



June 1, 2015

Ms. Kirstin Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON
M4P 1E4

2015 Electricity Distribution Rates – EB-2015-0083

Dear Ms. Walli:

Please find enclosed two hard copies of Kingston Hydro Corporation's 2015 Electricity Distribution Rates Application.

A complete copy of the Application has been filed electronically with the Board today.

If further information is required, please contact Randy Murphy, Treasurer, at 613-546-1181, Extension 2317 or rmurphy@kingstonhydro.com.

Yours Truly,

J.A. (Jim) Keech
President and CEO
Kingston Hydro Corporation



Kingston Hydro Corporation

Cost of Service

Electric Rate Application

EB-2015-0083

Rates Effective: January 1, 2016

Date Filed: June 1, 2015

Kingston Hydro Corporation

PO Box 790

Kingston, Ontario

K7L 4X7



File Number: EB-2015-0083

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Exhibit 1

ADMINISTRATION



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Management Discussion and Analysis

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

Custom Incentive Regulation Application

Kingston Hydro identified to the Ontario Energy Board in its last cost of service application (EB-2010-0136) a critical need for capital investment to renew infrastructure. The investment significantly exceeded the amount of depreciation included in the standard rate setting exercise. This need for capital renewal continues forward to the present application.

The RRFE (p. 19) describes the Custom Incentive Regulation (Custom IR) rate setting method as being “*most appropriate for distributors with significantly large multi-year or highly variable investment commitments that exceed historical levels. The Board expects that a distributor that applies under this method will file robust evidence of its cost and revenue forecasts over a five year horizon, as well as detailed infrastructure investment plans over that same time frame. In addition, the Board expects a distributor’s application under Custom IR to demonstrate its ability to manage within the rates set, given that actual costs and revenues will vary from forecast.*”

Kingston Hydro has chosen to apply for Custom IR rate setting to ensure adequate financial capacity to address the renewal of its distribution system over the period 2016-2020. The focus on renewing infrastructure that’s well beyond the end of its projected useful life is consistent with customer feedback, ensures Kingston Hydro’s ability to deliver reliable electricity to our customers, and maintains public safety. It also fits with the goals of the *Kingston Hydro Strategic Plan 2012-2017* and supports the objectives

1 of the Ontario Energy Board *Renewed Regulatory Framework for Electricity Distributors*
2 (RRFE).

3
4 This application is compliant with the RRFE requirements for Custom IR in the following
5 ways:

- 6
7 • It is based on the capital requirements needed to implement a comprehensive
8 Distribution System Plan that complies with the Chapter 5 filing guidelines.
9
- 10 • Customers were consulted and supportive of the focus of the Distribution System
11 Plan.
12
- 13 • It incorporates an OM&A budget that commits to actual inflation rate, less a
14 productivity factor placing the risk of failing to achieve efficiencies on Kingston
15 Hydro.
16
- 17 • Kingston Hydro commits to achieving all outcome based OEB scorecard targets.
18
- 19 • It is a five (5) year plan supported by capital and operating budgets that Kingston
20 Hydro is committed to implementing with no anticipation of early exit.
21

22 The filing requirements for electricity distribution rate applications suggest this section
23 be used to provide an overview of the applicant's business plan, corporate goals,
24 customer preferences and how these align with the objectives of the RRFE. In addition,
25 this section allows an opportunity to provide a broad overview of the utility, and an
26 opportunity to "tell our story".

27
28 In telling our story, Kingston Hydro has strategically focused on two key themes:

29
30 The first is the need for ongoing capital reinvestment into an aging distribution system,
31 and the improvements made since our last cost of service (CoS) application.

1 The second is the adoption of a unique service delivery model, initially by the
2 shareholder, that Kingston Hydro chose to maintain at the time of incorporation, which
3 has proven to deliver superior customer service and cost savings for our customers.

4 5 **Capital Reinvestment**

6 7 Municipal Coordination

8
9 The City of Kingston, incorporated in 1838, is one of the oldest municipalities in the
10 country. A large percentage of the municipal infrastructure, including that of Kingston
11 Hydro, has reached or surpassed its projected life expectancy. Since the new city was
12 formed during the amalgamation process in 1998, there has been a concentrated effort
13 by the City, Kingston Hydro and Utilities Kingston on the coordinated renewal of this
14 infrastructure, in order to reduce disruption to residents and provide efficiencies.

15
16 These efforts have had positive results that are recognized by elected officials and
17 citizens and others in the province. It is also recognized that the efforts need to
18 continue. The necessity for dealing with the backlog in infrastructure investment (as it
19 was called at the time) was one of the key considerations in the amalgamation of the
20 entities, the direction provided to department heads at the time, and the structure of the
21 new City of Kingston. Further background on the municipal structure is provided in
22 Exhibit 1 Tab 2 Schedule 2; The Multi-Utility Shared Services Model.

23 24 Sustainable Asset Management

25
26 Kingston Hydro's last CoS rate application for rates effective May 1, 2011 incorporated
27 a significant capital plan in excess of depreciation. In 2012, four critical projects were
28 identified and funded through an Incremental Capital Module (ICM) filing. Kingston

1 Hydro has successfully undertaken significant capital works to the distribution system in
2 this time period.

3
4 The cycle of ongoing improvements in areas such as asset management, customer
5 engagement, master planning activities and project management further reinforce the
6 evaluation and decision-making by Kingston Hydro with respect to the sustainable
7 management of its assets, while at the same time achieving balance regarding the
8 impacts to customers.

9
10 Capital Expenditure Plan

11
12 The driving factor in Kingston Hydro's decision to submit a Custom IR application is the
13 requirement for ongoing year-over-year capital investment to replace infrastructure
14 beyond the end of its useful life.

15
16 Kingston Hydro's Distribution System Plan (DSP) filed with this application identifies
17 that, on average, 68 per cent of available capital funding is focused on system renewal
18 activities. This focus is based on the asset management planning activities undertaken
19 by Kingston Hydro since its last rate application.

20
21 The capital expenditure plan is designed to renew system infrastructure that is at or
22 beyond its projected useful life; mitigate risk around constraints in the system or critical
23 infrastructure; manage mandatory investments that support customer connections or
24 regulatory requirements (i.e., metering) and meet system planning requirements
25 (forecasted demands on infrastructure).

26
27 Kingston Hydro's DSP identifies the level of investment required to sustain the
28 infrastructure assets, the allocation of that investment by category, the capital

investment required through 2016 to 2020 and provides specific project details and explanations. Table 1 summarizes the investment activity by category planned over the next five years.

Table 1 – Investment Activity Planned over the next 5 years

Investment Category	Forecast (planned)						Average
	2015	2016	2017	2018	2019	2020	
System Access	14%	19%	16%	13%	12%	13%	15%
System Renewal	73%	60%	68%	67%	71%	69%	68%
System Service	8%	6%	5%	10%	7%	10%	8%
General Plant	5%	15%	11%	10%	10%	8%	10%
Total	100%	100%	100%	100%	100%	100%	100%

To develop the Distribution System Plan, Kingston Hydro undertook an asset condition assessment program utilizing Kinetrics services, developed an asset management plan (AMP) and capital expenditure plan. Using a systematic and coordinated process, Kingston Hydro intends to maximize the value of distribution assets to our customers, minimize risks and achieve a balance between asset investment levels and rate impact on customers.

The asset management process described later enables Kingston Hydro to achieve its asset management goals within the framework of corporate objectives/strategies, the latter of which are driven by the benefits of the shared services model, described in the sections *The Multi-Utility Model*, *Corporate Strategic Plans*, and *RRFE* (pages 8, 16, 18 respectively of this Exhibit).

This approach is reflective of the ongoing efforts of Kingston Hydro to manage its assets proactively. When compared to the previous planning period of 2010 to 2014 (Table 2)

the structure of investments is significantly more consistent, smoother, reflective of customer preferences and resources available and intended to ensure the long term viability of the distribution assets (Table 3).

Table 2– Historical Capital Investment

Historical capital	2011	2012	2013	2014	2015
Capital	\$5,800,000	\$7,100,000	\$3,800,000	\$3,400,000	\$5,400,000

Table 3 – Five Year Infrastructure Program from 2016 to 2020

Forecast planned)	2016	2017	2018	2019	2020
Capital	\$5,400,000	\$2,900,000	\$4,300,000	\$4,200,000	\$4,400,000
Depreciation	\$1,900,000	\$2,000,000	\$2,100,000	\$2,260,000	\$2,300,000
Multiple	2.8	1.45	2.0	1.9	1.9

Investments Needed

Defective equipment had a large contribution to SAIDI in 2011 and 2014. The analysis of outage data indicates distribution transformer, conductor and 5 kV 500MCM PILC cable were the top three in the *Defective Equipment* category as shown in Table 4.

Table 4 - Top Three Defective Equipment in 2011 and 2014

Defective Equipment	Distribution Transformer & Auxiliaries	Conductors	5kV 500MCM PILC Cables
No. of Outages in 2011	5	6	3
No. of Outages in 2014	6	5	4

Some significant, specific projects that have been included in the Distribution System Plan include the following:

Annual Deteriorated Overhead Infrastructure Program

This project focuses on replacing deteriorated poles, pole mount transformers and other deficiencies identified through annual overhead infrastructure inspections and asset condition assessment. Wherever possible, Kingston Hydro prefers to redesign and rebuild continuous sections of an overhead line (multiple pole spans) for efficiency and to upgrade the construction to new standards. For example, the number of poles and pole transformers can often be reduced (optimized) through a redesign project whereas a like-for-like replacement approach may not always be optimal. Sections of overhead line containing multiple poles that have been identified for “immediate attention” or “attention within five years” are therefore prioritized for re-design and replacement. If the re-design and replacement of a continuous section of overhead line must be deferred due to limited capital funds and/or resources, then the alternative is like-for-like spot replacement within 12 months for poles identified for “immediate attention” status and deferral of pole replacement for poles identified for “attention within five years”. Deferral is until sufficient capital funds and resources are available or until the next inspection

1 cycle (whichever comes first). This flexible and adaptable approach enables Kingston
2 Hydro to be as efficient and effective as possible in utilizing the available capital dollars.

3 *Obsolete Oil Switch Replacement*

4
5 Kingston Hydro's underground distribution system features legacy oil switches that are
6 unsafe to operate while energized due to slow-to-act mechanical contacts. To perform
7 or accommodate work or switching, these old oil switches must be de-energized before
8 operating to ensure a safe work environment. This significantly increases the number of
9 planned outages negatively impacting both our customers and reliability performance.

10
11 Kingston Hydro notes that reliability of electrical services is one of the key themes
12 raised by our customers during the customer engagement activities documented in this
13 application. Over the last few years, Kingston Hydro replaced one to two oil switches
14 on an annual basis; as a result there has been a measurable decline in planned
15 outages for operating oil switches. Kingston Hydro plans to continue this oil switch
16 replacement program by replacing a total of four obsolete oil switches over the next five
17 years.

18 **The Multi-Utility Shared Services Model**

19 History

20
21
22
23 Kingston Hydro Corporation ("Kingston Hydro") is a municipally owned electricity
24 distribution company. Its distribution territory encompasses what is generally referred to
25 as "the old City of Kingston".

26
27 Kingston Hydro serves approximately 27,000 customers, which is largely a mix of
28 institutional, commercial and residential. There are very few industrial customers within

1 the customer base, and no large industrial customers. Within the distribution territory of
2 Kingston Hydro there is very limited opportunity for greenfield development, although
3 infill development has become quite popular in the downtown core.

4
5 The City of Kingston is the sole owner/shareholder of Kingston Hydro.

6
7 Two electricity distribution companies serve the majority of the customers in the City of
8 Kingston: Kingston Hydro and Hydro One. This is the result of an amalgamation
9 process that occurred in 1998 between the City and two former townships.

10
11 At the time of amalgamation in 1998, the City of Kingston, Pittsburgh Township,
12 Kingston Township and the Public Utilities Commission of the City of Kingston were
13 merged into one new entity, known as the City of Kingston. One of the departments of
14 the new city was the utility department, which managed the water, sewer, gas, electric,
15 and fiber optic assets of the city.

16
17 Due to the benefits of the multi-utility shared service model, it was the desire of the
18 council of the newly amalgamated City of Kingston to have all its residents serviced by
19 the municipally-owned electricity distribution company. The new City of Kingston was
20 taking steps to acquire the assets of the then Ontario Hydro under the process that was
21 identified in the *Power Corporations Act* when this boundary expansion process was
22 stopped by the provincial government with the newly introduced *Energy Competition*
23 *Act*.

24
25 The decision for the management of these utility assets by one department was a key
26 strategic decision for the new city. It was believed that having all these assets managed
27 by the same department would not only result in savings and superior customer service
28 for the city's utility customers, but would also assist in providing a coordinated approach

1 to the much-needed capital infrastructure investments previously identified. This
2 approach was expected to result in financial savings in areas where significant capital
3 expenditures were planned, as well as less disruption to all citizens due to well-planned
4 and coordinated construction projects as years of capital improvements unfolded across
5 the city.

6
7 Benefits of this unique service delivery model were quickly substantiated. When
8 provincial legislation was introduced that required incorporation of electricity distribution
9 companies, many municipalities separated the electric operations from other municipal
10 utility services. However, having realized benefits from a single service provider, the
11 City of Kingston researched means by which to facilitate the continuation of its utility
12 service delivery model. The City of Kingston incorporated 1425445 Ontario Limited
13 (“Utilities Kingston”) as an asset management company to continue the shared service
14 model.

15
16 In establishing Utilities Kingston, the shareholder set a number of principles that
17 continue to be the core of the business today. These principles and a brief explanation
18 of each are as follows:

- 19
20 • Lowest possible rates to customers: achieving the optimal balance between capital
21 reinvestment and low rates
22
23 • Best customer service delivery: providing the best customer service to our customers
24 for all the services they receive from Utilities Kingston
25
26 • Shared services where possible: utilizing efficiencies of scope and, in addition,
27 purchasing services from the City when it provides the most cost effective solution
28 (e.g., fleet services or legal services)

- 1 • Maximized coordination for development and infrastructure renewal: contracts that
2 combine work for all utility and municipal services, where possible, to save money
3 and avoid repeated inconvenience to customers
4
- 5 • Rate based services and full cost accounting: revenue for each utility is derived from
6 user rates and is sufficient to cover each utility's specific operating costs, debt
7 financing and capital renewal
- 8 • No cross-subsidization between services: accounting systems are in place and
9 reporting exists to ensure the revenue derived from each business unit is spent on
10 that business only and costs for each unit is charged to that business
11
- 12 • Best return/lowest cost to the shareholder: services are delivered in the most cost-
13 efficient manner, resulting in lowest possible rates to customers and maximum return
14 to the shareholder
15

16 Community Support

17

18 Expanding the Utilities Kingston service delivery model to distribute electricity to all
19 residents remains a strategic goal of the City of Kingston, Utilities Kingston, and
20 Kingston Hydro.
21

22 During the public consultation process for this application, the question as to why
23 Kingston Hydro did not serve the whole geographic area of the City of Kingston was
24 raised on more than one occasion. Customers indicated that they valued the customer
25 service provided by the model, citing one call to set up all services and a single bill as
26 examples. These comments are reflected in the customer engagement section of this
27 application.
28

1 Shareholder support for this strategic goal continued at the most recent meeting of the
2 shareholder with the following approval;

3
4 *RESOLVED that the Shareholder endorse the motion of the Board of*
5 *Directors from meeting 2015-01 held on January 12, 2015, which states:*

6
7 *RESOLVED that in order to ensure that the interests of the*
8 *Shareholder of Kingston Hydro are best served, that the Board*
9 *authorizes the President and CEO of Kingston Hydro or his*
10 *designate to pursue discussions regarding the options that may be*
11 *available for consideration with respect to the future of Kingston*
12 *Hydro and that the President and CEO will provide status reports to*
13 *the Board at appropriate intervals; and*

14
15 *THAT the Shareholder request the Board of Directors to provide an*
16 *update to the Shareholder at the Annual General Meeting; and*

17
18 *THAT the Shareholder of Kingston Hydro Corporation re-affirms the 2012*
19 *preferred direction of seeking the purchase of Hydro One assets.*

20
21 At the time of preparing this rate submission, the expansion of the Utilities Kingston
22 service delivery model to all utility customers within the City of Kingston remains one of
23 the key strategic goals for the City, Kingston Hydro and Utilities Kingston.

Value of the Shared Services Model

Since its incorporation, Utilities Kingston has proven the value of its service delivery model. This value is not only realized for electricity customers, but for all utility customers.

The shared services model allows the company to better capitalize on its intellectual and physical assets than if the utilities were served by separate entities. The calculations and assumptions used for Table 5 were reviewed by an independent financial auditor.

Table 5 - Annual Estimated Savings

Resource Efficiency Title	Total Savings	OM&A Savings	Capital Savings
Communications	\$16,601	\$16,601	
Customer Service: Cost of Specialized Equipment	\$60,051	\$60,051	
Executive Team	\$392,698	\$392,698	
Finance	\$479,499	\$479,499	
Fleet Savings: Dump Trucks & Backhoes	\$1,753		\$1,753
Fleet Savings: Mechanical Repair Garage	\$78,019	\$78,019	
Fleet Savings: RBD Truck	\$3,456		\$3,456
Fleet Savings: Spare Aerial (Bucket) Truck	\$18,112		\$18,112
Fleet Savings: Use of Loader Crane Truck	\$33,603		\$33,603
Human Resources- Staff	\$92,341	\$92,341	
In Office Engineering Expertise	\$466		\$466
Information Technology Costs	\$58,869	\$58,869	
SCADA Resources	\$119,110	\$119,110	
Service Advisors & Clerk	\$50,592	\$50,592	
Shared Warehouse and Storage Yard	\$72,197	\$72,197	
Single Management Representation on Projects	\$2,500		\$2,500
Single Notice of Project on Multi-Utility Builds	\$100,000		\$100,000
Staff - Health & Safety	\$53,157	\$53,157	
Staff: Meter Shop Resources	\$180,416	\$180,416	
Total	\$1,813,440	\$1,653,550	\$159,890

The savings listed are not exhaustive, but indicate how efficiencies are achieved with this strategy and that the value of these efficiencies is quite material. Additional detail is provided at Exhibit 1 Tab 2 Schedule 2.

With a proposed Kingston Hydro operational budget of just over \$6.7 million, the \$1,653,550 (\$1,670,871 adjusted 2015 dollars) in annual Kingston Hydro savings represents 25 per cent of the operational, maintenance and administrative costs to the local distribution company.

This results in a cost savings of \$60 per Kingston Hydro customer. Though the focus here is on Kingston Hydro, similar savings occur for the other utilities and services that Utilities Kingston provides to customers.

Benchmarking

Savings from the Utilities Kingston service delivery model for Kingston Hydro customers are demonstrated by industry comparators. Kingston Hydro's operating costs per customer are consistently below the industry average as reported in the OEB Distributor Yearbook. Table 6 identifies Kingston Hydro's OM&A per customer compared to the industry average since 2010.

Table 6 - OM&A per customer

Year	Kingston Hydro	Industry Average	% Below average
2010	\$223	\$282	27%
2011	\$224	\$292	30%
2012	\$235	\$309	32%
2013	\$259	\$325	26%
2014	\$236	Not available	

The OM&A per customer for 2013 was higher than normal due to the impact of the 2013 ice storm and the one-time recognition of smart meter expenses. In 2014, the measure returned to the previous range. Kingston Hydro was twenty-fifth lowest of 73 utilities,

Table 7 identifies the total cost per customer for 2013 and as forecasted using the PEG model. Kingston Hydro ranked sixteenth lowest of 73 utilities in 2013.

Table 7 - Total Cost per customer

Year	Kingston Hydro	Industry average	% Below average
2013*	\$517	632	22%
2014*	\$519	Not available	
Projected			
2015	\$538		
2016	\$560		
2017	\$569		
2018	\$583		
2019	\$597		
2020	\$611		

*Based on audited actual figures

Kingston Hydro was ranked 44th in the actual minus predicted cost in the 2013 Pacific Economics Group report. In the July 2014 PEG report *Empirical Research in Support of Incentive Rate-Setting: 2013 Benchmarking Update*, Kingston Hydro continued to be in the 0.3 per cent stretch factor grouping.

Kingston Hydro also reports on all scorecard metrics. The scorecard metrics are consistently met or exceeded. Kingston Hydro has provided 2014 information for the Board's Reporting and Record Keeping ("RRR") filing as well as for the completion of

the 2014 annual scorecard. The Board has identified that some of the measures identified in the scorecard are new and the definition of those measures is evolving. Kingston Hydro will report on all of the measures in compliance with the Board's revision to the measures as they are finalized.

Corporate Strategic Plans

Kingston Hydro and Utilities Kingston have used the strategic planning process to ensure that the companies best meet customer expectations in distributing sustainable, safe, affordable and reliable electricity. The strategic direction of Kingston Hydro is guided by its mission and vision.

Mission

To distribute safe and reliable electricity while keeping rates affordable and providing value to the shareholder.

Vision

To be recognized as a company that provides a valued service to its customers and creates value for its shareholder, the City of Kingston, through innovation, service excellence and a commitment to the principles of sustainability.

A copy of the most recent five-year plan, established in 2012, for Kingston Hydro is included in Exhibit 1 Tab 2 Schedule 1 Attachment 1. This plan is reviewed yearly to be sure it remains relevant.

The theme areas established for Kingston Hydro are as follows:

- Status Quo vs. Growth

- Risk Management
- Finance
- Infrastructure Investment and Community Sustainability
- Technology
- Customer Engagement

For each of the areas noted, five-year strategic goals were established. These goals are used to formulate yearly work plans which are used to measure the performance of the corporation on an annual basis.

The strategic plan for Kingston Hydro provided guidance for the establishment of the *Utilities Kingston Strategic Plan 2013-2023*. A copy of this plan is included in Exhibit 1 Tab 2 Schedule 1 Attachment 2.

The theme areas for Utilities Kingston are as follows:

- Growth
- Risk Management
- Customer Focus
- Infrastructure Investment and Community Sustainability
- Technology and Innovation

Key strategic goals were established for each of these theme areas and contribute to yearly work plans for measuring corporate performance.

The strategic planning process ensures the corporations use the advantages of the unique shared service model by following the principles established at the time of

1 incorporation. The following is taken from the Utilities Kingston strategic plan under the
2 title "Competitive Advantage":

3
4 *Utilities Kingston is unique in the province of Ontario, and possibly in North*
5 *America, in its model of service delivery. In the core area of the City of Kingston,*
6 *it provides citizens with up to five of their basic utility services, all from one*
7 *service provider.*

8
9 Although impacted by changing environmental and legislative factors, the principles
10 have not changed.

11 12 **Renewed Regulatory Framework for Electricity Distributors (RRFE)**

13
14 This application has been prepared in a manner that supports the four performance
15 outcomes set out in the Ontario Energy Board RRFE:

- 16
- 17 • *Customer Focus:* services are provided in a manner that responds to identified
18 customer preferences;
 - 19
 - 20 • *Operational Effectiveness:* continuous improvement in productivity and cost
21 performance is achieved; and utilities deliver on system reliability and quality
22 objectives;
 - 23
 - 24 • *Public Policy Responsiveness:* utilities deliver on obligations mandated by
25 government (e.g., in legislation and in regulatory requirements imposed further to
26 Ministerial directives to the Board); and
 - 27
 - 28 • *Financial Performance:* financial viability is maintained; and savings from operational
29 effectiveness are sustainable

1 In fact, the guiding principles that lead to the formation of Utilities Kingston as outlined
2 above, despite being developed 12 years prior to the RRFE, appear to anticipate and
3 provide support for the Ontario Energy Board performance outcomes.

4
5 In addition, the strategic plans for both Kingston Hydro and Utilities Kingston mirror the
6 RRFE Performance Outcomes.

7
8 Customer Focus
9

10 At the time of incorporation of Utilities Kingston, customer focus was recognized in the
11 founding principles:

- 12
13 • *Lowest possible rates to customers*
14 • *Best customer service delivery possible*
15

16 Superior customer service has remained one of the key corporate objectives of the
17 corporation. The concept of superior customer service and sustainable financial savings
18 for customers remains key corporate objectives for Utilities Kingston.

19
20 The strategic plans of both Kingston Hydro and Utilities Kingston include key goals
21 supporting the customer focus performance outcome.

22
23 *Kingston Hydro develops and implements a customer service philosophy that is*
24 *based on customer needs and expectations.*

25
26 *Utilities Kingston engages its employees in providing an excellent customer*
27 *experience.*
28

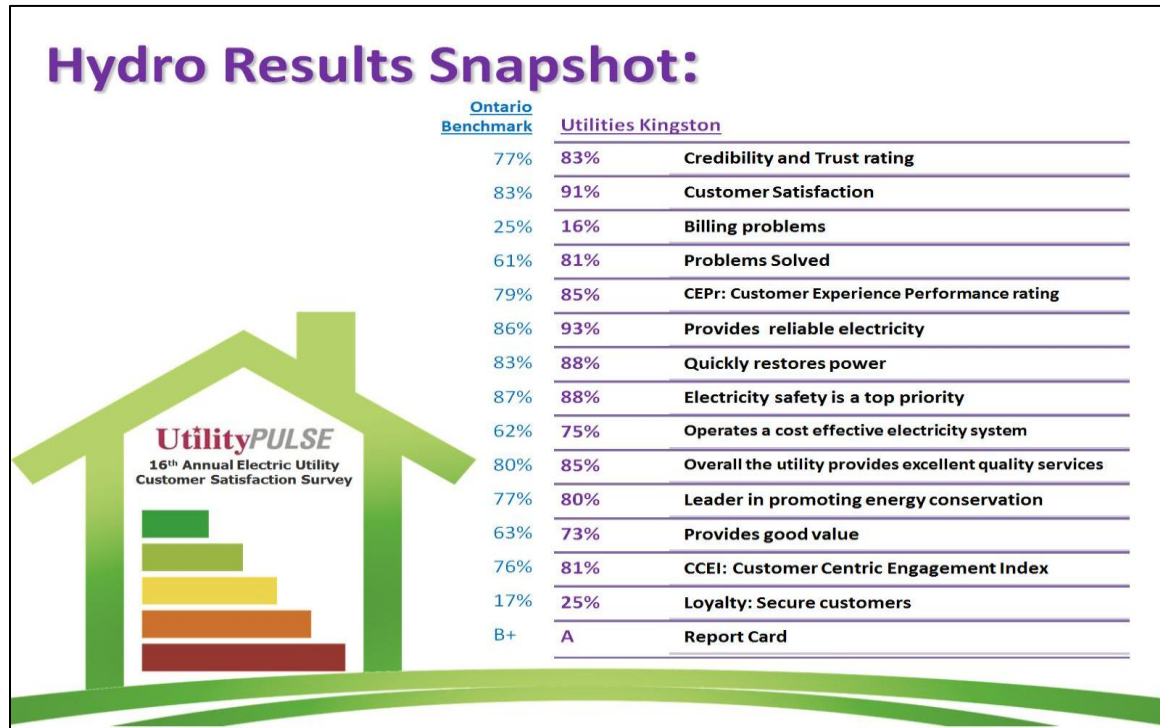
1 The customer service advantages of this model are documented in the Utilities Kingston
2 strategic plan and include the following examples:

- 3
- 4 • One call to arrange for service changes when the customer moves (for example,
5 service disconnections, final meter reads and bills, and service reconnection at the
6 new address).
 - 7
 - 8 • One call and one appointment for underground locates when the customer is
9 excavating on their property for fencing, pool installations and so on.
 - 10
 - 11 • One contact for a number of new construction services, which assists the community
12 in economic development.
 - 13
 - 14 • Efficient coordination of joint construction projects, leading to timely and cost-
15 effective completion, with less disruption to customers.
 - 16

17 In 2014, Utilities Kingston completed a customer satisfaction survey, which is detailed in
18 Exhibit 1 Tab 4 Schedule 1 Attachment 2. The results of this survey confirmed the
19 excellent customer service our model delivers. Figure 1 summarizes the survey results.
20 On every measure, Utilities Kingston outperformed the provincial average and received
21 an overall rating of 'A', proving the company provides local services that customers rely
22 on.

23
24
25
26
27
28

Figure 2 – Overview of 2014 Customer Satisfaction Survey Results



As part of this filing, Utilities Kingston undertook an extensive exercise in customer consultation to solicit feedback regarding our application. Details are provided at Exhibit 1 Tab 4 Schedule 1 and as part of the Distribution System Plan Exhibit 2 Tab 2 Schedule 1 Attachment 1.

Given that there is already an established relationship of trust with our customers, the backbone of our customer engagement strategy was to build on the personal relationships already in place. A variety of communications tactics were deployed in gathering feedback.

We believe the communications exercise undertaken for the purpose of this rate application has provided value well beyond simple compliance with the filing guidelines. It instead will form an important part of our future relationships with our customers. It's

our intention to further develop a long-term communications strategy based on the feedback that we have gathered to transform customer engagement beyond simply ‘informing’ our customers to a new level of working with empowered, knowledgeable customers.

Operational Effectiveness

At the time of incorporation of Utilities Kingston, operational effectiveness was recognized in the founding principles:

- *Lowest possible rates*
- *Shared services where possible*
- *Maximized coordination for development and infrastructure renewal*

The strategic plans of both Kingston Hydro and Utilities Kingston include key goals supporting the operational effectiveness performance outcome in the theme area “Infrastructure Investment and Community Sustainability”.

Examples of strategic goals that support this outcome, taken from each of the plans, are as follows:

Kingston Hydro ensures optimized capital investment: all decisions regarding capital investment consider factors such as cost, risk, impact on safety and impact on reliability.

Kingston Hydro identifies and captures any additional savings in the areas of operations, maintenance and administration that can be re-allocated to dividend payment or capital.

Utilities Kingston ensures the following key inputs to infrastructure management: understanding existing assets, understanding the demand future growth will have on assets and understanding the financial implications of the forgoing.

Utilities Kingston incorporates plans for capital investment, operational needs, debt servicing and return to the shareholder into 10-year financial plans that satisfy and balance the needs of its customers and shareholder.

In terms of operational effectiveness and cost savings, they are derived from achieving efficiencies through the scope of services provided. Utilities Kingston was asked to present to the Ontario Distribution Sector Panel twice during the summer of 2012 on the advantages of its model. Table 8 was part of this presentation and demonstrates the savings to Kingston Hydro, passed directly to its customers, through the shared services model.

Table 8 – Demonstrated savings to Kingston Hydro Rate Payers through the shared services model

Area	Cost if Shared	Cost if Stand alone	Total Savings to Kingston Hydro	Savings to Ratepayer/Year
Postage for Billing	\$45,450	\$197,640	\$152,190	\$5.60
Printing Bills	\$18,630	\$81,000	\$62,370	\$2.30
Billing Staff	\$200,000	\$400,000	\$200,000	\$7.40
Locates	\$64,000	\$160,000	\$96,000	\$3.55
Warehouse Operations	\$63,000	\$207,000	\$144,000	\$5.30
Total				\$24.15

Public Policy Responsiveness

Throughout the Kingston Hydro strategic plan document, reference is made to changing legislation, regulatory requirements, and public policy. These were factored into the theme areas and regulatory goals. This is particularly evident in the following theme areas:

- Growth
- Risk Management
- Finance
- Technology

Two strategic goals that relate directly are:

Growth: Kingston Hydro continues to pursue all opportunities to increase its customer base.

Technology: Kingston Hydro leverages its investment in smart meter technology to work toward the development of a smart grid that facilitates distributed generation and storage of electricity.

The Utilities Kingston strategic plan also references inclusion of public policy and regulatory requirements in the development of the theme areas and strategic goals. Kingston Hydro has successfully delivered on public policy initiatives by the provincial government in the following areas:

1 *Smart meter deployment:*

2
3 Completed installation of smart meters for all residential and small commercial
4 customers and implemented Time of use rates by October 2011 at a capital cost per
5 meter less than the industry average cost.

6
7 *Conservation and Demand Management targets:*

8
9 Delivering 13 saveONenergy conservation programs to our electricity customers, in
10 combination with water conservation programs, enabled staff to meet the
11 conservation targets established for Kingston Hydro. The successful delivery of these
12 programs was recognized in 2014, when Utilities Kingston was awarded the
13 inaugural "Ontario Power Authority Award for Conservation Leadership Excellence",
14 recognizing our utility as an industry leader in innovative and effective electricity
15 conservation programming. We also received the *Great Lakes-St. Lawrence Cities*
16 *Initiative* "Most Innovative Water Conservation Method" award, chosen from
17 hundreds of Canadian and American communities. We were recognized for our
18 unique multi-utility model, innovative community programs, and cost-effective
19 customer conservation incentive programs.

20
21 *Facilitation of the connection of renewable generation:*

22
23 Kingston Hydro has actively enabled the connection of renewable energy. Table 9 is
24 a summary of the connections made in the Kingston Hydro distribution territory:
25
26
27
28

1 Table 9 – Summary of FIT and MicroFIT connections

Year	FIT Connections	Micro FIT Connections
2011	-	34 (287 kW)
2012	2 (300 kW)	26 (219 kW)
2013	2 (200 kW)	14 (131 kW)
2014	1(135 kW)	8 (71 kW)

2

3 Kingston Hydro has chosen not to invest in renewable generation as an owner, as
4 ongoing capital investments continue to be the focus of the corporation. To promote
5 renewable generation in its distribution territory, Kingston Hydro has adopted a role of
6 facilitator, not investor.

7

8 In addition, Kingston Hydro and Utilities Kingston have been successful in meeting all
9 the requirements of regulatory changes that have impacted local distribution companies
10 since our last filing, and since incorporation.

11

12 Financial Performance

13

14 Several of the key principles adopted at the time of incorporation support the
15 performance outcome of financial performance. They include the following:

16

- 17 • *Rate based services and full cost accounting*
- 18 • *No cross-subsidization between services*
- 19 • *Best return/lowest cost to the shareholder*

20

21 Financial performance was a key factor in the development of the two strategic plans
22 and a necessary component of ongoing sustainability.

1 The Kingston Hydro strategic plan addresses this performance outcome in the following
2 theme areas and strategic goals:

3
4 *Finance: Kingston Hydro incorporates its capital investment, operational needs,*
5 *debt servicing and shareholder dividend requirements into a 10-year financial*
6 *plan approved by the Board of Directors.*

7
8 *Infrastructure investment and community sustainability theme :Kingston Hydro*
9 *identifies and captures any additional savings in the areas of operations,*
10 *maintenance and administration that can be re-allocated to dividend payment or*
11 *capital.*

12
13 The Utilities Kingston strategic plan addresses this performance outcome in the
14 following theme areas and strategic goals:

15
16 *Growth: By the year 2020, Utilities Kingston increases the return to the*
17 *shareholder, while balancing the need to upgrade infrastructure and satisfy rate*
18 *payers.*

19
20 *Infrastructure Investment and Community Sustainability: Utilities Kingston*
21 *incorporates plans for capital investment, operational needs, debt servicing and*
22 *return to the shareholder into 10-year financial plans that satisfy and balance the*
23 *needs of its customers and shareholder.*

24 25 **Awards and Recognition**

26
27 Kingston Hydro is proud of the customer service and savings it is able to deliver through
28 the Utilities Kingston shared services model. This model received recognition both in

our local community and provincially. Since our last filing, the corporations and employees have been recognized with the following awards:

- 2011 - Kingston Livable City Design Award of Excellence – Utilities Kingston Water Conservation Garden
- 2011 - Communities In Bloom: First Place, Commercial & Institutional Garden and the Mayor's Choice Award, Utilities Kingston Water Conservation Garden
- 2012 - SWITCH Sustainable Energy Awards Community Leadership Award -Jim Keech
- 2013 – Intelligent Communities Forum (ICF) 21 Smart Communities
- 2013 – Ontario Centres of Excellence - Queen's University & Utilities Kingston - "Best Ontario Power Authority Energy Conservation Project" for In-Home Display pilot project.
- 2013 - Santa Claus Parade Float wins "Twinkle Award"
- 2013 – Ontario Water Works Association "Award of Excellence for Water Efficiency" – Utilities Kingston, for industry-leading water conservation programming
- 2014 – Electricity Distributors Association's inaugural "Award for Electricity Conservation Leadership Excellence" sponsored by the Ontario Power Authority.
- 2014 – Great Lakes-St. Lawrence Cities Initiative Award for "Most Innovative Water Conservation Method" for our residential and commercial water conservation programs and multi-utility approach.
- 2014- Health & Safety Canadian Society of Safety Engineering (CSSE) -award for Outstanding Achievement
- 2014 - (ESA) Electrical Safety Award – Worker Safety
- 2014 - Ontario Regional Common Ground Alliance (ORCGA) – Locate Rodeo – Second Place
- 2014 Intelligent Communities Forum (ICF) Top 7 Smart Communities

Summary

The need for capital reinvestment is the rationale for a custom IR application.

Kingston Hydro uses a shared services model, provided by Utilities Kingston, to achieve the most cost-effective means of serving the customer. The shared services model results in efficiencies in both operating and capital expenditures, which assist in keeping rate increases to a minimum. Low, stable rates were identified as important to customers through the customer consultation process.

Kingston Hydro has made not only physical improvements to its infrastructure since our last CoS application, but also improvements to our asset management practices, used in this current application. Kingston Hydro and Utilities Kingston are committed to ongoing continuous improvement in the area of asset management, while Kingston Hydro is committed to implementing the five-year distribution system plan as presented in this application.



File Number:EB-2015-0083

Exhibit: 1
Tab: 2
Schedule: 1

Date Filed: June 1, 2015

Attachment 1 of 2

Kingston Hydro Strategic Plan 2012-2017



Strategic Plan 2012 - 2017

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Introduction

Kingston Hydro distributes electricity to approximately 27,000 customers in Kingston, Ontario. The corporation strives to distribute safe and reliable electricity services, while keeping rates affordable and providing value to its shareholder, the City of Kingston. Innovation and service excellence are central to its success.

A fundamental strategy of the organization is to leverage *economies of scope* by contracting operational management to Utilities Kingston. Through this *shared services model*, Kingston Hydro passes on more than \$1.4 million dollars in annual savings to its customers.

This five-year strategic plan provides a framework to protect Kingston Hydro's competitive advantage, manage risks and make more informed operating decisions for the corporation. The plan will assist in answering the following question:

How can Kingston Hydro best meet customer expectations in distributing sustainable, safe, affordable and reliable electricity over the next five years?

Environmental Scan

The initiatives in this plan are influenced by various social, legal, economic, political and technological factors.

Kingston Hydro's business is directly impacted by provincial legislation and regulation. Plans consider the shared goal of the City of Kingston and Utilities Kingston to help achieve the community vision of becoming *Canada's Most Sustainable City*.

Economic Factors

In the near term, the organization will balance infrastructure investment needs with competing priorities such as debt management, shareholder return expectations, and mounting pressure from the media and consumers that electricity prices are too high.

Social Factors

Certain demographic groups among Kingston's population may be more heavily impacted by the price of electricity. The following are considered in decision making processes (Municipal Property Assessment Corporation, 2008):

- An increasing number of individuals retiring to the City
- A significant student population
- A high proportion of low income families

Environmental Factors

Kingston Hydro must meet the targets set by the Ontario Energy Board's *Conservation and Demand Management Code for Electricity Distributors* since the code:

- Is a requirement to maintain the electricity distribution license
- Permits Kingston Hydro to contribute to the community vision of becoming *Canada's Most Sustainable City*
- Provides for potential incentives that can be earned and retained by the company

An additional environmental factor that impacts Kingston Hydro business is the provincial government's introduction of *feed-in tariff* contracts for green energy, which introduced a new challenge in electricity distribution (*Technological Factors*).

Since the advent of the **electricity market** in May of 2002, the electricity industry has been characterized by ever-changing regulatory and legislative environments. Refer to the timelines in Figure 1.

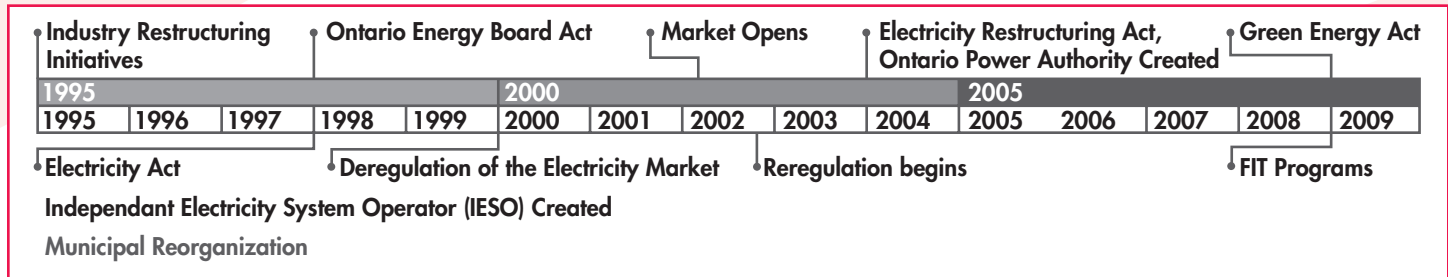


Figure 1: Ontario electricity industry timelines, adapted from the Electricity Distributors Association document, *Electricity is the Answer*

The industry is also regulated by the Ontario Energy Board and, in order to maintain their distribution licenses, local distribution companies such as Kingston Hydro must keep up-to-date with code requirements.

In February 2012, the report of the *Commission on the Reform of Ontario's Public Services* was issued and recommended that Ontario's nearly 80 local distribution companies consolidate along regional lines to create *economies of scale*.

In April of 2012, the provincial government acted on this recommendation by striking a tri-partite panel. The outcome of the panel review is anticipated no later than April 2013 and may be available by the end of 2012. Subsequent to the report of the panel, the provincial government will make a determination regarding what, if any, recommendations are to be enacted.

Technological Factors

Kingston Hydro will continue to meet the challenges of converting what was a 'one-way' distribution system (designed around centralized generation) to a 'two-way' system (designed to accommodate a smaller de-centralized approach, *distributed generation*). This challenge is related to the provincial government's introduction of feed-in tariff contracts for green energy.

In addition, investments in *smart meter technologies* can be exploited to reap the benefits of what is touted as ‘a new landscape for innovation’.

These key factors help inform the theme areas and strategic goals for our organization.

Theme Areas and Key Strategic Goals

This plan describes proposed initiatives that help the organization meet its strategic goals under these theme areas:

Status Quo vs. Growth, Risk Management, Finance, Infrastructure Investment and Community Sustainability, and Customer Engagement

Five-year strategic goals for Kingston Hydro:

Status Quo vs. Growth

1. Continues to pursue all opportunities to increase its customer base.

Risk Management

2. Adopts a risk management plan that identifies the principal risks of Kingston Hydro's business and ensures the implementation of appropriate systems to manage these risks.

Finance

3. Incorporates its capital investment, operational needs, debt servicing and shareholder dividend requirements into a 10-year financial plan, approved by the Board of Directors.

Infrastructure Investment and Community Sustainability

4. Ensures optimized capital investment: all decisions regarding capital investment consider factors such as cost, risk, impact on safety and impact on reliability.
5. Identifies and captures any additional savings in the areas of operations, maintenance and administration that can be re-allocated to dividend payments or capital.

Technology

6. Leverages its investment in smart meter technology to work toward the development of a smart grid that facilitates distributed generation and storage of electricity.
7. Focuses on converting 'data' to 'information' that can be delivered to customers and employees through mobile applications that will improve customer service and operational efficiencies.

Customer Engagement

8. Takes steps to ensure the community recognizes the Kingston Hydro brand and the value of its services in distributing safe and reliable electricity.
9. Develops and implements a customer service philosophy that is based on customer needs and expectations.
10. Actively engages its customers in undertaking conservation measures that will generate savings and achieve the conservation and demand management targets of the company.

Purpose

This five-year strategic plan provides a framework to protect Kingston Hydro's competitive advantage, manage risks and make more informed operating decisions for the corporation. The plan will assist in answering the following question:

How can Kingston Hydro best meet customer expectations in distributing sustainable, safe, affordable and reliable electricity over the next five years?

