to reduce potential harm by complying with all applicable laws, regulations, policies, procedures, guidelines, and work instructions and immediately reporting any situation that compromises safety.

As part of our concern for safety, Hydro Ottawa will not allow any employee or external business partner to work for or with the company if there is any reason to believe that individual safety or the safety of others is compromised or likely to be compromised.

We are committed to minimizing the risk of injury to the public associated with our operations and the provision of services.

For instance:

- Come to work fit for duty, to work safely and to identify, report, and where appropriate, correct workplace hazards.
- Wear your protective equipment at all times and ensure it is in proper working condition.
- Do not erode safety through dangerous or careless driving, or by failing to adequately secure items on company vehicles.
- Smoke only in designated areas, and respect the concerns of others when smoking during work. Smoking is not permitted in the workplace, including garages and company vehicles.
- Never bring any weapon, or other type of object that could cause fear or physical harm and is not required in the completion of work duties, to any location where Hydro Ottawa work is being performed.
- Never consume alcohol during a break or at lunch if operating a vehicle or equipment that Hydro Ottawa owns or leases.
- Never attend to your job duties and responsibilities when the consumption of alcohol or the use of any drugs could adversely affect your performance on the job.
- Advise your direct supervisor if you feel that your performance or safety is or might be compromised as a result of alcohol or any drugs, including when called into work on an emergency basis.

ENVIRONMENTAL PROTECTION

We are committed to being a responsible corporate citizen, and making the community in which we do business a better place to live. We believe that business growth and achievements must be shared with respect for and protection of the environment.

As such, we strive to continuously reduce the impact of our own operations on the environment and the communities we serve, as well as improve our environmental performance. We are dedicated to protecting and preserving the environment where we operate by following all applicable laws, regulations, policies, procedures, guidelines and work instructions and reporting any incidents that could impact the environment.

We will design, build and operate our facilities to make efficient use of resources, prevent pollution and reduce environmental effects to the extent that is reasonably achievable.

For instance:

- Look for ways to reduce the company's carbon footprint and improve the company's energy efficiency and waste management and recycling.
- Ensure that you understand the environmental impact of your work activities, and factor that impact into decisions.
- Take responsibility and accountability for contributing individually to reducing our environmental impact.

CONFIDENTIALITY AND PRIVACY

Respecting the privacy of our employees, customers and external business partners is critical to our success and to building effective business relationships; these individuals have entrusted us with sensitive information. We have a responsibility to effectively manage the collection, access, use and disclosure of all sensitive information, and to only use such information for the purpose for which it was originally collected unless otherwise authorized. We must also safeguard sensitive information against theft, loss, destruction, unauthorized access or misuse.

This obligation and responsibility to protect and not divulge the Company's proprietary and confidential information may continue after your employment with Hydro Ottawa ends.

For instance:

- Know what information must be kept confidential; ask your direct supervisor when in doubt.
- Do not disclose personal and confidential information about customers to anyone inside or outside the company, unless it is authorized for the performance of their work.
- Do not discuss and/or disclose confidential company information except with those who have a solid business need to know.
- Respect and maintain the confidentiality of employees' personal information about compensation, performance, disabilities or illness, etc., disclosing this information only to those who have a solid business reason to know.
- Ensure that personal, sensitive and/or confidential information is not inadvertently distributed to inappropriate parties through access to computer system folders, email, etc.

CONFLICT OF INTEREST

Many situations could involve a conflict of interest, or the appearance of such. Conflict of interest includes any situation or action that places you or could be perceived as placing you in conflict with Hydro Ottawa's interests, or impairs or could be perceived to impair your objectivity. It is important to place the Company's interests before our personal interests. Also, remember that the perception of a conflict of interest can be just as damaging as an actual conflict of interest.

For instance:

- Base any business decision on Hydro Ottawa's best interests.
- Ensure that your primary loyalty in the performance of your duties is to Hydro Ottawa.
- Derive no personal benefit from any business decision made on behalf of Hydro Ottawa.
- Do not use, for your personal gain or reasons, or for the personal gain or reasons of your family, friends or another business, any information obtained while performing duties at Hydro Ottawa which is not available to the public at large.
- Do not participate in any discussion or decision that could have, or be perceived to have, a benefit for you, your family members, your friends or another business in which you have personal interest.
- Inform your direct supervisor when you know that members of your family are employees or advisors of companies that have a business relationship with Hydro Ottawa.
- Decline involvement in awarding contracts to, or purchasing any goods and/or services from, business partners with whom you have a personal relationship.
- Inform your direct supervisor immediately if any new situation or business decision made by Hydro Ottawa places you, has the potential to place you, or could be perceived to place you in a conflict of interest.