The planning process involved evaluating the current situation, considering future challenges and opportunities and identifying potential strategies. The plan provides a means to align the development of annual work plans with the achievement of long-term objectives. It will assist in communicating with employees, directors and the shareholder regarding the future direction of the company, as well as progress on plan implementation.

History

The Kingston Electric Light Company was incorporated in 1886. This privately-owned company built its first electric light plant in 1888 at the foot of Brock Street. The plant, primarily used to manufacture street lighting, was moved to Queen Street in 1892. This location is still used by Kingston Hydro as a distribution substation (Figure 2). The Public Utilities Commission used this and adjoining buildings as their main offices until 1972, when they moved to 1211 John Counter Boulevard.

The Public Utilities Commission (PUC) operated the electrical distribution system within the former City of Kingston. It provided electricity to the City and also parts of Barriefield and CFB Kingston. On January 1, 1998, the PUC was dissolved as part of the municipal amalgamation that created the new City of Kingston, combining the former City of Kingston, the Township of Kingston and the Township of Pittsburgh. Until 2000, the electric utility was governed by the Hydro-electric Commission, also the Board of Control at that time.



Figure 2: Substation MS1 on Queen Street was the former location of the Kingston Electric Light Company electric light plant

In 1998 the *Energy Competition Act* required significant changes to electric utilities in the Province of Ontario. One of these was the establishment of corporate structures for the ongoing management and operations of electric distribution systems—a requirement that would create a level playing field between privately-owned utilities and those that were retained by their municipalities. Legislation was prescriptive in the way these corporations were to be set up. In particular, municipalities could not continue to distribute electricity, except through a corporation. In addition, employees within a municipally-held electric distribution corporation could not be significantly involved in any other activities except electric distribution.

This created challenges for the municipal department that operated five utility systems. The City of Kingston, determined it would be advantageous to maintain the multi-utility structure. The organization needed a structure that would meet the intent of the legislation, maintain the advantages realized through utility convergence or integration (one call, one crew, one bill) and support the municipality by utilizing shared services (e.g., finance) where beneficial to both parties.

The proposed solution, which became the current structure, saw the incorporation of three Ontario Business Corporations. The first, Kingston Electricity Distribution Limited (now Kingston Hydro Corporation), holds the assets of the former Hydro Electric Utility Commission. The second, 1425447 Ontario Limited, owns the third, 1425445 Ontario Limited (operating as Utilities Kingston). The latter is home to all the employees of the former municipal department, and holds the assets of the fibre optic utility, along with some vehicles and tools.

Through this structure, which is unique in Ontario, Utilities Kingston manages, operates and maintains the assets of the City's water, sewer, gas and electric utilities.

Kingston Hydro Today

Structure

Kingston Hydro is a for-profit business corporation, incorporated under the *Ontario Business Corporations Act*. The shareholder is the City of Kingston, represented by the Council of the City of Kingston (Figure 3).

To leverage economies of scope, Kingston Hydro contracts management of the business to its affiliate, Utilities Kingston.

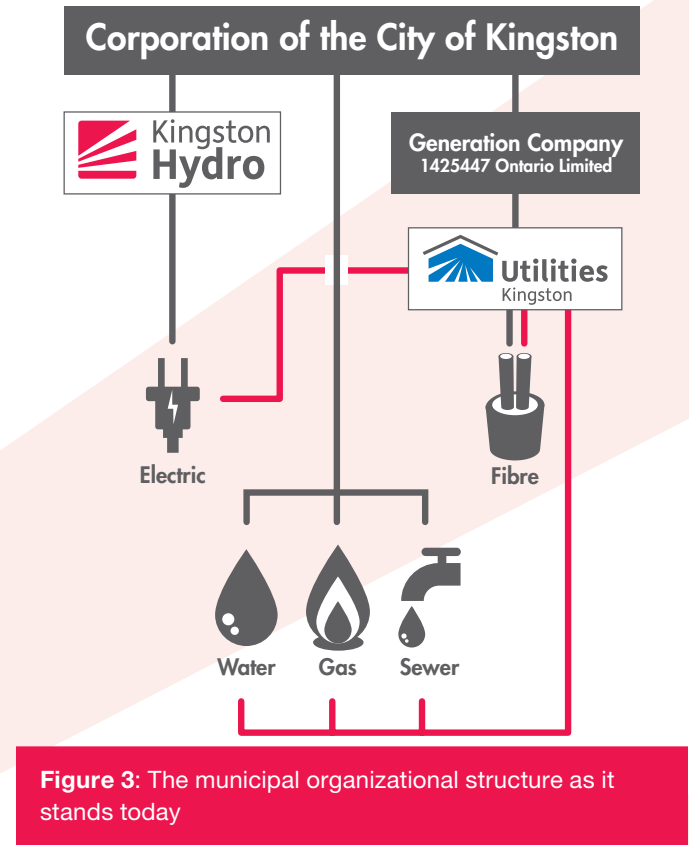


Figure 3: The municipal organizational structure as it stands today

Board of Directors

This 2012-2017 Kingston Hydro Strategic Plan has been approved by the Board of Directors. Board structure is determined by the terms of the shareholder declaration.



Mark Gerretsen
Mayor,
City of Kingston



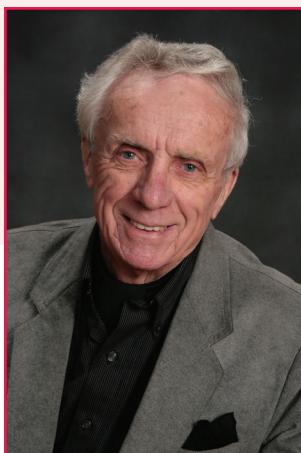
Gerard Hunt
Chief Administrative
Officer,
City of Kingston



James A. Keech
President and Chief
Executive Officer,
Utilities Kingston



Arthur Jordan
Resident,
City of Kingston



Peter Ronald Doyle
Resident,
City of Kingston

Distribution Facts

Kingston Hydro is a registered market participant with the Independent Electricity System Operator (IESO), which is responsible for the day-to-day operation of Ontario's electrical system. As such, Kingston Hydro purchases electricity from the wholesale electricity market, which is managed by the IESO. Electricity is provided to Kingston Hydro through two Hydro One transformer stations: one is located near Highway 401 at Division Street and another on Gardiners Road.

Seven high-voltage lines feed the City's 17 substations, which in turn supply electricity to 27,000 customers in Central and East areas of Kingston, including Royal Military College, Canadian Forces Base Kingston, the Village of Barriefield and Collins Bay Penitentiary (Figure 4).

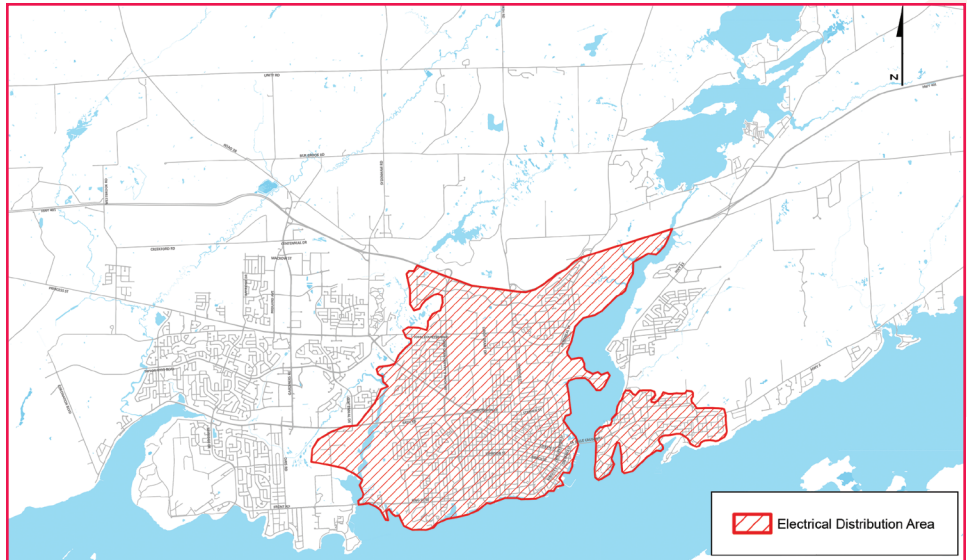


Figure 4: Kingston Hydro supplies electricity to 27,000 customers in Central and East areas of Kingston

Finance

To support infrastructure renewals, Kingston Hydro has significantly increased borrowing over the past several years. The incorporation debt of \$12 million has grown to approximately \$30 million in 2012.

Kingston Hydro's deemed debt amount for rate-making purposes is approximately \$25 million. The additional \$5 million in debt was drawn by Kingston Hydro to fund variances between amounts charged to customers for the cost of power and the amount Kingston Hydro pays for its power.

Until its next re-basing in 2015, the corporation will balance its infrastructure investment needs with its debt level tolerance and shareholder return expectations. At that time, Kingston Hydro will be able to obtain a distribution rate adjustment that will better support its debt capacity and asset renewal requirements.

During the 2013 and 2014 fiscal years, the corporation will need to balance infrastructure investment needs with its debt capacity and shareholder return expectations.

Regulatory and Political Environment

Deregulation of the Electricity Market

The Energy Competition Act of 1998 was premised on the belief that, where possible in the delivery of electricity, consumers would benefit from competitive market forces and a business focus, rather than a public utility approach.

Therefore, what were considered competitive elements (generation and supply of electricity) were separated from those elements that were considered to be natural monopolies (transmission and distribution). These changes were intended to reduce the price of electricity to the end-consumer.

For your information:

Transmission and distribution are both 'wires' businesses and differ only by the voltage that is delivered. By definition, transmission is greater than 50,000 volts and distribution is less.

The electricity market opened in May of 2002 and was followed by a hot summer that led to high demand, driving up the price of the commodity (generation). End-consumers voiced their concerns about the volatile pricing that resulted.

The government responded by eliminating variable pricing and replacing it with fixed pricing. Today, the government continues to launch new initiatives in response to input from customers who may not understand rate structure or what they receive for what they are paying.

Changing Legislation

Since 2002 and on an on-going basis, changes to legislation have applied to the electricity industry. In 2009, the government introduced the *Green Energy and Green Economy Act*, focused on the promotion of renewable energy and conservation and demand management.

Rate Regulation

Kingston Hydro is regulated by the Ontario Energy Board (OEB) and must meet code requirements in order to maintain its electricity distribution license.

A primary focus of the OEB is to oversee rates for the distribution and transmission of electricity. The Ontario Energy Board does not regulate the commodity portion of the bill. Since the incorporation of electric utilities in 2000, the OEB has regulated rates using a performance-based or incentive regulation approach.

Mission and Vision

The strategic direction of the company is guided by its mission and vision.

Mission

To distribute safe and reliable electricity while keeping rates affordable and providing value to the shareholder.

Vision

To be recognized as a company that provides a valued service to its customers and creates value for its shareholder, the City of Kingston, through innovation, service excellence and a commitment to the principles of sustainability.

Competitive Advantage

Electricity Distribution License

Kingston Hydro is a licensed electricity distributor within a defined distribution territory. As such, all customers requiring electricity services within the distribution area must be customers of Kingston Hydro—its business is a regulated monopoly.

Maintaining the licence is a competitive advantage and is critical to the survival of the business. Therefore, the company must ensure a focus on all licence conditions and code requirements to mitigate related risks.

Highly Competitive Distribution Rates

Kingston Hydro competes for customer growth opportunities with other distributors, both on a global level and within the boundaries of the City of Kingston.

When developers consider the physical location for new commercial and industrial development, hydro rates may be an important factor.

For this reason, the company continues to monitor rates relative to other distributors. Kingston Hydro's distribution rates are highly competitive, currently ranking as the 27th lowest rate in Ontario out of approximately 76 distributors.

In addition, the Ontario Energy Board groups distributors into cohorts in order to compare distributors sharing similar characteristics.

Table 1 compares Kingston Hydro's rates to its *cohorts'* rates, as determined immediately after the Kingston Hydro 2011 Cost of Service Re-basing.

Economies of Scope

A fundamental strategy of Kingston Hydro is to leverage *economies of scope* by contracting operations management to Utilities Kingston. Combining electricity operations with water, wastewater and natural gas operations results in significant cost savings that contribute to the company's competitive advantage. Through this shared services model, Kingston Hydro passes on more than \$1.4 million dollars in annual savings to its customers.

Table 1: Price Comparison of Kingston Hydro Rates to its Cohorts

Residential customer using 800 kWh per month	
Prices include smart meter charge of \$1 plus transmission rates paid to Hydro One of \$6	
Welland Hydro-Electric System Corp.	\$36.86
Festival Hydro Inc.	\$36.73
Bluewater Power Distribution Corp.	\$36.64
Erie Thames Powerlines Corp.	\$36.10
Woodstock Hydro Services Inc.	\$35.85
Essex Powerlines Corp.	\$35.75
Westario Power Inc.	\$34.02
Niagara Falls Hydro Inc.	\$33.95
Kingston Hydro Corporation	\$33.65
Chatham-Kent Hydro Inc.	\$32.85
St. Thomas Energy Inc.	\$32.42
COLLUS Power Corp.	\$30.97
Peterborough Distribution Inc.	\$30.78
E.L.K. Energy Inc.	\$30.22
Wasaga Distribution Inc.	\$29.59
Average (excluding Kingston Hydro)	\$33.77
Median (excluding Kingston Hydro)	\$33.98

Customer Service

Other factors that may be considered in assessing competitive advantage are customer service and the ease by which multiple services can be accessed. Generally, the responses of Kingston Hydro customers in both of these areas are positive and can be considered an advantage.

Current Industry Trends and Developments

Public Policy

The electricity sector continues to be subject to change. In February 2012, the report of the *Commission on the Reform of Ontario's Public Services* (the 'Drummond report') was issued. Recommendation 12-13 of the report is highlighted in Exhibit 1.

Exhibit 1: Drummond report recommendations

"Recommendation 12-13: Consolidate Ontario's 80 local distribution companies (LDCs) along regional lines to create economies of scale.

Reducing the \$1.35 billion spent on operations, maintenance and administrative costs for Ontario's LDCs¹⁶ would result in direct savings on the delivery portion of the electricity bill.

Flexibility regarding LDC sector reform could be greatly enhanced through a co-operative federal-provincial tax arrangement that returns to the provincial government any federal corporate taxes paid by newly privatized electricity utilities. This would allow the provincial government to remove the 33 per cent transfer tax on such divestitures currently in place that goes towards stranded debt. It would also help compensate for the future loss of the federal portion of PILs when a publicly owned LDC is sold to the private sector. There is precedent for such co-operation as illustrated by the previous federal Public Utilities Income Tax Transfer Act.

Larger regional entities might allow for economies of scope as well as scale, allowing greater participation in planning, design of conservation programs and expanding responsibilities to deliver other resources such as water."

In April of 2012, the provincial government acted on this recommendation by striking a tri-partite panel with a mandate as described in Exhibit 2.

Exhibit 2: Mandate of the tri-partite panel

“...provide advice and make recommendations to the Minister of Energy regarding issues related to Ontario’s electricity distribution sector and distribution models, including opportunities for consolidating distributors.”

To carry out its mandate and respond to specific issues raised by the Minister of Energy, the panel will consult with municipalities, distributors, the Electricity Distributors Association and other key stakeholders. During this consultation, the panel will look at a range of issues including:

- Potential long- and short-term financial savings associated with consolidation
- Benefits for ratepayers
- Long- and short-term operational efficiencies
- Potential risk

In June 2012, Kingston Hydro was invited to present its unique approach to savings from economies of scope and was invited a second time in August to further discuss the Kingston utility model. The outcome of the panel review is anticipated no later than April 2013 and may be available by the end of 2012. Subsequent to the report of the panel, the provincial government will make a determination regarding what, if any, recommendations are to be enacted.

Regulatory Review

The Ontario Energy Board undertook a review of the regulatory framework and published the document *A Renewed Regulatory Framework for Electricity*. The initial outcomes of the review were reported by the OEB Chair in September of 2012.

It is anticipated that the OEB will enact changes to rate-setting, a focus on customer value, a continued focus on seeking efficiencies in the distribution sector, more effort in the area of regional planning and continue some of the work started in developing a *Smart Grid*.

Cost Pressures

The initiatives discussed in the sections *Regulatory and Political Environment* and *Regulatory Review* are derived from a mounting sense in the media and among consumers that electricity prices are too high and increasing, with no end in sight.

These pressures stem from initiatives such as green energy *feed-in tariff (FIT)* contracts, the introduction of the harmonized sales tax on electric bills, smart meter and time-of-use billing implementation and pressures many utilities face regarding infrastructure re-investment. The resulting rate increases are affecting business and residential consumers alike.

In Kingston, it is important to be mindful of the demographics. The following are considered in decision making processes (Municipal Property Assessment Corporation, 2008):

- An increasing number of individuals retiring to the City
- A significant student population
- A high proportion of low income families

Technology

Green Energy Infrastructure

The introduction of feed-in tariff contracts for green energy introduced a new challenge in electricity distribution.

Distributors are faced with converting a ‘one-way’ system (designed around centralized generation) to a ‘two-way’ system (designed to accommodate smaller, de-centralized or distributed generation), without influence over the location of generation facilities.

Smart Meter Infrastructure

It is likely that the significant investment in smart meter infrastructure—mandated by the provincial government and implemented by distributors—will drive a focus to leverage the technology in developing a smart grid and realizing a wider *value proposition*.

In a recent speech by the Assistant Deputy Minister of Energy, smart meters were referred to as providing a ‘new landscape for innovation’.

Customers

Consumer Focus

In its report on the *Renewed Regulatory Framework*, the Chair of the OEB identified that the Board would expect distributors to identify and respond to the needs and expectations of customers. The report suggested that utilities involve customers in developing utility plans so that customers understand the value of the services being provided.

The OEB's 2012 – 2015 Business Plan identifies a consumer focus as described in Exhibit 3.

Exhibit 3: Ontario Energy Board consumer focus

Consumers

Consumers are seeking reliable service at reasonable cost. When that cost changes, consumers look for answers and understanding. The Board must align the requirements of the electricity and natural gas sectors with the needs of consumers. The Board will endeavour to meet the needs and expectations of consumers by focusing on outcomes that they value.

Strategic Goals

1. Consumers receive a reliable supply of energy at reasonable cost.
2. Consumers understand the rates and prices they are charged and are equipped to make informed choices about matters such as their consumption, conservation, and the range of energy products offered.
3. The Board's processes in respect of applications and policy consultations are understood by and accessible to consumers.
4. Consumers have confidence that distributors, unit sub-meter providers, retailers, and marketers are adhering to applicable customer service and consumer protection rules.

Customer Billing

The Ministry of Energy launched an initiative to create a standard template for customer billing that better explains charges.

It is clear that recent initiatives of the OEB and the Ministry of Energy are in response to input from customers who may not understand rate structure or what they receive for what they are paying. This trend is likely to continue.

Conservation and Demand Management

Customers are critical to the ability of Kingston Hydro to meet the conservation and demand management targets set by the *Conservation and Demand Management Code for Electricity Distributors*.

Achieving the targets is imperative since the code:

- Is a requirement to maintain the electricity distribution license
- Permits Kingston Hydro to contribute to the community vision of becoming **Canada's Most Sustainable City**
- Provides for potential incentives that can be earned and retained by the company

Status Quo vs. Growth

Introduction

The spectrum of growth opportunities may be influenced by the anticipated report from the provincial government's tri-partite panel (Exhibit 2) to review the electricity distribution sector. The report is expected by the end of 2012 and no later than April of 2013. At that time, this plan will be reviewed and updated to incorporate resulting opportunities.

Key Strategic Goal

Kingston Hydro continues to pursue all opportunities to increase its customer base.

Initiatives

- a. Undertake a review of current and potential growth opportunities and report to the shareholder.
FY 2012
- b. Subsequent to the release of the report of the sector review panel, identify further initiatives.
FY 2013
- c. Understand and plan for investment in the areas the City of Kingston has targeted for re-development and intensification.
FY 2013 - 2017

Risk Management

Introduction

Kingston Hydro, as a regulated entity, manages many aspects of the business to comply with legislation and code requirements.

Examples that regulate areas of **operational risk** include inspections required by the Distribution System Code and Safety Compliance Audits required by the Electrical Safety Authority.

The regulatory regime with respect to the rate-making process assists with one aspect of **financial risk**.

In addition to the imposed **risk management** activities, Kingston Hydro plans to undertake a comprehensive risk management program (over the next two to four years). This process will follow a Utilities Kingston exercise to examine risk management for the wastewater operation.

Key Strategic Goal

Kingston Hydro adopts a risk management plan that identifies the principal risks of its business and ensures the implementation of appropriate systems to manage these risks.

Initiatives

- a. Identify risks. **FY 2014**
- b. Prioritize and assess risks. Include a risk matrix that balances the likelihood and impact of each risk. **FY 2014**
- c. Complete a corporate risk profile for approval by the Board of Directors. **FY 2015**
- d. Assess the capabilities to manage and mitigate risks in accordance with the approved corporate risk profile. **FY 2015**
- e. Implement strategies to reduce the gaps and increase the capabilities required to manage and mitigate risks, with the final risk management plan approved by the Board of Directors. **FY 2016**

Finance

Introduction

Rate base is an important financial element of local distribution companies. It determines the basis for a distributor's revenue requirements, which support operating expenses, capital expenses, ability to borrow and reinvest, as well as interest and dividend payments.

The rate base is made up of net capital assets (gross cost less accumulated depreciation) plus 13% of the annual operating expenses, including cost of power.

Kingston Hydro has grown its rate base substantially in the past 10 years. Upon incorporation in 2000, its rate base was approximately \$24 million. In 2011, Kingston Hydro's rate base was \$38 million and is expected to grow to approximately \$52 million by the time the organization files its next Cost of Service Rate Application for 2015 rates.

This growth, primarily made up of increases to capital assets, has been funded through a combination of rate increases and additional debt. Kingston Hydro has seen its debt grow from \$12.3 million upon incorporation to an estimated \$30 million at the end of 2012. This debt level is expected to be maintained until the 2015 rate re-basing. It is important to maintain a debt to equity level similar to the Ontario Energy Board's deemed debt to equity level of 60:40. It is this deemed debt to equity level that is the basis for forming the revenue requirement for distributors.

Key Strategic Goal

Kingston Hydro incorporates its capital investment, operational needs, debt servicing and shareholder dividend requirements into a 10-year financial plan approved by the Board of Directors.

Initiatives

- a. Develop and implement a debt and dividend policy approved by the Board of Directors. **FY 2013**
- b. Ensure an updated 10-year financial plan is approved by the Board of Directors annually. **FY 2013**
- c. Apply for distribution rates that continue to be just and reasonable to customers and that support the approved 10-year financial plans. **FY 2013 - 2015**

Infrastructure Investment and Community Sustainability

Introduction

The City of Kingston is committed to re-developing brownfields and other under-developed properties in the City core. Kingston Hydro will partner with the City in order to help meet the objectives of the shareholder.

This will create opportunities for customer intensification that must be anticipated and planned. Investment in new development will compete for dollars that otherwise would have been available for the renewal of existing infrastructure.

Finally, as a business corporation, Kingston Hydro will bring a focus to ensuring appropriate return on investments for the shareholder, within the context of the stability of the business.

Key Strategic Goal

Kingston Hydro ensures optimized capital investment: all decisions regarding capital investment consider factors such as cost, risk, impact on safety and impact on reliability.

Initiatives

- a. Complete a master plan focusing first on the 44,000 volt distribution system and subsequently on the 4160 volt system.

FY 2012 - 2014

- b. Develop and implement a decision-making framework for investment.

FY 2013 - 2014

Key Strategic Goal

Kingston Hydro identifies and captures any additional savings in the areas of operations, maintenance and administration that can be re-allocated to dividend payment or capital.

Initiatives

- a. Examine whether there may be additional savings available through leveraging the economies of scope model.

FY 2013 - 2014

- b. Investigate strategic partnerships that could create efficiencies in these areas.

FY 2013 - 2014

Technology

Introduction

Kingston Hydro will continue to meet the challenges of converting what was a 'one-way' distribution system (designed around centralized generation) to a 'two-way' system (designed to accommodate smaller, decentralized **distributed generation**).

Leveraging Kingston Hydro's investment in smart meter infrastructure to develop a Smart Grid will enable distributed generation and other opportunities such as electricity storage.

With the introduction of system-monitoring technologies such as supervisory control and data acquisition (SCADA) systems and smart meters, a large volume of data is now available to optimize the performance of the system. A focus on managing, analyzing and reporting on this large volume of data—that is, turning it into information—will improve Kingston Hydro's ability to provide relevant information to customers, optimize system performance and manage outages more effectively.

For example, providing time-of-use or real-time information about consumption habits, will enable active consumer participation in tracking energy usage patterns.

Further, developing means to monitor and respond to emergencies—for example, through developing an outage management system that is layered on the smart meter platform—will assist in faster outage identification and restoration of power, thereby improving reliability.

Finally, developing systems for multiple points of operational data that can be monitored and assessed in real time will assist in the ability to better manage and balance loads, leading to improved system reliability.

Key Strategic Goal

Kingston Hydro leverages its investment in smart meter technology to work toward the development of a smart grid that facilitates distributed generation and storage of electricity.

Initiatives

- a. Develop a smart grid vision. **FY 2012 - 2013**
- b. Work with smart meter technology providers to investigate distribution automation opportunities. **FY 2013**
- c. Evaluate opportunities to deliver consumption information through the use of technology. **FY 2014**

Key Strategic Goal

Kingston Hydro focuses on converting 'data' to 'information' that can be delivered to customers and employees through mobile applications that will improve customer service and operational efficiencies.

Initiatives

- a. Make a web portal available for customers to access their account information. **FY 2012**
- b. Build on the investment in smart meter technology and web portal solutions to develop advanced services for customers and operational staff. **FY 2013**
- c. Develop requirements for an outage management system. **FY 2013 - 2014**

Customer Engagement

Introduction

The City of Kingston has identified enhanced customer service as a priority to enable economic development through creating an 'open for business' culture.

In addition, as a result of rising electricity rates, the regulator and provincial government are focused on the need to communicate with customers about their rates (what they are paying for and why it is good value).

Changing demographics and technologies have created new communication channels such as social media. These can be leveraged to help understand customer expectations and values, as well as their preferred communication methods.

In general, the customer relationship will move from a reactive to a proactive approach and will involve two-way instead of one-way interaction. More emphasis will be placed on providing information through a variety of channels to help customers understand the complex electricity market.

Truly engaging customers to conserve and save money will help Kingston Hydro achieve its conservation targets, while benefiting both consumers and the environment.

In order to successfully engage its customers, Kingston Hydro must first assist them—and the community as a whole—to understand both the company's brand and the municipal organization.

This branding effort will also help contribute to an objective of the *Affiliate Relationships Code*:

"...preventing customer confusion that may arise from the relationship between a utility and its affiliate."

Key Strategic Goal

Kingston Hydro takes steps to ensure the community recognizes its brand and the value of its services in distributing safe and reliable electricity.

Initiatives

- a. Develop and implement a public education campaign that helps inform customers and conveys Kingston Hydro's brand. **FY 2013**

Key Strategic Goal

Kingston Hydro develops and implements a customer service philosophy that is based on customer needs and expectations.

Initiatives

- a. Ensure that customer communication requirements and initiatives of the provincial government and the Ontario Energy Board are monitored, understood and implemented in a timely manner. **FY 2013**
- b. Identify, through consultation with customers, their expectations and needs. Understand how best to provide the information that would assist Kingston Hydro to meet these needs. **FY 2013**
- c. Based on the needs assessment, generate and implement a communication strategy. **FY 2014**
- d. Ensure that Kingston Hydro participates and responds to the recommendations of the 2012 Mayor's Task Force on Development. **FY 2013**

Key Strategic Goal

Kingston Hydro actively engages its customers in undertaking conservation measures that will generate savings and achieve the conservation and demand management targets of the company.

Initiatives

- a. Implement and promote programs approved by the Ontario Power Authority that are targeted to the needs of Kingston Hydro customers.
FY 2012 - 2014
- b. Continue to explore opportunities to create conservation programs that are specific to Kingston Hydro.
FY 2012 - 2015

<i>cohorts</i>	Groups designated by the Ontario Energy Board for the purpose of comparing distributors who share similar characteristics.
<i>distributed generation</i>	Smaller generating facilities that are located close to consumers of electricity.
<i>economies of scale</i>	The increase in efficiency of production as the number of goods being produced increases. Typically, a company that achieves economies of scale lowers the average cost per unit through increased production since fixed costs are shared over an increased number of goods (www.investopedia.com).
<i>economies of scope</i>	An economic theory stating that the average total cost of production decreases as a result of increasing the number of different goods produced (www.investopedia.com).
<i>electricity market</i>	Opened in May of 2002. The Energy Competition Act of 1998 was premised on the belief that, where possible in the delivery of electricity, consumers would benefit from competitive market forces and a business focus, rather than a public utility approach. Therefore, what were considered competitive elements (generation and supply of electricity) were separated from those elements that were considered to be natural monopolies (transmission and distribution).
<i>feed-in tariff (FIT)</i>	A green energy program implemented by the provincial government. The Government of Ontario has committed to removing barriers and promoting opportunities for renewable energy projects and to promoting a green economy. The Ontario Power Authority's feed-in tariff (FIT) and micro feed-in tariff (microFIT) are intended to encourage the development of micro- and small-scale renewable energy projects across the province. Owners of these projects are paid a fixed price set at a level intended to enable project owners to recover the costs of the projects, as well as to earn a reasonable return on their investment over the term of the contract.
<i>risk management</i>	The identification, assessment and prioritization of risks (defined in ISO 31000 as the effect of uncertainty on objectives, whether positive or negative). This is followed by coordinated and economical application of resources to minimize, monitor and control the probability and/or impact of unfortunate event; or to maximize the realization of opportunities.
<i>shared services model</i>	The approach used to share operational functions between multiple utilities in order to achieve economies of scope.
<i>smart meter technologies</i>	A means to electronically track how much electricity a home or small business uses and when it is used. (www.energy.gov.on.ca).
<i>Smart Grid</i>	A class of technology used to bring utility electricity delivery systems into the 21st century, using computer-based remote control and automation. These systems are made possible by two-way communication technology and computer processing that has been used for decades in other industries. They are beginning to be used on electricity networks, from the power plants and wind farms all the way to the consumers of electricity in homes and businesses (http://energy.gov/).

time-of-use pricing

A rate structure that reflects the costs associated with electricity production throughout the day. Prices rise and fall over the course of the day and tend to drop overnight and on weekends, depending on demand and the availability of supply (www.energy.gov.on.ca).

value proposition

A business or marketing statement that summarizes why a consumer should buy a product or use a service. This statement should convince a potential consumer that one particular product or service will add more value or better solve a problem than other similar offerings (www.investopedia.com).



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File Number:EB-2015-0083

Exhibit: 1
Tab: 2
Schedule: 1

Date Filed: June 1, 2015

Attachment 2 of 2

Utilities Kingston Strategic Plan 2013-2023



Strategic Plan 2013-2023

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Introduction

Utilities Kingston is unique in Ontario, providing combined water, wastewater, gas, electrical and broadband fibre optic services, under the leadership of a single CEO.

A fundamental strategy of the organization is to leverage *economies of scope* through utility convergence and to enable the efficient coordination of joint construction projects, leading to timely and cost-effective completion, with less disruption to customers.

This 10-year strategic plan provides a framework to protect Utilities Kingston's competitive advantage, manage risks and make more informed operating decisions for the corporation. In its development, care was taken to align the plans of the company's two main customers, the City of Kingston and the Kingston Hydro Corporation.

While maintaining its commitment to providing sustainable, safe, affordable and reliable utility services, the company will identify opportunities to increase profitability and return on investment to its shareholder, the City of Kingston.

The plan will assist in answering the following question:

How can Utilities Kingston best meet customer expectations in delivering sustainable, safe, affordable and reliable utility services over the next 10 years?

Background

Utilities Kingston business, and hence this 10-year strategic plan, are influenced by various social, legal, economic, environmental, political and technological factors that include:

- **Changing provincial and federal legislation and regulation** that must be followed for public safety and environmental protection, and to maintain licenses to operate utility infrastructure.
- **Cost pressures** faced by utilities that are influenced by the need to provide for significant infrastructure investment, manage increasing regulatory requirements and adapt to downing trends in third-party funding.
- An increased focus on **delivering excellent customer service**, driven by both the shareholder and by customers.
- Upward trends in using **digital technology** to customize and personalize the delivery of excellent customer service.
- The **community vision** of becoming *Canada's Most Sustainable City*.
- **Review of the distribution sector** by the Ontario Distribution Sector Review Panel, which was established by the Ontario Minister of Energy in April of 2012.

Competitive Advantage

The organization strives to protect its competitive advantage. Its shared services delivery model provides Utilities Kingston with clear advantages in cost savings and customer service over other utility providers in the province.

To benefit the organization and its community, this plan considers the advantages the model provides.

Theme Areas and Key Strategic Goals

This plan describes proposed initiatives that help the organization meet its strategic goals under these theme areas:

Growth, Risk Management, Customer Focus, Infrastructure Investment and Community Sustainability, and Technology and Innovation

The 10-year strategic goals of Utilities Kingston:

Growth

1. Pursues all options to grow the businesses through the increase of customer base.
2. By the year 2020, increases the return to the shareholder, while balancing the need to upgrade infrastructure and satisfy rate payers.

Risk Management

3. Undertakes a formal process to identify, prioritize and mitigate the risks associated with the management of the business.

Customer Focus

4. Develops and implements a branding strategy that assists the customer in understanding the services provided by Utilities Kingston and the value of the shared services delivery model.
5. Engages its employees in providing an excellent customer experience.

Infrastructure Investment and Community Sustainability

6. Ensures the following key inputs to infrastructure management: understanding existing assets, understanding the demand future growth will have on assets and understanding the financial implications of the forgoing.
7. Identifies ways to support the community vision of becoming *Canada's Most Sustainable City*.
8. Incorporates plans for capital investment, operational needs, debt servicing and return to the shareholder into 10-year financial plans that satisfy and balance the needs of its customers and shareholder.

Technology and Innovation

9. Establishes an understanding of technology and innovation within the context of the business environment.
10. Develops uniform data storage architecture to move away from spreadsheets and disparate sources of data, as well as interfaces to the data that allow for analysis and supervision.
11. Capitalizes on the rise of smart phone and tablet adoption. Examples include devices for remotely accessing global information systems (GIS) data without a laptop, access to corporate network assets from the field and developing interactive mobile applications for customers.

Purpose of the Plan

This 10-year strategic plan provides a framework to protect Utilities Kingston's competitive advantage, manage risks and make more informed operating decisions for the corporation. In its development, care was taken to align the plans of the company's two main stakeholders, the City of Kingston and the Kingston Hydro Corporation.

The plan will assist in answering the following question:

How can Utilities Kingston best meet customer expectations in delivering sustainable, safe, affordable and reliable utility services over the next 10 years?

The plan will provide guidance to staff with respect to future orientation of the company as it progresses in its development as a business corporation. While maintaining its commitment to providing sustainable, safe, affordable and reliable utility services, the company will identify opportunities to increase profitability and return on investment to its shareholder, the City of Kingston.

In the planning process, the organization has evaluated the current situation, considered future challenges and opportunities, and identified organizational strategies. The plan provides a means to align the development of annual work plans with the achievement of long-term objectives. It will assist in communicating with employees, directors and the shareholder regarding the future direction of the company, as well as progress on plan implementation.

History

Overview

Utilities Kingston has provided the residents of Kingston with safe and reliable utility services for more than 100 years. Over the years, the company name and corporate structure have changed, but one thing has remained constant: it is the City-owned utility company accountable to the City of Kingston, City Council and the residents of the local community.

Prior to municipal restructuring on January 1, 1998, the utility services were provided by several different groups:

- Water and wastewater by the former townships
- Wastewater services by the former City government
- Water, natural gas and electricity services in the former City by the Public Utilities Commission (PUC)

As a result of municipal restructuring, all of these services were brought together under one organization, now known as Utilities Kingston.

Connecting Information Technology Users

During the same period, Utilities Kingston began building a fibre optic network in order to link information technology users in Kingston with others from around the world, thereby creating a landscape that positions Kingston to prosper in the **broadband economy**. Through this local broadband network, individuals, small businesses, institutions and local government gain access to worldwide information resources and a broad range of tools to connect both globally and locally.

Today, the local network spans over 1,000 route kilometres of fibre optic cable. Additional coverage is provided through a licensed fixed wireless system with services in Napanee and Brockville, and a dedicated fibre link to Ottawa. Together these network elements provide coverage connecting hundreds of institutional and commercial buildings throughout Frontenac County, County of Lennox & Addington, and the 1000 Islands. From Kingston, users interconnect to third-party broadband providers across Ontario and every national service provider in Canada.

This local network was instrumental to Kingston being chosen as one of the world's 21 “smart communities” in 2012 by the Intelligent Community Forum and supports the community’s vision to become *Canada’s Most Sustainable City*.

Changes to the Electricity Distribution Industry

The introduction of the *Energy Competition Act* in June of 1998 initiated significant changes to electric utilities in the Province of Ontario. One of these was the establishment of corporate structures for the ongoing management and operation of electricity distribution systems—a requirement that would create a level playing field between privately-owned utilities and those that were retained by their municipalities.

Legislation was prescriptive in the way these corporations were to be set up. In particular, municipalities could not continue to distribute electricity, except through a corporation. In addition, employees within a municipally-held electricity distribution corporation could not be significantly involved in any other activities except electricity distribution.

This created challenges for the municipal department that operated four utility systems. The City of Kingston, as owner, determined it would benefit the municipality to maintain the multi-utility structure.

The organization needed a structure that would meet the intent of the legislation, maintain the advantages realized through utility convergence or integration (one call, one crew and one bill) and support the municipality through sharing services such as finance, where beneficial to both parties.

An Innovative Solution

The proposed solution, which became the current structure (Figure 1), saw the incorporation of three Ontario Business Corporations. The first, Kingston Hydro Corporation, holds the assets of the former Hydro Electric Commission. The second, 1425447 Ontario Limited that was formed as a generating company, owns the third, 1425445 Ontario Limited (operating as Utilities Kingston). The latter is home to all the employees of the former municipal department and owns the assets of the fibre optic utility.

Through this structure, which is unique in Ontario, Utilities Kingston manages, operates and maintains the assets of the City’s water, wastewater, gas and electric utilities.

Utilities Kingston Today

Structure

Utilities Kingston is a for-profit business corporation, incorporated under the *Ontario Business Corporations Act*. The shareholder is the City of Kingston, represented by the Council of the City of Kingston.

To leverage *economies of scope*, Utilities Kingston manages the water, wastewater and gas assets of the City of Kingston, and the electric assets of Kingston Hydro.

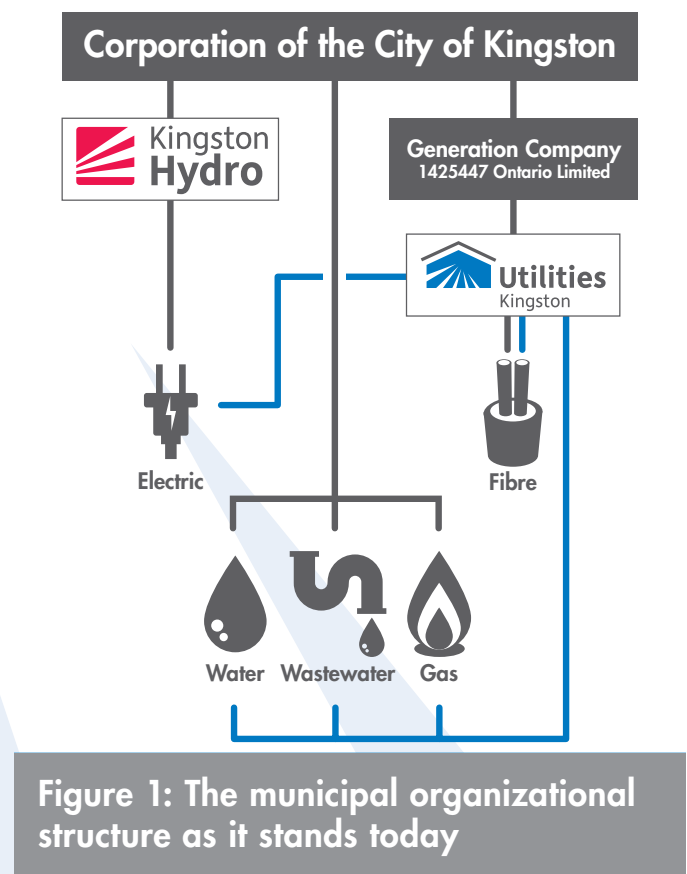


Figure 1: The municipal organizational structure as it stands today

Board of Directors

The *2013-2023 Utilities Kingston Strategic Plan* is approved by the Board of Directors. Board structure is determined by the terms of the shareholder declaration.



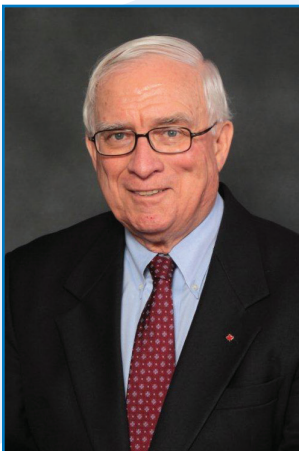
Gerard Hunt
Chief Administrative
Officer,
City of Kingston



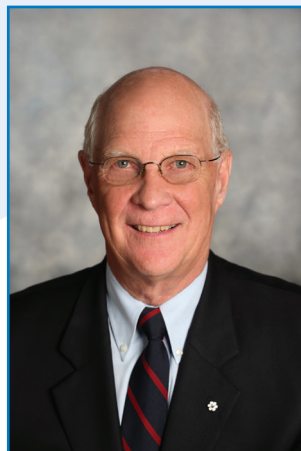
James A. Keech
President and Chief
Executive Officer,
Utilities Kingston



Nancy Taylor
Member of the Public,
Nominated by the
City of Kingston



Robert Little
Member of the Public,
Nominated by the
City of Kingston



William Leggett
Member of the Public,
Nominated by the
City of Kingston

Officers

James A. Keech
President and Chief Executive Officer,
Utilities Kingston

Nancy Taylor
Vice-President and Corporate Secretary,
Utilities Kingston

Randy Murphy
Chief Financial Officer and Treasurer,
Utilities Kingston

Mission, Vision and Values

The strategic direction of the company is guided by its mission, vision and values.

Mission:

Utilities Kingston is a community-based corporation, dedicated to the responsible management of safe, reliable, integrated services.

Vision:

To be recognized as a company committed to innovation, prosperity and service excellence, valued by its customers and reinvesting in its community's future.

Values:

Utilities Kingston employees are a team that is recognized for being honest, motivated, respectful and reliable.

Delivering Savings, Customer Satisfaction and Value

Utilities Kingston is unique in Ontario, providing combined water, wastewater, gas, electrical and broadband fibre optic services, under the leadership of a single CEO.

This structure enables the efficient coordination of joint construction projects, leading to timely and cost-effective completion, with less disruption to customers. The Utilities Kingston workforce maintains a large network of infrastructure for the City of Kingston.

A proud part of the local community—for example, as partner and supporter of the Sustainable Kingston Plan—Utilities Kingston is helping to achieve the community's vision of becoming *Canada's Most Sustainable City*.

The company provides the following services:

- An assured clean drinking water supply to 36,000 customers in the City of Kingston.
- Collection and treatment of wastewater.
- Safe and reliable gas services to nearly 14,000 customers in Central Kingston.
- Asset management, billing and operational services to Kingston Hydro, which in turn provides electricity distribution services to 27,000 customers in Central and East Kingston.
- Reliable maintenance of over 8,000 streetlights and traffic signals at 200 intersections.
- Specialized fibre optic broadband networking services. A major benefit is the cost-effective and highly-reliable monitoring of the City's utility infrastructure.

Local Control and Public Accountability

The local utility structure provides the City of Kingston with a unique advantage over other municipalities. Throughout the city, the municipality owns the water and wastewater assets. In the core area of the city, the municipality owns gas assets and, through Kingston Hydro, the electric assets.