PERSONAL INVESTMENTS

When you are aware that you or your family members (spouse, children or other relatives) invest directly in a business that competes with or sells goods and/or services to Hydro Ottawa, including circumstances where there is control or direction over an investment without directly holding it, disclosure is necessary to avoid conflict of interest. Advise your direct supervisor; where the investment or control is significant our legal counsel should also be advised. By disclosing this information, Hydro Ottawa can ensure that you are not placed in a conflict of interest situation such as influencing the awarding of a contract, overseeing work done by that company or participating in any discussions or decisions about that company.

INSIDER INFORMATION

You are not permitted to purchase – either directly or through an agent or associate – any assets or interests based on confidential knowledge gained while performing duties related to Hydro Ottawa.

EXTERNAL EMPLOYMENT

Any employment outside Hydro Ottawa, i.e., work for pay or business interests, must not interfere in any way with your availability, productivity and performance at Hydro Ottawa, nor can it conflict with Hydro Ottawa interests. This would include using Hydro Ottawa assets, soliciting business for your own company from Hydro Ottawa customers or working for a company that competes with or provides services to Hydro Ottawa, without our company giving explicit permission.

For instance:

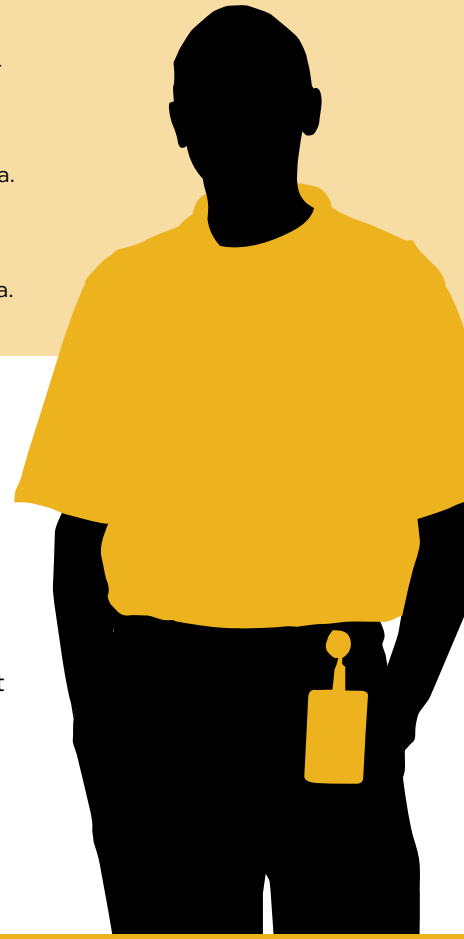
- Never identify yourself as a Hydro Ottawa employee when performing work for your own company or another company.
- Never refer Hydro Ottawa customers to other companies unless you are referring to a company on an approved Hydro Ottawa list.
- Do not perform paid work for another organization during working hours at Hydro Ottawa.
- Do not allow colleagues or customers from another organization where you work to contact you during working hours at Hydro Ottawa.
- Do not promote the products or services of another organization, including your own company, during working hours at Hydro Ottawa.
- Do not use company tools, vehicles, equipment, clothing, intellectual property and/or supplies for external employment.

EMPLOYMENT OF FAMILY MEMBERS

As with conflicts of monetary interest, Hydro Ottawa employees and Board members must maintain objectivity, and the perception of objectivity, when dealing with human resources issues and immediate family members. An immediate family member is defined as: parent (natural or in-law), spouse and son or daughter (including step children and in-laws).

For instance:

- Do not place yourself, or allow yourself to be placed, in a position where you supervise, directly or indirectly, or influence the recruitment, hiring, pay or performance rating of any immediate family member.
- Inform your direct supervisor if you know that a family member is applying for employment with Hydro Ottawa.
- Do not pressure another employee to hire a family member, friend or relative.
- Maintain a professional relationship during work hours with a family member who also works for Hydro Ottawa.



SERVICE ON BOARDS OF DIRECTORS

Membership on boards is encouraged, particularly boards of charitable and non-profit organizations or family businesses, when the organization is not in conflict with our company. In certain cases, Hydro Ottawa will ask an employee to serve on a board as part of their duties, officially representing our company.

You may not serve as a director, trustee, consultant or agent of any organization that competes with, provides goods or services to, or buys goods or services from Hydro Ottawa – not including the purchase of electricity services, unless expressly authorized by Hydro Ottawa.

PROFESSIONAL ASSOCIATIONS

Individuals are encouraged to contribute to the promotion and development of their profession. You may be officially representing Hydro Ottawa, as part of your duties, or you may join for personal interest.

While involvement in associations can enhance the reputation of Hydro Ottawa and provide access to innovative solutions and useful information, there are some considerations.

> Your direct supervisor must approve any work time for attendance at association meetings or to complete association work.

> If you are not officially representing Hydro Ottawa, you must make it clear that you are speaking on behalf of yourself and not as a spokesperson or representative of our company.

> Information shared with other members of a professional association cannot include proprietary or confidential information.

VOLUNTEERISM

Volunteering in the community is encouraged. There may be circumstances where use of Hydro Ottawa time or assets is authorized. Request approval from your direct supervisor, who will need to seek authorization from executive or senior management.

POLITICAL OR CHARITABLE ACTIVITY

As a private citizen, you may participate in any level of political or charitable activity on your own time, but those activities must not interfere or conflict with your duties at Hydro Ottawa or involve the use of any Hydro Ottawa assets unless expressly authorized.

For instance:

> Make it clear, while involved in politics, that your comments and actions are your own, and not those of Hydro Ottawa.

> Apply for a leave of absence, without pay, before running for political office.

ACCEPTING/GIVING GIFTS AND ENTERTAINMENT

Accepting or giving gifts and/or entertainment—including meals, beverages, invitations to social outings, accommodation and travel—may compromise or appear to compromise your ability to make decisions that are in the best interest of Hydro Ottawa.

It is acceptable, on occasion, to accept or give a gift or accept or offer entertainment when there is a business benefit to Hydro Ottawa. It is not acceptable to accept anything from business partners or customers that could be seen as potentially compromising fair decision-making.

Before you accept or give anything, ask yourself:

> Is the gift or entertainment of limited value?

> What is the benefit to Hydro Ottawa?

> Is the offer infrequent?

> Is there a pre-existing business relationship?

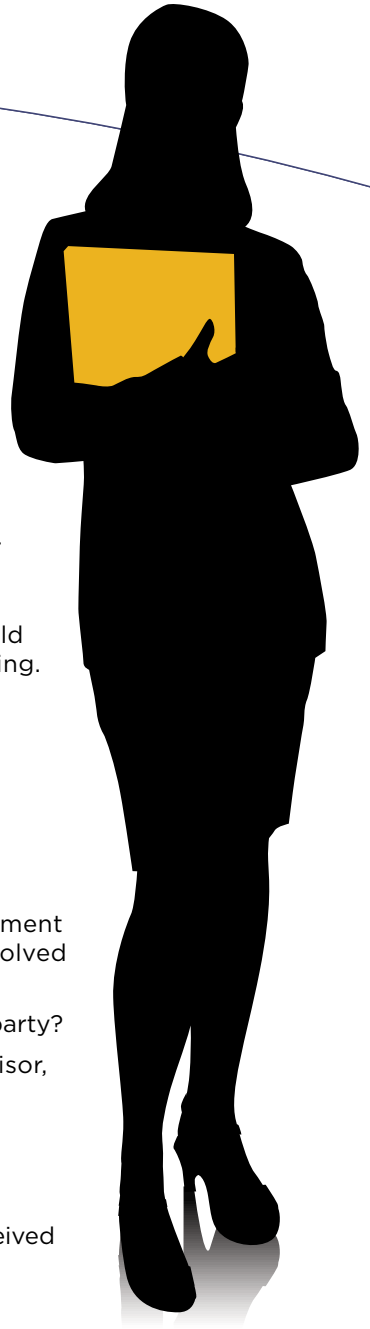
> Are the value and the reason for the gift or entertainment appropriate considering the situation, the people involved and your role at Hydro Ottawa?

> Is there an obligation or reciprocity implied for either party?

> Would you be comfortable telling your direct supervisor, peers or family about the gift or entertainment?

> Is the gift or entertainment compatible with normal business practices?

> Would Hydro Ottawa be embarrassed if the gift or entertainment was publicly disclosed; could it be perceived as a bribe or kickback?



Seek the advice of your direct supervisor, your next level of management, legal counsel or Human Resources if you are in any way unsure if you should accept or give any gift or offer of entertainment.