Public accountability ensures residents that vital services like water, wastewater and electricity are provided while meeting the highest safety standards. Furthermore, the company must be accessible to all its stakeholders.

The residents of Kingston benefit from an accessible, socially-conscious utility that is committed to providing its services in the most cost effective, efficient manner possible. Through the strategy of utility convergence, employees are cross-trained in many disciplines, allowing the company to effectively share human resources and equipment. Utilities Kingston recognizes that by focusing on the customer, policies and processes are streamlined to make the company an efficient utility provider.

Funding Model

Each utility—water, wastewater, natural gas, electricity and fibre—is completely funded by user fees, and through this funding model promotes utility conservation.

Steps are taken to prevent cross-subsidization between the utilities. Utilities Kingston's profits are reinvested locally in Kingston.

Putting Sustainability to Work

Utilities Kingston is a partner and supporter of the Sustainable Kingston plan (<http://www.sustainablekingston.ca/>), helping to achieve the community's vision of becoming **Canada's Most Sustainable City**. Employees deliver initiatives that help build active citizenship, encourage the community to use less electricity and less treated water, provide clean and safe potable water that exceeds Ministry of the Environment standards, and much more.

The company takes pride in attracting and retaining skilled talent and providing fulfilling jobs with safe working conditions.

Competitive Advantage

Utilities Kingston is unique in the province of Ontario, and possibly in North America, in its model of service delivery. In the core area of the City of Kingston, it provides citizens with up to five of their basic utility services, all from one service provider.

During the municipal restructuring in 1998, and again during the incorporation of Utilities Kingston in 2000, a number of key principles were adopted:

- Best return/lowest cost to the shareholder
- Lowest possible rates to customers
- Best customer service delivery
- Shared services where possible
- Maximized coordination for development and infrastructure renewal
- Rate-based services and full-cost accounting
- No cross-subsidization between services

These principles resulted in the shared services delivery model that continues to exist today. This model gives Utilities Kingston clear competitive advantages—in cost savings and customer service—over other utility providers in the province.

Cost Savings Advantages

Cost savings are derived from achieving efficiencies through the scope of services provided. An example is the direct cost savings to print and mail one bill for all services received by the customer. In most municipalities, customers receive multiple bills.

Utilities Kingston was asked to present to the Ontario Distribution Sector Panel twice during the summer of 2012 on the advantages of its model. Table 1 was part of this presentation and demonstrates the savings to Kingston Hydro, passed directly to its customers, through the use of the *shared services model*.

Of the various customer bill components, only the monthly distribution revenue is retained by Kingston Hydro. This component, when based on a monthly 800 kWh consumption, costs the customer \$23.90.

The \$24.15 in savings demonstrated in the table thus equals over one month of savings to the customer per year.

Table 1: Demonstrated savings to Kingston Hydro ratepayers through the use of the shared services model

Area	Cost to Kingston Hydro Shared	Cost to Kingston Hydro Stand-Alone	Total Savings to Kingston Hydro	Savings to Ratepayer/Year
Postage for Billing	\$45,450	\$197,640	\$152,190	\$5.60
Printing Bills	\$18,630	\$81,000	\$62,370	\$2.30
Billing Staff	\$200,000	\$400,000	\$200,000	\$7.40
Locates	\$64,000	\$160,000	\$96,000	\$3.55
Warehouse Operations	\$63,000	\$207,000	\$144,000	\$5.30
Total				\$24.15

Customer Service Advantages

A clear benefit to Utilities Kingston customers is one contact to receive multiple related services. Examples include:

- One call to arrange for service changes when the customer moves (for example, service disconnections, final meter reads and bills, and service reconnection at the new address).
- One call and one appointment for underground locates when the customer is excavating on their property for fencing, pool installations and so on.

Customer service advantages of this model also include:

- One contact for a number of new construction services, which assists the community in economic development.
- Efficient coordination of joint construction projects, leading to timely and cost-effective completion, with less disruption to customers.

Following the presentations to the panel noted above, and in discussions with other municipalities and stakeholders, it is becoming increasingly clear that a number of other communities see the advantages and desire a similar model of service delivery.

To benefit the organization and its community, this plan considers the advantages the model provides.

Current Industry Trends and Developments

Distribution Sector Review

In April 2012, the Ontario Minister of Energy established the Ontario Distribution Sector Review Panel to provide 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.

In the Distribution Sector Panel Report, released December 13, 2012, the Panel expresses its belief that a system of large regional distributors will deliver increased efficiency and economies of scale, and create a potential for innovation and customer focus that is currently lacking.

Stakeholders in the electricity distribution industry have identified a number of issues with the report, as demonstrated in the example of Exhibit 1. Should the presently prorogued provincial government eventually accept these recommendations, outcomes will impact the corporate strategies of Utilities Kingston and Kingston Hydro.

Exhibit 1: Electricity Distributors Association - Response to Report of the Ontario Distribution Sector

The Electricity Distributors Association (EDA) identified nearly \$4.3 billion of present value savings over the next decade that the Panel chose to ignore in its report, missing the opportunity to reduce electricity costs for customers across Ontario.

The Panel's Report suggests that its plan will deliver savings to customers of \$70 per year within 10 years however the report lacks in-depth analysis and detail for us to confirm how they arrived at that number. The EDA's plan projects a \$165 per year savings within a decade based on a comprehensive analysis and detailed understanding of the data.

We're confident that the government won't want to leave value on the table and we'll work with them through our Association to deliver more savings for our customers and our community.

The Panel's report doesn't say how to remove many of the barriers to voluntary mergers, so it calls into question how their plan will work. This is a significant gap, especially considering the Panel's aggressive timeline for these transactions to happen.

The recommendation of forced mergers down the road could mean negative consequences in terms of cost and reliability for customers, and reduce value for shareholders and our community. This recommendation is irresponsible and we will fight to protect our customers and communities.

Many distributors add more value to the communities they serve by delivering other services such as water and wastewater, conservation and streetlighting. Expanding a utility's scope as well as its size could lead to \$1.5 billion in present value savings across the province over 10 years. The Panel not only chose to ignore this efficiency opportunity, they've recommended against allowing multi-utility models even where they're delivering value today.

Public Policy and the Regulatory Regime

Many of the business areas managed by Utilities Kingston are impacted by changing provincial and federal regulation.

Regulation impacts areas such as operation, health and safety, the environment, and quality management. Adherence is mandatory in order to maintain the water and wastewater operating licenses as well as the electricity distribution license.

Examples of regulatory requirements currently being addressed include the Drinking Water Quality Management Standard and the Gas Distribution System Integrity Management Program.

Safe Drinking Water Act

On January 1, 2013, the statutory standard of care included in the *Safe Drinking Water Act* (2002) extends to City Council. This bestows oversight responsibilities to the Council of the City of Kingston. Sharing information in an open and proactive fashion will continue to be important to the organization.

Electricity Distribution Code

As described in the document Kingston Hydro Strategic Plan 2012-2017, Utilities Kingston employees ensure that the electric business conforms to all code and regulatory requirements necessary to maintain the electricity distribution license.

Asset Management Planning

Increasingly, upper levels of government—that have historically provided funding for large infrastructure investments—are putting emphasis on municipalities to implement sound asset management plans with long-term financial plans, along with full-cost accounting. This is demonstrated by the introduction of legislation such as the *Sustainable Water and Sewage Systems Act* (2002).

More recently, the province of Ontario announced the Municipal Infrastructure Investment Initiative (MIII). Through the MIII, the province is investing \$98 million in funding over three years to help municipalities identify and prioritize their infrastructure needs and fund critical projects.

Exhibit 2 includes an excerpt from the provincial government regarding asset management planning requirements.

Exhibit 2: Municipal Infrastructure Investment Initiative – Asset Management Planning Requirements

Municipalities seeking provincial capital funding will now be required to submit a detailed asset management plan. Asset management funding is helping communities that are in need of support achieve a best practice in asset management. Best practices in asset management will allow municipalities and Local Services Boards (LSBs) to identify and prioritize the long-term needs of their infrastructure.

Further information is available at:
http://www.moi.gov.on.ca/en/infrastructure/building_together_mis/management.asp

Social Factors

A Connected Society

Society today is engaged and connected. Utilities Kingston employees demonstrate a greater public awareness, with increasing focus on customer service. They work directly with customers to inform them about their services and to reduce the impact of service disruptions, supporting the City of Kingston focus on delivering excellent customer service.

Demographics

Certain demographics of Kingston's population may be more heavily impacted by utility rates. (Municipal Property Assessment Corporation, 2008):

- An increasing number of individuals retiring to the City
- A significant student population
- A high proportion of low income families

Immigration Strategy

Utilities Kingston supports the City of Kingston growth strategies, including their Immigration Strategy. In future, a more diverse community will impact customer service and provide growth opportunities for utility businesses.

Economic Factors

Cost Pressures

The five utilities are operated on the principles of user pay and full-cost allocation.

Cost pressures faced by utilities are influenced by the need to provide for significant infrastructure investment, manage increasing regulatory requirements and adapt to downing trends in third-party funding. Thus, rates are undergoing noticeable increases.

Customers are well aware of rising rates and are seeking to understand the service they receive for the rates they pay.

These pressures are accentuated by the demographics of Kingston's population that may be more heavily impacted by utility rates (*Demographics*).

Rate Setting

While electricity rates are regulated by the Ontario Energy Board, rate setting for the water, wastewater and natural gas utilities is a municipal responsibility. It is possible that, over the next decade, rate setting for water and wastewater utilities may become regulated under provincial legislation.

Capital Investment

A key concern for Utilities Kingston is capital investment for replacing aging infrastructure and for investing in new infrastructure to accommodate growth. The challenge, which spans all business areas, is in finding the right balance between capital investment and the increasing pressure to limit rate increases, while managing reduced funding from other levels of government.

Environmental Factors

Environmental Impact

Providing utility services impacts the environment. Utilities Kingston takes its role as steward of the environment very seriously. Reducing the environmental impact of delivering utility services is considered in project and program planning.

Sustainable Community

Of the four pillars of the Sustainable Kingston plan (cultural vitality, economic health, environmental responsibility and social equity), environmental themes are of particular relevance to the business. These include community goals to:

- Reduce energy use and treated water consumption.
- Minimize discharge of untreated sanitary sewage to natural water bodies.
- Encourage the use of municipal water as a healthy and affordable beverage choice.

Also highly relevant is the infrastructure theme area which cites a goal to:

- Invest strategically in municipal infrastructure and services to ensure that it meets the goals of all pillars in a balanced manner.

It points to indicators that include:

- Number of wastewater main backups per 100 km of wastewater main in a year.
- Number of water main breaks per 100 km of water pipeline per year.

Future capital planning considers more frequent occurrences of 'extreme weather' (Exhibit 3).

Regulation and Legislation

The organization must act in accordance with environmental and regulatory changes.

For example, Utilities Kingston complies with the Wastewater Systems Effluent Regulations, which are established under the *Fisheries Act* and include mandatory minimum effluent quality standards that can be achieved through secondary wastewater treatment.

Another example is *Ontario's Clean Water Act* (2006), which addresses source water protection and will impact how Utilities Kingston takes water from Lake Ontario.

Exhibit 3: Trends in extreme weather

Robert Tremblay, director of research for the Insurance Bureau of Canada, says "The fastest growing pressure on our infrastructure is a coming of flash rains, wind and ice storms."

Growth

Utilities Kingston was established as an asset management company to operate, manage and maintain the assets of the City of Kingston and Kingston Hydro.

The shareholder is under increasing pressure to find additional sources of financing for ongoing capital investment and looks to Utilities Kingston to assist with this challenge. To continue to be recognized as a valued organization, Utilities Kingston, as a for-profit business corporation, pursues opportunities to increase its return to the shareholder.

Utilities Kingston endeavours to grow shareholder value by both increasing its existing customer base and through pursuing non-traditional means of revenue generation (i.e., by leveraging the resources and capabilities that the organization has developed).

Key Strategic Goal

Utilities Kingston pursues all options to grow the businesses through the increase of customer base.

Initiatives

- Increase customer base, with a particular focus on gas and electricity customers: understand and plan for investment in the areas that the City of Kingston has targeted for re-development and intensification.
FY 2013 - 2023

Key Strategic Goal

By the year 2020, Utilities Kingston increases the return to the shareholder, while balancing the need to upgrade infrastructure and satisfy rate payers.

Initiatives

- a. In order to ensure that competitive businesses are optimized for profitability, conduct a review to understand how service delivery differs from monopoly businesses.
FY 2015
- b. Undertake a re-orientation of all employees to promote an understanding of the 'for profit' businesses. Help develop employees to both promote the existing competitive businesses and to identify new competitive opportunities.
FY 2013
- c. Investigate opportunities to leverage organizational resources and capabilities to market these services on a for-profit basis to other organizations.
FY 2014 - 2023
- d. Investigate opportunities to pursue fuel switching from electricity to gas. Benefits of gas fuels include cost-effectiveness for end-consumers and increased revenue generation for the organization.
FY 2013
- e. Optimize investment in the fibre optic network.
FY 2013 - 2023

Risk Management

Many Utilities Kingston business areas operate as regulated entities and must be managed in compliance with legislation and codes.

Examples that regulate areas of operational risk include:

- Inspections set by the minimum conditions of the Distribution System Code.
- Safety Compliance Audits required by the Electrical Safety Authority.
- Regulations of the Technical Standards and Safety Authority (TSSA).
- Obligations defined by Certificates of Approval issued by the Ministry of the Environment.

The regulatory regime with respect to the rate making process manages many aspects of financial risk.

In addition to the **risk management** activities imposed by the regulatory regime, Utilities Kingston plans to undertake a comprehensive risk management program (in the next two to four years).

Key Strategic Goal

Utilities Kingston undertakes a formal process to identify, prioritize and mitigate the risks associated with the management of the business.

- a. Identify risk areas for Utilities Kingston business.
FY 2014
- b. Prioritize and assess risks for all areas of Utilities Kingston business. Include a risk matrix that balances the likelihood and impact of each risk.
FY 2015-2016
- c. Complete a corporate risk profile for approval by the Board of Directors.
FY 2017
- d. Assess the capabilities to manage and mitigate risks in accordance with the approved corporate risk profile.
FY 2018
- e. Implement strategies to reduce gaps and increase capabilities required to manage and mitigate risks.
FY 2019-2023

Customer Focus

The City of Kingston has identified enhanced customer service as a priority in the area of enabling economic development through creating an 'open for business' culture.

Additionally, across all utilities, customers are noticing increasing rates and are seeking to understand the service they receive for the rates they pay.

Customers wishing to manage their consumption are looking to their utility provider for information and tools to support conservation efforts.

To better engage customers, Utilities Kingston will first assist customers and the community to understand both the company's brand and its relationship to the City of Kingston and Kingston Hydro.

Finally, with the advent of the 'always on, always connected' society, as well as the opportunities afforded by digital communication technology, Utilities Kingston will identify how to personalize and customize the customer service experience.

Key Strategic Goal

Utilities Kingston develops and implements a branding strategy that assists the customer in understanding the services provided by Utilities Kingston and the value of the shared services delivery model.

Initiatives

- a. Develop and implement a public education campaign that helps inform customers and conveys the Utilities Kingston brand. **FY 2013-2015**
- b. Increase initiatives that support the brand identity and foster employee engagement. **FY 2013-2023**

Key Strategic Goal

Utilities Kingston engages its employees in providing an excellent customer experience.

Initiatives

- a. For new services, use the advantage of the multi-utility model to improve customer service. Ensure that all service needs are considered early in the process. **FY 2013-2014**
- b. With each customer contact, employees advise on all the services Utilities Kingston provides to ensure all customer and utility needs are met. **FY 2014-2015**
- c. Respond to the recommendations of the Mayor's Task Force on Development. **FY 2013**
- d. Develop a plan that benefits from the opportunities afforded by digital communication technologies to personalize and customize the customer service experience. **FY 2015**
- e. Develop a plan to get feedback on customer service delivery. **FY 2016**

Infrastructure Investment and Community Sustainability

Infrastructure investment and community sustainability continue to be core focus areas of the Utilities Kingston mandate and activities.

Critical to its success in infrastructure management are strategic initiatives that:

- Place the organization in a leadership role in asset management.
- Provide for long-term infrastructure planning that is appropriately linked to all aspects of financial management, including rate revenue and non-rate revenues.
- Respond to new initiatives driven by intensification, extreme weather and urban growth expansion.

Key Strategic Goal

Utilities Kingston ensures the following key inputs to infrastructure management: understanding existing assets, understanding the demand future growth will have on assets and understanding the financial implications of the forgoing.

Initiatives

- a. Complete Asset Management Plans for the electric, gas, water, wastewater and fibre utilities.
FY 2013-2017
- b. Complete future-oriented master plans for electrical assets and update the Sewer and Water Master Plans.
FY 2013-2015
- c. Develop and implement an investment decision-making framework that is linked to asset management plans and master plans. Continue to access grant funding opportunities for all infrastructure work in order to leverage infrastructure dollars to the greatest extent possible.
FY 2013-2017

- d. Monitor demands on infrastructure, new policy initiatives and major development activity for impacts on existing or proposed infrastructure investments. Establish a formal annual monitoring program involving key facilities and linear assets for each utility system that includes an annual reporting function.
FY 2014-2023

Key Strategic Goal

Utilities Kingston identifies ways to support the community vision of becoming Canada's Most Sustainable City.

- a. Identify and report on the current activities that support the community Sustainable Kingston plan.
FY 2014
- b. Investigate new activities to support the community Sustainable Kingston plan.
FY 2016-2023
- c. Review critical infrastructure assets that may be vulnerable to extreme weather events. Establish contingency plans or actions to increase the resiliency of those assets under extreme weather conditions.
FY 2018-2023

Key Strategic Goal

Utilities Kingston incorporates plans for capital investment, operational needs, debt servicing and return to the shareholder into 10-year financial plans that satisfy and balance the needs of its customers and shareholder.

- a. Ensure all financial planning decisions are made in the best interest of the company and shareholder.
FY 2013-2023
- b. Develop and implement a short-term and long-term dividend or return policy, approved by the Board of Directors and/or City Council.
FY 2013
- c. Examine whether there may be additional savings available through leveraging the economies of scope model. Investigate strategic partnerships that could create efficiencies in these areas.
FY 2013-2015
- d. Annually update 10-year financial plans for approval by the appropriate governing body.
FY 2013-2023

Technology and Innovation

Within the organization, innovation represents the application of technology or processes that are new to business areas, with the expectation of improved efficiencies.

Further, technology within the Utilities Kingston business environment can be classified in one of two ways.

Business technology is associated with business operations and includes mobile devices for staff, work management systems, customer information systems, geographic information systems and so on.

Operational technology is associated with managing utility assets and includes, for example, valve turning machines, water leak detection devices and stray voltage detection equipment.

Within this context, Utilities Kingston plans to undertake a systematic program to weave innovation and technology into the core of its business. This will include:

- Establishing a clear understanding of technology and innovation.
- Finding ways to use data that are not exploited.
- Establishing a process by which innovation can be evaluated against core business objectives in a timely manner, thereby enabling staff to innovate.

Key Strategic Goal

Utilities Kingston establishes an understanding of technology and innovation within the context of the business environment.

Initiatives

- a. Establish and communicate a plan to foster innovation, as described in the Utilities Kingston vision statement. **FY 2013**
- b. Establish a technology prioritization and implementation process. **FY 2014-2015**

Key Strategic Goal

Utilities Kingston develops uniform data storage architecture to move away from spreadsheets and disparate sources of data, as well as interfaces to the data that allow for analysis and supervision.

Initiatives

- a. Identify priorities for reporting key performance indicators (KPI) that assist in managing Utilities Kingston business. **FY 2014**
- b. Identify current data sources that support KPI reporting. **FY 2014**
- c. Develop a consolidated data storage strategy. **FY 2015**
- d. Develop analytic strategies to turn data into information. **FY 2016-2023**

Key Strategic Goal

Utilities Kingston capitalizes on the rise of smart phone and tablet adoption.

Examples include devices for remotely accessing global information systems (GIS) data without a laptop, access to corporate network assets from the field and developing interactive mobile applications for customers.

Initiatives

- a. Develop and implement a mobile device strategy. **FY 2013**
- b. Identify beneficial network assets for field staff. **FY 2014**
- c. Identify customer facing services that could be fulfilled through the use of mobile applications. **FY 2015**

broadband economy

The broadband economy is the product of the build-out of low-cost, high-speed communications and information technology on both the global and local levels. It began in the 1970s, when the carriers began linking the world's economic centers with fiber optic networks. These made possible collaboration and cooperation across time zones and cultures that opened markets, boosted productivity, created employment and improved living standard ([https:// www.intelligentcommunity.org](https://www.intelligentcommunity.org)).

economies of scope

An economic theory stating that the average total cost of production decreases as a result of increasing the number of different goods produced (www.investopedia.com).

risk management

The identification, assessment and prioritization of risks (defined in ISO 31000 as the effect of uncertainty on objectives, whether positive or negative). This is followed by coordinated and economical application of resources to minimize, monitor and control the probability and/or impact of unfortunate event; or to maximize the realization of opportunities.

shared services model

The approach used to share operational functions between multiple utilities in order to achieve economies of scope.



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Utilities Kingston - The Multi-Utility Shared Services Model

UTILITIES KINGSTON - THE MULTI-UTILITY SHARED SERVICES MODEL

Background

Kingston Hydro Corporation assets and services provisioning are managed through an arrangement with 1425445 Ontario Limited o/a Utilities Kingston – a company incorporated under the Ontario Business Corporations Act. Utilities Kingston is owned by 1425447 Ontario Limited, a holding company, which is wholly owned by the Corporation of the City of Kingston.

In addition to providing those asset management services to Kingston Hydro, Utilities Kingston also provides similar services to the City of Kingston for their natural gas, water, wastewater, streetlight, and traffic signal assets, and Utilities Kingston owns and manages a fibre optic network. All 223 employees that deliver the services noted are employed by Utilities Kingston.

The Utilities Kingston model is one based on multi-utility shared services that provides advantages to the ratepayers from its horizontal integration strategy. Although vertical integration can provide efficiencies from economies of scale, horizontal integration provides efficiencies from economies of scope and delivers other non-monetary value to the customers.

There are other utility companies that have some degree of horizontal integration, though in Ontario, and even North America, it tends to be rather limited. It is somewhat

1 more prevalent in some European countries where there is recognized value of
2 companies there providing electricity, gas, and water utilities. Indeed, as a study¹ on
3 behalf of the Switzerland State Secretariat for Economic Affairs noted *“the importance*
4 *of potential synergies through ‘horizontal’ integration has been recognized in the recent*
5 *European regulatory recommendations”*.

6
7 Utilities Kingston is unique in that it provides complete asset management (cradle to
8 grave) services for electricity, natural gas, water, wastewater, streetlights, traffic signals
9 and fibre optics. This differentiating aspect amongst utility providers in Ontario creates
10 a value proposition of which the customers of Kingston Hydro benefit.

11
12 It was this focus on customers that brought about the structure and relationships that
13 encompasses the Utilities Kingston model, and has served those customers so very
14 well. The principals involved in the 1998 municipal restructuring that merged the entities
15 of the City of Kingston, Kingston Township, Pittsburgh Township and Kingston’s Public
16 Utilities Commission understood and appreciated the concept of a single provider of
17 multi-utilities and sought to continue to enhance that concept for delivery of services.

18
19 The enduring desire which started during municipal restructuring and continues today is
20 for Utilities Kingston to provide all those multi-utility services to the City of Kingston.
21 Although portions of the City continue to have electricity and gas delivered by other
22 companies, it is clear that our customers see value in our model as staff are often
23 queried as to why Utilities Kingston is not providing electricity and natural gas services
24 across the entire City of Kingston. This sentiment was also evident during the customer
25 consultations that Kingston Hydro engaged in as part of this Rate Application.

26

¹ Cost Efficiency and Scope Economies in Multi-Output Utilities in Switzerland (Filippini & Farsi (2008))

1 Ratepayers are clearly desirous of this multi-utility model and there are various non-
2 monetary aspects of the Utilities Kingston model that lead it to be attractive to
3 customers.

4
5 *One Bill*

6
7 Residential customers like receiving a single bill that includes all of their utility services.
8 The launch in 2013 of Utilities Kingston's *MyUtilities* online portal furthered that benefit
9 and has been received very well. This system gives customers the ability to view their
10 historical water, wastewater, electricity and natural gas billing data and manage their
11 account through a free online service with a single login. Energy and water use is
12 plotted against weather and compared to neighborhood peers.

13
14 *Integrated Conservation Program*

15
16 Utilities Kingston delivers an award winning integrated conservation program across all
17 sectors and utilities. Large consumers, including multi-residential and the MUSH sector
18 (municipalities, universities, school boards, hospitals), appreciate that Utilities Kingston
19 staff consider all their utilities and take an integrated approach to providing value.

20
21 Utilities Kingston's team of on-staff Certified Energy Managers offer free, on-site
22 conservation walkthroughs providing follow-up reports including advice and
23 recommendations on measures that can be undertaken to save costs on energy
24 (electricity and gas), water, and wastewater. Staff look for other opportunities that can
25 be coordinated and aligned to provide further fiscal benefit to the customer including
26 accessing all potential provincial and local conservation incentive programs.

1 Since 2011, Utilities Kingston has provided on-site conservation help to over 800
2 customers in this consumer group.

3
4 Utilities Kingston offers a similar program for income-qualified customers. Over 440 low
5 income residences have received one-on-one, in-home energy and water conservation
6 assessments and free retrofits through our multi-utility Home Assistance Program. Over
7 ten thousand more residential customers have received customized energy use
8 analyses through our Energy Insights program, MyUtilities system, and one-on-one
9 phone or email consultations with Utilities Kingston conservation experts.

10
11 Utilities Kingston participates in over 40 community events each year to provide public
12 outreach and answer conservation questions for our customers. By sharing expertise
13 through public outreach Utilities Kingston delivers conservation incentive programs at
14 lower cost and with greater reach than Kingston Hydro could achieve on its own.
15 Customers appreciate the opportunity to identify and prioritize energy and water
16 conservation opportunities. The results speak for themselves. Kingston Hydro is on
17 track to meet both 2011-2014 energy and demand targets, spending less than 85% of
18 its IESO-allocated Program Administration Budget, while achieving program uptake and
19 cost effectiveness above provincial averages.

20 21 *One Call*

22
23 The advantage of the one call concept is universally accepted. The Ontario One-Call
24 system for locating underground infrastructure is but one example. Utilities Kingston is
25 able to extend the one call concept across all of the utilities.

26
27 All customer service staff are trained and adept at handling inquiries involving any of the
28 utilities services. One phone call to our customer service representatives and

1 customers are provided answers on a multitude of requests and are able to arrange for
2 move-outs, move-ins, meter reads, etc.

3
4 For installation, upgrade or removal of utility services, customers place one call to
5 Utilities Kingston to converse with a Services Advisor that will take care of all their utility
6 needs. Staff are then able to coordinate the field work across all utilities to minimize
7 inconvenience to the customer (e.g. on-site meetings, connections).

8
9 *Emergency Response*

10
11 Emergencies can affect multiple utilities and certainly ratepayers appreciate that they
12 have a single point of contact in dealing with any of their services that may be affected.
13 More than that however, is that Utilities Kingston staff ensure that restoration of their
14 utility services consider all of the customer's utilities and circumstances.

15
16 No better example of this is there than the major fire that destroyed a partially
17 constructed apartment complex in downtown Kingston in December 2013. During this
18 event, Utilities Kingston mobilized crews to isolate gas and electricity in the area as well
19 as to boost water flows into the area to assist firefighting efforts. Electricity, gas, and
20 water services were shut off in this area for five days and for affected residents and
21 businesses, Utilities Kingston was able to provide specific information and
22 recommendations based on the customers own particular situations. These customers
23 had a single point of contact for all of their utility concerns, and reinstatement of their
24 utility services was able to be accomplished through our multi-utility model in a
25 coordinated safe manner that minimized damage (e.g. from frozen water pipes), and
26 required only one visit by a qualified technician.

Economic Benefits

The shared services model that Utilities Kingston employs yields savings that are not insignificant. This uniting framework based on the horizontal integration across the multiple utility businesses, allows the company to better capitalize on its intellectual and physical assets than could be realized if the utilities were served by separate entities. It is on this basis that the company sought to champion the model when in 2012 Kingston Hydro was asked to present to the Ontario Distribution Sector Panel. Further efforts were undertaken to better quantify the savings beyond that presented in 2012, including having the calculations and assumptions reviewed by an independent financial auditor.

The report from the auditor is included at Exhibit 1 Tab 2 Schedule 2 Attachment 1. Note that the information is based on 2013 and 2014 data.

Calculated savings from our multi-utility model are summarized on the next page, with the report from the auditor (Exhibit 1 Tab 2 Schedule 2 Attachment 1) providing further details.

The savings listed are not exhaustive but rather indicative of how efficiencies are achieved with this strategy and that the value of those efficiencies is quite material. With a proposed Kingston Hydro operational budget of just over \$6.7 million, the \$1,653,550 (\$1,670,871 adjusted 2015 dollars) in savings attributed to Kingston Hydro would represent a 25% increase in operational, maintenance and administrative costs alone to the local distribution company. This is a cost savings of over \$60 per Kingston Hydro customer per year.

Resource Efficiency Title	Total Savings	OM&A Savings	Capital Savings
Communications	\$16,601	\$16,601	
Customer Service: Cost of Specialized Equipment	\$60,051	\$60,051	
Executive Team	\$392,698	\$392,698	
Finance	\$479,499	\$479,499	
Fleet Savings: Dump Trucks & Backhoes	\$1,753		\$1,753
Fleet Savings: Mechanical Repair Garage	\$78,019	\$78,019	
Fleet Savings: RBD Truck	\$3,456		\$3,456
Fleet Savings: Spare Aerial (Bucket) Truck	\$18,112		\$18,112
Fleet Savings: Use of Loader Crane Truck	\$33,629		\$33,629
Human Resources- Staff	\$92,341	\$92,341	
In Office Engineering Expertise	\$6,986		\$6,986
Information Technology Costs	\$58,869	\$58,869	
Staff: SCADA Resources	\$119,110	\$119,110	
Service Advisors & Clerk	\$50,592	\$50,592	
Shared Warehouse and Storage Yard	\$72,197	\$72,197	
Single Management Representation on Projects	\$2,500		\$2,500
Single Notice of Project on Multi-Utility Builds	\$100,000		\$100,000
Staff: Health & Safety	\$53,157	\$53,157	
Staff: Meter Shop Resources	\$180,416	\$180,416	
Total	\$1,819,986	\$1,653,550	\$166,436

Table 1: Annual Estimated Savings

Though the focus here is on Kingston Hydro, it is important to note that similar savings occur for the other utilities and services that Utilities Kingston provides to customers – and most of those customers are the same Kingston Hydro customer. The principle that there not be any cross-subsidization between the utilities that Utilities Kingston manage is important and financial structures and systems are in place to ensure that.

Summary

The multi-utility model that is Utilities Kingston and for which Kingston Hydro benefits from, aligns itself ideally to satisfy the objectives set out by the performance outcomes established by the Ontario Energy Board. The model is wholly focused on the provisioning of utility services to the end customer in a manner that which they prefer them. This is accomplished along with providing a high degree of operational



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Exhibit: 1
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Date Filed: June 1, 2015

1 effectiveness and efficiency. Our customers can expect that Utilities Kingston will
2 continue to achieve higher degrees of productivity in the future. The company is
3 committed to delivering on excellent cost performance and to meeting objectives such
4 as improving system reliability for Kingston Hydro.

Attachment 1 of 1

Utilities Kingston - Collins Barrow Report on Specified Auditing Procedures

Utilities Kingston

**Specified Auditing Procedures
Utilities Kingston Organizational
Considerations
For Analyses Prepared in 2014**

Utilities Kingston
Specified Auditing Procedures - Utilities Kingston Organizational
Considerations
For Analyses Prepared in 2014

Contents

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Report on Specified Auditing Procedures Performed on Utilities Kingston Reorganization Considerations

To the Management of Utilities Kingston

As specifically agreed, we have performed the following procedures in connection with the Utilities Kingston's cost/benefit analysis related to specific internal organizational considerations as prepared by Management as of November 2014.

- Compared supporting documentation to cost/benefit analysis.
- Assessed the reasonability of assumptions used in each cost/benefit analysis.
- Tested that assumptions were accurately applied in each analysis.
- Tested the mathematical accuracy of each cost/benefit analysis.

As a result of the above procedures, we found no exceptions. However, these procedures do not constitute an audit of the company's financial statements or the assumption figures and, therefore, we express no opinion on the on operating costs relied upon in the cost/benefit calculations.

This report is for use solely in communications between Utilities Kingston management and governing committees.

Collins Barrow SEO LLP

Chartered Professional Accountants
Licensed Public Accountants

Kingston, Ontario
April 17, 2015



Multi-Utility Model Benefits

Title: 3 – Single Management Representation on Projects

Financial Benefits Summary

Item/Description	Labour				Total
Cost to Kingston Hydro	\$ 1,100	\$ -	\$ -	\$ -	\$ 1,100
Cost to Kingston Hydro if separate	\$ 3,600	\$ -	\$ -	\$ -	\$ 3,600
Savings to Kingston Hydro	\$ 2,500	\$ -	\$ -	\$ -	\$ 2,500

Financial Details (Provide calculations and assumptions used)

- See "3 – Single Management Representation on Projects.xlsx"
- Utilities Kingston Model
 - Assume Director sent to represent all utilities
 - Assume director cost is \$68.75/hr (Includes benefits)
 - Assume 4 meetings per project
 - Assume 1.5 hours per meeting
 - Assume 0.5 hour travel time per meeting
 - Assume total time per meeting is 2 hours
 - Assume total time per project is 8 hours
 - Total cost per project is \$550
 - Assume 8 Projects per year
 - Total Cost per year \$4,400
 - Kingston Hydro Corporation Share is \$1,100/year
 - Water/Waste Water/Gas share is \$3,300/year
- If Separate Model
 - Assume manager sent from each utility (Electric, Water, Waste Water, Gas)
 - Assume manager cost is \$56.25/hr
 - Assume 4 meetings per project
 - Assume 1.5 hours per meeting
 - Assume 0.5 hour travel time per meeting
 - Assume total time for each representative per meeting is 2 hours
 - Total time per project is 32 hours
 - Total Cost per project is \$1,800
 - Assume 8 projects per year
 - Total cost per year \$14,400
 - Each Utility Cost \$3,600

Customer Benefits Summary

- Lower cost per project results in more money available for infrastructure renewal for all of the utilities.
- One representative also ensures the utility portion of the project is managed as a cohesive whole, instead of separate companies looking out for themselves.
- The project owner has a single point of contact for all utilities on the project, this makes it easier to manage that aspect of the project.

Full Description

Kingston is an active municipality for construction activities. There is a real push on revitalizing the urban landscape in Kingston, which involves major construction projects. Road reconstructions, major building developments, and movie shots are some examples of the kind of work happening in Kingston.

The Utilities Kingston model allows for a single representative on these projects, typically at the director level of the organization. The single Utilities Kingston representative is able to be responsible for the utilities managed. This results in less labour hours on projects as there is one representative for electric, gas, water, waste water, instead of one for each utility.

There is also a benefit in having a senior leader representative. This allows for decisions to be made and concepts to be developed much closer to real time, rather than having to develop ideas and obtain senior leader approval after the fact.



Multi-Utility Model Benefits

Title: 5 – Single Notice of Project on Multi-Utility Builds

Financial Benefits Summary

Item/Description	Project Cost				Total
Cost to Kingston Hydro	\$ 900,000	\$ -	\$ -	\$ -	\$ 900,000
Cost to Kingston Hydro if separate	\$ 1,000,000	\$ -	\$ -	\$ -	\$ 1,000,000
Savings to Kingston Hydro	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000

Financial Details (Provide calculations and assumptions used)

- See "5 – Single Notice of Project on Multi-Utility Builds.xlsx"
- "Notice of Project" is a process used by the Ministry of Labour to establish construction site responsibility for the health and safety of workers. With separate companies there are limits to how close they can work before the main contractor must assume responsibility for other workers. Outside of the Utilities Kingston model this doesn't happen so there is extra time to maintain separation between contractors.
- Utilities Kingston Model;
 - Assume Single Notice of Project results in 20% savings in time per project.
 - Assume \$2,000,000 construction project total value (Infrastructure renewal preceding a city block road reconstruction)
 - Assume 50% of the total value is attributed to labour
 - Assume 20% savings on labour component yields a total project value of \$1,800,000
 - Assume 2 Projects per year
 - Assume KHC Share is 25% of total, \$900,000 total per year
 - Assume Water/Waste Water/Gas share is 75% of total, \$2,700,000 total per year.
- If Separate Model;
 - Assume \$2,000,000 construction project total value (Infrastructure renewal preceding a city block road reconstruction)
 - Assume 2 Projects per year
 - Assume Electric, Water, Waste Water, and Gas each pay for 25% of total
 - Assume Electric Cost is \$1,000,000 per year
 - Assume Water/Waste Water/Gas cost is \$3,000,000

Customer Benefits Summary

- Lower overall cost to Utilities Kingston results in more dollars available for infrastructure renewal.
- More efficient projects are better for the community as the disruption of a major construction project can be completed in a reduced time frame with the Utilities Kingston model.

Full Description

Construction in Ontario must adhere to Ontario Ministry of Labour regulations. The notice of project process establishes responsibility for the health and safety of workers on a construction site. This is typically handled by the main contractor having any worker coming on site pass through a health and safety training session. Further, to ensure safety there is a space and time separation that is kept between contracting forces.



Multi-Utility Model Benefits

Title: 10 – In Office Engineering Expertise

Financial Benefits Summary

Item/Description	Labour				Total
Cost to Kingston Hydro	\$ 4,789	\$ -	\$ -	\$ -	\$ 4,789
Cost to Kingston Hydro if separate	\$ 11,775	\$ -	\$ -	\$ -	\$ 11,775
Savings to Kingston Hydro	\$ 6,986	\$ -	\$ -	\$ -	\$ 6,986

Financial Details (Provide calculations and assumptions used)

See "10 – In office Engineering Expertise.xlsx"

- Assume Electric engineer asking Civil Engineer for advice on concrete slab design, engineering technologist prepares drawing.
- Assume Engineer rate is \$50/hr, benefits are 47%, loaded rate is \$72.50
- Technologist rate is \$35.09/hr, benefits are 47%, loaded rate is \$50.88
- Assume Consultant Engineer is \$100/hr
- Assume Consultant draftsman is \$60/hr
- Utilities Kingston Model;
 - Assume electrical Engineer spends 1 hour reviewing with civil Engineer
 - Assume civil Engineer spends 2 hours reviewing with electrical engineer and preparing design
 - Assume engineering technologist spends 2 hours preparing a drawing
- If Separate Model;
 - Assume electrical Engineer spends 2 hours preparing package for consultant, and reviewing results.
 - Assume consultant Engineer spends 4 hours processing request and completing design
 - Assume consultant draftsman spends 2 hours to prepare a drawing
- Assume this happens on average 15 times per year for Kingston Hydro. (Similar for each of the other utilities as well.



Multi-Utility Model Benefits

Title: 11 – Fleet Savings: Spare Aerial (Bucket) Truck

Financial Benefits Summary

Item/Description	Hours Rented	Rental of Aerial Truck Actuals 2013	Total
Cost (Revenue) to Kingston Hydro	1,132	\$ (18,112)	\$ (18,112)
Cost to Kingston Hydro if separate		\$ -	\$ -
Savings to Kingston Hydro		\$ 18,112	\$ 18,112

Financial Details (Provide calculations and assumptions used)

Streetlights & Traffic Signals department has a large bucket truck (streetlight use) and a small bucket truck (traffic signals use). As in any fleet, trucks can be out of commission due to breakdowns, repairs and routine maintenance. When this occurs, reserve or spare units are pulled in for use or a truck is leased. Streetlights & Traffic Signals do not have any spare or reserve units, but are able to rent the Hydro group's spare aerial bucket truck (#38) at a cost of \$16/hr. Cost to rent/lease a bucket truck is \$3,700/mo (\$44,400/yr), (quote obtained by G. Wimmer). Cost to purchase an aerial truck of this type would be approximately \$300,000 (single bucket truck purchase by Kingston Hydro in 2011 was \$292,000). For the year 2013, a total of 180.5 operating hours was used at a cost of \$2,888. The vehicle was also used for capital work (primarily for the LED streetlight upgrade project which started April 15, 2013) at a cost of \$14,744. From April 15, 2013 – May 12, 2014 the LED project was charged \$21,272 or annually \$19,807.

SUM OF TOTAL_VEHICLE_CHARGES 2013		SUM OF TOTAL_VEHICLE_CHARGES 2014 (TO MAY 12)	
CALL_CODE	Total	CALL_CODE	Total
E32	\$ 32	E41 (Capital Traffic Signals)	\$ 352
E41 (Capital Traffic Signals)	\$ 512	E42 (Capital LED Streetlight Project)	\$ 7,040
E42 (Capital LED Streetlight Project)	\$ 14,232	E84 (Competitive Work)	\$ 64
E85 (Operating - Streetlights)	\$ 1,224	E85 (Operating - Streetlights)	\$ 152
E86 (Operating - Traffic Signals)	\$ 1,160	E86 (Operating - Traffic Signals)	\$ 72
E87 (Operating - Banner Hanging)	\$ 80	Grand Total	\$ 7,680
E92 (Operating - Streetlights Damage)	\$ 128		
E96 (Operating - Parking Lot Lights)	\$ 264		
E99 (Operating - Park Lights)	\$ 32		
P82 (Capital)	\$ 64		
P83 (Capital)	\$ 256		
Grand Total	\$ 17,984		

Kingston Hydro gains from this arrangement as it has received \$17,984 in rent from an asset that is kept for spare use. Annually, it would equate to \$23,559 (17984-14232+19807; using \$19,807 instead of \$14,232 above). Streetlight & Traffic Signals gains from not having to purchase a vehicle for spare use or leasing one, saving \$20,841 (44,400-23559) in leasing costs.

Total vehicle was used for 1,132 hrs by municipal utilities= \$18,112 cost for 2013

Customer Benefits Summary

Lower costs to the utility results in lower costs to the ratepayers.

Multi-Utility Model Benefits

Title: 12 – Fleet Savings: RBD Truck

Financial Benefits Summary

Item/Description	Hours Rented	Rental of RBD Truck Actuals 2013	Total
Cost (Revenue) to Kingston Hydro	216	\$ (3,456)	\$ (3,456)
Cost to Kingston Hydro if separate		\$ -	\$ -
Savings to Kingston Hydro		\$ 3,456	\$ 3,456

Financial Details (Provide calculations and assumptions used)

Streetlights & Traffic Signals do not have a radial boom derrick (RBD) truck but are able to use the Hydro group's RBD at a rate of \$16/hr. In 2013, it was used for a total of 208 hours (38 separate days; reference "RBD 109 069.xls") at a cost of \$3,328. Cost of an RBD is \$275,000 (May 12, 2014 email B. Steele). Rental rate is \$5,750/mo, 2,300/wk, \$575/day.

Kingston Hydro gains from this arrangement as it has received \$3,456 in rent. Since this equipment is necessary to install poles, Streetlight & Traffic Signals needs to have one available at all times to deal with vehicle accidents where poles have been hit, so rentals would be difficult to manage. However, if we were able to get one on short notice for a day, the leasing cost at 38 days of usage would be \$21,850 (38x\$575). Leasing for the year would be \$69,000.

Note: this is only relating to the cost of renting the truck, internal labour not included as the department renting used their own staff to operate the truck. Does not incorporate full maintenance or capital costs. Truck was rented internally by the hour. With third party we would have to rent by the day minimum.

Multi-Utility Model Benefits

Title: 13 – Fleet Savings: Dump Trucks & Backhoes

Financial Benefits Summary

Item/Description	Hours Rented Dump Truck	Rental of Dump Trucks Actuals 2013	Operating Cost if Purchased Dump Truck	Hours Rented Backhoe	Rental of Backhoes Actuals 2013	Operating Cost if Purchased Backhoe
Cost (Revenue) to Kingston Hydro	10	\$ 304		90.5	\$ 2,738	
Cost to Kingston Hydro if separate	10	\$ 700	\$ 20,020	91	\$ 4,095	\$ 20,022
Savings to Kingston Hydro		\$ 396	\$ 20,020		\$ 1,357	\$ 20,022

Financial Details (Provide calculations and assumptions used)

From "Dump Truck and Backhoe calculation from Bud Steele.pdf" and "Dump Truck and Backhoe costing.msg",
"Backhoe and Dumptruck 2013 & 2014 actuals.xlsx"

Dump Truck

Actual Cost: 10 hours @ \$30.40/hr = \$304

Annual Operating Cost if Purchased (based on 10 yr amortization and 2% inflation)

Capital portion = \$14,358

Parts = \$2,122

Labour = \$1,374

Fuel = \$1,700

Insurance = \$466

Total = \$20,020

Backhoe

Actual Cost: 90.5 hrs @ \$30.25 = \$2,738

Annual Operating Cost if Purchased (based on 10 yr amortization and 2% inflation)

Capital portion = \$11,473

Parts = \$2,819

Labour = \$806

Fuel = \$4,700

Insurance = \$224

Total = \$20,022

Full Description

The Hydro group uses the Water/Wastewater Underground group's dump trucks and backhoes routinely through the year for clearing snow around job locations, and loading and hauling aggregates, soil, etc. Both are charged at \$31.31/hr (2014 rate).

If the departments were separate, then they would require to purchase or rent a backhoe and dump truck. Rental isn't really a viable option due to both cost (high usage every month) and convenience (in most cases there would be very little notice).

Multi-Utility Model Benefits

Title: 14 – Fleet Savings: Use of Loader Crane Truck

Financial Benefits Summary

Item/Description	Hours Rented	Rental of Loader Crane		Total
Cost to Kingston Hydro	38	\$	1,190	\$ 1,190
Cost to Kingston Hydro if separate	208	\$	34,819	\$ 34,819
Savings to Kingston Hydro		\$	33,629	\$ 33,629

Financial Details (Provide calculations and assumptions used)

From "Hiab Crane.xlsx"


Cost to rent a loader crane truck (C.A. Peters 2014 rates): $\$167.40 \times 8 \times 26 = \$34,819.2$

Actual Cost for use of Utilities Kingston loader crane $\$31.31/\text{hr} \times 38\text{hrs} = \$1,190$

Customer Benefits Summary

Full Description

Utilities Kingston Hydro Group are able to use Water/Wastewater Underground Group's articulating loader crane (Hiab) truck for lifting heavy items such as transformers. Most distributors would not have this heavy lifting capability and would rent a crane, just as we would if we could not use our Underground Group's truck. Rental of a crane (from C.A. Peters Crane) for this costs $\$167.40/\text{hr}$ ($\$155 \times 8\%$ surcharge) and would be for the day (8 hours; load on and load off). During the time period analyzed the vehicle was used on 26 different days.



Pricing for 2014

Item	Rate	Minimum	Price on Request
100 Ton Crane	\$167.40/hr	\$1,000.00	
90 Ton Crane	\$155.00/hr	\$1,000.00	
60 Ton Crane	\$142.50/hr	\$1,000.00	
3500 Ton RT			Price on Request
35 Ton Crane	\$120.00/hr	\$1,000.00	
25 Ton Crane	\$105.00/hr	\$1,000.00	
15 Ton Crane	\$87.50/hr	\$1,000.00	
8 Ton Crane (A. Delivery)	\$140.00/hr	\$1,000.00	
Operator Only	\$11.50/hr		
Overline	\$20.00/hr		

Before 7:00am and after 4:00pm or after 8 hours

5 % fuel and insurance surcharge

Multi-Utility Model Benefits

Title: 15 – Fleet Savings: Mechanical Repair Garage

Financial Benefits Summary

Item/Description	Labour	Supplies	Services		Total
Cost to Kingston Hydro	\$ 42,041	\$ 197,254	\$ 7,155	\$ -	\$ 246,450
Cost to Kingston Hydro if separate	\$ 84,440	\$ 226,842	\$ 13,187	\$ -	\$ 324,469
Savings to Kingston Hydro	\$ 42,399	\$ 29,588	\$ 6,032	\$ -	\$ 78,019

Financial Details (Provide calculations and assumptions used)

(From "Fleet - Mechanical Division Costs.pdf" and Bud Steele, Manager of Fleet, City of Kingston)

2013 Operating Costs

Electric

Labour = \$42,041
Supplies/Materials = \$197,254
Contracted Services = \$7,155
Total = \$246,450

Utilities Kingston

Labour = \$168,880
Supplies/Materials = \$583,027
Contracted Services = \$26,373 (76,405-50,032 insurance)
Total = \$778,280

2013 Estimated Operating Costs if separate

Each utility would require a mechanical repair garage, with similar tools and equipment. Space in total for each garage would be approximately 50% of the existing size of the current garage. This would mean that contracted services – which is largely based on the size and equipment – would be 50% of the total contracted services cost. The Electric, Water and Wastewater utilities would require 1 mechanic each @\$84,440 each (actual cost \$160,880 / 2). Gas would require ½ FTE.

Due to less purchasing power, costs for supplies/materials would be a minimum of 15% higher.

Electric

Labour Cost = 1 x \$84,440 = \$84,440
Supplies/Materials = 1.15 x \$197,254 = \$226,842
Contracted Services = \$26,373 / 2 = \$13,187
Total = \$324,469

Utilities Kingston

Labour Cost = 3.5 x \$84,440 = \$295,540
Supplies/Materials = 1.15 x \$583,027 = \$670,481
Contracted Services = \$26,373 / 2 x 4 = \$52,746
Total = \$1,018,767

Customer Benefits Summary

Full Description

We pay the City of Kingston to run one mechanical repair garage and two mechanics for Utilities Kingston. They maintain and repair over 150 Utilities Kingston vehicles and trailers. Other utilities would have at least 1 mechanic and repair facility, or would contract the work out, so our model provides significant savings compared to that if the utilities were separate entities. We also gain as the purchasing pool (for parts, tires, fuel, etc.) is that much larger as it is incorporated with the entire City of Kingston's fleet. Also, we gain additional discounts on purchase of new vehicles as well. The City is also able to provide labour backup to the mechanics (case in point, right now one of our two mechanics is off for a few weeks due to illness, and the City was able to drop another mechanic in to fill in without any service disruption).



Multi-Utility Model Benefits

Title: 19-21 – Shared Warehouse and Storage Yard

Financial Benefits Summary

Item/Description	Warehouse		Forklifts		Total
Cost to Kingston Hydro	\$ 25,533		\$ 13,000	\$ -	\$ 38,533
Cost to Kingston Hydro if separate	\$ 80,730		\$ 30,000	\$ -	\$ 110,730
Savings to Kingston Hydro	\$ 55,197	\$ -	\$ 17,000	\$ -	\$ 72,197

Financial Details (Provide calculations and assumptions used)

Warehouse storage space ranges from \$7 to \$21 (lease + additional operating) but our location and loading dock plus warehouse racking and height make it reasonable to calculate using \$15. A search on the internet reveals \$1.35 per square yard for outside storage.

Currently, Utilities Kingston has 2 forklifts, one inside and one outside. Forklift replacement cost would be 20k for the inside lift and 30k outside.

Percentage used for calculations are 26% Electric 14% Gas 30% Water 30% Sewer.

Percentage that Electric pays today in our current model is 26%, however, if the Electric was separate they represent 60 percent of the current space, therefore, that number is used when calculating cost if separate.

Actual cost is 7800 sq ft x 12.59 per sf.

If we were separate, needs/costs would be the following, which includes a 15% increase of current size to allow for the extra swing space that would be needed and due to the smaller size, a rate of \$15/sq.ft..

Electric: 60% x 7800 x 1.15 = 5,382 sq.ft. x \$15 = \$80,730

Gas: 20% x 7800 x 1.15 = 1,794 sq.ft. x \$15 = \$26,910

Water: 10% x 7800 x 1.15 = 897 sq.ft. x \$15 = \$13,455

Sewer: 10% x 7800 x 1.15 = 897 sq.ft. x \$15 = \$13,455

Total Cost = \$134,550

Each utility could get by with one outside forklift to handle both areas and therefore the cost for separate utilities would be \$30,000 x 4.

Customer Benefits Summary

A warehouse is sized based on the routine expectation of space requirement plus a 'safety' margin to allow for the typical peaks that occur. In a single utility model, this extra swing space would be underutilized most of the time. With our multiple utilities, since it is not often that the peaks for each utility group occur simultaneously (and where it might, we can adjust the timing), we do not have to size our warehouse space based on the total sum of each utility's swing space if they were separate.

Multi-Utility Model Benefits

Title: 22 – Staff - Health & Safety

Financial Benefits Summary

Item/Description	Labour & Benefits	Computers & Phones			Total
Cost to Kingston Hydro	\$ 40,144	\$ 949	\$ -	\$ -	\$ 41,093
Cost to Kingston Hydro if separate	\$ 91,500	\$ 2,750	\$ -	\$ -	\$ 94,250
Savings to Kingston Hydro	\$ 51,356	\$ 1,801	\$ -	\$ -	\$ 53,157

Financial Details (Provide calculations and assumptions used)

Used 2014 budgeted amounts total salaries and benefits = \$134,777 (1.5 FTE)

Allocation to electric 23%

Assumption 1 Health and Safety professional for smaller organization \$75,000 + 22 % benefits = \$91,500

If separate would require 1 FTE for electric, water and wastewater, gas may not be large enough to support a dedicated employee assume .5 FTE along with other duties – 3.5 * 91,500

Computer and telephones cell, landline, laptops = \$2750/ FTE

Office space allocation accounted for in rent calculation

Customer Benefits Summary

- Enables some capacity for public education, school programming etc.

Multi-Utility Model Benefits

Title: 37 – Staff: Meter Shop Resources

Financial Benefits Summary

Item/Description	Labour				Total
Cost to Kingston Hydro	\$ 409,153	\$ -	\$ -	\$ -	\$ 409,153
Cost to Kingston Hydro if separate	\$ 589,569	\$ -	\$ -	\$ -	\$ 589,569
Savings to Kingston Hydro		\$ -	\$ -	\$ -	\$ 180,416

Financial Details (Provide calculations and assumptions used)

- Used Budget Values from Mar Operating Manager Report
 - 710100, 710115, 710200, 720210, 720280 from 71610
 - 710100, 710115, 710200, 720220 from 71650
 - 710100, 710200, 710115, 720210, 720220 from 71651
 - 710100 from 71652
 - 710100, 710115, 720210, 720220 from 71653
- KHC under Current Model is 23% of 71610 costs, plus electric only programs (71651, 71652, 71653), plus share of manager costs (25% of 40% of total manager cost)
- Muni Share under Current model is 77% of 71610 and 100% 71650, plus share of manager costs (75% of 40% of total manager cost)
- If KHC was alone then expect 57% of 71610 and 71650 (Representing 4 staff ... 3 journeymen and 1 clerk) plus the electric only programs (71651, 71652, 71653). ½ FTE for manager.
- If UK was alone then 71% of 71610 and 71650 (Representing 5 staff, 4 journeymen and 1 clerk), 1/2 FTE for manager.
- Not taking into account information system benefits
- Manager is currently allocated 40% to Meter Shop, 40% to SCADA, 20% to Fibre/Networking.
- Meter Shop portion of Manager cost is allocated 25% each to Electric, Water, Waste Water, Gas.

Customer Benefits Summary

- The electric utility experiences a lower operating cost than if separate from the multi-utility model. This translates into rates which are lower than would be expected with a stand alone LDC.
- The water and gas utilities experience a lower operating cost than if separate from the electric utility. This translates into rates which are lower than would be expected without the multi-utility model.
- The meter shop is able to experience more than one meter manufacturer and technology. This provides an opportunity to evaluate vendors/technologies in a real world environment. If the utilities were separate this kind of exposure would be obtained through consultant experience or soliciting feedback from colleagues in industry.

- Unified processes are used across the utilities. This translates into a consistent experience for the end customer.
- During meter replacement programs the number of “truck rolls” is reduced as Utilities Kingston resources have the ability to change water, gas, and electric meters. This is currently true for large water and gas meter replacement programs.



Multi-Utility Model Benefits

Title: 41 – Executive Team

Financial Benefits Summary

Item/Description					Total
Cost to Kingston Hydro	\$ 237,022	\$ -	\$ -	\$ -	\$ 237,022
Cost to Kingston Hydro if separate	\$ 629,720	\$ -	\$ -	\$ -	\$ 629,720
Savings to Kingston Hydro	\$ 392,698	\$ -	\$ -	\$ -	\$ 392,698

Financial Details (Provide calculations and assumptions used)

Currently:

CEO
CFO
VP (Director of Gas Operations)
Director of Engineering
Director of Hydro and Business Services
Director of Water and Waste Water

If separate for Hydro:

(assuming 30% for Payroll Benefits)

CEO
CFO
VP- Operations
VP- Engineering

If separate for Water, Waste Water and Gas:

(Assume City of Kingston retains ownership and management of Water & Waste Water)

(Assuming 30% for Payroll Benefits)

CEO, CFO, VP- Engineering, VP- Operations
Director of Water and Waste Water

Multi-Utility Model Benefits

Title: 42 – Service Advisors & Clerk

Financial Benefits Summary

Item/Description	Labour/Ben				Total
Cost to Kingston Hydro	\$ 3,408	\$ -	\$ -	\$ -	\$ 3,408
Cost to Kingston Hydro if separate	\$ 54,000	\$ -	\$ -	\$ -	\$ 54,000
Savings to Kingston Hydro	\$ 50,592	\$ -	\$ -	\$ -	\$ 50,592

Financial Details (Provide calculations and assumptions used)

Based on Budget for 2014 we have 4 FTE Service Advisors (1 vacancy currently) that amount to approximately \$284,000 including benefits, and 1 FTE Clerk that amounts to \$76,000 including benefits.

The Service Advisors are Split between 3 different areas:

- Appliance Rental Business 38% \$10,920
- Customer Service 12%, \$ \$34,000
 - Electric 10%, \$3,400
 - Gas 50%, \$17,000
 - Water 25%, \$8,500
 - Sewer 15%, \$5,100
- Capital 50%, \$142,000
 - Gas 42%, \$59,640
 - Water & Sewer 58%, \$82,360

The Clerk's budget is to 2 different areas:

- Appliance Rental 60%, \$ \$45,600
- Customer Service 40%, \$30,400
 - Electric 42%, \$12,844
 - Gas 13%, \$3,876
 - Water 23% \$6,840
 - Sewer 23% \$6,840

For 2014, one FT Service Advisor or Clerk Labour/Benefits = \$72,000

Using 2014 Budget with the 4 Service Advisors allocated 14.5% to Customer Service (program 74120:

Allocation to Electric = \$3,400

Allocation to other utilities = \$30,600 (17,000+8,500+5,100)

Total Labour/Benefits = \$34,000

If separate, each of Electric, Gas, Water, Sewer, would require at least 1 FTE. At least, because providing coverage for periods of vacation and sickness could warrant an additional employee (part-time or full-time). However, the demands on that employee could be such that at times there is other work that they could do, so conservatively assume a 75% allocation to this function. With 75% of 1 FTE, the labour/benefits costs would be \$54,000 (75% x \$72,000 (2014 labour/benefit cost for 1 UK Service Advisor)). So with 3 utility companies, the cost to the customer would be \$162,000.

Customer Benefits Summary

Each of the Service Advisors deal with all utility services, so benefits are that the customer has 'one-stop shopping'; they speak to just one employee:

- Get advice about all the utilities in one conversation. Faster turn-around times saving the customer time (and money) with not having to call multiple companies and deal with different forms and requirements.
- All utility service connections and work then are arranged in a coordinated fashion.

Full Description

We have 4 Service Advisors that act as the single point of contact for issues that are more complex than what the Customer Service Representative call-takers handle. Primarily, they deal with new utility service connections, upgrades, demolitions and other issues. Each of them are able to deal with all of our utilities and also serve to provide the link between the customer and the technical and trades staff. Other utility companies have similar positions with these functions, but with our multi-utility model, we are able to provide proper coverage with 4 FTE's who can cover for one another and who also work on other programs (other than 74120).



Multi-Utility Model Benefits

Title: 45 – Customer Service: Cost of Specialized Equipment

Financial Benefits Summary

Item/Description	Software Implementation Cost				Total
Cost to Kingston Hydro	\$ 17,695	\$ -	\$ -	\$ -	\$ 17,695
Cost to Kingston Hydro if separate	\$ 77,746	\$ -	\$ -	\$ -	\$ 77,746
Savings to Kingston Hydro	\$ 60,051	\$ -	\$ -	\$ -	\$ 60,051

Financial Details (Provide calculations and assumptions used)

- Total software cost at time of implementation \$77,745.69 (See DBC.xls)
 - Electric Share = \$17,694.63
 - Gas Share = \$13,078.63
 - Waste Water Share = \$23,486.21
 - Water Share = \$23,486.21
- Assumed that if each Utility were to implement their own call recording system, they would do so with the same tool Utilities Kingston implemented (Oaisys).

Customer Benefits Summary

- Customer is ensured that what they say to a customer service rep is on record.
- Staff training occurs on the job, with real life examples/situations.

Full Description

Utilities Kingston is able to leverage the utilities it manages into getting more value from purchases than if the utilities were separate.

As an example, occasionally there are changes to the environment that Utilities Kingston operates in with respect to customer service. Utilities Kingston decided to proceed with deploying call-recording technology across all the utilities it manages. The decision to apply this to all businesses was a result of an internal review associated with risk mitigation, as well as professional development for those staff that work with customers directly.

Recording customer phone calls provides support for decisions made and information exchanged between customer service representatives and customers. This helps ensure customers are heard and their wishes are implemented to the best of Utilities Kingston's abilities. Recording calls also allows the CSR supervisor to listen to calls for training opportunities which is valuable professional development.

Further, Utilities Kingston has deployed this technology to its credit and collections department. The previously mentioned reasons for doing so are still true in this scenario, but there is also the added benefit of safety. Credit and Collections staff occasionally deal with customers going through hard times and may lose their temper with staff. In these situations the recording of a phone call can protect the employee and the customer from being misinterpreted.



Multi-Utility Model Benefits

Title: 50 – Staff: SCADA Resources

Financial Benefits Summary

Item/Description	Labour				Total
Cost to Kingston Hydro	\$ 66,843	\$ -	\$ -	\$ -	\$ 66,843
Cost to Kingston Hydro if separate	\$ 185,953	\$ -	\$ -	\$ -	\$ 185,953
Savings to Kingston Hydro	\$ 119,110	\$ -	\$ -	\$ -	\$ 119,110

Financial Details (Provide calculations and assumptions used)

- Used Budget Values from Mar Operating Manager Report
 - 710100, 710200, 720210, 720220, 720280 from Program 71340
- KHC under Current Model is 23% of 71340, plus manager cost (25% of 40% of total manger cost).
- Muni Share under Current model is 77% of 71340, plus manager cost (75% of 40% of total manager cost)
- If KHC was alone then expect 56.25% of 71340 (Representing 2.25 staff ... 2 journeymen and .25 clerk), 1/2 FTE for manager.
- If UK was alone then 81% of 71340 (Representing 3.25 staff, 3 journeymen and .25 clerk), 1/2 FTE for manager.
- Not taking into account information system benefits
- Not taking into account vehicle benefits
- Manager is currently allocated to 40% Meter Shop, 40% SCADA, 20% Fibre/Networking
- SCADA portion of Manager cost currently is allocated 25% each to Electric, Water, Waste Water, Gas.

Customer Benefits Summary

- The electric utility experiences a lower operating cost than if separate from the multi-utility model. This translates into rates which are lower than would be expected with a stand alone LDC.
- The water and gas utilities experience a lower operating cost than if separate from the electric utility. This translates into rates which are lower than would be expected without the multi-utility model.
- The SCADA group is able to experience more than one meter manufacturer and technology. This provides an opportunity to evaluate vendors/technologies in a real world environment. If the utilities were separate this kind of exposure would be obtained through consultant experience or soliciting feedback from colleagues in industry.
- The multi-utility model provides a staff level that can support on-call staff. This means that staff are available in the event of an emergency outside of normal working hours. The customer benefits from this through quicker restoration times in the event of a system disruption, as well as fewer disruptions.



Multi-Utility Model Benefits

Title: 53 – Human Resources- Staff

Financial Benefits Summary

Item/Description	FTE HR	Labour & Benefits	FTE Payroll	Payroll Processing	Computer & Phones	Total
Cost to Kingston Hydro	0.53	\$ 50,232	Out Sourced	\$ 20,072	\$ 1,455	\$ 71,759
Cost to Kingston Hydro if separate	1	\$ 91,500	1	\$ 67,100	\$ 5,500	\$ 164,100
Savings to Kingston Hydro		\$ 41,268		\$ 47,028	\$ 4,045	\$ 92,341

Financial Details (Provide calculations and assumptions used)

Used 2014 budgeted amounts total salaries and benefits = \$218,400 (2.3 FTE)

Assumption 1 HR professional \$75,000 + 22 % benefits = \$91,500

Allocation to electric 23%

If separate would require 1 FTE for electric, water, wastewater, gas may not be large enough to support a dedicated employee assume .5 FTE along with other duties – 2.5 * 91,500

Payroll: Currently the City of Kingston processes Utilities Kingston payroll for us at a cost of \$77,000 for 2014. The major components to payroll processing include, pay runs, T4 preparation, tax remittance, WSIB remittance & user system maintenance. If we were separate businesses and did this function in house it would require at least 1 FTE per business

Assumption 1 payroll clerk \$55,000 + 22 % benefits = \$67,100

Computer and telephones one cell, landline, laptops = \$2750/FTE

Office space accounted for in rent calculations



Multi-Utility Model Benefits

Title: 55 – Communications

Financial Benefits Summary

Item/Description	Labour & Benefits	Computer & Phones			Total
Cost to Kingston Hydro	\$ 23,872	\$ 822	\$ -	\$ -	\$ 24,694
Cost to Kingston Hydro if separate	\$ 39,920	\$ 1,375	\$ -	\$ -	\$ 41,295
Savings to Kingston Hydro	\$ 16,048	\$ 553	\$ -	\$ -	\$ 16,601

Estimated Total Annual OMA Savings: \$57,813

Estimated Total Annual Capital Savings: \$

Financial Details (Provide calculations and assumptions used)

Used 2014 budgeted amounts total salaries and benefits = \$103,790 (1.3FTE)

Allocation to electric 23%

Assumption communication would be a part time activity

Computer and telephones cell, landline, laptops = \$2750 per staff

Office space allocation accounted for in rent calculation

If separate would require Electric 0.5 FTE, Water 0.75 FTE, Sewer 0.5 FTE, Gas 0.25 FTE.

Customer Benefits Summary

- Customer receives integrated messaging that takes into consideration and coordinates the multiple utilities.

Full Description

Utilities Kingston has one full-time Communications Advisor that works and coordinates the various utilities messaging to the ratepayers.



Multi-Utility Model Benefits

Title: 58 – Information Technology Costs

Financial Benefits Summary

Item/Description	Email	Enterprise GIS	ERP	Network	Other Applications	Telephony	Total
Cost to Kingston Hydro	\$ 7,957	\$ 115,218	\$ 56,905	\$ 35,771	\$ 65,184	\$ 35,645	\$ 215,852
Cost to Kingston Hydro if	\$ 10,127	\$ 146,642	\$ 72,425	\$ 45,527	\$ 82,961	\$ 45,366	\$ 403,047
Savings to Kingston Hydro	\$ 2,170	\$ 31,423	\$ 15,520	\$ 9,756	\$ 17,777	\$ 9,721	\$ 58,869

Financial Details (Provide calculations and assumptions used)

- See "58 – IT Costs.xlsx", "IT Costs.pdf"
- Assume no profit margin in costs from City of Kingston
- Assume 2011 costs are based on 166 employees
- Assume 2014 costs are based on 220 employees
- Assume inflation at 2% per year (To inflate costs shown in IT Costs.pdf to 2014 values)
- Utilities Kingston Model;
 - Assume Email Costs \$144.66 per employee
 - Assume Enterprise GIS Costs \$2,094.88 per employee
 - Assume ERP costs \$1,034.64 per employee
 - Assume Network costs \$650.39 per employee
 - Assume Other Applications costs \$1,185.16 per employee
 - Assume Telephony costs \$648.09 per employee
 - Assume Each Utility is responsible for 25% of the total cost
- If Separate Model
 - Assume Electric and Gas Utilities would need services from a 3rd party provider
 - Assume Utilities Kingston per employee rates are at cost
 - Assume 40% profit margin for 3rd party provider
 - Assume Water and Waste Water Utilities would still be able to get IT services at cost from the municipality.
 - Assume per employee rates would be the same at Utilities Kingston costs, with profit added to electric and gas utilities.

	# of Employees	Email	Enterprise GIS	ERP	Network	Other Applications	Telephony	Total
Electric	50	\$ 10,126.51	\$ 146,641.55	\$ 72,425.01	\$ 45,527.06	\$ 82,960.96	\$ 45,366.15	\$ 403,047.25
Water	70	\$ 10,126.51	\$ 146,641.55	\$ 72,425.01	\$ 45,527.06	\$ 82,960.96	\$ 45,366.15	\$ 403,047.25
Waste Water	70	\$ 10,126.51	\$ 146,641.55	\$ 72,425.01	\$ 45,527.06	\$ 82,960.96	\$ 45,366.15	\$ 403,047.25
Gas	30	\$ 6,075.91	\$ 87,984.93	\$ 43,455.01	\$ 27,316.24	\$ 49,776.58	\$ 27,219.69	\$ 241,828.35

Customer Benefits Summary

- Lower information technology costs directly affect the operating costs of Utilities Kingston. Lower costs result in controlled rates to customers.

Full Description

Utilities Kingston procures information technology services from the City of Kingston at cost. If these services were procured from a 3rd party vendor then it would be expected that the vendor have a profit margin on those costs.



Multi-Utility Model Benefits

Title: 66-69 – FINANCE

Financial Benefits Summary

Item/Description	Postage	Cashiering	Finance & Regulatory	Total
Cost to Kingston Hydro	\$ 135,123	\$ 31,600	\$ 1,082,917	\$ 1,249,640
Cost to Kingston Hydro if separate	\$ 156,000	\$ 88,750	\$ 1,484,389	\$ 1,729,139
Savings to Kingston Hydro	\$ 20,877	\$ 57,150	\$ 401,472	\$ 479,499

Financial Details (Provide calculations and assumptions used)

See attached spreadsheet

Customer Benefits Summary

- Customer benefits on the billing side with one bill and 1 payment. One stamp. One cashier.

Full Description

Billing

Kingston Hydro shares in postage and mailing costs with 3 other utilities. Postage expenses would increase as the full cost per mailing would no longer be shared with other utilities.

Paper/Printing costs would triple (Hydro Bill, Gas Bill, Water Bill, Sewer Bill)

Credit

Currently Kingston Hydro pays a portion of cashiering and clerical costs with the other utilities. If separate, Kingston Hydro would require 1 clerical person to handle payment processing.

Regulatory

Currently 1 regulatory/rates analyst – if separate Kingston Hydro would need a full time regulatory analyst.

Administration

Currently share 1 CFO, 1 Manager, 1 financial analyst, 2 accountants and 2 clerks - if Kingston Hydro were separate we would need at least 1 Manager, 1 accountant and 1 clerk.

Rent, municipal taxes and other shared services are shared costs with Kingston Hydro.



File Number: EB-2015-0083

Date Filed: June 1, 2015

Exhibit 1

Tab 3 of 8

Executive Summary

Executive Summary

EXECUTIVE SUMMARY OF APPLICATION

Kingston Hydro is submitting a Custom IR application based on a forward test year for 2016-2020 electricity distribution rates and other specific items. Kingston Hydro is seeking approvals for implementation on January 1, 2016, with annual IRM adjustments to its on January 1, 2017 through to and including January 1, 2020 for the following items:

- a. Changes in rate base as a result in changes to working capital arising from changes in third party pass through costs, i.e. cost of power;
- b. Changes in operating expenses as a result of annual inflation rates;
- c. Changes in tax rates;
- d. Changes in the cost of capital;
- e. Changes in third party pass through costs; and
- f. Disposition of deferral and variance account balances.

Kingston Hydro has prepared this application in accordance with the updated “*Chapter 2 – Cost of Service*” of the Ontario Energy Board’s “*Filing Requirements For Electricity Distribution Rate Applications - 2014 Edition for 2015 Rates Applications*” and related guidelines.

Kingston Hydro believes it has met the filing requirements in all relevant aspects and that its application and proposed rates are consistent with traditional ratemaking and cost of service principles. In addition, Kingston Hydro believes its proposed rates are just and reasonable for all classes of customers within its licensed distribution area.

1 Kingston Hydro has provided its Distribution System Plan in Exhibit 2 Tab 2 Schedule 1
2 Attachment 1 of the application.

3 4 **Overall Business Strategy and Outcomes**

5
6 Kingston Hydro has chosen to utilize a multi-utility services delivery model provided by
7 Utilities Kingston to ensure cost savings and superior services for its customers. Both
8 companies utilize the strategic planning process to establish strategic goals, approved
9 by their respective Boards of Directors to guide the organizations' overall business
10 strategy in both the long term and short term. In the initial setup of Utilities Kingston in
11 2000, the Shareholder and both Boards established a set of seven principles that are
12 still followed today. These principles and the strategic goals firmly align with the four
13 objectives of the Ontario Energy Board's RRFE in providing customer focus, operational
14 effectiveness, public policy responsiveness and financial performance, which ties back
15 to the cost savings and superior service for customers noted earlier.

16
17 This Custom IR application focuses on the need for ongoing long term capital
18 investment, supported by detailed distribution system planning and asset management
19 principles. In addition to the cost savings and customer service benefits provided by the
20 Utilities Kingston model, this service delivery approach also provides savings and
21 customer benefits for these required capital investments by delivering construction
22 projects in a well-coordinated and efficient manner, which our customers support.

23 24 **2016 Application for Rates and Charges – Revenue Requirement**

25
26 Kingston Hydro is applying for distribution rates and charges effective January 1, 2016
27 in order to recover its calculated revenue requirement for the 2016 Test Year. In

1 addition, Kingston Hydro is requesting approval for its 2016-2020 capital expenditure
2 plan for inclusion into Rate Base for the 2016-2020 Test Years.

3
4 Kingston Hydro's calculated 2011 Board Approved and 2016 service revenue
5 requirement and estimated 2017-2020 service revenue requirement is as follows:

Year	Service Revenue Requirement
2011	11,775,632
2016	12,861,717
2017	13,315,581
2018	13,743,760
2019	14,190,879
2020	14,546,907

6
7
8
9
10
11
12
13
14 The 2016 service revenue requirement is \$1,086,085 or 9.2% more than the 2011
15 Board Approved amount. This represents an average annual increase of 1.8% from
16 2011. The main driver for this increase is an increase in net fixed assets from 2011-
17 2016.

18
19 The estimated 2017-2020 service revenue requirement increases 3.5%, 3.2%, 3.3%
20 and 2.5% annually based on the assumptions in the application.

21
22 Further detail on the Revenue Requirement and Revenue Deficiency is provided in
23 Exhibit 6 – Revenue Deficiency or Sufficiency.

24 25 **Budgeting and Accounting Assumptions**

26
27 This application and the related financial information herein are presented in
28 accordance with Modified IFRS. Kingston Hydro is a landlocked utility and as such has

1 minimal growth. Total customer numbers have increased a total of 1.6% from the 2011
2 Board Approved of 27,145 to the 2016 Test Year of 27,589. Kingston Hydro has
3 included a general 3% increase in operating expenses for most OM&A accounts from
4 2015 to 2016 and estimated annual increases based on 2% less a 0.3% productivity
5 factor.

6

7 **Load Forecast Summary**

8

9 An explanation of the causes, assumptions and adjustments for the volume forecast as
10 well as the weather normalization methodology can be found in the Weather Normalized
11 Distribution System Load Forecast: 2016-2020 Custom IR report prepared by Elenchus
12 Research Associates Inc. (Elenchus) filed under Exhibit 3 Tab 1 Schedule 2 Attachment
13 1.

14

15 Kingston Hydro provided Elenchus with monthly class specific retail data from January
16 2010 to December 2014 exclusive of distribution system losses. Average annual
17 customer counts were calculated by Elenchus using the monthly class specific data. As
18 explained in the report, Elenchus selected the Multivariate Regression Model method
19 for the forecast, as this approach yielded the most reasonable results given the data
20 available.

21

22 The load forecast model developed by Elenchus includes the persistence of historical
23 CDM programs and the impact of new CDM programs in the bridge and test years by
24 rate class based on the CDM targets approved by the Board.

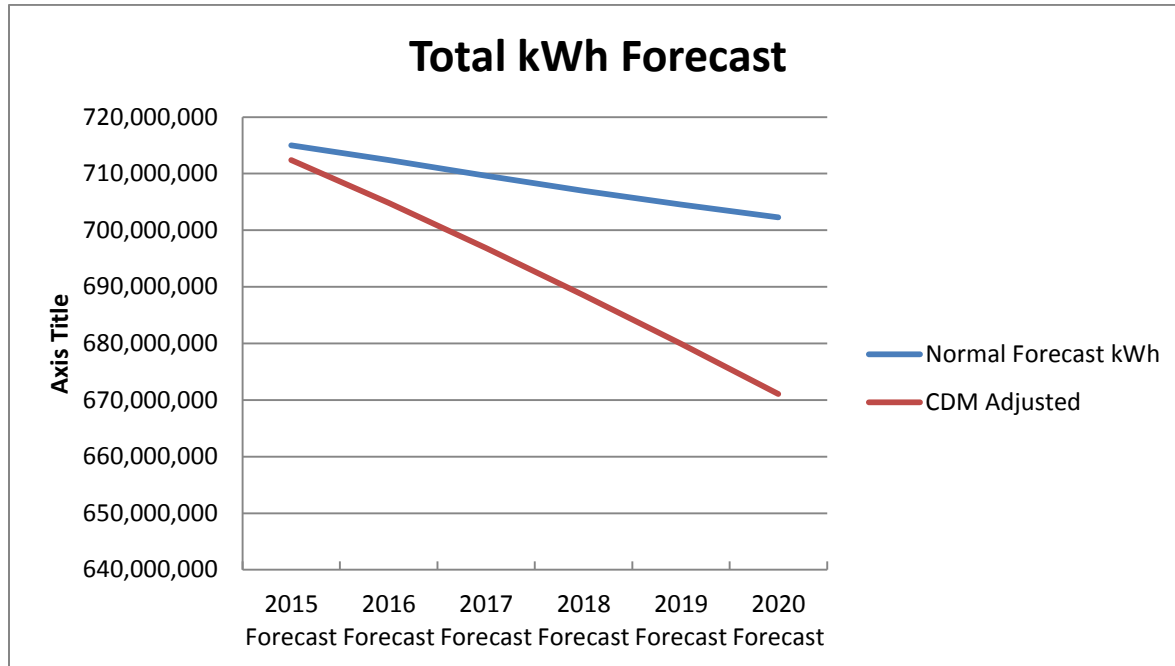
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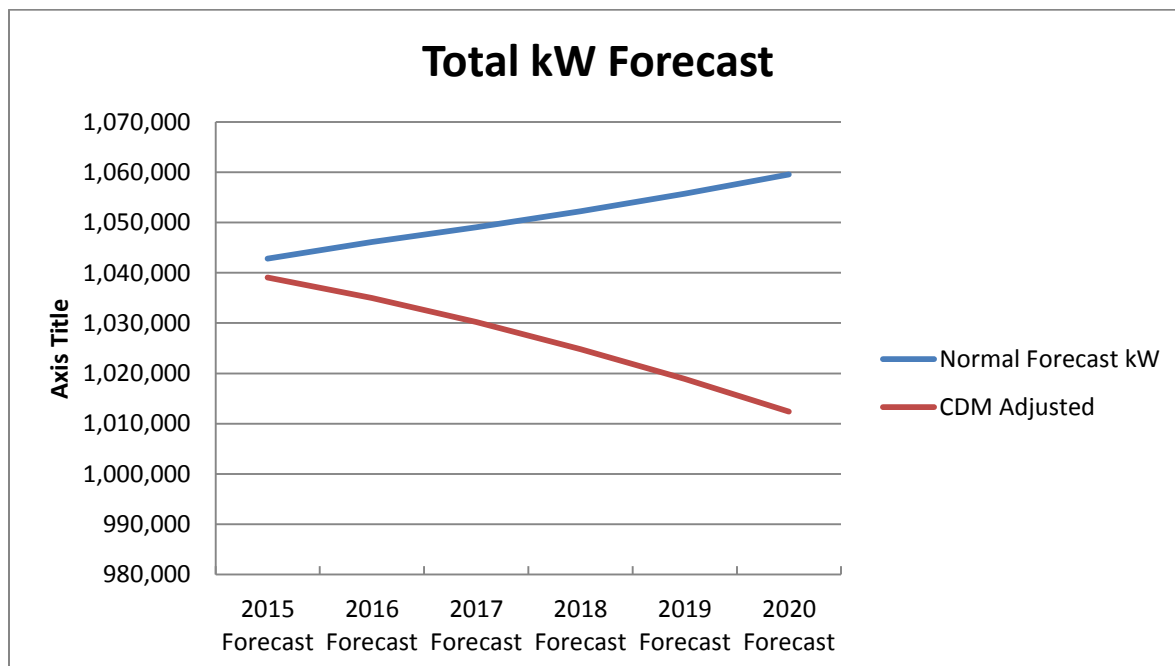
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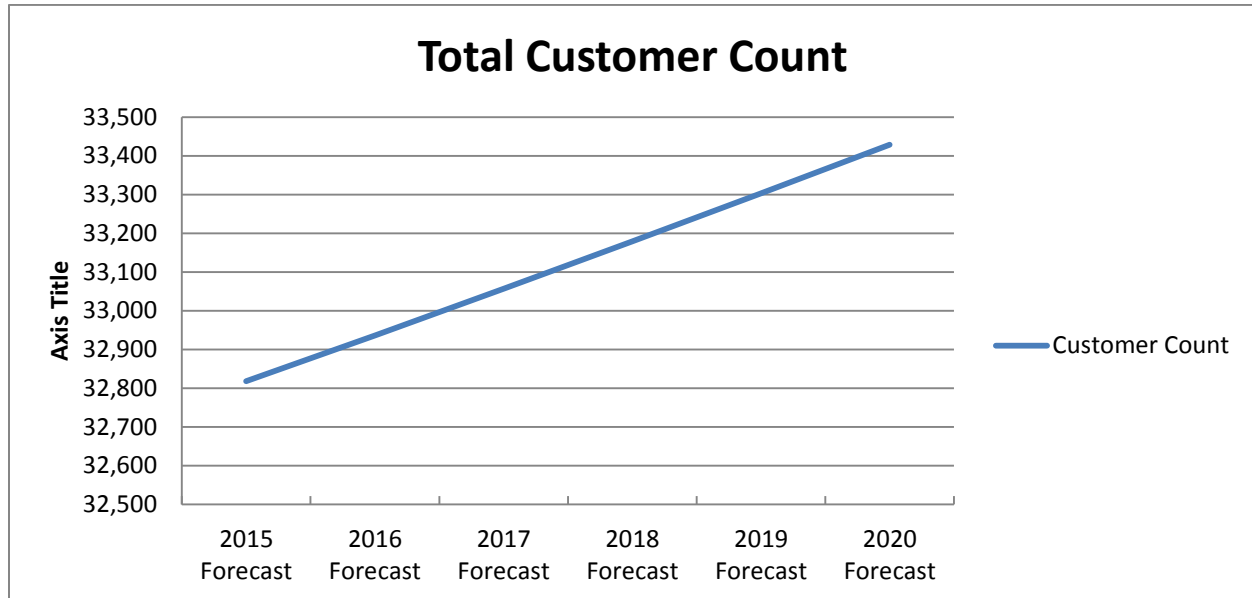
4



5

6

1



2

3

4 The Total Customer Count is expected to increase over the 2015-2020 forecast period
5 by 1.9%.

6

7 The Total Energy Consumption (kWh) for all rate classes is expected to decrease over
8 the 2015-2020 forecast period by 1.8% based on the Weather Normal Forecast and
9 5.8% based on the CDM Adjusted Forecast.

10

11 The Total Demand Forecast (kW) for the GS>50 and Large User rate classes is
12 expected to increase over the 2015-2020 forecast period by 1.6% based on the
13 Weather Normal Forecast . However, this figure is actually expected to decrease by -
14 2.6% based on the CDM adjusted forecast.

15

16 The Distribution System Plan (DSP) was developed using a Spatial Load Forecast and
17 has identified localized load growth within Kingston Hydro's Distribution System.

18

1 The annual schedule of volumes (kWh and kW) and customer/connections count by
2 rate class as well as system totals are summarized in Appendix 2-IA which is filed under
3 Exhibit 3 Tab 1 Schedule 1 Attachment 1.

4 5 **Rate Base and Capital Plan**

6
7 The Distribution System Plan (DSP) is filed as Attachment 2.2.1.1. The DSP provides
8 for a standard approach to Kingston Hydro's filing of asset management and capital
9 expenditure information in support of its rate application. Kingston Hydro's DSP
10 submission follows and utilizes the format identified in the Chapter 5 filing requirements.
11 The major drivers of Kingston Hydro's DSP include the following:

- 12
13 • Provides information relating to our capacity for renewable energy, third-party
14 and regional planning considerations;
- 15 • Considers and addresses customer preferences by optimizing investments that
16 support public policy objectives, deliver value for the investment required and
17 address the need for investments in the distribution system assets;
- 18 • Provides the necessary performance measures to evaluate our progress towards
19 implementing the plan,
- 20 • Provides a useful and understandable tool that communicates to our rate payers
21 Kingston Hydro's future investments activities.

22
23 The DSP's organization provides the information and rationale on the investments
24 proposed by Kingston Hydro during the planning period of 2016-2020. Within the
25 framework of the Chapter 5 filing requirements Kingston Hydro will provide information
26 on:

- asset related performance objectives and the approach to evaluating performance relative to those objectives
- our approach to lifecycle asset management planning and the management of asset related operational risk and financial risk;
- the plan for capital-related expenditures over our five year forecast period that includes activities on poles, oil switches, the replacement of underground assets on Princess Street and the first phase of a multi-phase program to rebuild Substation 1.

Kingston Hydro's 2011 Board Approved and calculated 2016 rate base and estimated 2017-2020 rate base is as follows:

Year	Rate Base
2011	42,289,795
2016	57,877,996
2017	60,013,131
2018	61,407,146
2019	63,417,937
2020	65,356,231

The 2016 rate base is \$15,588,201 or 37% more than 2011 Board Approved due to the following:

- an increase in the average balance of net fixed assets of \$14,414,508
- an increase in the working capital allowance of \$1,173,694

Capital additions requested for approval for the 2016-2020 Test Years are:

Year	Capital Additions
2011	5,433,500
2016	5,376,179
2017	2,899,771
2018	4,290,000
2019	4,149,000
2020	4,402,550

More detailed information regarding Kingston Hydro's rate base can be found in Exhibit 2 – Rate Base.

Operations, Maintenance and Administration Expense (OM&A)

Kingston Hydro's 2011 Board Approved and calculated 2016 OM&A and estimated 2017-2020 OM&A is as follows:

Year	OM&A
2011	6,357,503
2016	7,130,810
2017	7,253,351
2018	7,378,017
2019	7,504,848
2020	7,633,881

Kingston Hydro's operating, maintenance and administrative expenses increased by an average of 2.4% per annum from the 2011 Board-Approved to the 2016 Test Year. Inflation and maintenance needs are the major drivers for the increase from 2011 to 2016. Kingston Hydro has utilized a 3% inflation factor from the 2015 Bridge year to the 2016 Test Year. For the period 2017-2020 4GIRM period Kingston Hydro has estimated the annual adjustment to be 2% less the 0.3% productivity factor.