EXAMPLES		GUIDELINES
You are offered a monetary gift – cash, loan or a discount that is not available to all other employees,	>	Do not accept it. Such an offer should be reported to your direct supervisor in writing.
You are offered sports or cultural events tickets.	>	If there is a good business case for attending the event with the giver, accepting these tickets is appropriate, provided it is fully disclosed to your direct supervisor, in writing and in advance of the event. If the giver will not be present, do not accept the tickets. If this is not possible, provide the gift to Human Resources as a prize for an employee draw or at a company event.
You are offered a gift or form of entertainment from an external party who is active in the procurement process.	>	Do not accept it. This is clearly unacceptable. Such an offer should be reported to your direct supervisor immediately, in writing.
You are offered a gift of alcohol or an alcohol-related gift card/ certificate.	>	Do not accept it.
You are offered alcohol at an event or by an external party at a meal.	>	You may accept it as long as the offer is infrequent and the amount is reasonable.
An external party offers to pay for your expenses, including travel, to a trade show or to view a product.	>	You should not accept this offer. If it is appropriate for you to attend, Hydro Ottawa will cover your expenses and arrange for you to attend.
A holiday gift basket or gift card/ certificate from an external party arrives for you, either at work or at home.	>	Share the gift with your colleagues within your work group, or provide the gift to Human Resources as a prize for an employee draw or at a company event.
An external party's representative calls and offers to take you and your spouse or "plus one" out to dinner that evening to discuss their newest products.	>	You may accept the invitation for yourself only so long as the invitation is reasonable and infrequent.
You understand that an external party is willing to provide gifts to support a Hydro Ottawa holiday party, golf tournament, etc.	>	You should neither solicit nor accept gifts from an external party unless the event is directly benefiting a charitable organization; express written permission from your Division Chief should be obtained.
You are asked to solicit support for a local sports team or local event by using your position at Hydro Ottawa.	>	You should not use your position at Hydro Ottawa to influence others. Any requests for support should be discussed with your direct supervisor.
You are asked by your direct supervisor to support a cause or event that is not sanctioned by Hydro Ottawa	>	Do not feel compelled to support the cause or event.
You are asked to speak publicly at a conference on behalf of Hydro Ottawa to an external organization or professional association.	>	Only accept reasonable honorariums or gifts. It may be acceptable for the organization to pay for travel and/or accommodations, provided the purpose of the event is not to solicit business from Hydro Ottawa.
You are invited to attend a golf tournament.	>	You should discuss the invitation with your direct supervisor. If there is a good business case, your attendance may be approved. Where possible and appropriate, Hydro Ottawa may pay for your fees.
You are attending a golf tournament on behalf of Hydro Ottawa and win the tournament or a prize for some other accomplishment.	>	Only accept prizes of a limited value. Otherwise, decline the prize.
You attend a golf tournament, trade show, conference, etc during working hours and there is a raffle for prizes/cash.	>	Only accept prizes of a limited value. Otherwise, decline the prize.
You are offered a free fishing trip, ski trip, etc by an external party.	>	You are not permitted to accept such offers.
You are offered promotional items from an external party.	>	You may only accept promotional items with a limited value.
You will be entertaining an external party.	>	Only Senior Management Team and Executive Management Team members are permitted to host external clients and will be reimbursed as per company policy.

DEALING WITH THE MEDIA

Hydro Ottawa respects the right of the public to know what we do and how we do it. The Director of Communications and Public Affairs is responsible for Hydro Ottawa's relationship with the media. As a general rule, the role of corporate spokesperson is delegated to the Manager, Media and Public Affairs (or designate).

For instance:

- Refer all media enquiries to the Manager, Media and Public Affairs and do not speak on behalf of Hydro Ottawa unless expressly authorized to do so.
- Do not discuss Hydro Ottawa matters with a member of the media "off the record" or "for background purposes" unless expressly authorized to do so by the Manager, Media and Public Affairs.
- Have external communications, such as advertising and articles for publication in journals, reviewed by the Manager, Media and Public Affairs before release.

IV. COMPLIANCE WITH THE CODE

Hydro Ottawa is committed to holding itself to the highest standard. All employees and members of the Board of Directors are expected to uphold the standards in the Code.

REPORTING NON-COMPLIANCE/POTENTIAL NON-COMPLIANCE

Hydro Ottawa expects its employees to be honest in every situation.

If you inadvertently fail to comply with the Code, report it to your direct supervisor immediately.

You must report any non-compliance immediately, and you must be willing to cooperate during any resulting investigation. Advise your direct supervisor immediately if you witness non-compliance, or suspect non-compliance has occurred.

Should the witnessed/suspected non-compliance involve your direct supervisor, you should endeavour to speak with him/her first to clarify the situation; but if you are not comfortable with that course of action, or it does not result in satisfaction, then report the situation to a higher level of management.

Individuals are encouraged to always address non-compliance internally before taking further action. Speak to your direct supervisor, your next level of management, legal counsel, or Human Resources.

If you feel that your attempts to address the non-compliance internally have not been responded to appropriately or you are not comfortable with such an approach, you may access the Business Conduct Hotline, the external reporting mechanism established by Hydro Ottawa through an independent third party provider. The third party provider will keep the identity of individuals who make a report confidential, except where prohibited by law.

Mischievous, frivolous or malicious allegations are, in themselves, breaches of the Code.

Hydro Ottawa will not tolerate any reprisal, retaliation or disciplinary action against an employee or Board member who responsibly reported, in good faith, a breach or suspected breach.

CONSEQUENCES FOR NON-COMPLIANCE

Non-compliance with the Code will be assessed on a case-by-case basis, and may lead to disciplinary action, up to and including termination.

When a violation of law has occurred, or is thought to have occurred, the appropriate law-enforcement authority will be notified.