1 Total compensation estimate for 2016 included in the application is \$4,836,039.

2
3 The Board did not approve any specific OM&A, such as compensation, for the previous
4 2011 test year as it utilized an envelope approach in rendering its decision.

5
6 Exhibit 4 – Operating Costs provides more detailed information on Kingston Hydro's
7 Operating Costs.

8 9 **Cost of Capital**

10
11 Kingston Hydro's Cost of Capital and Capital structure for the 2016-2020 Test Years
12 have been calculated in accordance with the Board's general guidelines for cost of
13 capital in rate regulation as provided in the *Report of the Board on Cost of Capital for*
14 *Ontario's Regulated Utilities* (the "2009 Report"), issued December 11, 2009.

15
16 There are no deviations from this methodology.

17
18 Please refer to Exhibit 5 – Cost of Capital and Capital Structure for more detailed
19 information.

20 21 **Cost Allocation and Rate Design**

22
23 In preparing its proposed revenue to cost allocations, Kingston followed the *The Report*
24 *of the Board: Review of Electricity Distribution Cost Allocation Policy (EB-2010-0219)*
25 *dated March 31, 2011* (Cost Allocation Policy Report).

26
27 Kingston Hydro engaged the services of Elenchus Research Associates Inc. ("ERA") to
28 provide an appropriate cost allocation study for its 2016 - 2020 Custom IR rate

1 application that is consistent with Section 2.10 Cost Allocation of the Board's Chapter 2
2 Filing Requirements for Electricity Distribution Companies' Cost of Service Rate
3 Applications Based on a Forward Test Year issued July 18, 2014. The final report from
4 ERA is filed as *Kingston Hydro 2016 – 2020 Cost Allocation Study ("The CA Report")* in
5 Exhibit 7 – Cost Allocation.

6 For purposes of this Custom IR Application, Kingston has prepared a cost allocation
7 model for each of the five test years 2016 through 2020 using the Board's version 3.2
8 Cost Allocation Model to determine the proportion of Kingston's total revenue
9 requirement that is to be recoverable from each customer rate class for each test year.
10 From the cost allocation models, revenue-to-cost ratios for each customer rate class for
11 each test year have been calculated using the proportionate total revenues and costs.
12

13 The Board's Cost Allocation Policy Report established updated "target ranges" for the
14 revenue-to-cost (R/C) ratios for each customer class. For 2016, the cost allocation study
15 results reveal General Service < 50kW, Unmetered Scattered Load, and Street Lighting
16 customer classes to be outside the upper and lower bounds of the target ranges.
17

18 For the customer classes with starting revenue-to-cost ratios greater or less than the
19 upper or lower end of the range, Kingston proposes to move these R/C ratios to the
20 upper or lower boundary, as appropriate, and to adjust the other class ratios only as
21 required to reconcile with the overall approved revenue requirement, except for the
22 Street Lighting customer class. For rate mitigation reasons, Kingston proposes to move
23 the Street Lighting R/C ratio in equal steps over 2016 to 2020 to achieve the lower
24 boundary of the target range for this customer class by 2020.
25

26 Details of Kingston's proposed revenue-to-costs ratios may be found in Exhibit 7 – Cost
27 Allocation.
28

1 The proposed rate mitigation plan for the Street Lighting customer class may be found
2 in Exhibit 8 – Rate Design.

3
4 Aside from the Residential customer class, Kingston is not proposing any changes to
5 the customer class existing approved fixed charge/variable charge split in its rate
6 design.

7
8 Guided by the OEB's *Board Policy: A New Distribution Rate Design for Residential*
9 *Customers* (EB-2012-0410, released April 2, 2015) and the OEB's announcement that
10 residential distribution delivery costs will be recovered through a fixed monthly service
11 charge by 2019, Kingston is proposing to move the Residential customer class to a fully
12 fixed charge by 2019, using a methodology it believes is consistent with the OEB's
13 chosen implementation option outlined in the new policy report.

14
15 Details of Kingston's existing and proposed fixed variable splits, and proposed
16 distribution rates may be found in Exhibit 8 – Rate Design.

17 **Deferral and Variance Accounts**

18
19
20 Kingston Hydro proposes to clear both Group 1 and Group 2 deferral accounts. Group
21 1 accounts are being proposed to be disposed of over a one-year period and all but two
22 Group 2 accounts, *Accounts "1555-Sub Account-Stranded Meters" and "1576*
23 *Accounting Changes under CGAAP"*, are requested to be disposed of over a one-year
24 period. The two accounts noted above are being requested to be disposed of over a
25 five year period.

26
27 Kingston Hydro is not requesting any new Deferral and Variance accounts.

The total amount of disposition being requested is \$1,703,544, with the split between RPP customers and non-RPP customers being \$(547,704) and \$2,251,248 respectively.

A detailed analysis of Kingston Hydro's Deferral and Variance accounts can be found in Exhibit 9 – Deferral and Variance accounts.

Bill Impacts

Kingston Hydro customer classes and volumes used in summary of bill impacts are as follows:

Customer classes and volumes

Customer Class	Volume
Residential	800 kWh
GS < 50 kW	2000 kWh
GS 50 to 4,999 kW	60 kW
Large Use	8000 kW
Unmetered Scattered Load	750 kWh
Street Lighting	375 kW

The table below provides a summary of total bill impacts for all customer classes:

Total Bill Impacts (before taxes)	2016 Test vs 2015 Bridge		2017 vs 2016		2018 vs 2017		2019 vs 2018		2020 vs 2019	
	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Residential	-\$ 4.02	-3.15%	-\$ 1.66	-1.34%	\$ 0.09	0.07%	-\$ 0.09	-0.07%	\$ 0.61	0.50%
GS < 50 kW	\$ 3.62	1.22%	-\$ 1.76	-0.58%	\$ 1.37	0.46%	\$ 1.39	0.46%	\$ 1.30	0.43%
GS 50 to 4,999 kW	\$ 67.61	1.32%	\$ 27.38	0.53%	\$ 13.11	0.25%	\$ 12.08	0.23%	\$ 8.31	0.16%
Large Use	\$ 2,539.80	0.42%	\$ 4,110.09	0.67%	\$ 483.13	0.08%	\$ 459.82	0.07%	\$ 348.22	0.06%
Unmetered Scattered Load	-\$ 5.50	-4.77%	-\$ 0.29	-0.27%	\$ 0.41	0.37%	\$ 0.38	0.35%	\$ 0.39	0.35%
Street Lighting	\$ 11,998.63	48.30%	\$ 9,973.58	-27.07%	\$ 1,016.84	3.78%	\$ 994.67	3.57%	\$ 951.89	3.30%
Standby										

For 2016, the bill impact for a typical Residential customer with 800 kWh per month usage is an estimated decrease of -\$4.02 or -3.15%, before taxes and Ontario Clean Energy Benefit credit applied.

For 2016, the bill impact for a typical General Service < 50 kW customer with 2,000 kWh per month usage is an estimated increase of \$3.62 or 1.22%, before taxes and Ontario Clean Energy Benefit credit applied.

Detailed impacts for a range of relevant volumes, class by class may be found in Exhibit 8 – Rate Design.

Custom IR Rate Framework

This section describes the rate framework that Kingston Hydro proposes in this application.

For the 2016 to 2020 period, Kingston Hydro submits that the proposed rate framework is:

- Year 2016, costs allocated and rates set on the basis of a traditional rebasing year;
- Years 2017-2020 distribution rates, as determined in this proceeding based on the approvals received in this proceeding, are adjusted annually for recurring events that are mechanical in nature.

YEAR 2016: Standard Rebasing

The first year of the proposed rate application is a standard rebasing year.

YEARS 2017-2020: Annual Adjustments

Under 4th Generation IR, the years following a rebasing year constitute a period where distribution rates are subject to an incentive rate mechanism ("IRM"). The IRM is a formulaic approach to rate making under which distribution rates are adjusted annually.

Kingston Hydro is requesting that its revenue requirement and rates for 2017-2020 would then be adjusted annually for:

- a) the approvals obtained in this proceeding and;
- b) recurring events that are mechanistic in nature.

Specifically the Applicant is requesting the following annual adjustments to revenue requirement for the 2017-2020 periods based on the following approvals obtained in this proceeding:

- Approved capital expenditures/additions for 2017-2020;
- Approved depreciation expense for 2017-2020;
- Approved PILS recovery amounts for 2017-2020;
- Approved load forecast for 2017-2020;
- Approved long term debt rate for 2017-2020;
- Approved non-distribution revenue for 2017-2020;
- Approved cost allocation methodology for 2017-2020;
- Approved rate design methodology for 2017-2020.

1 Additionally, the Applicant is requesting the following annual adjustments to its rates
2 and revenue requirement for the 2017-2020 periods for recurring events that are
3 mechanical in nature.

- 4
- 5 - Adjustments to OM&A each year based on the Board's annual 4GIRM price cap
6 index adjustment mechanism including any productivity and/or stretch factors
7 assigned to Kingston Hydro;
 - 8 - Updates to the cost of capital resulting from any changes to the Board's Cost of
9 Capital Parameter Updates issued annually;
 - 10 - changes in working capital that arise from changes in third-party pass through
11 costs(i.e. cost of power and changes in annual OM&A);
 - 12 - Changes in tax rates;
 - 13 - Changes in third-party pass through costs including Retail Transmission Service
14 rates and low voltage rates; and
 - 15 - Disposition of deferral and variance account balances.
- 16

17 Kingston Hydro believes this framework that includes a standard rebasing year followed
18 by four years of annual adjustments represents an approach that is reasonable and
19 appropriate and in accordance with the Custom IR framework established by the Board.

20

21 Initial rates are determined by a base revenue requirement that relates to both the
22 Applicants capital and operating costs. The proceeding allows the proposed capital
23 expenditures for 2016-2020 to be vetted and tested. It also allows the proposed
24 operating expenses for 2016 to be tested and then incorporate inflation and productivity
25 factors for 2017-2020. If actual OM&A expenses were to increase at a rate greater than
26 this, Kingston Hydro is at risk for under-recovery through 2017 to 2020 period.

1 OFF-RAMPS

2
3 Kingston Hydro proposes to apply the OEB's existing policy with respect to off-ramps
4 due to the fact that each rate-setting method includes a trigger mechanism with an
5 annual return on equity dead band of plus or minus 300 basis points.

6
7 Z-FACTOR ADJUSTMENTS

8
9 In this application, Kingston Hydro has proposed capital expenditures and OM&A
10 funding requests that are expected to enable the utility to carry out its mandate.

11
12 Kingston Hydro acknowledges that this application does not cover any material costs
13 required to address events that are outside the control of the utility and which have not
14 been contemplated. Kingston Hydro understands that the availability of Z-factor relief, if
15 required, would still be available to the Applicant during the 2016-2020 period.



File Number: EB-2015-0083

Date Filed: June 1, 2015

Exhibit 1

Tab 4 of 8

Customer Engagement

Customer Engagement

CUSTOMER ENGAGEMENT

Introduction

For over 100 years, Kingston Hydro has helped build, maintain and enhance the city of Kingston. Through its affiliate, Utilities Kingston, this reach is extended beyond electricity distribution services to natural gas distribution, and water and wastewater services.

This multi-utility approach provides many opportunities for employees to connect and engage with the Kingston community and our customers. The following summarizes both the daily customer interactions essential to how we deliver service excellence, as well as the specific engagement activities focused on gathering customer input to the Distribution System Plan (Exhibit 2 Tab 2 Schedule 1 Attachment 1).

Environmental Scan

Customer engagement is informed by environmental factors that include:

- Always on, always connected society with ever increasing social engagement. This necessitates a proactive approach involving two-way instead of one-way interaction, giving customers an important voice.
- Rapidly changing information and communication technologies that provide an important backbone to facilitating an engaged and connected community.
- The shift in communications practices from heavily scripted and planned to agile and responsive, necessitating a flexible and open approach.

- 1 • The increased priority of enhanced customer service identified by both the
2 Utilities Kingston Shareholder and the Ontario Energy Board.
- 3 • The changing landscape of Ontario's electricity industry. For example, as a result
4 of the electricity distribution sector review, residents in cities across Ontario are
5 asking questions about the efficiency, benefits and accountability of publicly-
6 owned electric utilities.
- 7 • Customers' proven trust in our reliability, and continued community support and
8 engagement. Utilities Kingston delivers service excellence to its customers, with
9 a particular strength in the time it takes us to respond to customer questions and
10 complaints.
- 11 • Customers rely on electricity and want to know that their utility is both a trusted
12 and credible organization that is well managed, is accountable, is socially
13 responsible and has its financial house in order. On demonstrating credibility and
14 trust, Utilities Kingston has done well (Refer to Exhibit 1 Tab 4 Schedule 1
15 Attachment 2 – Customer Satisfaction Survey).
- 16 • Across the province, customers are dissatisfied with the perceived value they
17 receive for the money they are paying. Customers across Ontario don't
18 understand electricity rates and are concerned their bills are too high.
- 19 • The structure and history of Ontario's electric industry itself presents a further
20 challenge for LDCs. Residential customers (in particular) don't understand the
21 roles and responsibilities of the different electricity industry entities and
22 government. It is often difficult to explain to customers that Kingston Hydro can
23 only control certain aspects of their services and costs. Engaging customers on
24 pertinent issues can be difficult as customers' frustration at high commodity
25 costs, supply mix and politicized energy industry issues often overshadow their
26 local distribution concerns.

1 Utilities Kingston and Kingston Hydro strive to achieve the following:

- 2
- 3 • **Increase customer and community engagement** with Utilities Kingston and
4 Kingston Hydro.

5

6 Customers who are highly engaged are more inclined to balance their desire for
7 the lowest cost service against considerations such as reliability or local system
8 resilience. Engaged customers understand who their utility is, what they do, and
9 are better prepared to provide input on the long term cost-benefit decisions made
10 by their LDC.

11

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

- 19
- 20 • **Grow awareness of the value delivered by the multi-utility model to rate**
21 **payers and the local community.** Help residents understand the customer
22 service and scope economy benefits provided to them by the multi-utility model.
23 Use the 2014 customer satisfaction survey results to benchmark and set targets.
24
 - 25 • **Greater customer satisfaction, and customers who understand, value, and**
26 **support our unique multi-utility model and its benefits.**
- 27
- 28

Traditional Customer Communications

Through Utilities Kingston, Kingston Hydro keeps in touch with customers through many traditional communications channels. These include:

- Monthly bills, regular bill messages, bill inserts, direct mailing, public service advertisements.
- Press releases and media events.
- Newspaper and radio advertising.
- Maintaining a “one call” customer call centre in conjunction with the City of Kingston. Trained service representatives answer questions not only about the customers’ electricity services, but also about their water, wastewater, gas and City services.
- Participation in community events such as:
 - School safety programs
 - The award-winning, nationally-recognized Contractor Safety Days
 - Santa Claus Parade
 - Annual Public Works Day
 - Earth Hour
 - Tour des Trees
 - Princess Street Promenade
 - Home shows
 - Communities in Bloom Award sponsorship
 - Award winning Water Conservation Garden
 - Portable “Water Buggy” available for community events
- Recognition of our customers through sponsorship of the *Kingston Hydro Conservation Award* presented to a customer each year by SWITCH (www.switchkingston.ca).

- Establishment of an endowment to provide the annual *Sustainable Energy Leadership* scholarship for a St. Lawrence College Energy Systems Engineering Technology student.
- One-on-one meetings with developers in the city.
- Public information sessions prior to construction projects that may impact customers.
- A *call before you dig* program (now Ontario One Call).
- Chamber of Commerce member, regular interactions with the Downtown Business Association, Kingston Homebuilders Association, Kingston Construction Association, SWITCH Kingston, Sustainable Kingston.

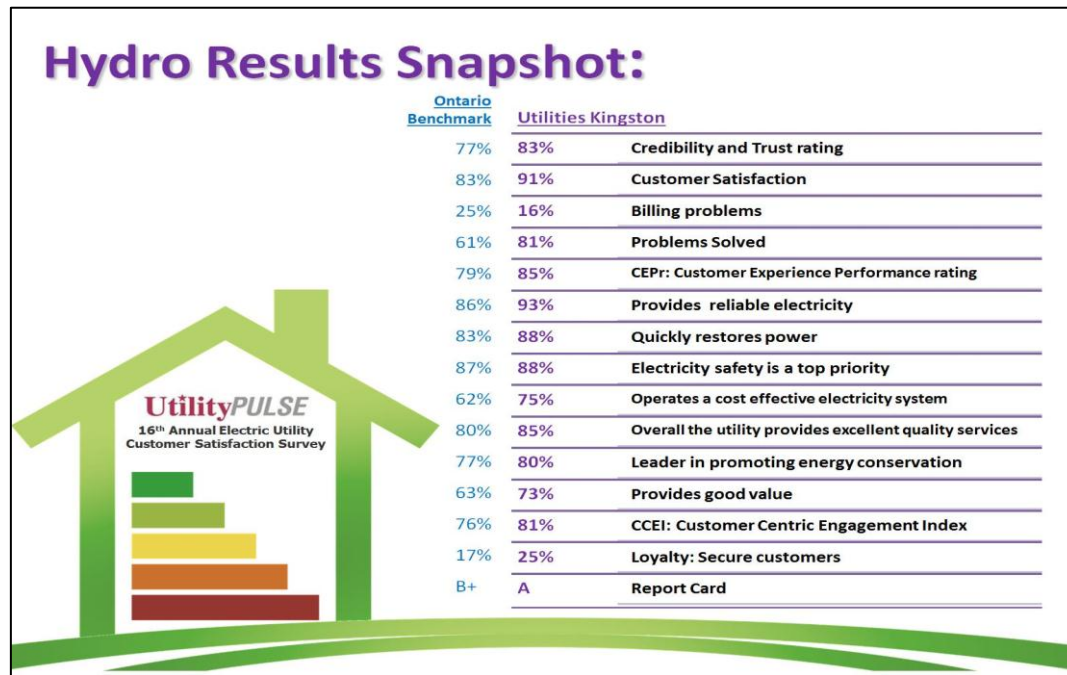
2014 Customer Survey

In early 2014, Utilities Kingston engaged UtilityPULSE, a division of Simul Corporation, to perform a third-party survey providing results for Utilities Kingston's electricity customers and comparisons to Ontario and national utilities.

This represents the first customer satisfaction survey conducted by Kingston Hydro. The complete report is included as an attachment in Exhibit 1 Tab 4 Schedule 1 Attachment 2. In April 2014, a random sample of 405 electricity customers responded to the telephone survey (39 per cent response rate). Of the 405 customers 15 per cent represented small commercial customers and the remainder were residential customers.

Utilities Kingston achieved an overall satisfaction rating of 90 per cent. Our rating of Customer Care was "B+", Company Image "A" and Management of Operations "A". Figure 1 summarizes the results all of which meet or exceed the national and provincial ranking.

Figure 1 - Overall survey results



Sid Ridgely of UtilityPULSE defines the difference between satisfaction and loyalty as follows:

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

Loyalty scores also exceeded both the national and provincial scores. This loyalty factor makes a difference in the perception of customers. For example, the survey shows that 99 per cent of ‘secure’ customers agree that overall Utilities Kingston ‘provides excellent quality services’ versus 59 per cent of ‘at risk’ customers. Loyalty is translated into confidence that the utility management makes responsible decisions and responds quickly and effectively when there are problems to address.

1 On this metric, Kingston Hydro results were that 25 per cent of our customers were
2 'secure' and 7 per cent were 'at risk'. This is above both the national ranking (secure 20
3 per cent, at risk 13 per cent) and the Ontario ranking (secure 17 per cent, at risk 17 per
4 cent) on this factor.

5 With respect to customer service, 95 per cent of customers reported they were very or
6 fairly satisfied with 'The level of courtesy of the staff who dealt with you' and 91 per cent
7 were very or fairly satisfied that 'The time it took to contact someone' was appropriate
8 and with 'The level of helpfulness of the staff that dealt with you'.
9

10 While 16 per cent of customers reported that they had a billing problem in the last 12
11 months, when asked what type of problem, 71 per cent indicated that the bill was too
12 high. This is understandable in the context that the survey was performed at the time
13 many customers were receiving bills with high consumption as a result of the very cold
14 winter temperatures. Every high bill complaint we receive is directed to the conservation
15 team to explore if there is some way to assist these customers to better understand and
16 manage their electricity usage or take advantage of province-wide saveONenergy
17 incentives.
18

19 To better understand our customers' knowledge of and value for Utilities Kingston's
20 unique multi-utility model of service provision we requested that the survey include
21 some questions about the model.
22

23 When asked 'Were you aware Utilities Kingston delivered multiple utilities under one
24 roof?', 91 per cent responded yes.
25

26 Kingston customers were asked to what degree they agree with the statements in Table
27 1, as they relate to a multi-utility model like Utilities Kingston, versus a stand-alone
28 electric utility.
29

1 Table 1 – Responses (agreed) to questions regarding the multi-utility model

It is convenient to receive one bill for all utilities	97%
A single source of contact for all utility needs makes life easier	96%
There is a faster restoration of disrupted utility services	72%
There is better co-ordination of infrastructures repairs and upgrade	73%
Move-in or move-out are easy to arrange	78%
One bill for all utilities or one interface through the MyUtilities portal makes it easier to manage and track costs	91%

2

3 The results of the survey were communicated both to our customers and to our
4 employees. Our focus on customer service was reinforced and staff was recognized for
5 delivering great service to our customers.

6

7 The Evolution of Communications

8

9 From Reactive To Proactive

10

11 Customer expectations are increasing and many businesses are challenged to ensure
12 customers have a good experience when interacting with them. This is also true of
13 monopolized industries such as electricity distribution. Communicating about electricity
14 is challenging, especially due to the complexity of the electricity world and the on-going
15 media attention that is often associated with a message that money is being wasted in
16 the provision of electricity.

17

18 Understanding this, as well as the importance of creating loyal customers, Utilities
19 Kingston has implemented a communications strategy for Kingston Hydro customers
20 that is focused on a brand message of credibility and trust. Our employees take pride in
21 serving our community, including our friends and relatives.

1 Customer service is an important focus and we are never more aware than when
2 there's a disruption of service. It's a priority to get the power back on as quickly as we
3 safely can, while also ensuring that the impact to customers is reduced.

4 5 Adapting To New Customer Communication Expectations

6
7 Our utility recognizes the need to provide timely, accurate information to our customers
8 and the media, in particular during the event of an emergency. Proactive information
9 can help the community deal more effectively with a crisis.

10 Kingston Hydro has adapted quickly to new expectations. In addition to the factors
11 identified in the *Environmental Scan*, two key areas driving the need to adapt our
12 communications strategies are conservation and demand management (CDM)
13 programs and the rise of social media.

14
15 Recognizing the need to move from reactive to proactive communications, a
16 communications specialist position was added to staff at the end of 2011. This expertise
17 has permitted a focus on educating customers to help prevent or reduce the impact of a
18 utility emergency. A typical example of our proactive communication approach is in
19 advance of a storm, to prepare customers on what to do in the event of a resulting
20 downed wire or power outage.

21
22 When outages do happen, we continue to improve on our ability to let customers know
23 when they can expect to have the power restored. In fact, during the ice storm of 2013,
24 communications staff was situated in the control centre in order to ensure the most
25 accurate and up-to-date information was provided to our customers and the media, in
26 real time, through a variety of channels. This also permits operators to remain focused
27 on ensuring that the power gets restored safely and efficiently.

Advancing Digital Communications

Customers today have a wide spectrum of communication preferences, including face-to-face, telephone calls, and now, more frequently, through online resources (such as websites) and social media (such as Facebook and Twitter). Responsive utilities monitor these trends and assess as many of the customer-preferred channels as they can effectively manage.

The customer satisfaction survey indicates that, in the Kingston Hydro service area, there is a higher-than-average degree of interest in Internet use (Table 2).

Table 2 – Result of customer satisfaction survey – use of Internet

Likelihood of using the internet for customer care needs for things such as:		
Top 2 boxes "Very" and "Somewhat likely"	Ontario LDC's	Utilities Kingston
Setting up a new account	31%	50%
Arranging a move	38%	52%
Accessing information about your bill	55%	61%
Accessing information about your electricity usage	54%	62%
Accessing energy saving tips and advice	45%	50%
Accessing information about Time of Use rates	51%	64%
Maintaining information about your account or preferences	51%	59%
Paying your bill through the utility's website	32%	41%
Getting information about power outages	47%	55%
Arranging for service	40%	52%

Informative, Up-to-date Websites

In 2014, Kingston Hydro and Utilities Kingston updated their respective websites to ensure that:

- The information is current and easy to find

- 1 • Regulatory requirements are met
- 2 • The relationship between Kingston Hydro (as the licensed distributor of
- 3 electricity) and Utilities Kingston (as the operator of Kingston Hydro
- 4 infrastructure) is clearly explained
- 5 • That the requirements of the *Accessibility for Ontarions with Disabilities Act* are
- 6 met

7

8 The website upgrades help reduce the impact of planned service disruptions by

9 providing our customers with timely, accurate updates through an online outage map.

10 This map provides details on planned power outages in the Kingston Hydro electricity

11 distribution area, as well as planned water disruptions in the municipal water distribution

12 system.

13

14 The revised websites received well over 700,000 page views in 2014.

15

16 Customers now have access to the MyUtilities portal where they can access their utility

17 consumption information. This portal supports the provincial Green Button initiative.

18 There are currently almost 5,000 (18 per cent) electricity accounts registered to access

19 the portal. The conservation team offers one-on-one coaching with respect to how to

20 use the portal and understanding the data.

21

22 In addition, we are leveraging the investment in smart meters, and our geographic

23 information system into an outage reporting system. This is a solution that will allow for

24 information to be shared with customers on our website regarding unplanned system

25 outages.

26

27

1 *Timely, Accurate Social Media Updates*

2
3 Utilities Kingston has been active on Facebook since 2012 and on Twitter since 2014.

4
5 Customers rely on us to provide accurate and timely information through social media,
6 in particular during utility emergencies. Our goal is to reduce the impact of service
7 disruptions on our customers.

8
9 The community continues to grow steadily; in particular during an event such as an
10 outage. For example, followers increased by 100 per cent in late December 2013 due
11 to a large fire in Kingston that was immediately followed by an ice storm.

12
13 An emerging trend is the use of video as part of social media campaigns. Video is both
14 versatile and shareable, so it can be used for a range of functions. With upwards trends
15 in households consuming video, we have begun introducing video as an interesting and
16 informative way to engage our customers.

17
18 Finally, we are in the process of growing and enhancing the Twitter team in order to
19 optimize our presence in the digital world.

20
21 **Conservation and Demand Management**

22
23 In 2014, Utilities Kingston was awarded the inaugural *Ontario Power Authority Award for*
24 *Conservation Leadership Excellence*, recognizing our utility as the industry leader in
25 innovative and effective electricity conservation programming.

26
27 Kingston Hydro is mandated by the Ontario Energy Board as a condition of its license to
28 deliver 37 GWh in cumulative electricity consumption savings and 6.7 MW in summer
29 peak demand reductions between 2011 and 2014. This represents a reduction of

1 around five-to-six per cent in total energy consumption and peak system demand
2 versus a 2010 baseline.

3
4 As a result of a significant focus on connecting in-person with our customers, Kingston
5 Hydro's electricity customers have saved over 43 GWh of electricity since 2011.
6 Conservation is the cleanest and least costly way to increase electricity system
7 capacity, while empowering customers to have more control over their electricity costs.

8
9 By helping customers access grants and incentives for conservation investments from
10 provincial saveONenergy programs, Utilities Kingston actively invests in making local
11 businesses more competitive and local homes more affordable to live in.
12 Utilities Kingston's conservation team and our customers have helped Kingston Hydro
13 become one of only a handful of Ontario electricity distribution companies that are likely
14 to meet and exceed their OEB-mandated 2014 electricity consumption and demand
15 targets. Economies of scope created by our multi-utility model mean that Utilities
16 Kingston has delivered these conservation results with stellar cost effectiveness,
17 spending only 81 per cent of allocated program administration budget dollars allocated
18 to Kingston Hydro by the Independent Electricity System Operator (IESO) from 2011-
19 2014. By operating electricity, water, and gas conservation programming through one
20 team, all three utilities are contributing to the fixed costs of program administration,
21 making more comprehensive and more customer-centric programs possible at a lower
22 cost than each utility would be able to achieve on its own.

23
24 Since 2011, Utilities Kingston and its customers have leveraged over \$3 million of
25 saveONenergy incentives to invest at least \$13 million in electricity conservation
26 projects within Kingston Hydro distribution territory. According to the Ontario Power
27 Authority (OPA, now the Independent Electricity System Operator) these investments
28 have already saved Ontario ratepayers more than \$1.8 million in avoided supply costs.

With an average payback in the two-to-five year range depending on the individual program, these investments are helping Utilities Kingston customers achieve great financial returns, making local employers more competitive and improving utility affordability at a time when rising utility costs are our customers' number one concern.

With the help of a dedicated team of staff and contractors, Utilities Kingston delivers thirteen saveONenergy conservation programs for electricity customers in the Kingston Hydro territory, giving our diverse customer base the opportunity to receive expert help and financial assistance towards planning and implementing electricity conservation projects. Together since 2011, Utilities Kingston, Kingston Hydro, and our customers have saved enough cumulative kWh to power 5,600 average Kingston Hydro residential customers for a year.

The achievements reported in Tables 3-4 are based on 2011-2013 IESO-report final verified conservation results, 2014 unverified IESO-reported numbers until the end of Q3, 2014, and Kingston Hydro records. IESO-verified results for the 2011-2014 target framework will be available in September, 2015.

Table 3 – Conservation target progress

Year	% kWh Target achieved	% kW Demand Target Achieved
2011	36	70.8
2012	44	20.7
2013	33	5.5
2014 (partial year results)	4	6
Total	117	103

1 Table 4 – Conservation program achievements

Program	Description	Results	Annual kW / kWh savings
Appliance Retirement	Picks up and recycles old “beer fridges” at no cost for residential customers	362 old, inefficient appliances retired	21 kW 142,019 kWh
Heating & Cooling Incentive	Provides financial rebates for customers installing residential high-efficiency furnaces or air-conditioners	293 participants	251 kW 470,235 kWh
Other Consumer Programs (Coupons & Retailer Coop)	Coupons & in-store events	Incentives were claimed for 28,355 retail purchases.	58 kW 716,104 kWh
RETROFIT	Offers free energy efficiency walkthroughs, expert help & financial incentives to commercial & institutional customers for conservation projects	Over 200 projects funded and millions of dollars of incentives placed.	1,267 kW 10,658,544 kWh
Small Business Lighting	Offers \$1,500 of free lighting retrofits to small commercial customers plus additional incentives	Over 640 retrofits completed	482 kW 1,703,655 kWh
High Performance New Construction	Offers incentives for energy efficient new buildings	13 new buildings funded	209 kW 778,696 kWh
Audit Program	Offers up to 50 per cent of the cost of full building energy study conducted by a qualified professional	17 Audits funded	50 kW 260,000 kWh

2

3

1

Home Assistance Program	Offers income-qualified customers an in-home assessment & no-cost electricity and water conservation upgrades	450 Homes	37 kW 352,190 kWh
Demand Response 3	Provides incentives for users to help shave critical summer demand peaks	2 Participants	3,823 kW 300,000 kWh
Program Enabled Savings	Pumping & treatment electricity savings from customer investments in water conservation	12,000 water conservation kits, 152 HAP program visits, 35 Water Retrofits	0 kW 81,000 kWh
Program Enabled Savings	Switching UK appliance rental customers from electricity to gas tanks	18 participants	0 kW 23,277 kWh
Energy Insights	Provides customized reports to targeted high use residences, quantifying end uses, benchmarking against similar buildings, and providing targeted tips and incentives	9000 customers received a series of 3 reports each over winter 2014-15	Results expected late Apr. 2015

2

3 Saving Water Is Saving Energy

4

5 Energy is a major input and cost for our water and wastewater utilities. Utilities Kingston
6 tracks water and wastewater energy use, per cubic metre of throughput, as per *Ontario*
7 *Regulation 397/11*. In 2014, Utilities Kingston filed a five-year energy conservation plan
8 with the Ministry of Energy.

9

10 Given our unique multi-utility structure, Utilities Kingston is well-positioned to coordinate
11 energy and water conservation programming to benefit our customers and the

1 environment. Leveraging research by the Sustainable Energy Applied Research Centre
2 at St. Lawrence College and the Queen's Institute for Energy and Environmental Policy,
3 Utilities Kingston's electricity and water utility experts work together to track how much
4 energy can be saved through increased investment in active leak detection and repair of
5 the water distribution system. This allows Utilities Kingston to access provincial
6 electricity conservation funding for investments that improve our local infrastructure and
7 reduces operating cost, while helping Kingston Hydro meet provincial electricity
8 conservation targets.

9 10 Innovative, Customer-Focused Conservation Services

11
12 The Utilities Kingston MyUtilities online portal allows our residential and small
13 commercial customers access to information that can help them save water, energy and
14 money. Utilities Kingston's conservation team provides access to live, one-on-one,
15 expert help interpreting data and identifying savings opportunities, conducting hundreds
16 of consultations each year.

17
18 Over 6,800 customers (all utilities) are registered with the MyUtilities system to manage
19 their consumption of water, gas and electricity; view their bills; see how their
20 consumption compares to homes in their neighbourhood; and more.

21
22 In late 2014, Utilities Kingston launched its innovative *Energy Insights* program. This
23 program analyzes customer smart meter data and combines it with information from
24 Municipal Property Assessment Corporation (MPAC) and other public databases, then
25 provides customers with a series of reports over the heating season that offers
26 customized tips for saving energy. This program helps us reach customers with
27 information about the saveONenergy programs that are best for them.

1 Approximately 9,000 targeted customers were mailed a series of personalized reports
2 over the winter of 2014-15. These reports include specific information on the
3 household's electricity consumption, including a calculated estimate of how much
4 electricity and natural gas is used for different purposes, a comparison of energy use to
5 similar homes in the Kingston Hydro territory, and tailored tips on how to reduce energy
6 use. One-on-one conservation advice and help over the phone and email to make
7 sense of these reports is also offered. Results of this pilot program will be available in
8 Spring 2015. Initial results indicate that this innovative use of smart meter data is well-
9 received by most of our customers.

10
11 Utilities Kingston conservation team staff support the billing and customer service
12 departments by acting as a resource for customers with unresolved high bill
13 complaints. Our conservation team is a first-call resource for customers that wish to
14 manage rising costs.

15
16 For our commercial and multi-residential customers, Utilities Kingston offers free, on-
17 site energy and water conservation walkthroughs in addition to free, one-on-one phone
18 consultations or online help. By combining electricity, water, and gas conservation
19 consultations and application assistance into one visit or one phone call from a single
20 Utilities Kingston employee, customer service is improved, while the cost of providing
21 this service is split between our energy and water utilities, enabling delivery of industry
22 leading customer service while maintaining cost-effectiveness.

23
24 Utilities Kingston is committed to building capacity in our contractor community by
25 offering free, one-on-one training on how to make the most of local and provincial
26 conservation incentives to anyone engaged in the electrical, mechanical, plumbing,
27 maintenance, or building management trades.

2015 Outreach Distribution System Plan

The 2014 UtilityPULSE survey included questions regarding what the respondents viewed as priority investments. The results in Table 5 compare Utilities Kingston to the aggregated responses of all participating utilities

Table 5 - Customer satisfaction survey – priority investments

Top 2 boxes “Very” and “Somewhat likely”	Ontario LDCs	Utilities Kingston
Maintaining and upgrading equipment	83%	84%
Reducing the time needed to restore power	79%	79%
Investing more in the electricity grid to reduce the number of outages	75%	74%
Educating customers about energy conservation	75%	74%
Burying overhead wires	61%	60%
Investing more in tree trimming	58%	58%
Providing more self-serve services on the website	41%	38%
Providing sponsorships to local community causes	40%	43%
Developing a smartphone application	30%	31%
Making better use of social media	27%	30%

The top three reported priorities confirmed and reinforced our understanding of our customers’ needs and expectations. The Distribution System Plan, which was under development at the time, continued to focus on these priority areas. The proposed plan identified a capital requirement of approximately \$25,000,000 over the 2015-2020 period. This capital requirement is significantly in excess of Kingston Hydro’s depreciation rates due to the fact that much of the existing infrastructure has been completely depreciated. Over 70 per cent of the capital is proposed to be spent on upgrades to existing infrastructure ensuring on-going reliability. Attention was paid to pacing the investments in a way that would result in a gradual or ‘smoothed’ impact on rates to assist with the issue of affordability.

1 Soon after receiving the results of the customer satisfaction survey in June of 2014,
2 planning for the Distribution System Plan customer consultation exercise was initiated.
3 The plan entitled *Understanding Our Customers' Needs and Expectations 2014-2020*
4 *Action Plan* at (Exhibit 2 Tab 2 Schedule 1 Attachment 1) was completed by an internal
5 team represented by communications, regulatory and conservation staff. The plan
6 recognizes that there is a requirement for consultation with customer as a component to
7 inform the development of the Distribution System Plan and therefore has a focus on
8 ensuring that customers have opportunities to influence the final plan. The
9 communications plan, however, also looks beyond simply complying with the filing
10 guidelines toward the development of a longer term plan that will take us to a new
11 interactive relationship with our customers.

12
13 As part of the planning process, we reviewed the engagement activities that had been
14 undertaken by other utilities as their rate applications were brought before the Board.
15 This review assisted us in understanding what were found to be the most cost effective
16 communication tools.

17
18 Customer satisfaction survey results emphasized that in order to really connect with our
19 customers we must have a better understanding of the customer 'personas' as
20 individuals or smaller groups with differing interests and needs. The following is an
21 excerpt from the survey report with emphasis added:

22
23 *In a world of chaos and confusion what will a customer do? Find someone to*
24 *help. In the electricity industry, the vast majority of customers turn to, and*
25 *rely on, their local utility. Knowing that customers will turn to their electric*
26 *utility requires utilities to really know their customers. Not easy when*
27 *customer expectations continue to shift.*
28

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

8
9 *Most utilities are quite comfortable “pushing” out communications in a one-*
10 *way world. However, the shift is on because the new channels are 2-way;*
11 *even without the new channels customers are expecting 2-way dialogue.*
12 *The impact on a utility’s marketing-communications is significant.*

13
14 *Value is what a customer perceives they get in exchange for what they give*
15 *up.* *The real challenge is educating customers on the value they receive. In*
16 *the absence of a value proposition the primary thing people will talk about is*
17 *cost.*

18
19 Focusing on this advice, our communication plan involved looking at key customer
20 groups with a view to developing meaningful and effective messages designed to target
21 that specific group of customers. Details about the activities that formed part of the
22 Distribution System Plan consultation can be found at (Exhibit 2 Tab 2 Schedule 1
23 Attachment 1).

24
25 In addition, while meeting with customers about the Distribution System Plan, we took
26 the opportunity to ask some key questions to assist in the development of our long term
27 communications plan. Those questions were:

1 What are we doing now that you would like us to continue to do?

2 What are we not doing that you would like us to do?

3

4 **Next Steps**

5

6 To leverage the value of this exercise, the feedback collected from customers will be
7 used to further our multi-year customer engagement plan that will transform our
8 approach to customer engagement beyond simply 'informing' our customers to a new
9 level of working with empowered, knowledgeable customers.

Attachment 1 of 2

OEB Appendix 2-AC

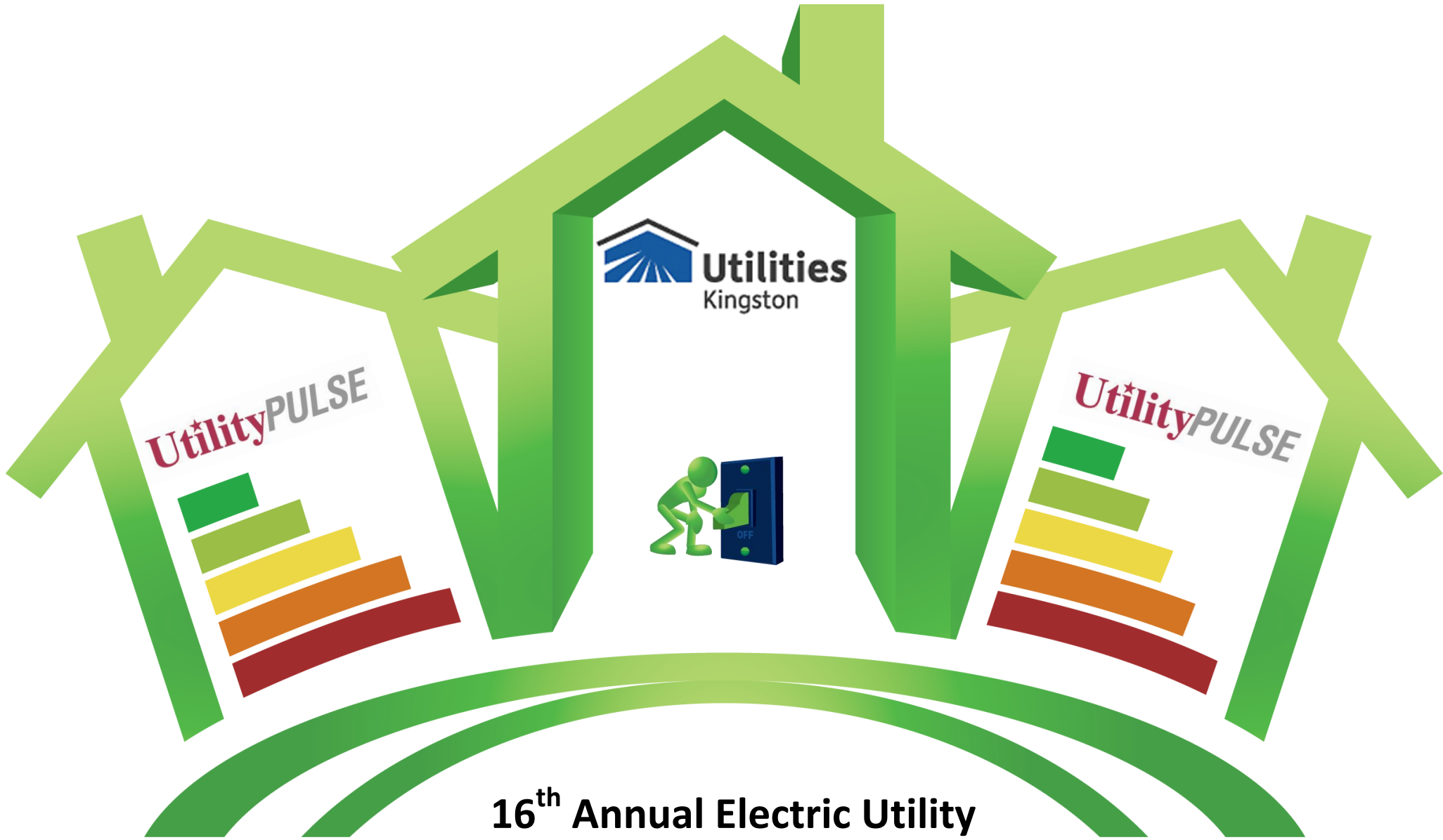
OEB APPENDIX 2-AC

Information relevant to OEB Appendix 2-AC is found within Appendix 5 of the Distribution System Plan (DSP). Kingston Hydro is filing its consolidated Distribution System Plan (DSP) as a stand-alone document which includes all elements of the DSP including Customer Engagement as Exhibit 2 Tab 2 Schedule1 Attachment 1 in accordance with the Chapter 2 filing requirements. Kingston Hydro has organized this information in accordance with the Chapter 5 filing requirements.

Attachment 2 of 2

Customer Satisfaction Survey

Utilities Kingston



**16th Annual Electric Utility
Customer Satisfaction Survey**

The purpose of this report is to profile the connection between Utilities Kingston and its customers.

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

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

This is privileged and confidential material and no part may be used outside of Utilities Kingston without written permission from UtilityPULSE, the electric utility survey division of Simul Corporation.

All comments and questions should be addressed to:

Sid Ridgley, UtilityPULSE division, Simul Corporation

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

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



Executive summary

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

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

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

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

- 1- Customers, almost universally, are concerned about the cost of electricity
- 2- Customers are resilient and can adapt to adversity, in fact, they are very tolerant when a utility goes through a very difficult situation
- 3- In a utility world that is used to "pushing information out", it has to invest in and hone its competencies in having 2-way interactions with customers.



Reasonable costs

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

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

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

The attributes which help an LDC to be seen as trusted and highly credible are: knowledge, integrity, involvement and trust. On demonstrating Credibility and Trust, Utilities Kingston has done well.

Overall, Utilities Kingston 83% [Ontario 77%; National 80%].

EB-2010-0379 ROB-SA: Comparability

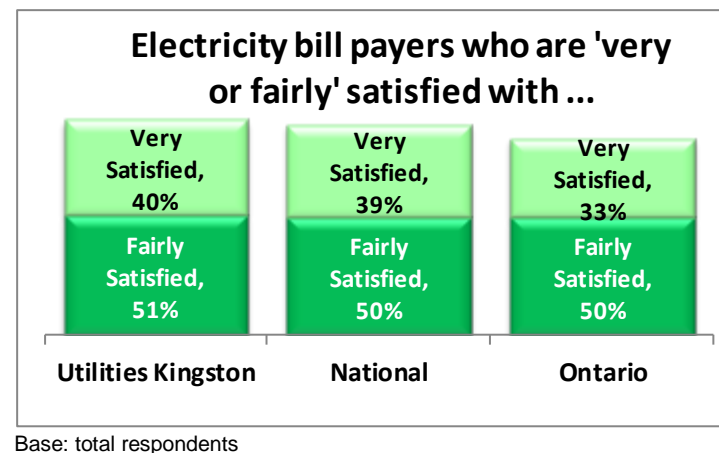
Your 2014 report contains data comparisons to:

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

- Ontario LDCs participating in the 2014 survey
- UtilityPULSE database

EB-2010-0379 ROB-SA: Customer Focus

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



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

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



Utilities Kingston SATISFACTION SCORES – Electricity customers' satisfaction	
Top 2 Boxes: 'very + fairly satisfied'	2014
PRE: Initial Satisfaction Scores	91%
POST: End of Interview	90%

Base: total respondents

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

Customer Affinity

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

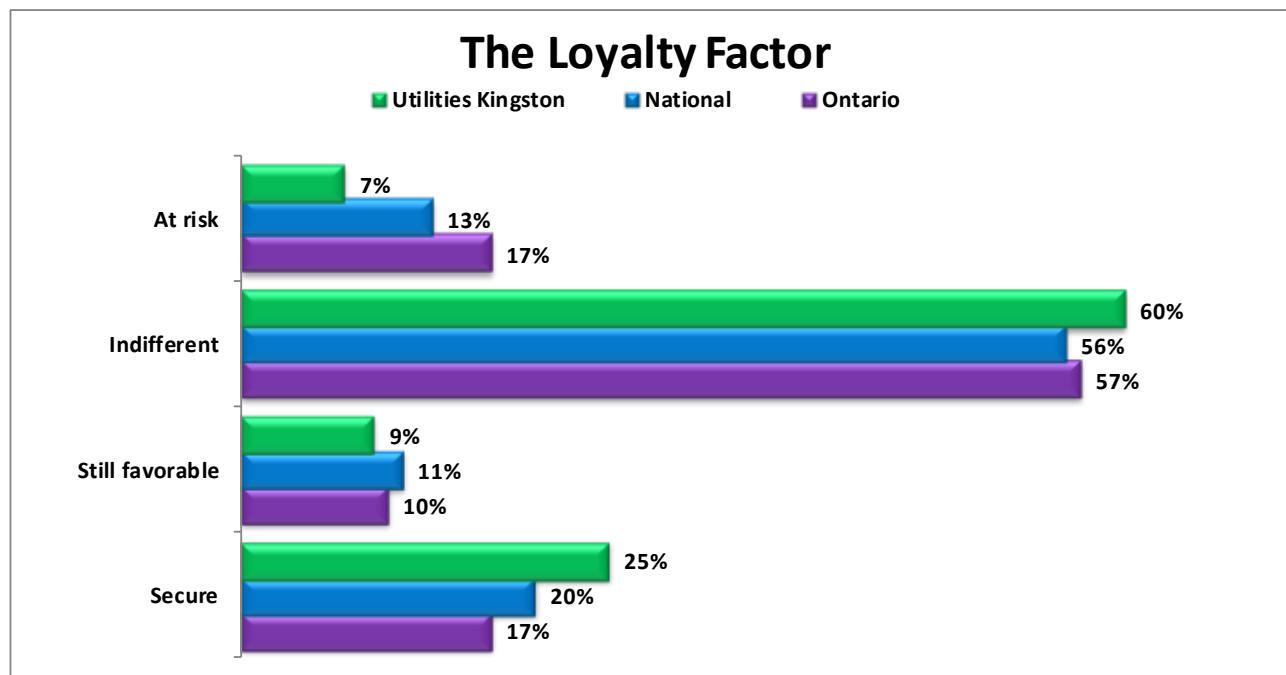
Customer Loyalty Groups				
	Secure	Favorable	Indifferent	At Risk
Utilities Kingston				
2014	25%	9%	60%	7%

Base: total respondents



Even if customers can't defect, there is enormous value in making more of them loyal. Customers after all make the company's reputation. Reputation is ultimately what customers think – nothing else. To be successful and profitable, companies must take account of how they are perceived because companies do operate in a climate of opinion.

Loyal customers are more likely to see the world the way hydro management sees it. Customers feel their interests and the hydro's are often in common. Our survey results do reveal, loyal customers enhance the value of the utility. One example, 99% of Secure customers agree that overall Utilities Kingston 'provides excellent quality services' versus 59% of At Risk customers.



Base: total respondents

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

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

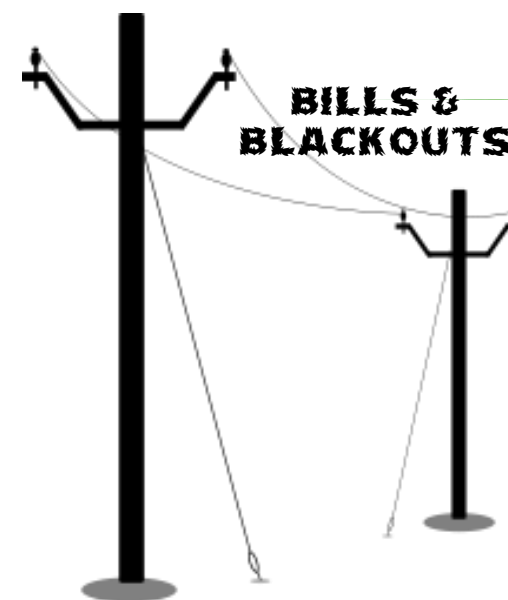
None-the-less problems will happen.

The Killer B's (Blackouts and Bills)

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

Percentage of Respondents indicating that they had a Blackout or Outage problem in the last 12 months			
	Utilities Kingston	National	Ontario
2014	39%	47%	49%
2013	-	41%	35%
2012	-	44%	46%
2011	-	43%	43%
2010	-	45%	41%

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

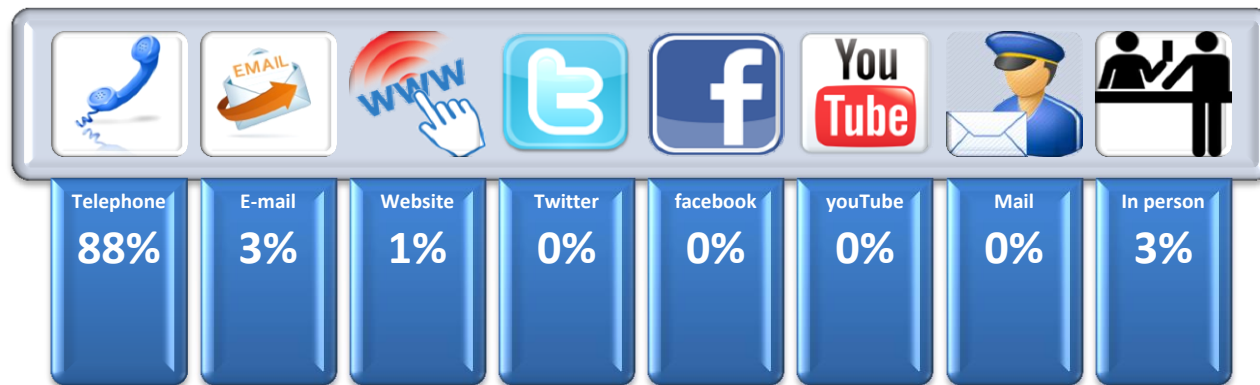


Percentage of Respondents indicating that they had a Billing problem in the last 12 months			
	Utilities Kingston	National	Ontario
2014	16%	16%	25%
2013	-	8%	10%
2012	-	12%	13%
2011	-	10%	16%
2010	-	10%	12%

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

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

Base: data from the full 2014 database



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

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

There is a difference between what a customer believes is a billing problem versus a technical or production level measurement. Without the benefit of production level numbers, 83% of respondents ‘agree strongly + somewhat’ that the utility has “accurate billing”. The Ontario benchmark rating is 77%.

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

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

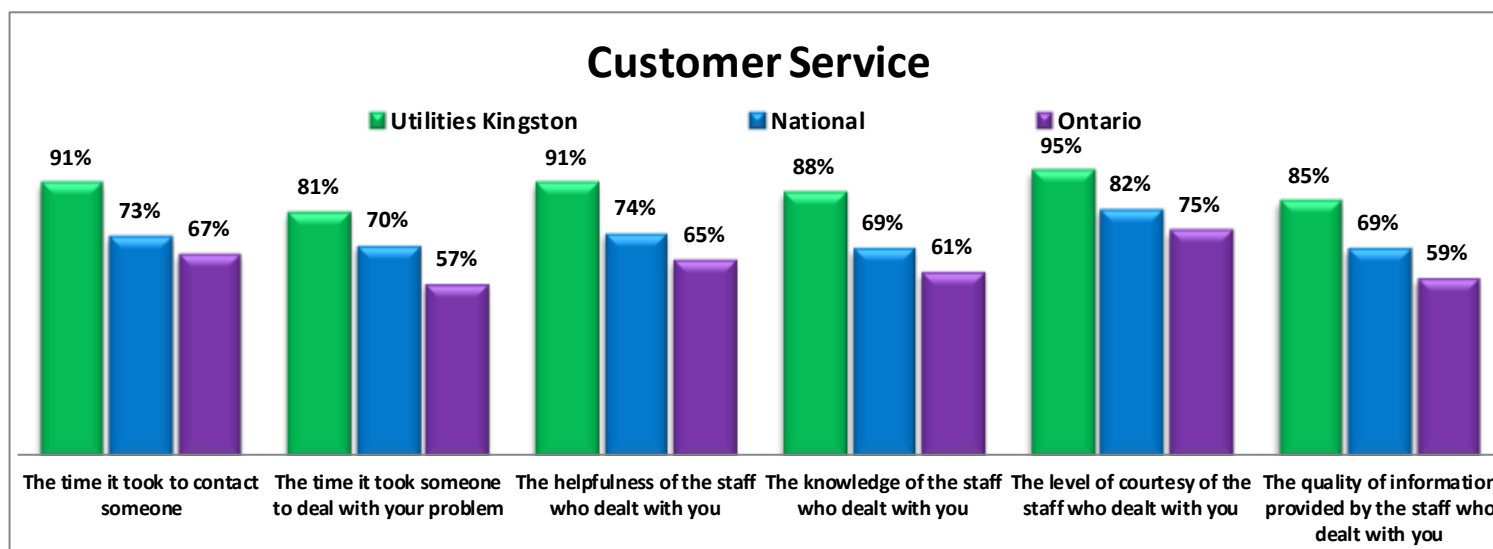
Your 2014 survey gives you the following information from respondents:

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



Satisfaction with the contact experience

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



Base: total respondents who contacted the utility

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

Overall satisfaction with most recent experience			
	Utilities Kingston	National	Ontario
Top 2 Boxes: 'very + fairly satisfied'	88%	75%	62%

Base: total respondents who contacted the utility

Problem solved rating

Respondents who said that they contacted the utility were also asked “Do you consider the problem solved or not solved?” 81% of your LDC’s respondents said the problem was solved. The Ontario benchmark rating is 61%.

Customer Experience Performance rating (CEPr)

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



Customer Experience Performance rating (CEPr)			
	Utilities Kingston	National	Ontario
CEPr: all respondents	85%	82%	79%

Base: total respondents



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

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

Customer Service Quality			
Top 2 boxes, 'strongly + somewhat agree'	Utilities Kingston	National	Ontario
Deals professionally with customers' problems	87%	82%	78%
Pro-active in communicating changes and issues affecting Customers	79%	74%	73%
Quickly deals with issues that affect customers	85%	79%	74%
Customer-focused and treats customers as if they're valued	82%	74%	72%
Is a company that is 'easy to do business with'	86%	79%	75%
Cost of electricity is reasonable when compared to other utilities	63%	60%	55%
Provides good value for money	73%	67%	63%
Delivers on its service commitments to customers	88%	84%	82%

Base: total respondents with an opinion

EB-2010-0379 ROB-SA: Operational Effectiveness

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

Management Operations			
Top 2 boxes, 'strongly + somewhat agree'	Utilities Kingston	National	Ontario
Provides consistent, reliable electricity	93%	89%	86%
Quickly handles outages and restores power	88%	86%	83%
Makes electricity safety a top priority for employees and contractors	88%	89%	87%
Operates a cost effective electricity system	75%	69%	62%
Overall the utility provides excellent quality services	85%	83%	80%

Base: total respondents with an opinion

UtilityPULSE Report Card®

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

Utilities Kingston's UtilityPULSE Report Card[®]

Performance

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

Base: total respondents

Corporate Image

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

Attributes strongly linked to a hydro utility's image			
	Utilities Kingston	National	Ontario
Is a respected company in the community	87%	81%	78%
A leader in promoting energy conservation	80%	78%	77%
Keeps its promises to customers and the community	84%	79%	76%
Is a socially responsible company	85%	78%	77%
Is a trusted and trustworthy company	86%	82%	77%
Adapts well to changes in customer expectations	76%	71%	68%
Is 'easy to do business with'	86%	79%	75%
Provides good value for your money	73%	67%	63%
Overall the utility provides excellent quality services	85%	83%	80%
Operates a cost effective hydro-electric system	75%	69%	62%

Base: total respondents with an opinion


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

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

What do customers think about electricity costs?

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

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



Is paying for electricity a worry or major problem ...			
	Utilities Kingston	National	Ontario
Not really a worry	68%	69%	59%
Sometimes I worry	21%	20%	26%
Often it is a major problem	5%	7%	11%
Depends	3%	3%	2%

Base: total respondents

Supplemental Insights

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

Electric Industry Knowledge & SMART Grid

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

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

Base: total respondents in the Ontario Benchmark survey



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

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

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

Base: total respondents in the Ontario Benchmark survey

Efforts to reduce energy consumption

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

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



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

Base: total respondents in the Ontario Benchmark survey

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

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

Active efforts have reduced energy consumption



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

Efforts to conserve have translated into savings on your electricity bill



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

Utilities Kingston: Multi-utility

In most Ontario municipalities, electrical power, natural gas, water and sewerage, telephone service, and other utilities have traditionally been regarded as distinct industries, with separate firms providing each service. Multiple firms means multiple contact points for problems and multiple bills. Utilities Kingston offers its residents a multi-utility strategy, integrating the various infrastructure services of water, wastewater, gas and electricity services in one company, and one contact point.

When Kingston respondents were asked whether they knew Utilities Kingston operated multiple utilities under one roof versus the traditional stand-alone electric utility, 91% were aware of the multi-utility model.

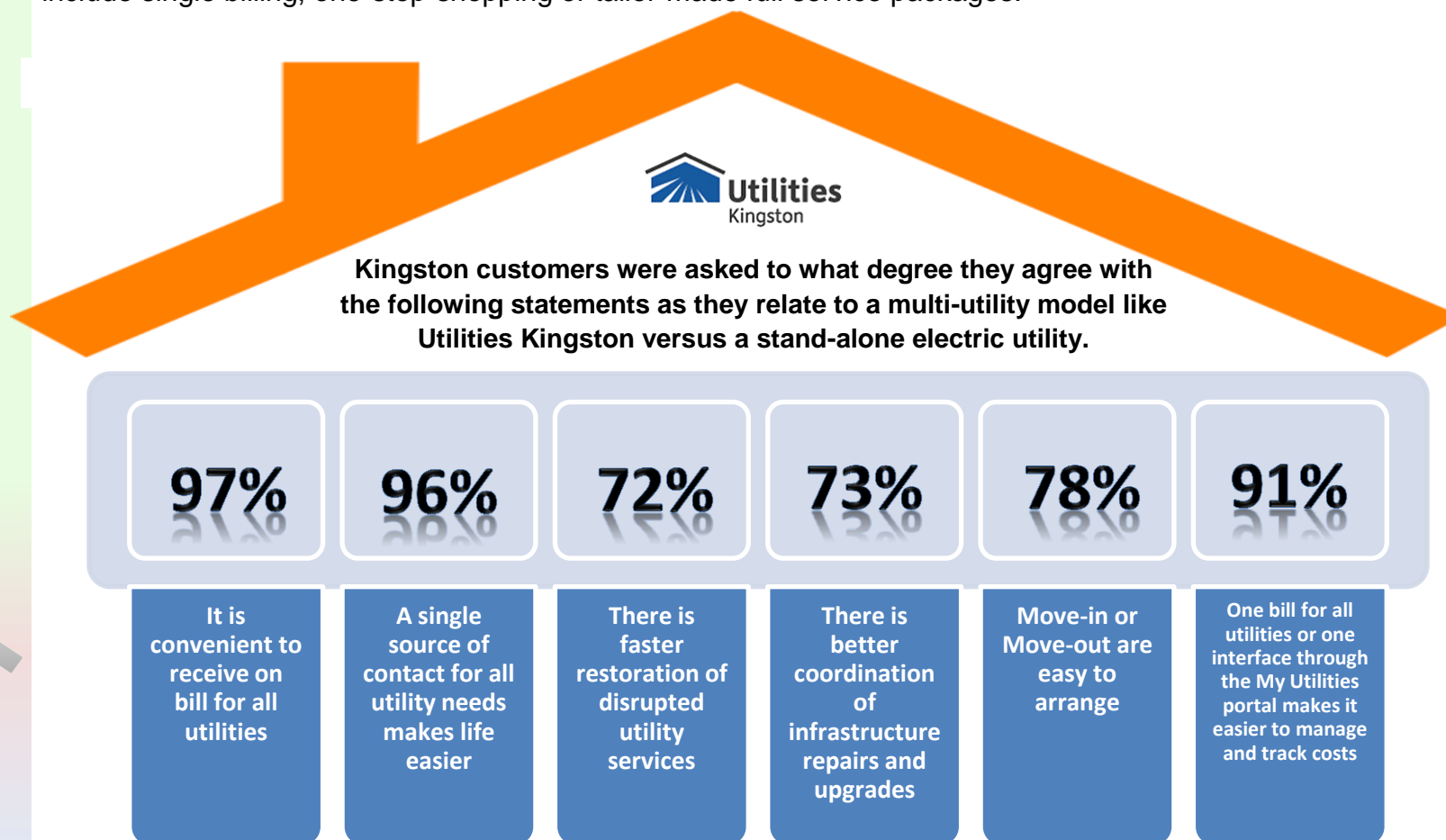
“... were you aware Utilities Kingston delivered multiple utilities under one roof?”



Base: total respondents



With the same utility company providing customers in Kingston with water, energy and other services, the belief is that from a customer's viewpoint, single sourcing of services offers advantages that include single billing, one-stop-shopping or tailor-made full service packages.



Base: total respondents: Top 2 boxes: "Agree strongly + agree somewhat"

Energy Conservation & Efficiency

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



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

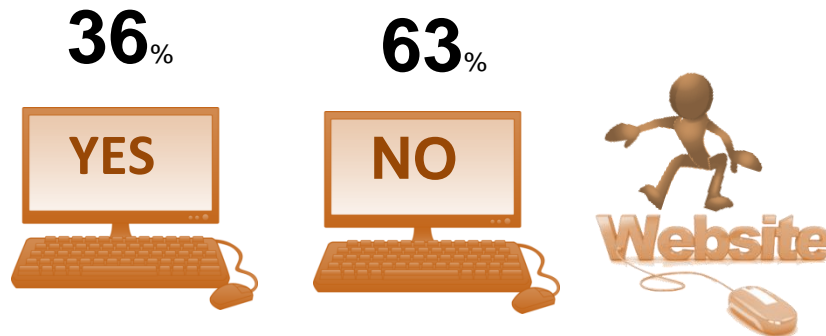
Base: An aggregate of respondents from 2014 participating LDCs

E-care and E-billing

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

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

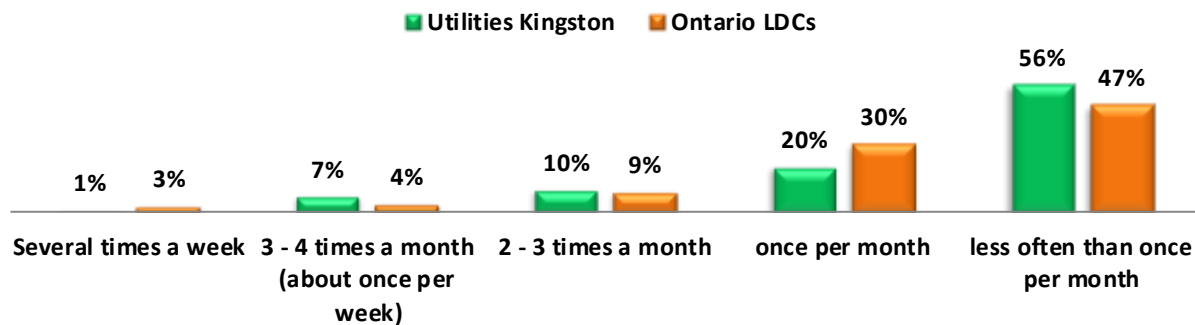
Base: 90% of total respondents from the local utility



Do you have access to the internet?		
	Ontario LDCs	Utilities Kingston
Yes	87%	88%
No	13%	12%

Base: 90% of total respondents from the local utility

Frequency of accessing the utility's website



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

Likelihood of using the internet for future customer care needs for things such as:		
Top 2 Boxes: 'very + somewhat likely'	Ontario LDCs	Utilities Kingston
Setting up a new account	31%	50%
Arranging a move	38%	52%
Accessing information about your bill	55%	61%
Accessing information about your electricity usage	54%	62%
Accessing energy saving tips and advice	45%	50%
Accessing information about Time Of Use rates	51%	64%
Maintaining information about your account or preferences	51%	59%
Paying your bill through the utility's website	32%	41%
Getting information about power outages	47%	55%
Arranging for service	40%	52%

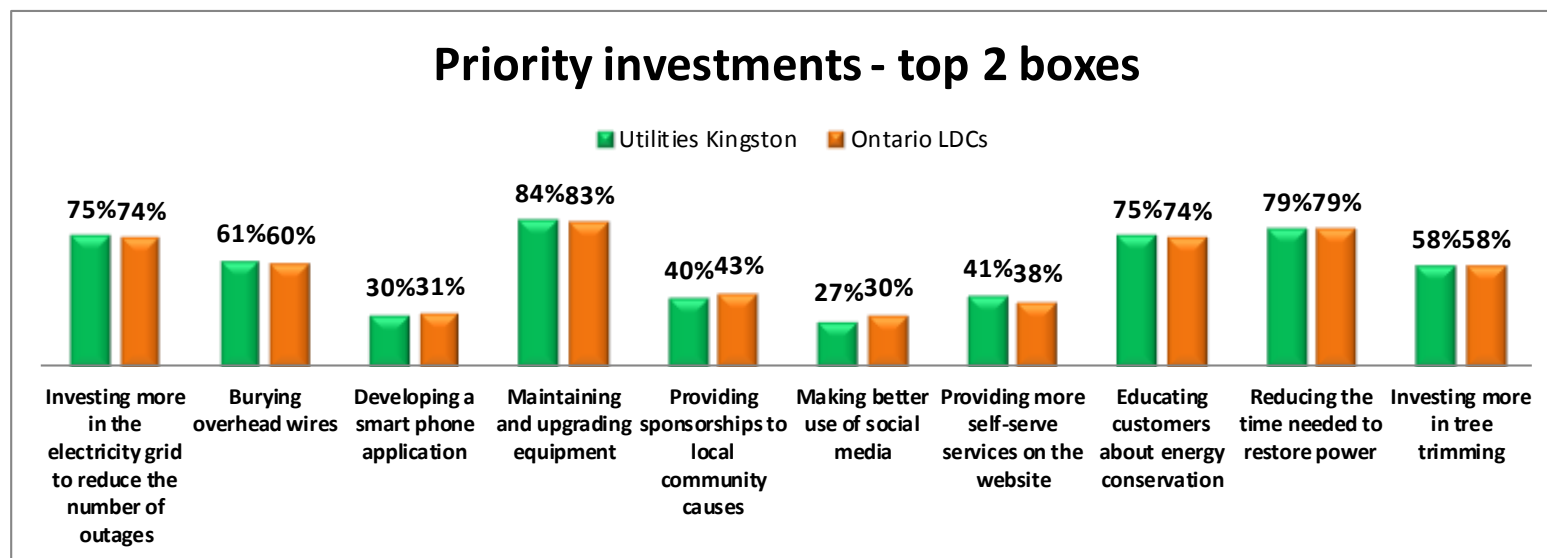
Base: An aggregate of respondents from 2014 participating LDCs / 90% of total respondents from the local utility

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



Priority Investments

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



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

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

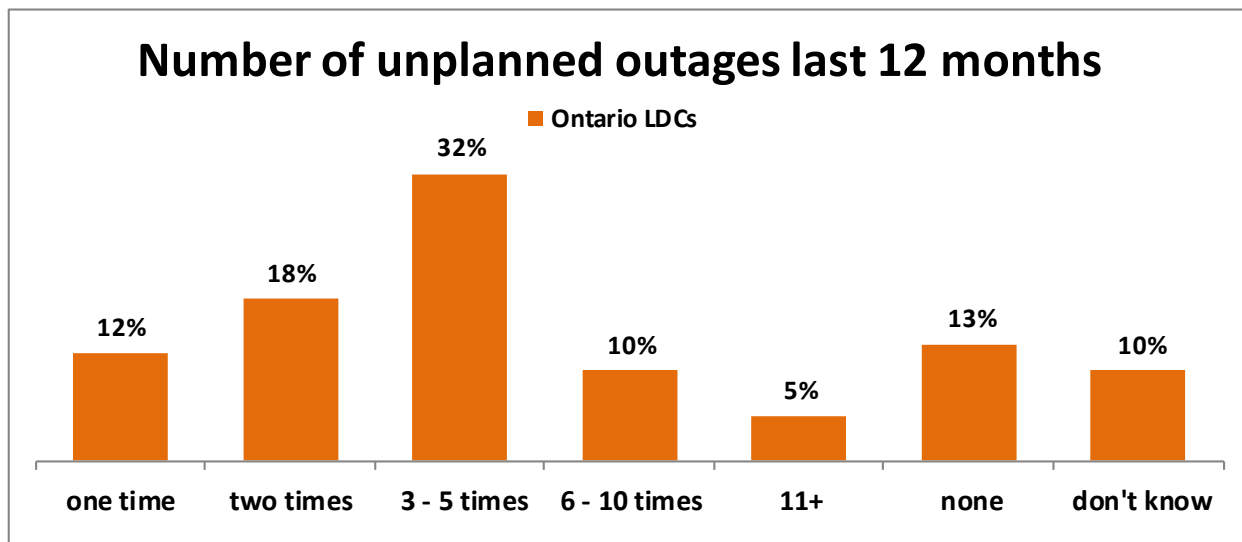
- 14% improve reliability (10% in 2010)
- 11% better maintenance (3% in 2010)

- 10% better communication (7% in 2010)

Outage Management

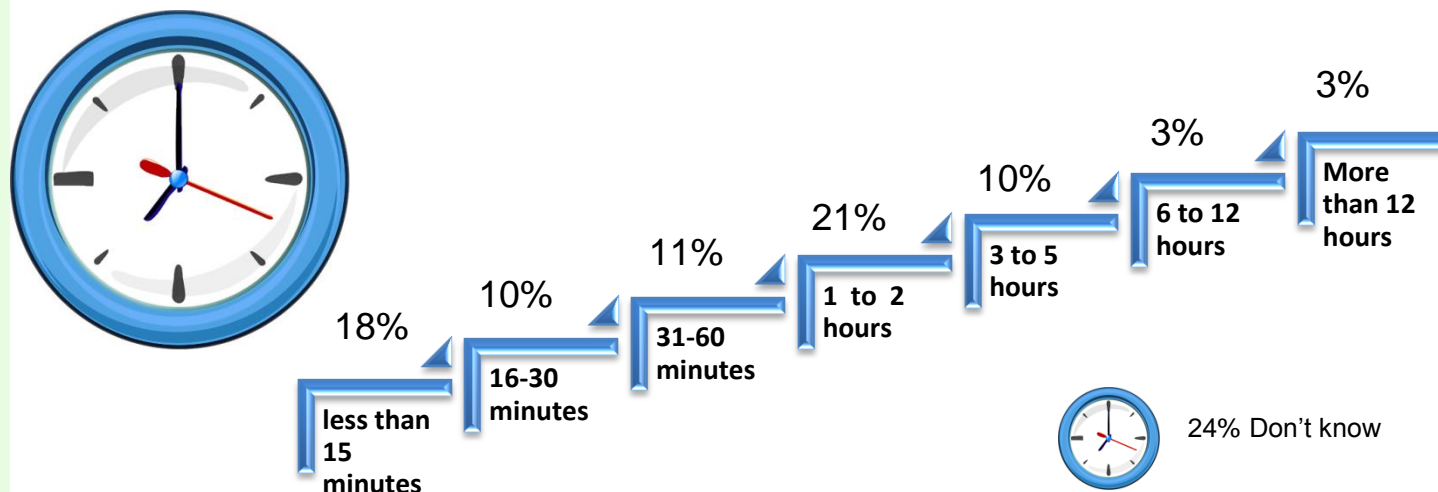
Whether an outage is planned or unplanned, the reality is that it is going to cause disruption and inconvenience under best case scenario and under worst case scenarios there could be safety and financial consequences.

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



Base: An aggregate of respondents from 2014 participating LDCs

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



Base: An aggregate of respondents from 2014 participating LDCs

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

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

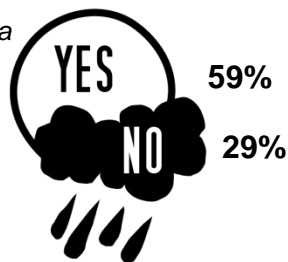
Utility's effectiveness during an unplanned outage	
Top 2 Boxes: 'very + somewhat effective'	Ontario LDCs
Responding to questions	61%
Providing a reason for the outage	61%
Providing an estimate when power will be restored	60%
Responding to the power outage	81%
Restoring power quickly	85%
Communicating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

Base: An aggregate of respondents from 2014 participating LDCs

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

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

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



Base: total respondents

Percentage of Respondents who contacted their utility about the ice storm power outage

Utilities Kingston	
Yes	18%
No	81%

Base: total respondents affected by the ice storm



Utilities Kingston Length of outage (during Ice Storm 2013)							
Less than 2 hours	2 – 4 hours	4+ hours or ½ day	12-18 hours or ½ - ¾ day	19-24 hours or 1 day	1 to 1.5 days	1.6 to 2 days	More than 2 days
25%	27%	19%	5%	1%	2%	0%	3%

Base: total respondents affected by the ice storm

Using social media and multi-channel communication modes still appear to be the exception when it comes to customers contacting their utilities. Results from this year's survey indicate that the telephone is still the most used and the preferred method of contact. Overall, 87% of all Ontario respondents affected by the ice storm who informed their local utility they were experiencing a power outage did so via telephone; 88% of Kingston respondents used the telephone to contact the utility.

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

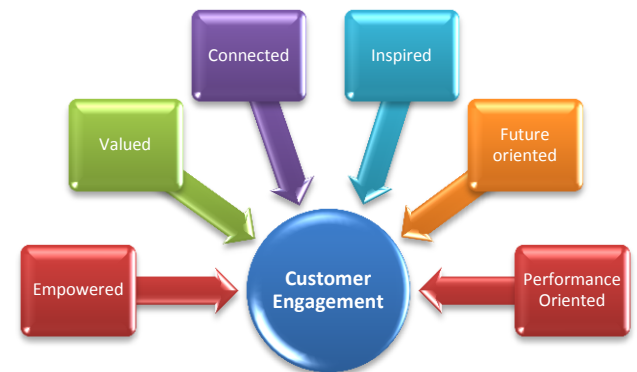


Base: total respondents affected by the ice storm

•None (the power shouldn't be going out)	2%
•Less than 2 hours	13%
•2 - 4 hours	23%
•4+ hours or 1/2 day	20%
•12 - 18 hours or 1/2 day to 3/4 day	8%
•19 - 24 hours or 1 day	8%
•1 to 1.5 days	2%
•1 .6 to 2 days	3%
•More than 2 days	3%

Customer Centric Engagement Index (CCEI)

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



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

Utility Customer Centric Engagement Index (CCEI)			
	Utilities Kingston	National	Ontario
CCEI	81%	79%	76%

Base: total respondents

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

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

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

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

We recommend having meaningful two-way dialogue with employees (and others) to leverage the results from your 2014 customer satisfaction survey derived from speaking with 405 Utilities Kingston customers [April 7 - April 22, 2014]. The electric utility business has demanding customers with high expectations.



UtilityPULSE

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June, 2014

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Satisfaction (pre & post)

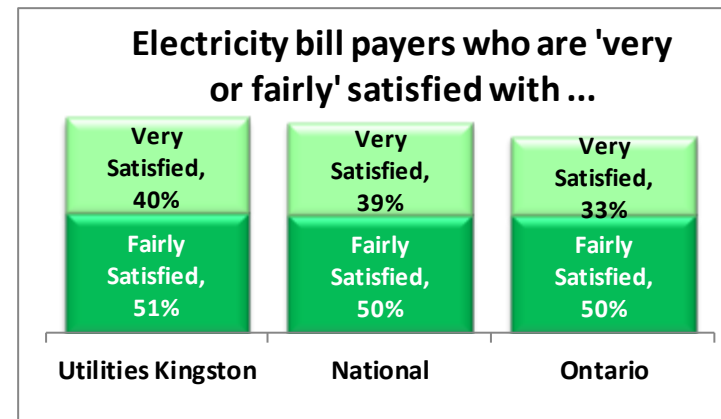
Customer Satisfaction is an intangible as it is the sum total of real experience, or perceptions of what an experience may be like when a customer is dealing with their LDC. Satisfaction is not a program, it is an outcome. Satisfaction, as a measurement, is a part of the Ontario Energy Board's Performance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

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

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

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

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



Base: total respondents

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

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

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

As noted in previous reports:

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



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

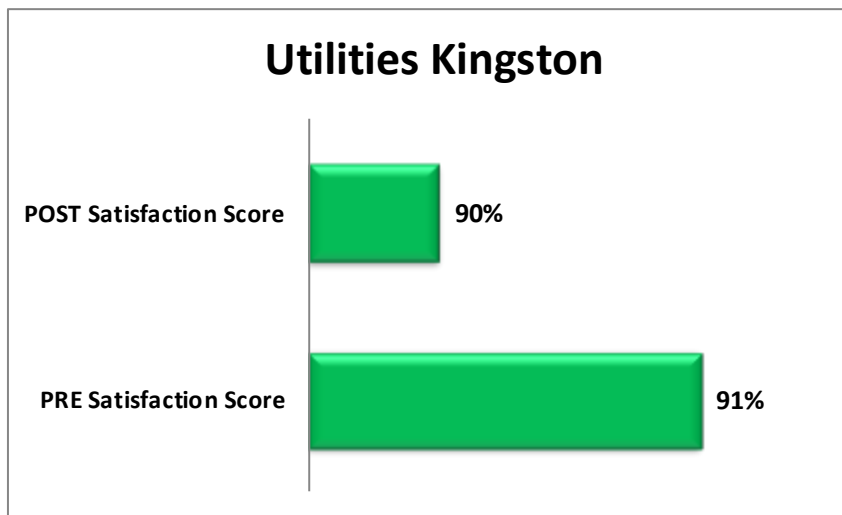
are motivated by their desire to help others; succeeding at this task (and having clear evidence that they have satisfied their “customers”) can help keep them motivated and engaged.

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

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

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

Base: total respondents



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

SATISFACTION SCORES – Electricity customers' satisfaction			
Top 2 Boxes: 'very + fairly satisfied'	Utilities Kingston	National	Ontario
PRE: Initial Satisfaction Scores	91%	89%	83%
POST: End of Interview	90%	87%	80%

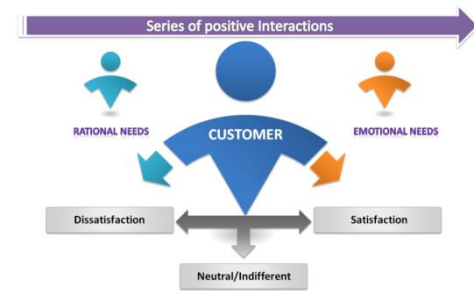
Base: total respondents

SATISFACTION SCORES – Electricity customers' satisfaction					
Top 2 Boxes: 'very + fairly satisfied'	2014	2013	2012	2011	2010
PRE: Initial Satisfaction Scores	91%	-	-	-	-
POST: End of Interview	90%	-	-	-	-

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

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

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



Attributes strongly linked to a hydro utility's image			
	Utilities Kingston	National	Ontario
RATIONAL NEEDS			
Provides consistent, reliable electricity	93%	89%	86%
Quickly handles outages	88%	86%	83%
Accurate billing	83%	83%	77%
Provides good value for money	73%	67%	63%
Is 'easy to do business' with	86%	79%	75%
Operates a cost effective hydro-electric system	75%	69%	62%
EMOTIONAL NEEDS			
Deals professionally with customers' problems	87%	82%	78%
Provides information to help customers reduce electricity costs	77%	77%	75%
Pro-active in communicating changes	79%	74%	73%
Quickly deals with issues that affect customers	85%	79%	74%
Adapts well to changes in customer expectations	76%	71%	68%
Overall the utility provides excellent quality services	85%	83%	80%

Base: total respondents with an opinion

Customer Service

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

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

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

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

Customer Service



Base: total respondents who contacted the utility

Satisfaction with Customer Service			
Top 2 Boxes: 'very + fairly satisfied'	Utilities Kingston	National	Ontario
The time it took to contact someone	91%	73%	67%
The time it took someone to deal with your problem	81%	70%	57%
The helpfulness of the staff who dealt with you	91%	74%	65%
The knowledge of the staff who dealt with you	88%	69%	61%
The level of courtesy of the staff who dealt with you	95%	82%	75%
The quality of information provided by the staff who dealt with you	85%	69%	59%

Base: total respondents who contacted the utility

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

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

Base: data from the full 2014 database

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

Overall satisfaction with most recent experience – Telephone & In-person			
	Utilities Kingston	National	Ontario
Top 2 Boxes: 'very + fairly satisfied'	88%	75%	62%

Base: total respondents who contacted the utility

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

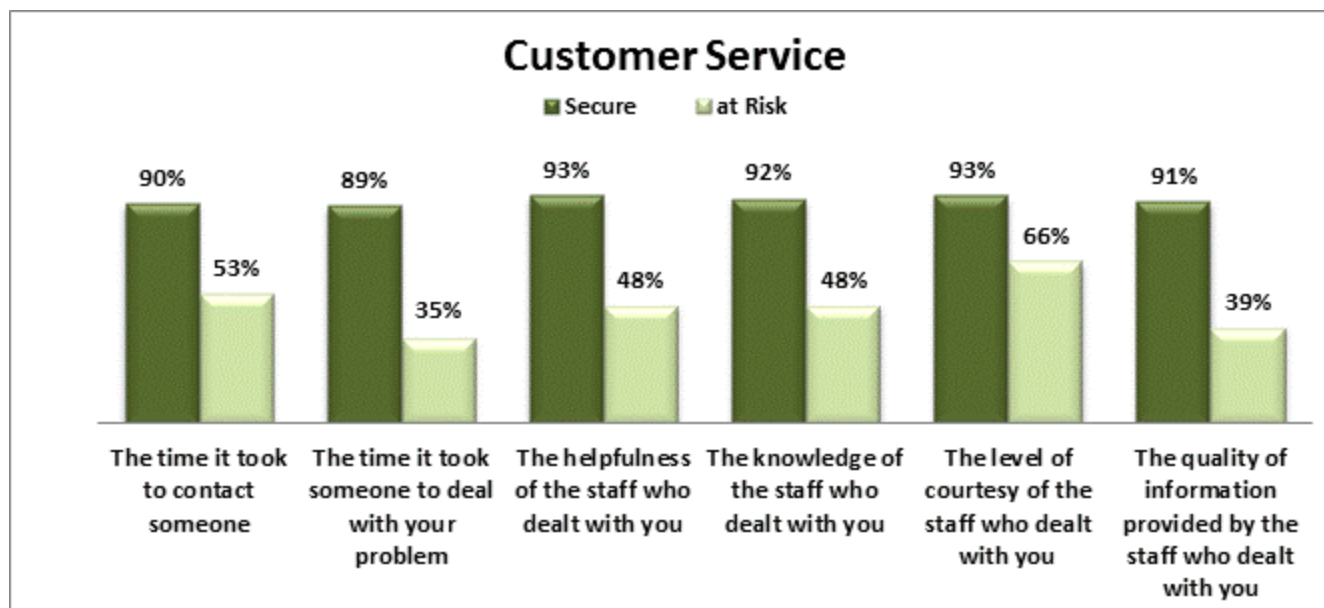
Base: data from the full 2014 database

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

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

Base: data from the full 2014 database

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



Base: data from the full 2014 database

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

Base: data from the full 2014 database

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



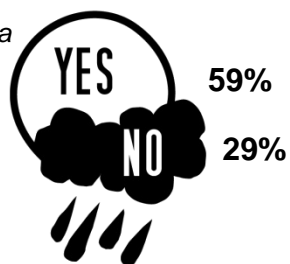
Important attributes which shape perceptions about service quality			
	Utilities Kingston	National	Ontario
Deals professionally with customers' problems	87%	82%	78%
Is pro-active in communicating changes and issues which may affect customers	79%	74%	73%
Quickly deals with issues that affect customers	85%	79%	74%
Customer-focused and treats customers as if they're valued	82%	74%	72%
Is a company that is 'easy to do business with'	86%	79%	75%
Cost of electricity is reasonable when compared to other utilities	63%	60%	55%
Provides good value for money	73%	67%	63%
Delivers on its service commitments to customers	88%	84%	82%
Trusted and trustworthy company	86%	82%	77%
Respected company in the community	87%	81%	78%
Provides information and tools to help manage electricity consumption	78%	77%	75%
Adapts well to changes in customer expectations	76%	71%	68%

Base: total respondents with an opinion

ICE STORM 2013

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

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



Base: total respondents

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

Utilities Kingston Length of outage (during Ice Storm 2013)							
Less than 2 hours	2 – 4 hours	4+ hours or ½ day	12-18 hours or ½ - ¾ day	19-24 hours or 1 day	1 to 1.5 days	1.6 to 2 days	More than 2 days
25%	27%	19%	5%	1%	2%	0%	3%

Base: total respondents affected by the ice storm

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

Percentage of Respondents who contacted their utility about the ice storm power outage	
Utilities Kingston	
Yes	18%
No	81%

Base: total respondents affected by the ice storm who contacted the utility about the outage during the storm

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



Using social media and multi-channel communication modes still appear to be the exception when it comes to customers contacting their utilities. Results from this year’s survey indicate that the telephone is still the most used and the preferred method of contact. Overall, 87% of all Ontario respondents affected by the ice storm who informed their local utility they were experiencing a power outage did so via telephone; 88% of Kingston respondents used the telephone to contact the utility.