Effective January, 1, 2014, any prior Codes of Conduct, as well as any prior agreements which contradict the intent of the standards described and implied in this Code of Business Conduct, where the agreements were written or oral, expressed or implied, are terminated and cancelled, and superseded by this Code of Business Conduct. In the event that any provision or section in this Code, in part or whole, is deemed invalid or unenforceable by a court of competent jurisdiction, such invalidity or unenforceability shall attach only to the said provision or section, or part thereof, and the remainder of this Code shall be in full force and effect.

Enviromental Logos and paper description here.

Approved by the Board of Directors:
April 15, 2005
Revised on: None

HYDRO OTTAWA HOLDING INC
(HOHI)

Directors
Conflict of Interest and Conduct Guidelines

Hydro Ottawa relies upon the high ethical standards and good judgment of its Directors to uphold the values of Hydro Ottawa Holding Inc and it's subsidiary companies: Hydro Ottawa Limited, Energy Ottawa Inc. and Telecom Ottawa, to be known herein, collectively, as 'Hydro Ottawa' or 'the Company'. Conflict of interest can take several forms, not all of which are listed in this document. These guidelines are intended to provide support for Directors in regards to a conflict of interest and provide direction regarding conduct as related to corporate values and ethical standards. The Board of Directors of Hydro Ottawa Holding Inc. and all of its subsidiaries hereby adopts the following Directors Conflict of Interest and Conduct Guidelines. These guidelines apply in conjunction with the Hydro Ottawa Code of Conduct. The Board's Governance and Management Resources Committee is to oversee the review and revision of these Guidelines, and the Code of Conduct.

Principles

All Directors shall act in accordance with the provisions of the Ontario Business Corporations Act, the Shareholder's Declaration and common law. They shall:

a) demonstrate an understanding of their specific roles and act upon them,
b) serve, and be observed to be acting honestly and in good faith,
c) demonstrate loyalty to the Company and act only to enhance its reputation,
d) demonstrate an interest in and a commitment to the goals of the Company,
e) respect and preserve the confidentiality of corporate information, and
f) uphold the spirit and letter of all applicable federal and provincial statutes and regulations, the Code of Conduct and the policies of the Company.

Provisions Governing Director's Conduct:

a) The Business Corporations Act - Section 132
b) Shareholder's Declaration - Section 3.7
c) Hydro Ottawa by-law - Section 3.11

Confidentiality

1. Directors shall maintain the confidentiality of information related to the Company or which comes to them through their professional duties with the Company, unless required to disclose by law.

2. Directors shall act at all times to uphold the standards of confidentiality set for all employees and Directors of the Company. This includes reporting any employee or Director known to be

sharing information regarding Company affairs outside of that which is made available to the public or demanded by law, and alerting management to potential sources of inappropriate corporate disclosure.

3. Board members shall not disclose any business discussed within their capacity as a Director, nor shall they offer personal opinion to the media or to the shareholder of Hydro Ottawa regarding its business dealings or personnel, outside of that approved by the Chairman of the Board of Directors.

Business and Personal Conduct

All Directors shall demonstrate an appreciation of the fiduciary duties of a Director by acting in good faith, and demonstrating the highest standards of business conduct. They shall enhance the reputation of Hydro Ottawa through their timeliness, accuracy of their input and openness in the appropriate sharing of their knowledge and skills. Directors shall devote sufficient time to their duties. Directors shall treat each other, Hydro Ottawa staff and shareholders with respect and courtesy.

To ensure accuracy of information and safeguard corporate interests all dealings with the media should be through designated Company spokespersons. Directors designated as spokespersons shall work with the Director, Shareholder and Investor Relations to finalize message content.

Conflicts of Interest

Conflict of Interest
A broad definition of 'conflict of interest' is any action or condition that compromises the objectivity of decision-making in relation to the Company. A conflict of interest can occur when a Director's personal, professional or business interest is adverse to, or appears to be adverse to the best interests of the Company. A conflict can occur where there is an opportunity to further the Director's private interests, or those of a member of his or her family, through the Director's relationship with Hydro Ottawa. Any situation that involves, or may involve, a conflict of interest with Hydro Ottawa should be promptly disclosed to the Governance Committee and dealt with in the manner described below.

The perception of wrongdoing can be as damaging as an actual transgression. Therefore, Directors shall take all possible steps to ensure the public cannot be given the impression of any benefit ascribing to a Director or a member of his or her family through the Director's association with Hydro Ottawa regardless of any real or anticipated benefit to the Company.

Although it would not be possible to describe every situation in which a conflict of interest may arise, the Board of Directors have adopted the following guidelines for dealing with specific situations:

1. Except for approved expenses for Board or Board related activities, no amounts are to be paid to Directors beyond the amount stipulated by the Shareholder Declaration as fair compensation for the role of Director. Expenses for Board or Board related activities shall be subject to the same guidelines as apply to management.