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



Base: total respondents affected by the ice storm

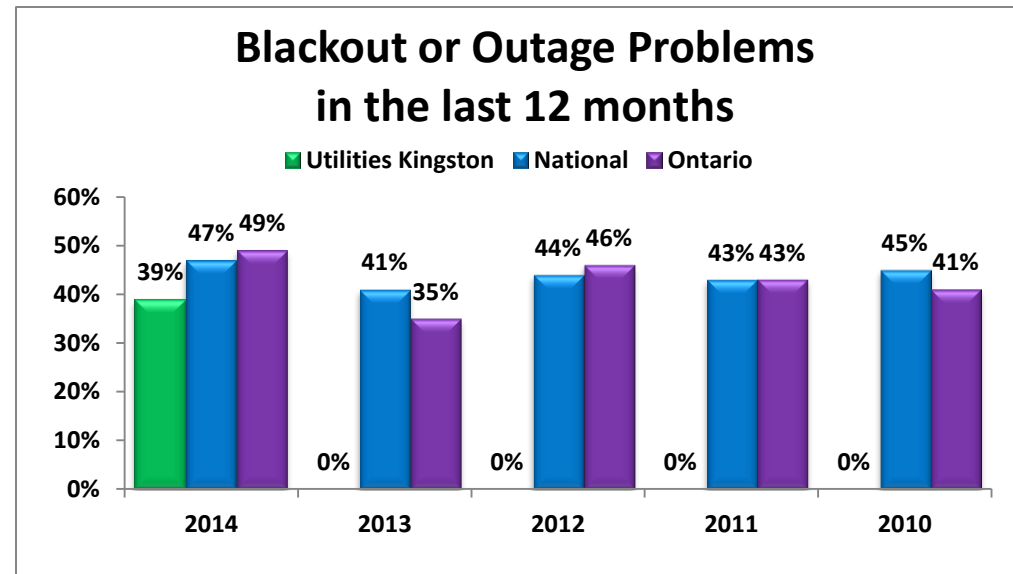
•None (the power shouldn't be going out)	2%
•Less than 2 hours	13%
•2 - 4 hours	23%
•4+ hours or 1/2 day	20%
•12 - 18 hours or 1/2 day to 3/4 day	8%
•19 - 24 hours or 1 day	8%
•1 to 1.5 days	2%
•1 .6 to 2 days	3%
•More than 2 days	3%

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

Bill payers' recent problems and problem resolution

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

At one time, if the power went off for a few minutes, it was considered annoying and inconvenient. However, with so many devices hooked into the electricity system, even a small power outage can be truly aggravating. 88% of respondents with an opinion agree (top 2 boxes) Utilities Kingston “quickly handles outages and restores power”.



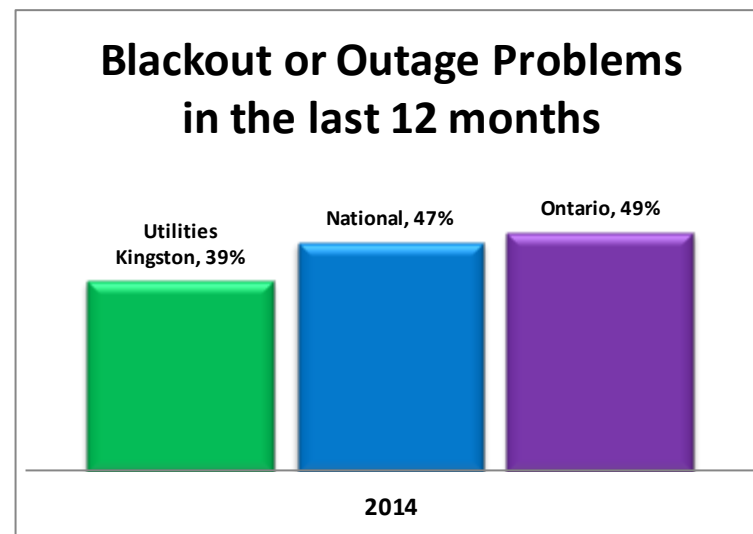
Base: total respondents/ (-) not a participant of the survey year

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

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

Percentage of Respondents indicating that they had a Blackout or Outage problem in the last 12 months			
	Utilities Kingston	National	Ontario
2014	39%	47%	49%
2013	-	41%	35%
2012	-	44%	46%
2011	-	43%	43%
2010	-	45%	41%

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

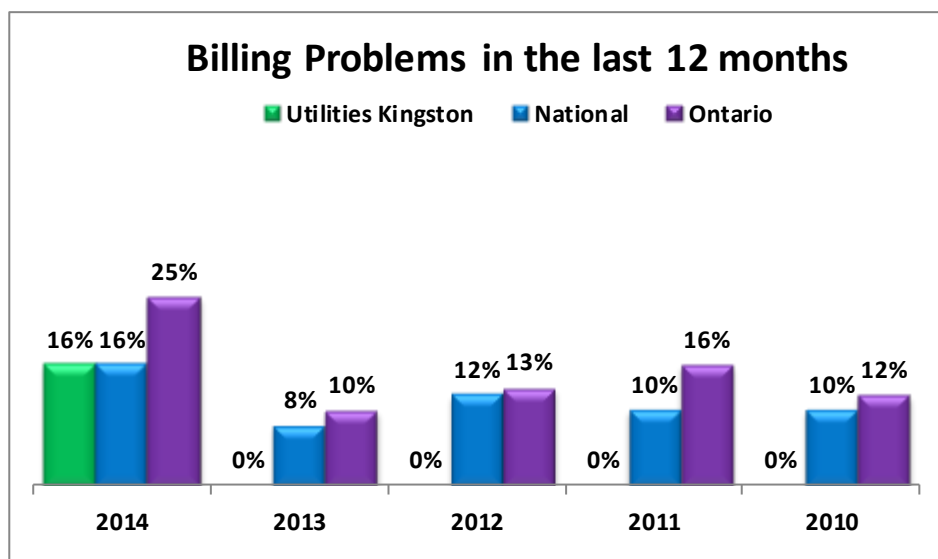


Base: total respondents

For most customers, their bill is the only thing they see (or pay attention to) from their utility provider. It not only tells them how much to pay, it documents their service usage, breaks down the various charges and provides

contact information for customer service. As the principal form of communication between a utility and its customers, utilities cannot underestimate the importance of billing.

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

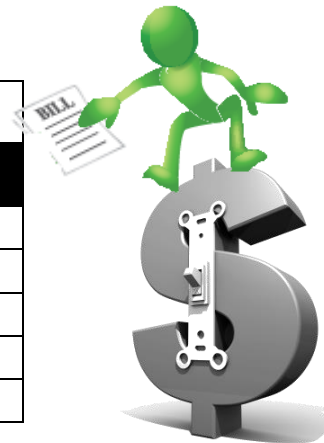


Base: total respondents / (-) not a participant of the survey year



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

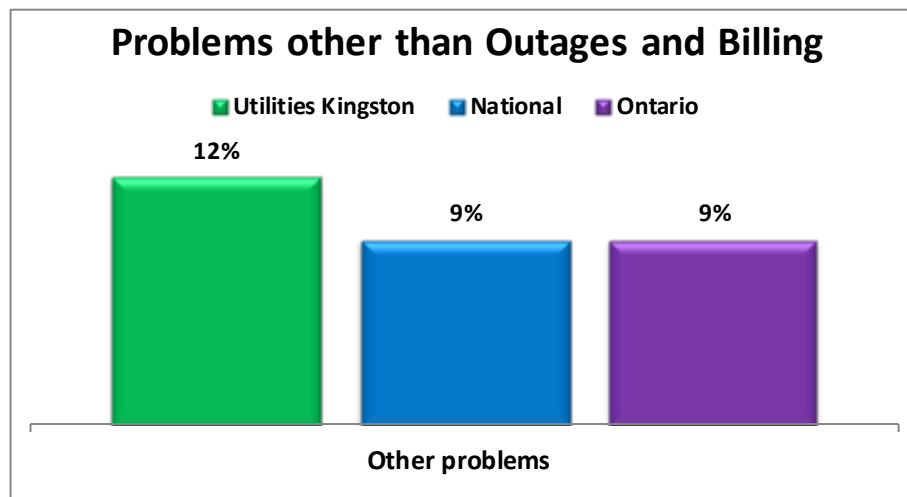
Base: total respondents / (-) not a participant of the survey year



Types of Billing Problems	
	Utilities Kingston
The amount owed was too high	71%
Complaint about rates or charges	20%
The payment made was recorded incorrectly	5%
The bill was difficult to understand	5%
The bill arrived late	3%
Pricing systems (tiers or flat)	2%

Base: total respondents with billing problems

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



Base: total respondents

Percentage of Respondents with problems other than billing or power outages in the last 12 months			
	Utilities Kingston	National	Ontario
Yes	12%	9%	9%
No	87%	90%	90%

Base: total respondents

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

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

Base: data from the full 2014 database



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

Percentage of Respondents who contacted their utility and had their problem solved in the last 12 months			
	Utilities Kingston	National	Ontario
Yes	81%	69%	61%
No	16%	26%	36%

Base: total respondents

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

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

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

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

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

Base: data from the full 2014 database

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

Base: data from the full 2014 database

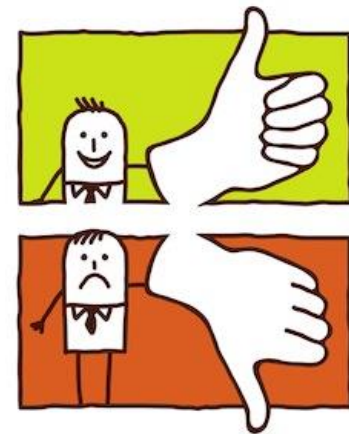
Bill payers who said their problem was solved				
	Secure	Favorable	Indifferent	At Risk
Yes	92%	79%	73%	35%
No	7%	17%	22%	59%

Base: data from the full 2014 database

Customer Experience Performance rating (CEPr)

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

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

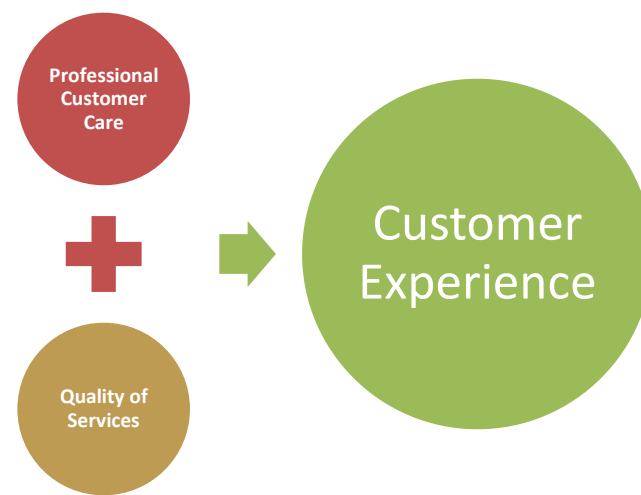


At the heart of the CEPr are 4 central questions:

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

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

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



Customer Experience Performance rating (CEPr)			
	Utilities Kingston	National	Ontario
CEPr: all respondents	85%	82%	79%

Base: total respondents

The CEPr (all respondents) for Utilities Kingston is 85%. This rating would suggest that a very large majority of customers have a belief that they will have a good to excellent experience dealing with a Utilities Kingston professional. However, the balance of respondents is not anticipating a good to excellent experience, and as such could be more challenging to serve.

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

The impact of Satisfied or Dissatisfied experiences on some operational attributes			
	Utilities Kingston	Recent Experience Satisfied	Recent Experience Dissatisfied
Provides consistent, reliable electricity	93%	93%	89%
Delivers on its service commitments to customers	88%	89%	78%
Accurate billing	83%	82%	68%
Quickly handles outages and restores power	88%	90%	80%
Makes electricity safety a top priority	88%	93%	81%
Uses responsible environmental practices when completing work	85%	86%	83%
Is efficient at managing the hydro-electric system	82%	83%	69%
Overall the utility provides excellent quality services	85%	86%	75%

Base: respondents who have contacted the utility

Customer Centric Engagement Index (CCEI)

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

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

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



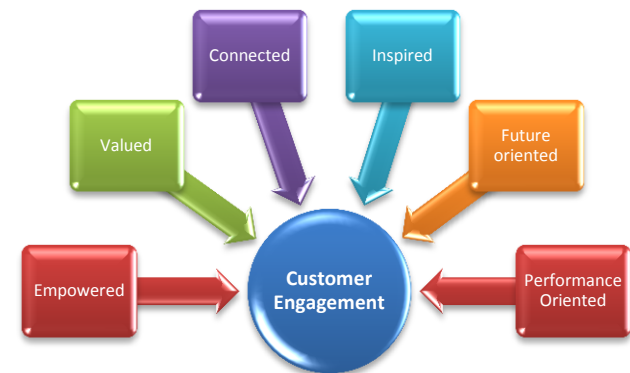
Your Annual UtilityPULSE survey tracks a customer's willingness to continue to do business, and willingness to recommend their local utility. Through a combination of calculations the end result is a Customer Loyalty index. That is, the number of customers that are: At risk, Indifferent, Favourable,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

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

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

What does customer centric engagement look like?

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



They include:

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

Utility Customer Centric Engagement Index (CCEI)			
	Utilities Kingston	National	Ontario
CCEI	81%	79%	76%

Base: total respondents



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

UtilityPULSE Report Card®

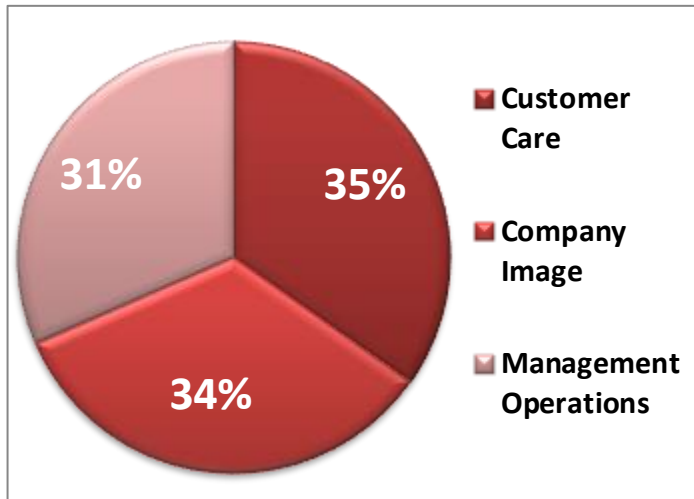
Simul's UtilityPULSE Report Card® is based on tens of thousands of customer interviews gathered over sixteen years. The purpose of the UtilityPULSE Report Card® is to provide electric utilities with a snapshot of performance – on the things that customers deem to be important. Research has identified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

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

The Psyche of Customers

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

UtilityPULSE Report Card® for Utilities Kingston



Base: total respondents

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

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

Defining the categories and major drivers:

Category: Customer Care

Drivers: Price and Value; Customer Service

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

Price and Value:

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

Customer Service:

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

Category: Company Image

Drivers: Company Leadership; Corporate Stewardship

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

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

Company Leadership

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

Corporate Stewardship

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

Category: Management Operations

Drivers: Operational Effectiveness; Power Quality and Reliability

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

Operational Effectiveness

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

Power Quality and Reliability

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

Utilities Kingston's UtilityPULSE Report Card®

Performance

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

Base: total respondents

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

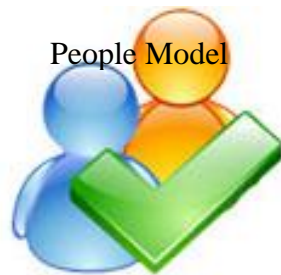
It's the small things done consistently that matter: Things like greeting every customer, whether on the phone or in person, in a friendly and helpful manner. Things like listening to the customer's needs, providing solutions to their problems and showing appreciation to the customer for their business.

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

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

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

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



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

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

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

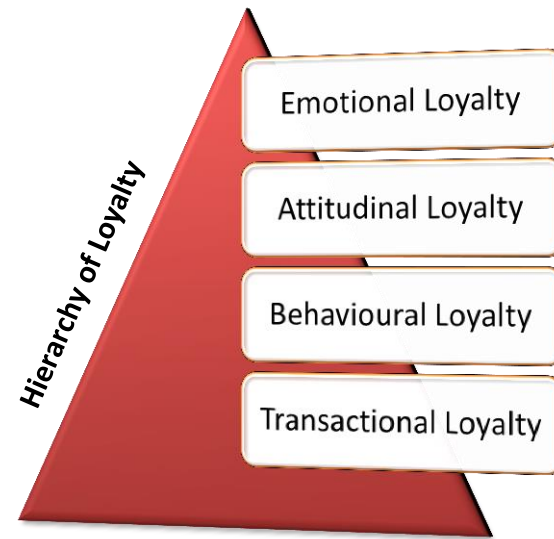
The Loyalty Factor

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

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

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

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



© UtilityPULSE

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

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

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

- Participation
- Compliance or Influence
- Advocacy

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

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

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

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



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

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

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

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

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

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

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

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

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

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

Customer Loyalty Model

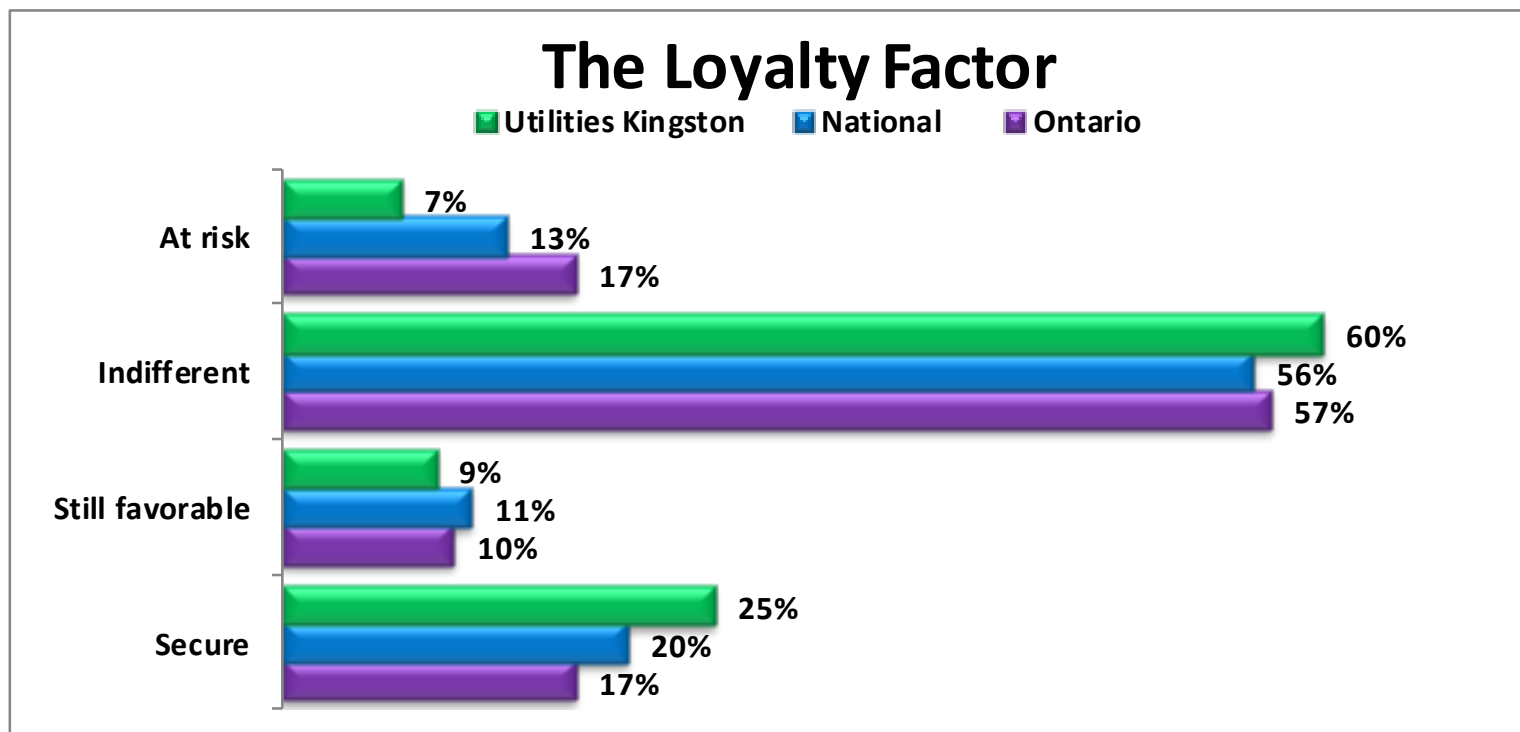


Loyalty is based on likelihood to:

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

Customer Loyalty Groups				
	Secure	Favorable	Indifferent	At Risk
Utilities Kingston				
2014	25%	9%	60%	7%

Base: total respondents



Base: total respondents

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

Base: total respondents



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

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

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

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

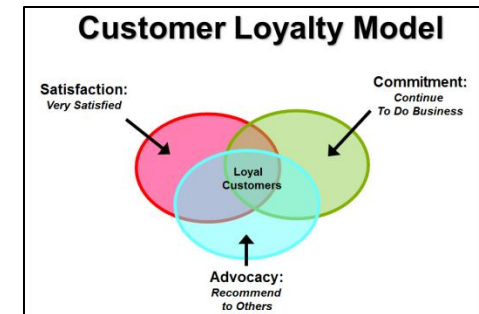
Customer commitment

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

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

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

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



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

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

Electricity customers' loyalty – ... Is a company that you would like to continue to do business with			
	Utilities Kingston	National	Ontario
Top 2 Boxes: 'Definitely + Probably' would continue	86%	74%	72%
Definitely would continue	57%	41%	35%
Probably would continue	29%	32%	37%
Might or might not continue	2%	8%	7%
Probably would not continue	4%	4%	5%
Definitely would not continue	3%	8%	10%

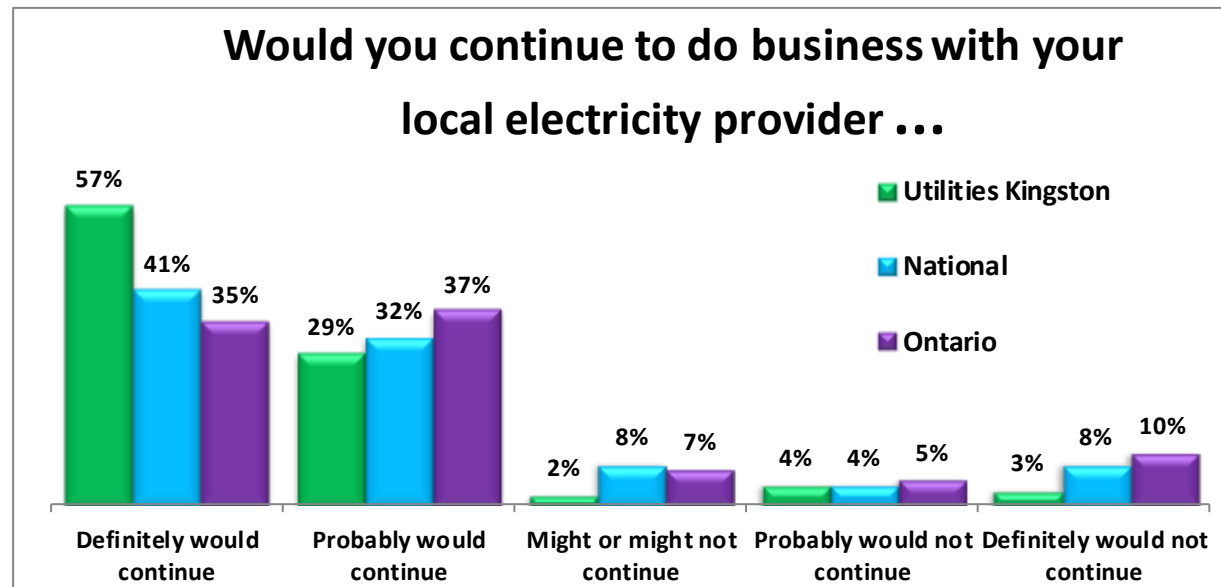
Base: total respondents

Electricity customers' loyalty – ... Is a company that you would like to continue to do business with				
Utilities Kingston	<\$40K	\$70K+	18-34	55+
Top 2 Boxes: 'Definitely + Probably' would continue	89%	84%	90%	90%

Base: total respondents

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

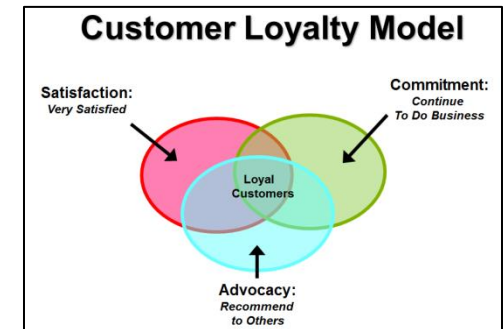
Base: total respondents / (-) not a participant of the survey year



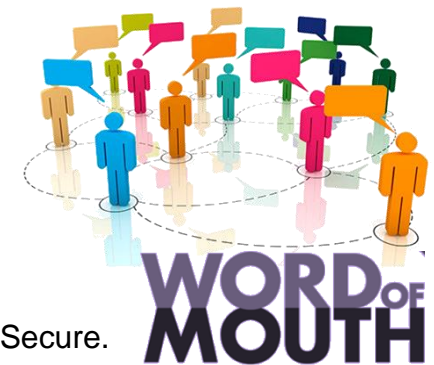
Base: total respondents

Word of mouth

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



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



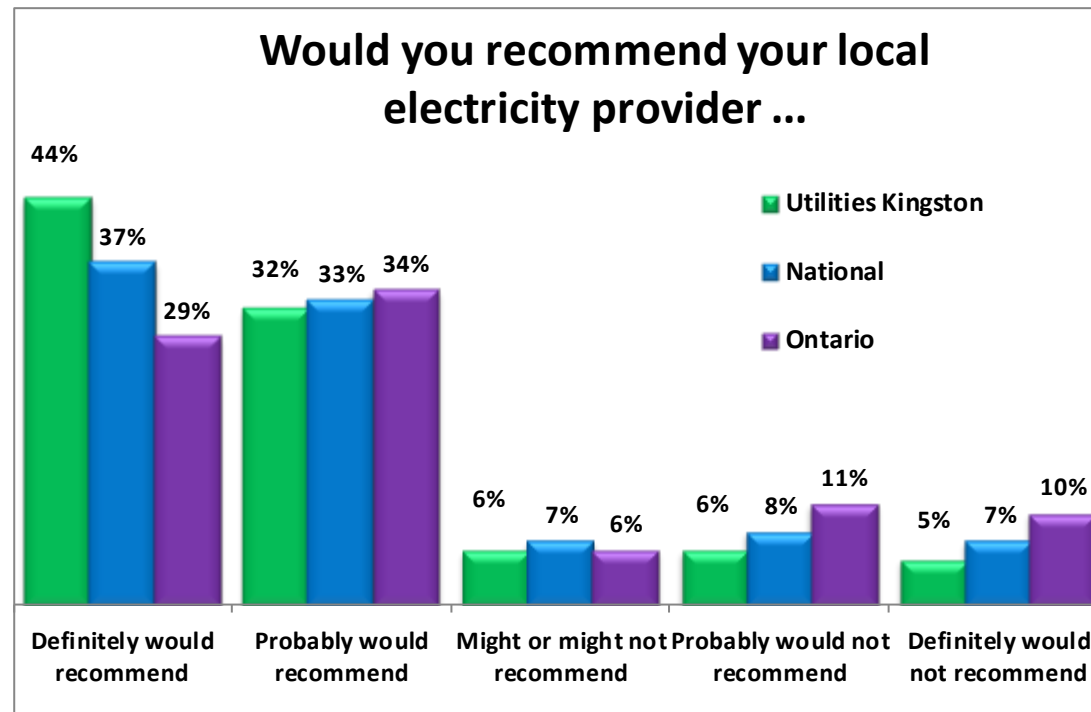
There are two forms of word of mouth which utilities need to understand. The first is *Experience-based word of mouth* which is the most common and most powerful form. It results from a customer's direct experience with the utility or the re-statement of a direct experience from a trusted source.

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

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

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

Would you tell me if you agree or disagree with the following statement? Utilities Kingston is a company that you would recommend to a friend or colleague ...



Base: total respondents

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

Electricity customers' loyalty – ... is a company that you would recommend to a friend or colleague			
	Utilities Kingston	National	Ontario
Top 2 boxes: 'Definitely + Probably' would recommend	76%	69%	63%
Definitely would recommend	44%	37%	29%
Probably would recommend	32%	33%	34%
Might or might not recommend	6%	7%	6%
Probably would not recommend	6%	8%	11%
Definitely would not recommend	5%	7%	10%

Base: total respondents

Electricity customers' loyalty – is a company that you would recommend to a friend or colleague				
Utilities Kingston	<\$40K	\$70K+	18-34	55+
Top 2 boxes: 'Definitely + Probably' would recommend	84%	69%	84%	80%

Base: total respondents

Electricity customers' loyalty – is a company that you would recommend to a friend or colleague					
Utilities Kingston	2014	2013	2012	2011	2010
Top 2 boxes: 'Definitely + Probably' would recommend	76%	-	-	-	-

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

Corporate image

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

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

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



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

Attributes strongly linked to a hydro utility's image			
	Utilities Kingston	National	Ontario
Is a respected company in the community	87%	81%	78%
A leader in promoting energy conservation	80%	78%	77%
Keeps its promises to customers and the community	84%	79%	76%
Is a socially responsible company	85%	78%	77%
Is a trusted and trustworthy company	86%	82%	77%
Adapts well to changes in customer expectations	76%	71%	68%
Is 'easy to do business with'	86%	79%	75%
Provides good value for your money	73%	67%	63%
Overall the utility provides excellent quality services	85%	83%	80%
Operates a cost effective hydro-electric system	75%	69%	62%

Base: total respondents with an opinion

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

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

Marketing – Communications			
	Utilities Kingston	National	Ontario
Topics that require more pro-active communication			
Cost of electricity is reasonable when compared to other utilities	63%	60%	55%
Provides information to help customers reduce electricity costs	77%	77%	75%
Adapts well to changes in customer expectations	76%	71%	68%
Operates a cost effective hydro-electric system	75%	69%	62%
Provides good value for money	73%	67%	63%
Topics that your utility scores very well on			
Is a trusted and trustworthy company	86%	82%	77%
Respected company in the community	87%	81%	78%
Accurate billing	83%	83%	77%
Overall the utility provides excellent quality services	85%	83%	80%
Provides consistent, reliable energy	93%	89%	86%

Base: total respondents with an opinion

Corporate Credibility & Trust

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

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

Attributes strongly linked to Credibility & Trust			
	Utilities Kingston	National	Ontario
Overall the utility provides excellent quality services	85%	83%	80%
Keeps its promises to customers and the community	84%	79%	76%
Customer-focused and treats customers as if they're valued	82%	74%	72%
Is a trusted and trustworthy company	86%	82%	77%

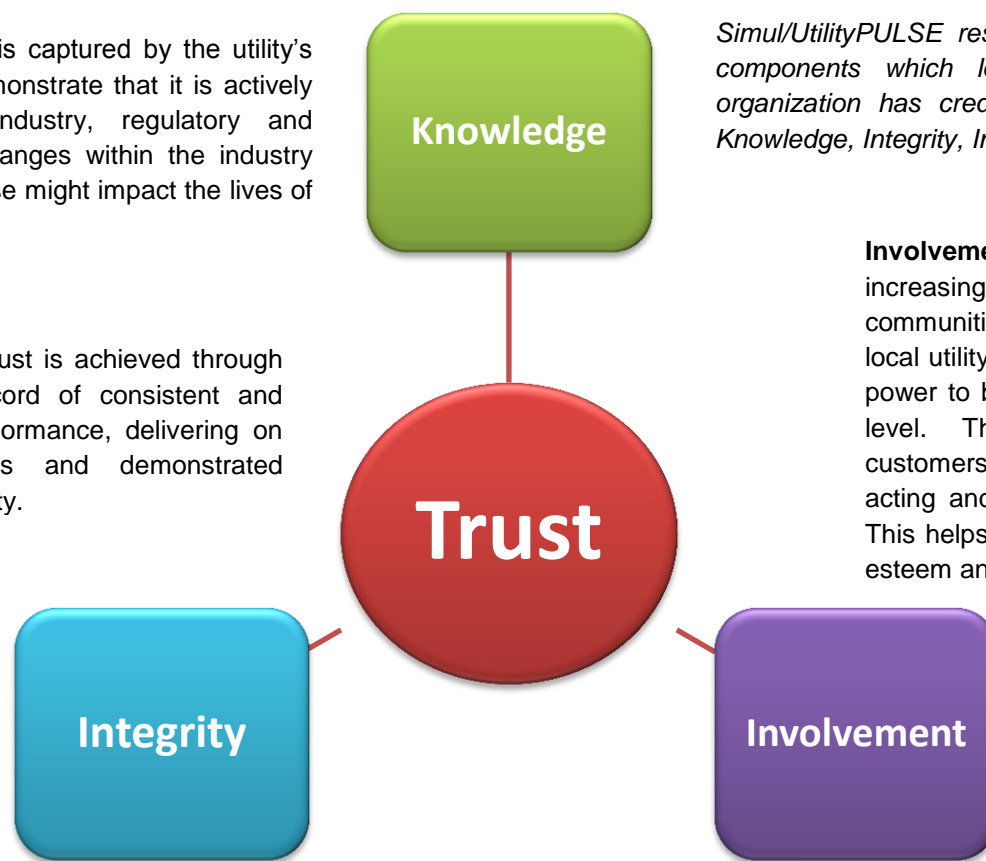
Base: total respondents with an opinion

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

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

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

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



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

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

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

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



How can service to customers be improved?

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

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

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

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

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

One or two most important things 'your local utility' could do to improve service	
Utilities Kingston	% of all suggestions
Better prices/lower rates	34%
Better online presence	15%
Better maintenance	13%
Improve reliability of power	11%
Improve/simplify/clarify billing	9%
Information & incentives on energy conservation	9%
Remove hidden costs on bills	8%
Better communication with customers	6%
Be more efficient	6%
Extend service hours/availability of hydro representative	5%
Staff related concerns	3%
Eliminate SMART meters	2%
Don't charge for previous debt	2%

Base: total respondents with suggestions

What do customers think about electricity costs?

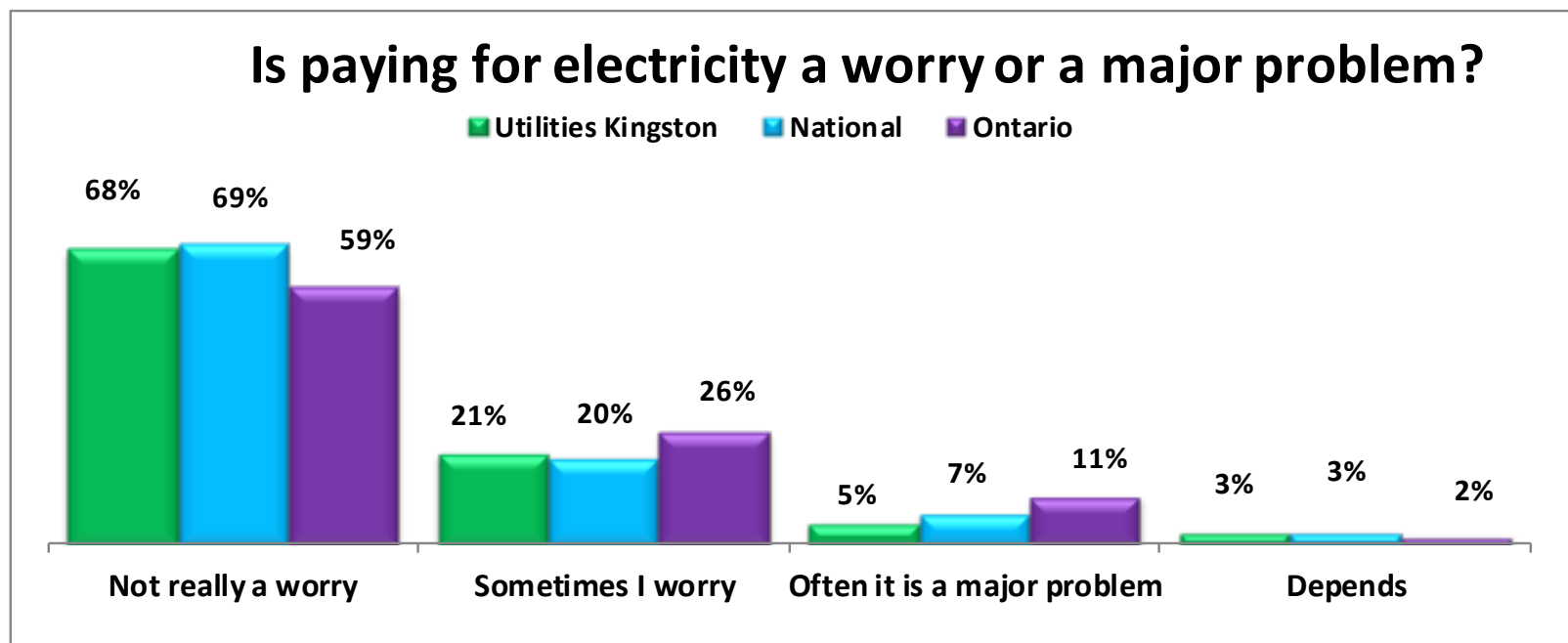
Ask a utility customer – anywhere in the province of Ontario – what do they think about electricity, there is a very high probability that they will say that electricity costs are too high or too expensive. For customers who said that they had a billing problem in the last 12 months, and stated that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

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

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

Is paying for electricity a worry or a major problem?				
	Not a worry	Sometimes	Often	Depends
Utilities Kingston				
2014	68%	21%	5%	3%

Base: total respondents



Base: total respondents

Is paying for electricity a worry or a major problem?				
	Not a worry	Sometimes	Often	Depends
Utilities Kingston				
<\$40,000	57%	35%	4%	3%
\$40<\$70,000	66%	22%	6%	3%
\$70,000+	79%	12%	4%	3%

Base: total respondents

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

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

Ability to pay then has an impact on conservation.

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

Base: 2014 Ontario and National benchmark surveys

What do small commercial customers think?

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

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

Small Commercial Customer (General Service < 50kW Demand)

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

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



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

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

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

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

Base: total respondents from the full 2014 database

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

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

Base: total respondents from the full 2014 database



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

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

Base: total respondents from the full 2014 database

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

Base: total respondents from the full 2014 database

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

Base: total respondents from the full 2014 database

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

Base: total respondents from the full 2014 database

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

Base: total respondents from the full 2014 database

Residential respondents reported a considerably higher incidence of outages.



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

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

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

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

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

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

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

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

Base: total respondents from the full 2014 database



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

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

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



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

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

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

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

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



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

In your view, what is an acceptable period of time to go without electricity in situations like Ice Storm 2013?		
	Residential	Commercial
None (the power shouldn't be going out)	7%	8%
Less than 2 hours	11%	12%
2-4 hours	17%	17%
4+ hours or ½ day	16%	14%
12 – 18 hours or ½ day to ¾ day	8%	6%
19 – 24 hours or 1 day	10%	10%
1 to 1.5 days	5%	4%
1.6 to 2 days	5%	7%
More than 2 days	4%	4%
Other	2%	1%
Don't know	14%	17%

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



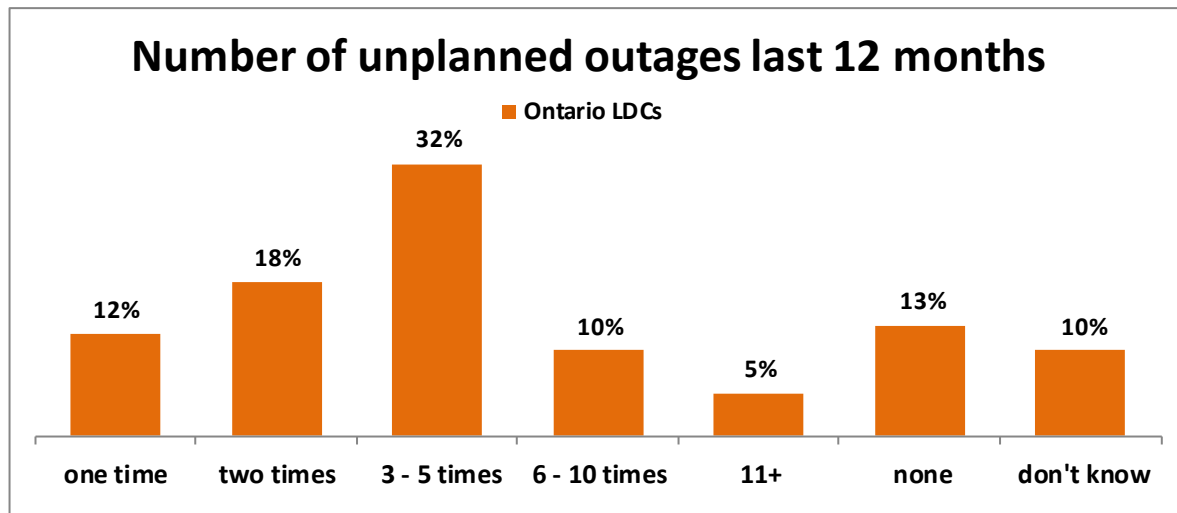
SUPPLEMENTAL QUESTIONS



Outage Communications

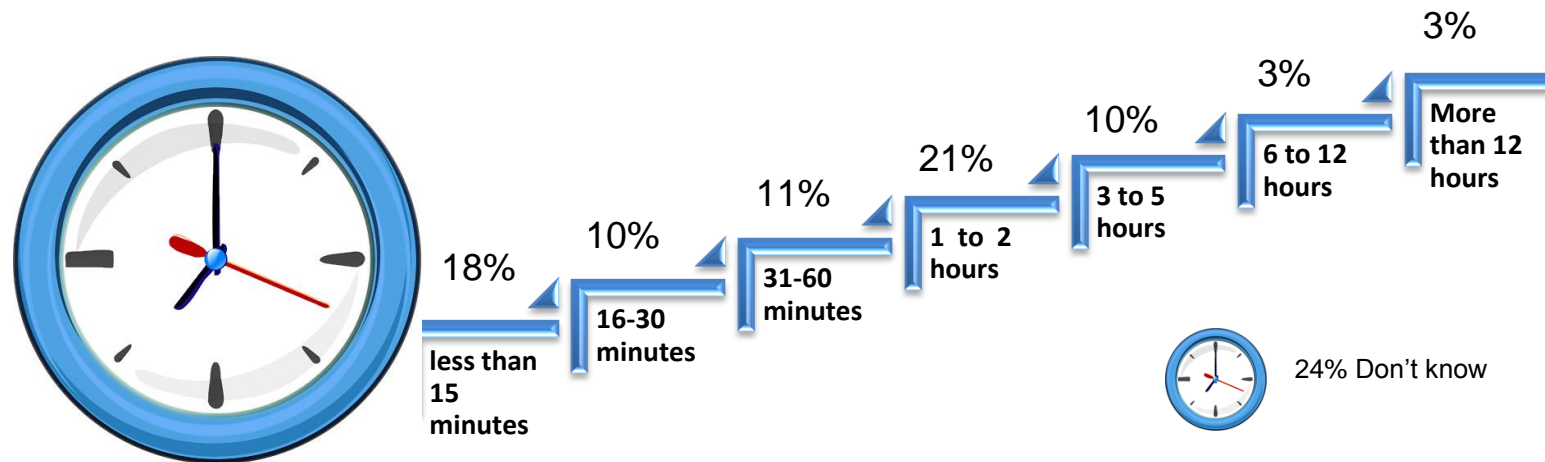
Whether an outage is planned or unplanned, the reality is that it is going to cause disruption and inconvenience under best case scenarios and under worst case scenarios there could be safety and financial consequences.