2. Directors and their spouses shall not be involved in either the actual performance of services or direct supervision of performance of services or the manufacture of goods, of anyone else under contract to Hydro Ottawa while they are serving as a Director of Hydro Ottawa.

3. Where a Director is involved with a charity that receives money from Hydro Ottawa they shall excuse themselves from any vote or presentation that could result in a benefit to the charity.

4. Directors shall not use Hydro Ottawa corporate assets, resources or information except in connection with Company business.

Reporting of Interests by Directors

1. Directors, and nominees for the position of Director, must declare to the Hydro Ottawa Board of Directors:

a. if they are receiving compensation from any contract or transaction with Hydro Ottawa outside of their relationship as a Director (for example as an investor in a company supplying a service to Hydro Ottawa);
b. if they could receive compensation in the future from any contract or transaction with Hydro Ottawa outside of their relationship as a Director. (This includes any organizations that are potential targets for acquisition or organizations that are potential acquirers of one of the Hydro Ottawa subsidiaries, or any portion thereof);
c. the nature and extent of any financial interest they hold, or that they are aware is held by a family member, in any party that is known to have applied to, or is entering into, or is currently in a business relationship with Hydro Ottawa; and
d. all other boards and advisory councils they serve upon.

2. This information shall be restated by all Directors annually and updated as they become aware of new business relationships.

3. Directors must keep the Board informed of any corporate or charitable/non-profit Directorships they accept during their tenure with Hydro Ottawa as they occur.

4. It is the responsibility of each Director to declare a conflict of interest or the potential for the perception of a conflict of interest as soon as they are aware of it.

Governance and Management Resources Committee

1. In the event of any inconsistency between the provisions of these Guidelines and the Code of Conduct, these Guidelines shall prevail.

2. Any matter that could be perceived as a conflict of interest will be considered by the Governance and Management Resources Committee who will review the situation and recommend an appropriate course of action.

3. The Governance and Management Resources Committee may determine that a conflict of interest exists based on more stringent standards than the preceding guidelines where the Governance and Management Resources Committee considers it to be appropriate.

4. The Governance and Management Resources Committee will report to the Board of Directors in regards to the facts they were presented with and their recommendations. The contract or transaction must then be considered and the Governance and Management Resources Committee's recommendations approved by the Board of Directors. The interested Director, after providing the Board of Directors and/or Governance and Management Resources Committee with any required information, shall remove himself or herself from the room when the matter is discussed and voted upon.

Compliance

Signature of this document shall indicate a willingness to abide by its contents.

_____
Signature

_____
Name (in print)

_____
Date

Approved by the Board of Directors on:
April 13, 2006
Basis of Reporting Approved by Shareholder on:
June 29, 2006

HYDRO OTTAWA HOLDING INC
(HOHI)

Related Party Transaction Disclosure Policy and Process

Process

1. Directors and their spouses are not to be involved in the performance or supervision of the performance of any work undertaken for Hydro Ottawa or its subsidiaries. The *Directors Conflict of Interest and Conduct Guidelines* require that directors declare to the Board of Directors if they receive any compensation or could receive any compensation in the future from any contract or transaction with Hydro. The required disclosure also relates to any transactions involving family members as well as any interest that they or a family member holds in an entity involved in a business relationship with Hydro Ottawa and its subsidiaries. Any matter that could be contrary to the Guidelines is to be reported by the director and is addressed to the Governance and Management Resources Committee for consideration. A report of the recommendation made by the Governance and Management Resources Committee is required to be provided to the Board of Directors for consideration and approval;
2. At each meeting of the Board of Directors and each of its committees an agenda item shall be included that requires that Board members make declarations of interest. At this time directors shall be asked to disclose any transactions in which they could have an interest but also to disclose any entities in which they have come to have a financial interest that could be involved in transactions with HOHI or its subsidiary companies;
3. On a semi-annual basis, directors and officers shall asked to provide to the General Counsel a list of all entities in which they, their spouse or dependent children have an interest either by virtue of the director's employment with the entity or by virtue of being a director, officer or shareholder in such entity. This list shall be provided to the external auditor as part of the annual audit of the company and its subsidiaries. The list of entities created by the disclosure made by directors (including subsequent disclosures made at meetings of the Board of Directors and its committees) shall be placed in the company's enterprise business system and provided to the procurement section of the organization. Any proposed contract with or payment to one of the listed entities shall be reported to the General Counsel and to the Chief Financial Officer to determine compliance with the company's *Code of Conduct* or the *Directors Conflict of Interest and Conduct Guidelines* prior to the transaction being completed or the payment being made. Any transactions or proposed transactions that could infringe these requirements shall be reported to the Governance and Management Resources Committee for consideration.

No identified transaction is approved and no payment made unless the General Counsel represents that the *Code of Business Conduct* and the *Directors Conflict of Interest and Conduct Guidelines* do not apply to the transaction or, in the event of any uncertainty, that the Board of Directors has approved the transaction based on a determination that the transaction complies with the requirements;

4. Material related party transactions involving directors, as defined pursuant to Generally Accepted Accounting Principles (GAAP) shall be reported annually to the Audit Committee and to the Board of Directors as part of the presentation of annual financial statements. Notice of the existence of any material related party transactions would also appear as a note in the consolidated financial statements for the company that are presented to the shareholder as represented by the Council of the City of Ottawa.

Policy: Disclosure to the Shareholder

Hydro Ottawa Holding Inc. will disclose annually to the shareholder, through the City Manager, notice of the following related party transactions involving directors of Hydro Ottawa Holding Inc. and of its subsidiary companies. The notice shall include certification by the company of compliance with the restrictions contained in the Shareholder Declaration relating to restrictions on payments to directors, their family members and entities in which directors have a substantive ownership interest:

(1) Contracts and other transactions in which a director was involved in the delivery of services or the supervision of the delivery of goods or services for Hydro Ottawa Holding Inc. or a subsidiary company outside of the individual's role as a director of Hydro Ottawa Holding Inc. or of a subsidiary;
(2) Contracts or other transactions with an entity for which a director was a director, officer, shareholder (holding a substantive ownership interest) or otherwise holds a substantive ownership interest in the entity;
(3) Contracts and other transactions in which the spouse or dependent child of a director was involved in the delivery of goods or services or the supervision of the delivery of goods and services for Hydro Ottawa Holding Inc. or a subsidiary; and
(4) Contracts and other transactions with an entity for which a director's spouse or dependent child was a director, officer or shareholder (the latter, holding a substantive ownership interest).

The disclosure provided to the City of Ottawa will not include the following contracts and transactions:

(a) Contracts or transactions that arise because Hydro Ottawa Holding Inc. or its subsidiary provides goods or services in like manner and subject to like conditions applicable to other customers. Examples of such contracts and transactions include electricity distribution goods and services, electricity connection service,

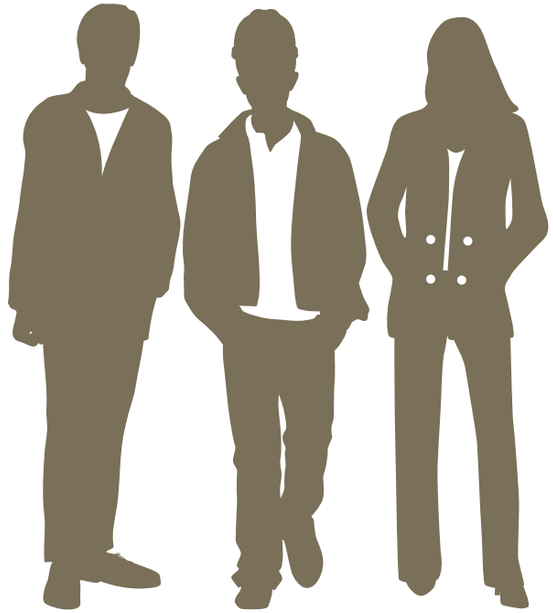
energy audits, energy conservation and demand management consulting services, and broadband telecommunications services;

(b) Transactions with a charitable or not-for-profit entity where the director, the director's spouse or the director's spouse or dependent child is a director or officer of the entity provided that the director, the director's spouse or dependent child receives no remuneration for being a director or officer of the entity; and

(c) Membership dues incurred in the course of business paid by Hydro Ottawa Holding Inc. or its subsidiary for membership in an entity on which a director or officer is a member of the board of directors of the entity.

BusinessConduct
HOTLINE

If You Have A Concern
Contact the Hotline



Hydro Ottawa Group of Companies

Printed on Enviro 100 stock, which contains 100% of recycled post-consumer fibre and is Ecologo[M] certified.

July 2010-2

Hydro Ottawa Group of Companies

BusinessConduct
HOTLINE

CONFIDENTIAL. CONVENIENT. EFFECTIVE.

The Business Conduct Hotline allows all employees and Board members to express concerns regarding perceived non-compliance with our Code of Business Conduct in a secure and confidential manner. It is operated by an external independent third party provider. And, it lets you find out precisely what has been done to address your concerns. All reports to the Hotline service are taken seriously and will be investigated if they are deemed to have merit.

You can express concerns by telephone, online and by regular mail.

PHONE
1-866-505-5037
Live operator or voice mail

ONLINE
clearviewconnects.com

MAIL
P.O. Box 11017
Toronto, Ontario
M1E 1N0

The Hotline is not meant to replace common sense practices—such as speaking to colleagues or your direct supervisor about concerns. But it is meant to make it easy for everyone to anonymously express concerns.

Hydro Ottawa Group of Companies

BUSINESS CONDUCT HOTLINE

What is the Business Conduct Hotline?

At the Hydro Ottawa Group of Companies, we are committed to an organizational environment that fosters and demonstrates ethical business conduct at all levels and reflects our shared values of *teamwork, integrity, excellence* and *service*. Every employee must lead by example in this endeavor. For this reason, we have established our Business Conduct Hotline, a third party service that allows Hydro Ottawa employees to anonymously report any concerns they might have related to perceived improper activities in the workplace and/or non-compliance with our Code of Business Conduct, or even suggestions for improvement.

Why Have a Hotline?

A hotline is an emerging best practice in leading organizations, providing employees an alternative and confidential process to share their concerns or suggestions for improvement.

Who Operates the Hotline?

The Hotline is operated by Clearview Strategic Partners, an external and independent third party with extensive experience providing similar services to leading companies in Canada.

Who Can Use the Hotline?

All employees and members of the Boards of Directors can use the Hotline to express a concern or suggest improvements.

Is It Anonymous?

There is no requirement for those using the Hotline to identify themselves in any way, and no attempt will be made to identify anyone accessing the Hotline.

How Do I Use the Hotline?

You can contact the Hotline and express a concern by telephone, with the option of either speaking to a live operator or leaving a voicemail. You can also submit your concern securely online or in writing by mail.

What Kinds of Concerns Can I Report on the Hotline?

You can report on all matters relating to the business conduct of the Hydro Ottawa Group of Companies, including:

- Financial Stewardship
- Business Reporting and Records
- Use of Technology
- Audits and Investigations
- Respect for Individuals
- Conflict of Interest
- Accepting/Giving Gifts and Hospitality
- Dealing with the Media
- Suggestions for Improvement

When Should I Use the Hotline?

Everyone is encouraged to report instances of perceived impropriety and/or non-compliance internally, by speaking with your immediate supervisor or higher levels of management. You may also speak to our company's Human Resources employees or legal counsel. However, if you feel your attempts to address your concern through internal channels are not being responded to appropriately, or you are not comfortable with that approach, use the Hotline.

What Happens When I Make a Report?

Your confidential report on the Clearview system automatically triggers an email to one of two individuals: Hydro Ottawa Holding Inc.'s General Counsel for matters involving all employees; or the Chair of the Audit Committee for matters involving the President and CEO or members of the Board of Directors.

- ***Matters Involving Those At or Below Manager Level***
  These confidential reports are forwarded to an internal Complaints Review Committee comprised of the General Counsel, the Chief Enterprise Risk Management Officer and the Director of Corporate Planning. This Committee determines if an investigation is required, directs the investigation and decides upon action to be taken in consultation with the Chief Human Resources Officer and Chief Operating Officer as required.

- ***Matters Involving Those Above the Manager Level***
  These confidential reports are forwarded to the President and CEO. The President and CEO determines if an investigation is required, directs the investigation and decides upon action to be taken in consultation with the Chief Human Resources Officer and Chief Operating Officer as required.

- ***Matters Involving the President and CEO or Board Members***
  These confidential reports are forwarded to the Chair of the Audit Committee. The Audit Committee Chair reviews the report and recommends to the Chair of the Board whether or not an investigation should take place. The Audit Committee Chair recommends to the Board Chair what actions should be taken based on the results of the investigation.

- ***Matters Involving the Audit Committee Chair***
  The Board Chair oversees all aspects of confidential reports involving the Audit Committee Chair.

IF IT IS DETERMINED THAT A REPORT WARRANTS FURTHER INVESTIGATION, THE FOLLOWING APPLIES:

Who Investigates Reports?

If a report is deemed worthy of investigation, an investigator will be appointed. Internal investigators are generally senior managers within the Hydro Ottawa Group of Companies. Where appropriate, external investigators may also be engaged.

What Happens If It Becomes Known That I Made a Report?

There will be no reprisal, retaliation or disciplinary action taken against any employee or Board member who responsibly reports in good faith.

Can I Find Out What Happens to My Report?

Yes, but only if your report is submitted online or to a live operator. You will be assigned a reference number that you can reference when following up. With the reference number you can contact Clearview Strategic Partners by telephone or online and find out the status of your report.

What If I Am Falsely Accused?

Mischievous, frivolous and malicious allegations made via the Hotline or any other means are in themselves breaches of our Code of Business Conduct. As outlined above, there is a systematic process for reviewing the merit of all reports, and for dealing with each report individually and thoroughly.

Will There Be Oversight of the Process?

Yes, the Audit Committee will receive quarterly reports and the Board of Directors will receive an annual report summarizing all matters raised through the Hotline and the action taken in response. In this way, the Board of Directors will oversee matters raised through the Hotline and ensure that they are being dealt with appropriately.

BusinessConduct
HOTLINE