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



Base: An aggregate of respondents from 2014 participating LDCs

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



Base: An aggregate of respondents from 2014 participating LDCs

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

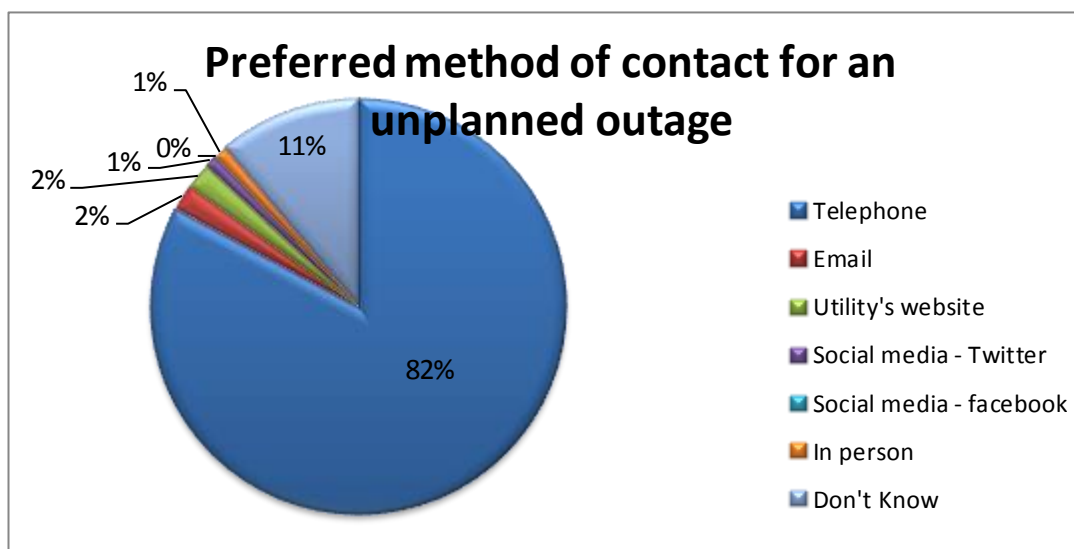
How a utility chooses to handle, manage and communicate with customers during an outage situation does affect customers' satisfaction with their utility. Customers want timely, accurate and relevant information about an outage and customers expect a utility various communication channels to ensure their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

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

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

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

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



Base: An aggregate of respondents from 2014 participating LDCs

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

Base: An aggregate of respondents from 2014 participating LDCs

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

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

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

Priority Investments

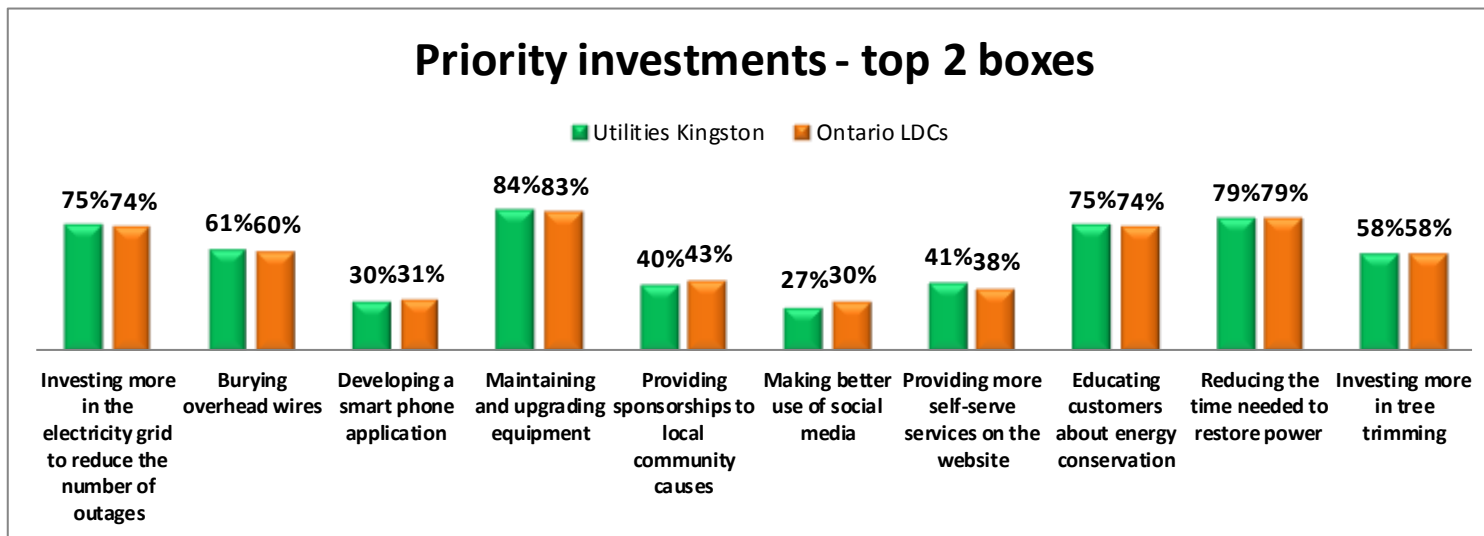
While regulation and reliability are top concerns in the utility industry, aging infrastructure is now a top operational concern. Major issues around electricity are that generation investment has been deferred and major improvements are needed in distribution and transmission. Customers agree with industry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

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

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

Priority Investments		
Top 2 Boxes: 'Very high priority + High priority'	Ontario LDCs	Utilities Kingston
Investing more in the electricity grid to reduce the number of outages	74%	75%
Burying overhead wires	60%	61%
Developing a smart phone application	31%	30%
Maintaining and upgrading equipment	83%	84%
Providing sponsorships to local community causes	43%	40%
Making better use of social media	30%	27%
Providing more self-serve services on the website	38%	41%
Educating customers about energy conservation	74%	75%
Reducing the time needed to restore power	79%	79%
Investing more in tree trimming	58%	58%

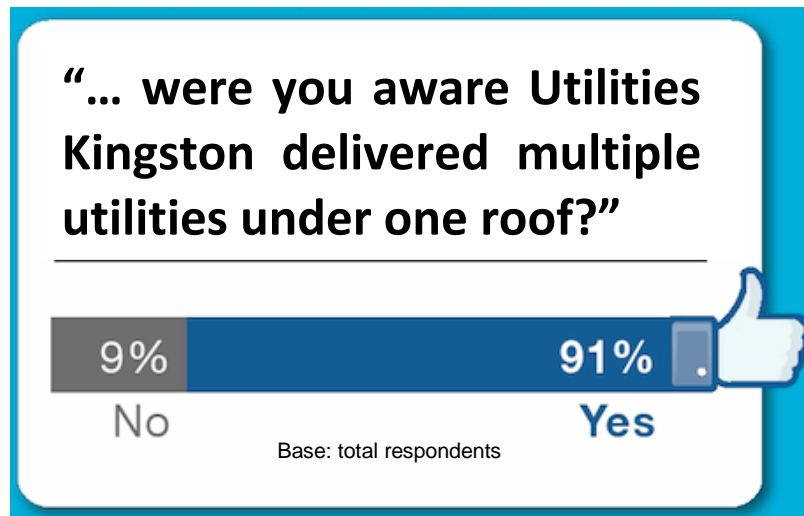
Base: An aggregate of respondents from 2014 participating LDCs / 90% of total respondents from the local utility



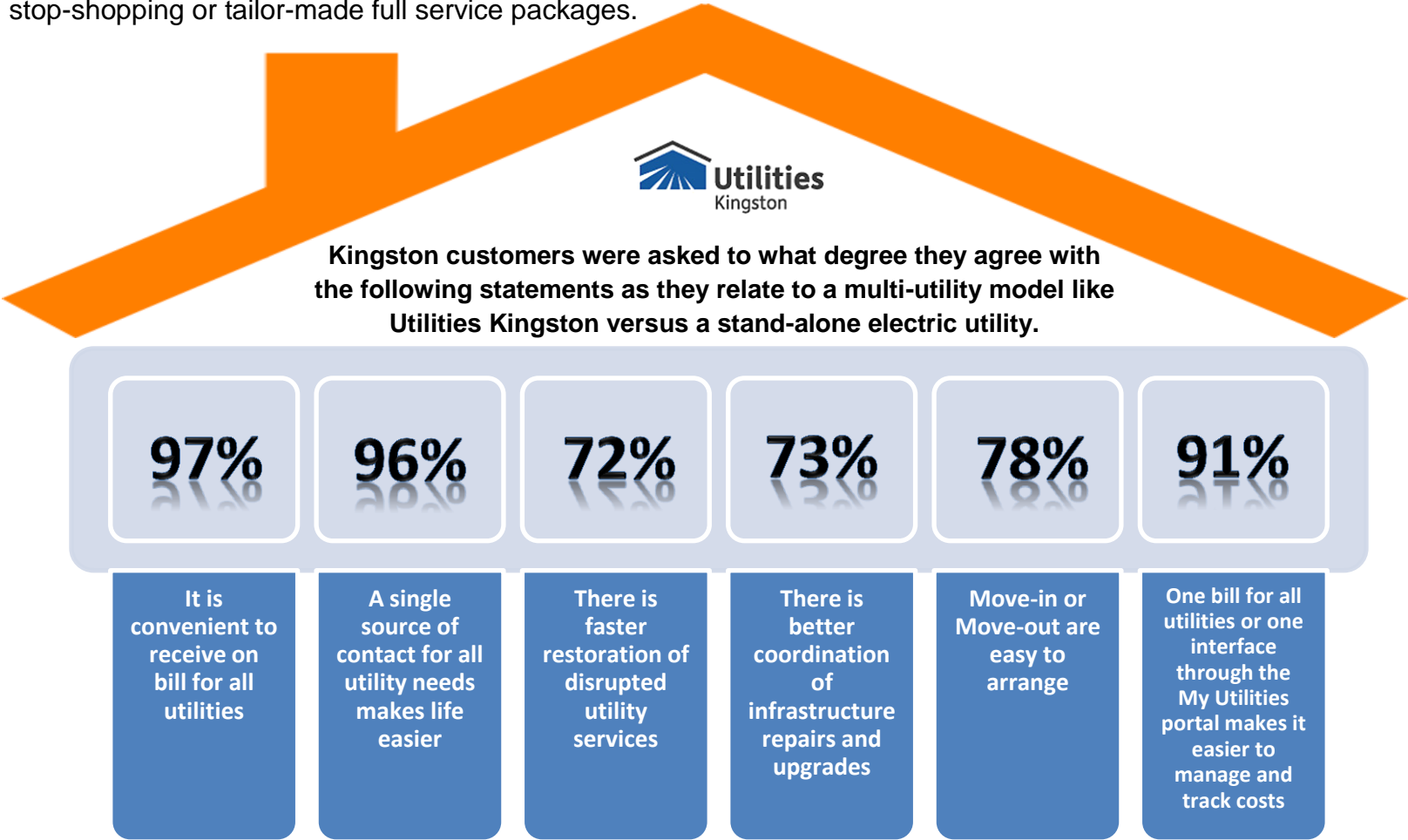
Utilities Kingston: Multi-utility

In most Ontario municipalities, electrical power, natural gas, water and sewerage, telephone service, and other utilities have traditionally been regarded as distinct industries, with separate firms providing each service. Multiple firms means multiple contact points for problems and multiple bills. Utilities Kingston offers its residents a multi-utility strategy, integrating the various infrastructure services of water, wastewater, gas and electricity services in one company, and one contact point.

When Kingston respondents were asked whether they knew Utilities Kingston operated multiple utilities under one roof versus the traditional stand-alone electric utility, 91% were aware of the multi-utility model.



With the same utility company providing customers in Kingston with water, energy and other services, the belief is that from a customer's viewpoint, single sourcing of services offers advantages that include single billing, one-stop-shopping or tailor-made full service packages.



Base: total respondents: Top 2 boxes: "Agree strongly + agree somewhat"

Energy Conservation & Efficiency

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

Attributes linked to energy conservation		
Top 2 Boxes: 'agree + strongly agree'	Ontario LDCs	Utilities Kingston
Provides information to help customers reduce electricity costs	79%	77%
Provides information and tools to help manage electricity consumption	79%	78%
A leader in promoting energy conservation	81%	80%

Base: total respondents with an opinion

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



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

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

Base: An aggregate of respondents from 2014 participating LDCs

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

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

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

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

What is important then is to:

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



E-care

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

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



Do you have access to the internet?		
	Ontario LDCs	Utilities Kingston
Yes	87%	88%
No	13%	12%

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

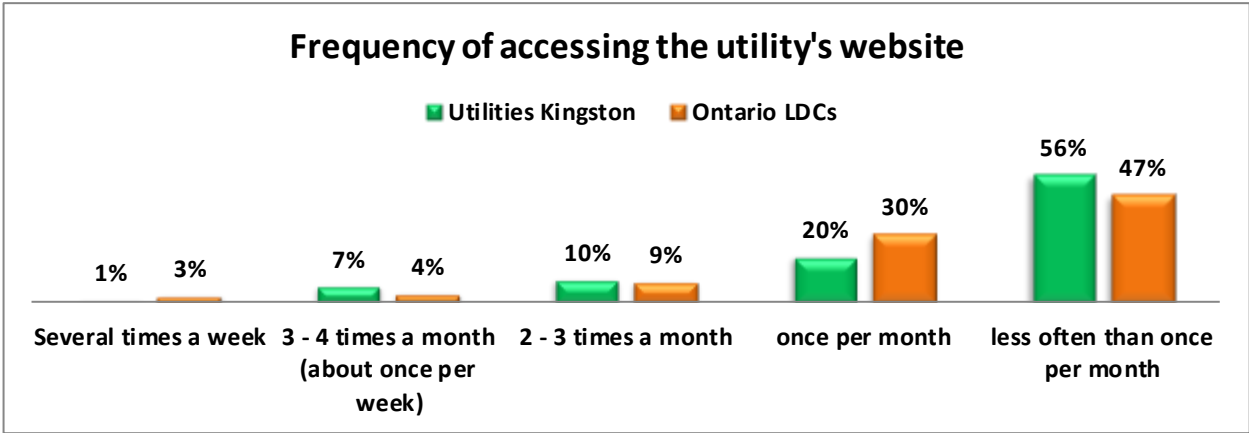
Utilities that provide their customers with access to information and empowerment tools will likely be better positioned to remain relevant and in touch with their customers. A challenge facing utilities right now is determining which tools and information delivery capabilities to build, and how to do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

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

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



Base: 90% of total respondents from the local utility



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

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

Likelihood of using the internet for future customer care needs for things such as:		
Top 2 Boxes: 'very + somewhat likely'	Ontario LDCs	Utilities Kingston
Setting up a new account	31%	50%
Arranging a move	38%	52%
Accessing information about your bill	55%	61%
Accessing information about your electricity usage	54%	62%
Accessing energy saving tips and advice	45%	50%
Accessing information about Time Of Use rates	51%	64%
Maintaining information about your account or preferences	51%	59%
Paying your bill through the utility's website	32%	41%
Getting information about power outages	47%	55%
Arranging for service	40%	52%

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

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

Electric Utility Industry Knowledge & SMART Grid

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

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

Base: total respondents in the Ontario Benchmark survey



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

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

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

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

Base: total respondents in the Ontario Benchmark survey

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

Base: total respondents in the Ontario Benchmark survey



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

Base: total respondents in the Ontario Benchmark survey

Consumer Energy Use Behaviour

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

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

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

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

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

Base: total respondents in the Ontario Benchmark survey

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

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

Active efforts have reduced energy consumption



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

Efforts to conserve have translated into savings on your electricity bill



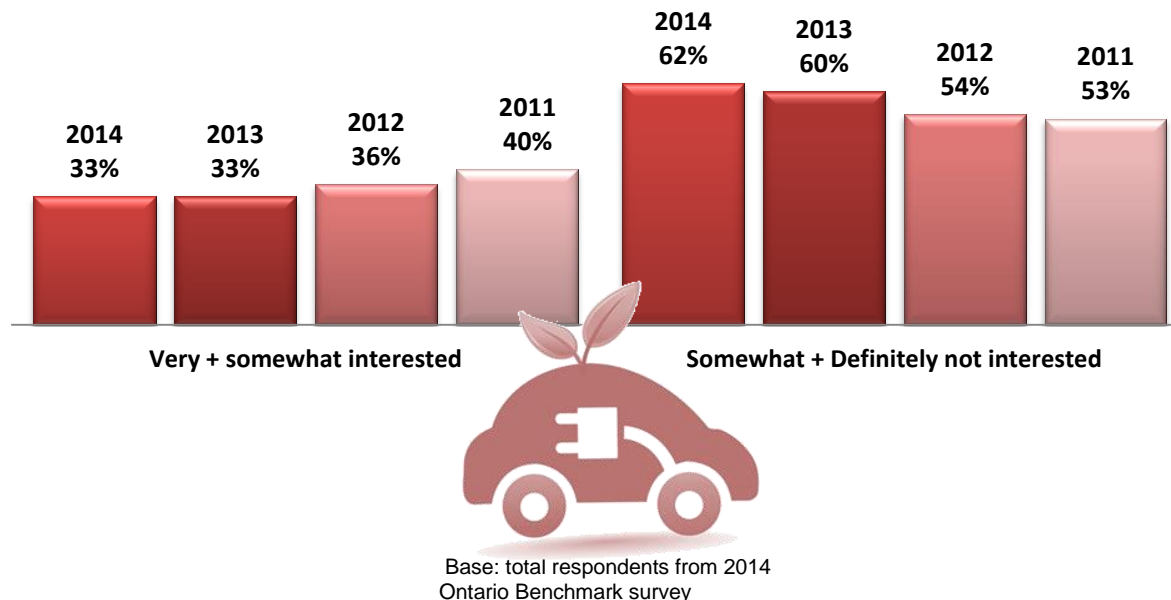
Base: total respondents in the Ontario Benchmark survey whose active efforts have reduced consumption

Purchasing an Electric Vehicle

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

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

Interest in purchasing a fully electric vehicle



Looking at age demographics, again, shows a shift in thinking about wanting to purchase an electric vehicle. 22% of older respondents (55+) versus 47% of respondents aged 35-54 are in favour of EVs replacing conventional cars. 43% of those aged 18-34 are receptive to the idea of purchasing an electric vehicle. When asked how long it would be before they would consider an EV as an option for their next car purchase, only 1 in 10 (11%) would consider an EV within the next 24 months.

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

Base: total respondents from 2014 Ontario Benchmark survey

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

Base: total respondents from 2014 Ontario Benchmark survey



Method

The findings in this report are based on telephone interviews conducted for Simul Corp. by Greenwich Associates between April 7 - April 22, 2014, with 405 respondents who pay or look after the electricity bills from a list of residential and small and medium-sized business customers supplied by Utilities Kingston.

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

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

In sampling theory, in 19 cases out of 20 (95% of polls in other words), the results based on a random sample of 405 residential and commercial customers will differ by no more than ± 4.87 percentage points where opinion is evenly split.

This means you can be 95% certain that the survey results do not vary by more than 4.87 percentage points in either direction from results that would have been obtained by interviewing all Utilities Kingston residential and small and

medium-sized commercial customers if the ratio of residential to commercial customers is 85%:15%.

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

Interviewers reached 1,039 households and businesses from the customer list supplied by Utilities Kingston. The 405 who completed the interview represent a 39% response rate.

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

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

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

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

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

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

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

Measures of sample reliability are derived from the science of statistics. At the root of statistical reliability is probability, the odds of obtaining a particular outcome by chance alone. For example, the chances of having a coin come up heads

in a single toss are 50%. A head is one of only two possible outcomes.

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

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

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

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

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

For example, the mean score is 3.71 for providing consistent, reliable electricity. The average is 3.08 for providing information to help customers reduce their energy costs.

For reliable electricity the standard deviation is 0.5. For affordable energy the S.D. is 0.88. These findings mean there is a wider range of opinion – meaning less consensus – about whether Utilities Kingston provides information to help customers to reduce their energy costs than about whether Utilities Kingston energy supplies are reliable.

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

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

spread of the answers "predicted" in sampling and probability theory.

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

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

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

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

**Culture, Leadership & Performance –
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Leadership development

Strategic Planning

Teambuilding

Organizational Culture Transformation

**Focus Groups, Surveys, Polls,
Diagnostics**

Diagnostics ie. Change Readiness, Leadership
Effectiveness, Managerial Competencies

Surveys & Polls

Customer Satisfaction and Loyalty
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Organization Culture Surveys

Customer Service Excellence

Service Excellence Leadership

Telephone Skills

Customer Care

Dealing with
Difficult Customers

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

Your personal contact is:

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Exhibit 1

Tab 5 of 8

Financial Information

Financial Information

FINANCIAL INFORMATION

In accordance with the OEB filing requirements (July 18, 2014) Kingston Hydro has included reconciliations of financial results shown in the audited financial statements with the balances reported for regulatory purposes.

Table 1-2011 Kingston Hydro Reconciliation of Audited Financial Statements

	2011
Balance Sheet	
Total Assets Per Audited Financial Statements	56,760,091
Future Income Taxes reported in OEB account 2296 (Liability) reported in Assets for Financial Statement purposes	(1,883,356)
Total Assets filed for Regulatory Purposes	54,876,735
Total Liabilities and Equity Per Audited Financial Statements	56,760,091
Future Income Taxes reported in OEB account 2296 (Liability) reported in Assets for Financial Statement purposes	(1,883,356)
Total Liabilities and Equity filed for Regulatory Purposes	54,876,735
Statement of Earnings	
Total Revenue Per Audited Financial Statements	10,956,304
Energy Sales are netted against Cost of power for financial statement purposes but reported in revenue for regulatory purposes	62,084,765
Total Revenue filed for Regulatory Purposes	73,041,069
Total Expenses Per Audited Financial Statements	9,833,444
Cost of Power are netted against Energy Sales for financial statement purposes but reported in expenses for regulatory purposes	62,084,765
Total Expenses filed for Regulatory Purposes	71,918,209

Table 2-2012 Kingston Hydro Reconciliation of Audited Financial Statements

	2012
Balance Sheet	
Total Assets Per Audited Financial Statements	65,397,831
Future Taxes reported in Assets for Audited Financial Statement purposes but reported in OEB Account 2296 (Liability) for regulatory purposes	(1,808,510)
Adjustment to Regulatory Assets as a result of OEB audit conducted in 2013	431,516
Payments in lieu of corporate income taxes payable reported in Liabilities for Financial Statement purposes but in OEB account 1110 for regulatory purposes	(43,268)
HST Payable reported in Liabilities for Financial Statement purposes but in OEB account 1110 (Asset) for regulatory purposes	33,542
Total Assets filed for Regulatory Purposes	64,011,111
Total Liabilities and Equity Per Audited Financial Statements	65,397,831
Future Taxes reported in Assets for Audited Financial Statement purposes but reported in OEB Account 2296 (Liability) for regulatory purposes	(1,808,510)
Adjustment to Regulatory Assets as a result of OEB audit conducted in 2013	431,516
Payments in lieu of corporate income taxes payable reported in Liabilities for Financial Statement purposes but in OEB account 1110 for regulatory purposes	(43,268)
HST Payable reported in Liabilities for Financial Statement purposes but in OEB account 1110 (Asset) for regulatory purposes	33,542
Total Liabilities and Equity filed for Regulatory Purposes	64,011,111
Statement of Earnings	
Total Revenue Per Audited Financial Statements	11,863,229
Energy Sales are netted against Cost of power for financial statement purposes but reported in revenue for regulatory purposes	65,548,409
Adjustments to Revenue due to 2013 OEB Audit to balances in 2012 adjusted in 2013 Financial Statements	41,098
Total Revenue filed for Regulatory Purposes	77,452,736
Total Expenses Per Audited Financial Statements	9,960,553
Cost of Power are netted against Energy Sales for financial statement purposes but reported in expenses for regulatory purposes	65,548,409
Adjustments to Expenses due to 2013 OEB Audit to balances in 2012 adjusted in 2013 Financial Statements	38,586
Total Expenses filed for Regulatory Purposes	75,547,548

Table 3-2013 Kingston Hydro Reconciliation of Audited Financial Statements

	2013
Balance Sheet	
Total Assets Per Audited Financial Statements	71,965,730
Future Taxes reported in Assets for Audited Financial Statement purposes but reported in OEB Account 2296 (Liability) for regulatory purposes	(1,195,152)
Payments in lieu of corporate income taxes receivable reported in Assets for Audited Financial Statement purposes but reported in OEB Account 2294-Liability for regulatory purposes	(70,662)
HST Reported in Miscellaneous Accounts Receivable for Audited Financial Statement Purposes but reported in OEB Account 2290 (Liability) for regulatory purposes	(3,567)
Total Assets filed for Regulatory Purposes	70,696,349
Total Liabilities and Equity Per Audited Financial Statements	71,965,730
Future Taxes reported in Assets for Audited Financial Statement purposes but reported in OEB Account 2296 (Liability) for regulatory purposes	(1,195,152)
Payments in lieu of corporate income taxes receivable reported in Assets for Audited Financial Statement purposes but reported in OEB Account 2294-Liability for regulatory purposes	(70,662)
HST Reported in Miscellaneous Accounts Receivable for Audited Financial Statement Purposes but reported in OEB Account 2290 (Liability) for regulatory purposes	(3,567)
Adjustment to Regulatory Assets Interest	27
Total Liabilities and Equity filed for Regulatory Purposes	70,696,376
Statement of Earnings	
Total Revenue Per Audited Financial Statements	12,670,161
Energy Sales are netted against Cost of power for financial statement purposes but reported in revenue for regulatory purposes	72,678,286
Adjustment to Energy Sales due to 2013 OEB audit to Regulatory balances and not in financial statements	(47,363)
Interest related to the recognition of Smart Meters was included in Interest Expenses for Financial Audit purposes but included in 4405 (Revenue) for regulatory purposes	(127,903)
Adjustment to 4082- Due to 2013 OEB Audit	8,780
Total Revenue filed for Regulatory Purposes	85,181,961
Total Expenses Per Audited Financial Statements	10,910,398
Cost of Power are netted against Energy Sales for financial statement purposes but reported in expenses for regulatory purposes	72,678,286
Adjustment to Energy Sales due to 2013 OEB audit to Regulatory balances and not in financial statements	(47,363)
Interest related to the recognition of Smart Meters was included in Interest Expenses for Financial Audit purposes but included in 4405 (Revenue) for regulatory purposes	(127,903)
Adjustment to 5315- Due to 2013 OEB Audit	8,780
Total Expenses filed for Regulatory Purposes	83,422,198

Table 4-2014 Kingston Hydro Reconciliation of Audited Financial Statements

Balance Sheet		2014
Total Assets Per Audited Financial Statements		72,487,565
HST Payable shown in Miscellaneous receivables for Financial Statement purposes but reported in account 2220 (Liability) for OEB Purposes		89,796
Future taxes receivable reported in Assets for Audited Financial Statement purposes but reported in OEB Account 2296 (Liability) for regulatory purposes		(796,239)
HST Recievable shown in Miscellaneous receivables for Financial Statement purposes but reported in account 2290 (Liability) for OEB Purposes		(106,754)
Payments in lieu of corporate income taxes recoverable reported in Asset for Financial Statement purposes but reported in 2294 (Liability) for regulatory purposes		(57,150)
Total Assets filed for Regulatory Purposes		71,617,218
Total Liabilities and Equity Per Audited Financial Statements		72,487,565
HST Payable shown in Miscellaneous receivables for Financial Statement purposes but reported in account 2220 (Liability) for OEB Purposes		89,796
Future taxes receivable reported in Assets for Audited Financial Statement purposes but reported in OEB Account 2296 (Liability) for regulatory purposes		(796,239)
HST Recievable shown in Miscellaneous receivables for Financial Statement purposes but reported in account 2290 (Liability) for OEB Purposes		(106,754)
Payments in lieu of corporate income taxes recoverable reported in Asset for Financial Statement purposes but reported in 2294 (Liability) for regulatory purposes		(57,150)
Total Liabilities and Equity filed for Regulatory Purposes		71,617,218
Statement of Earnings		
Total Revenue Per Audited Financial Statements		11,906,958
Energy Sales are netted against Cost of power for financial statement purposes but reported in revenue for regulatory purposes		74,734,540
Total Revenue filed for Regulatory Purposes		86,641,498
Total Expenses Per Audited Financial Statements		9,693,805
Cost of Power are netted against Energy Sales for financial statement purposes but reported in expenses for regulatory purposes		74,734,540
Total Expenses filed for Regulatory Purposes		84,428,345

Kingston Hydro has provided copies of audited financial statements for 2011-2014 as a separate attachments in this section of the application.

Kingston Hydro does not have any rating agency reports, prospectuses for any recent or planned public debt or equity offerings. Kingston Hydro has also not had any changes to tax status nor existing accounting orders and list of departures from the Uniform System of Accounts.

Kingston Hydro's audited statements were prepared in accordance with Generally Accepted Accounting Principles "GAAP".

Attachment 1 of 4

2011 Audited Statements

Financial Statements of

KINGSTON HYDRO CORPORATION

Year ended December 31, 2011



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Chartered Accountants
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Canada

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kingston Hydro Corporation

We have audited the accompanying financial statements of Kingston Hydro Corporation, which comprise the balance sheet as at December 31, 2011, the statements of earnings, retained earnings and cash flows for the year then ended, and notes, comprising 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 our 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, we 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 Kingston Hydro Corporation as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP' with a long horizontal line extending from the end of the signature.

Chartered Accountants, Licensed Public Accountants

April 23, 2012

Kingston, Canada

KINGSTON HYDRO CORPORATION

Financial Statements

Year ended December 31, 2011

Financial Statements

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KINGSTON HYDRO CORPORATION

Balance Sheet

December 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Cash	\$ 7,236	\$ 24,758
Due from City of Kingston (note 9(b))	—	2,305,059
Miscellaneous accounts receivable	1,325,250	843,406
Billed revenue receivable	4,884,119	5,150,474
Unbilled revenue	7,139,708	7,006,062
Inventory	1,465,887	1,042,344
Payments in lieu of corporate income taxes recoverable (note 13)	876,995	682,000
Prepaid expenses	81,271	142,989
	15,780,466	17,197,092
Regulatory assets (note 8(a))	8,622,879	3,948,729
Capital assets (note 4)	30,473,388	28,726,590
Future taxes	1,883,358	2,159,958
	\$ 56,760,091	\$ 52,032,369

Liabilities and Shareholder's Equity

Current liabilities:		
Bank loans (note 6(a))	\$ 8,804,927	\$ 5,995,989
Due to City of Kingston	263,177	—
Accounts payable and accrued liabilities	8,020,462	8,137,186
Due to retailers	1,430,563	1,490,391
Deposits payable	990,670	540,077
	19,509,799	16,163,643
Regulatory liabilities (note 8(b))	1,658,334	1,856,591
Note payable to City of Kingston (note 5)	10,880,619	10,880,619
Long-term loan payable (note 6(b))	2,035,760	2,316,421
Employee future benefit liabilities (note 10(c))	900,094	1,213,467
	34,984,606	32,430,741
Shareholder's equity:		
Share capital:		
Authorized:		
Unlimited Class A common shares		
Issued and outstanding:		
120 Class A common shares	12,380,617	12,380,617
Contributed surplus (note 18)	3,893,103	2,842,103
Retained earnings	5,501,765	4,378,908
	21,775,485	19,601,628
Contingent liabilities (notes 11 and 12)		
	\$ 56,760,091	\$ 52,032,369

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

KINGSTON HYDRO CORPORATION

Statement of Earnings

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Local distribution revenue (note 3)	\$ 10,345,456	\$ 9,539,835
Account set-up charge	54,237	52,379
Pole rentals	176,650	143,868
Interest	109,679	74,870
Miscellaneous	270,282	329,670
	10,956,304	10,140,622
Operating expenses:		
Distribution expenses, operation	2,564,487	2,497,482
Distribution expenses, maintenance	810,263	940,361
General and administrative	1,736,330	1,695,738
Community relations	204,150	214,011
Billing and collecting	845,161	743,812
Other expenses	359,047	—
	6,519,438	6,091,404
Earnings before the undernoted	4,436,866	4,049,218
Interest expense	1,025,258	981,785
Depreciation and amortization	2,155,653	2,250,071
Earnings before income taxes	1,255,955	817,362
Payments in lieu of corporate income taxes (note 13):		
Current	54,755	281,701
Future (recovery)	78,343	(9,645)
	133,098	272,056
Net earnings	\$ 1,122,857	\$ 545,306

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

Statement of Retained Earnings

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Retained earnings, beginning of year	\$ 4,378,908	\$ 3,833,602
Net earnings	1,122,857	545,306
Retained earnings, end of year	\$ 5,501,765	\$ 4,378,908

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

Statement of Cash Flows

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Net earnings	\$ 1,122,857	\$ 545,306
Items not involving cash:		
Depreciation and amortization	2,155,653	2,250,071
Future income taxes	78,343	(9,645)
Change in non-cash operating balances (note 14)	(101,690)	(5,664,549)
	<u>3,255,163</u>	<u>(2,878,817)</u>
Financing:		
Proceeds of bank loan	2,808,938	3,483,655
Repayment of long-term loan payable	(280,661)	(271,700)
	<u>2,528,277</u>	<u>3,211,955</u>
Investments:		
Purchase of capital assets	(6,208,435)	(3,679,059)
Contributions toward costs of capital assets acquired	407,473	780,171
Repayment of long-term loans receivable	—	250,000
	<u>(5,800,962)</u>	<u>(2,648,888)</u>
Decrease in cash	(17,522)	(2,315,750)
Cash, beginning of year	24,758	2,340,508
Cash, end of year	<u>\$ 7,236</u>	<u>\$ 24,758</u>

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements

Year ended December 31, 2011

The principal business of Kingston Hydro Corporation (the "Company") is to distribute electric power to the residents of the City of Kingston and to manage the City's electric power system. The business is regulated by the Ontario Energy Board through the issuance of licenses which require compliance with established market rules and codes. The Company is wholly-owned by the Corporation of the City of Kingston (the "City of Kingston").

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") including accounting principles prescribed by the Ontario Energy Board (the "OEB") in the Accounting Procedures Handbook (the "AP Handbook") for Electric Distribution Utilities, and reflect the significant accounting policies summarized below:

(a) Rate regulation:

Kingston Hydro Corporation is regulated by the Ontario Energy Board ("OEB") under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would apply to enterprises operating in a non-regulated environment. Specifically, the following accounting treatments have been applied:

- (i) Costs incurred with respect to deregulation of the electricity industry in Ontario, have been deferred pursuant to regulations underlying the Electricity Act, 1998, ("EA") and are subject to review and approval for recovery by the OEB.
- (ii) An amount to represent the cost of funds used during construction and development has been added to the carrying value of assets under construction based on the value of construction-in-progress.
- (iii) The Company has deferred the recognition of certain pre-market opening cost of power variances and post-market opening retail settlement variances in accordance with Article 490 of the OEB's AP Handbook.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(b) Revenue recognition:

Revenue is recognized on the accrual basis, which includes an estimate of unbilled revenue, representing customer usage from the date of each customer's last meter reading until the end of the fiscal year. Actual results could differ from estimates made of actual electricity usage.

Billed and unbilled revenues presented on the balance sheet include distribution revenue as well as power charges billed and collected on behalf of the Independent Electricity System operator ("IESO").

The Company presents distribution revenue earned on a gross basis but presents amounts billed in respect of power, connection, transmission and wholesale market service charges on a net basis.

Services and other revenue are recognized as services are rendered or contract milestones are achieved.

(c) Inventory:

Inventories consist primarily of maintenance and construction materials. To the extent that such materials are used for upgrades and improvements to its electricity distribution system, they are capitalized as capital assets. Once capitalized, these items are not amortized until they are put into service. Inventories are carried at the lower of cost and net realizable value, with cost determined on an average cost basis net of a provision for obsolescence.

(d) Capital assets:

Capital assets are recorded at cost and include contracted services, materials, labour, engineering costs, overhead and an allowance for the cost of funds used during construction when applied. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers. The OEB requires that such contributions, whether in cash or in-kind, be offset against the related asset cost. Contributions in-kind are valued at their fair market value at the date of their contributions.

When identifiable assets, such as buildings, substation equipment, system supervisory equipment, meters, tools and vehicles are retired or otherwise disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal period. The cost and related accumulated amortization of grouped assets, such as the overhead distribution system, is removed from the accounts at the end of their estimated service life.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(d) Capital assets (continued):

Depreciation is provided on the straight-line basis using the following annual rates:

Asset	Rate
Buildings and fixtures	2.00%
Substation equipment	3.33%
Distribution system	4.00%
Meters	4.00%
Tools and equipment	10.00%
System supervisory equipment	6.67%
Application software	20.00%
Vehicles	10.00%
Leasehold improvements	Over the term of the lease
Miscellaneous intangible plant	2.50%

Capital work-in-progress comprises capital assets under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed. An allowance for the cost of funds used during the construction period has been applied to the carrying value of such assets at rates ranging from 3.92% to 4.29% (2010 - 4.01% to 4.66%).

(e) Contributed capital:

Amounts recovered from customers on capital projects are recorded as a capital asset contra account and amortized on a straight-line basis at the same rate used for amortization of the related property and equipment. Contributed capital is included in the respective capital asset categories in note 4.

(f) Incorporation costs:

Incorporation costs are recorded at cost, net of accumulated amortization. Amortization is provided on a straight-line basis over ten years.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(g) Regulatory assets:

Regulatory assets are comprised principally of the following:

- (i) Retail settlement variances - represent accumulated variances that have occurred since January 1, 2005 and that have accumulated pursuant to direction from the OEB. Specifically, these amounts include:
 - variances between the amount charged by the IESO and Hydro One Network Inc. for the operation of the markets and grid, as well as various wholesale market settlement charges, transmission charges as compared to the amount billed to consumers based on the OEB approved wholesale market services rate; and
 - variances between the amounts charged by the IESO to allow for purchases of imported power as compared to the amounts billed to consumers based on the OEB approved rates.
- (ii) Regulatory asset recoveries - represent accumulated recoveries of regulatory assets through increased rates over a two-year period.

Regulatory assets incur interest at a rate of 1.47% (2010 – 0.55% to 1.2%) per annum, calculated using the simple interest method.

(h) Measurement uncertainty:

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

Accounts receivable, billed revenue receivable and unbilled revenue are stated after evaluation of amounts expected to be collected or recovered and an appropriate allowance for doubtful accounts.

Employee future benefit liabilities owing to 1425445 Ontario Limited (operating as “Utilities Kingston”) are based on certain assumptions arising from an actuarial valuation performed on behalf of that Company. These assumptions include interest (discount) rate, salary escalation, the average retirement age of employees, employee turnover and expected health and dental care costs.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(h) Measurement uncertainty (continued):

Due to inherent uncertainty involved in making estimates, actual results could differ from those estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the OEB and Minister of Energy. Any adjustments to the estimates made will be recorded in the year they are identified.

(i) Payments in lieu of corporate income taxes ("PILs"):

The Company is exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA").

Pursuant to the Electricity Act ("EA"), 1998, the Company is required to compute payments in lieu of taxes under the ITA and OCTA and remit such amounts there under to the Ontario Electricity Financial Corporation ("OEFC"). These amounts, referred to as PILs under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro continuing in OEFC.

The Company applies the asset and liability method of accounting for payments in lieu of income taxes. Under the asset and liability method, future tax assets and liabilities are recognized, to the extent such are determined likely to be realized, for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Future income taxes recoverable have been recorded in the accounts and a corresponding regulatory liability has been set up as future income taxes are recovered through future rate increases/decreases.

(j) Employee future benefit liabilities:

The Company's employee future benefit liabilities represent its accumulated obligation to Utilities Kingston under a service agreement.

The Company accrues its obligations to Utilities Kingston for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of salary escalation, retirement ages of Utilities Kingston's employees and expected health care costs.

Utilities Kingston's employees participate in the Ontario Municipal Employees Retirement Fund (OMERS), a multi-employer public sector pension fund, as a defined benefit plan.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(k) Financial instruments:

(i) Section 3855, *Financial Instruments - Recognition and Measurement*:

Under the standards, financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. The standards require that all financial instruments be classified either as held-for-trading ("HFT") financial assets or liabilities, available-for-sale ("AFS") financial assets, held-to-maturity (HTM") financial assets, loans and receivables or other liabilities. The standards require that all financial instruments, including all derivatives, be measured subsequent to their initial recognition at fair value with the exception of loans and receivables, debt securities classified as HTM financial assets, AFS financial assets that do not have quoted market prices in an active market and other liabilities.

Classification of financial instruments:

The following is a summary of the classification the Company has applied to each of its significant categories of financial instruments outstanding.

Financial instrument	Classification
Due from the City of Kingston	Loans and receivables
Amounts receivable	Loans and receivables
Billed revenue receivable	Loans and receivables
Bank loan	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Due to retailers	Other liabilities
Deposits payable	Other liabilities
Note payable to City of Kingston	Other liabilities

Held-for-trading

The Company has not designated any non-derivative financial assets as HFT, nor has it designated any non-derivative financial liabilities as HFT.

Available-for-sale

The Company has not designated any financial assets as AFS.

Held-to-maturity

The Company has not designated any financial assets as HTM.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments. Loans and receivables are recorded at amortized cost, using the effective interest rate method.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(k) Financial instruments (continued):

(i) Section 3855, *Financial Instruments - Recognition and Measurement (continued)*:

Other liabilities

Other liabilities captures all financial liabilities that are not required to be designated by the Company as held for trading upon initial recognition. Other liabilities are recorded at amortized cost, using the effective interest rate method.

Derivatives

The Company has not identified any derivative instruments.

(ii) Section 1535, *Capital Disclosures*:

This section requires the disclosure of (i) an entity's objectives, policies and process for managing capital; (ii) quantitative data about an entity's managed capital; (iii) whether an entity has complied with externally imposed capital requirements; and (iv) if an entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance. Disclosure requirements pertaining to Section 1535 are contained in note 18 - Capital Risk Management.

2. Transition to International Financial Reporting Standards:

Publicly accountable enterprises in Canada were required to adopt International Financial Reporting Standards ("IFRS") in place of Canadian GAAP for annual reporting purposes for fiscal years beginning on or after January 1, 2011. On September 10, 2010, the Accounting Standards Board granted an optional one-year deferral for IFRS adoption for entities subject to rate regulation. The Company elected to take the optional one-year deferral of its adoption of IFRS; therefore, it continues to prepare its consolidated financial statements in accordance with Canadian GAAP accounting standards in Part V of the CICA Handbook in 2011.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

3. Electricity industry regulation:

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

On May 1, 2011 the Company's distribution rate as approved by the OEB provided for a revised rate of return of 6.74%, as compared to 7.54% in 2010. The Company has filed a Cost of Service Rate Application with the Ontario Energy Board ("OEB") for revised distribution rates effective May 1, 2012. At December 31, 2011, the application was still under consideration by the OEB. It is anticipated that the Company will have the revised rates in place by May 1, 2012 pending the decision by the OEB in 2012.

4. Capital assets:

	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
Land	\$ 197,343	\$ —	\$ 197,343	\$ 197,343
Buildings and fixtures	669,494	186,550	482,944	376,312
Substation equipment	8,202,537	1,910,925	6,291,612	3,323,235
Distribution system:				
Overhead	16,095,816	6,014,100	10,081,716	9,964,960
Underground	13,779,137	4,991,479	8,787,658	8,515,623
Transformers	3,650,848	2,005,427	1,645,421	1,587,843
Miscellaneous intangible plant	242,440	21,593	220,847	233,140
Meters	702,984	186,755	516,229	2,454,103
Tools and equipment	1,114,622	679,507	435,115	497,127
System supervisory equipment	2,364,305	1,749,669	614,636	574,766
Vehicle	1,794,081	1,111,346	682,735	395,503
Application software	431,658	319,792	111,866	121,750
Leasehold improvements	328,465	188,440	140,025	163,078
Capital work-in-progress	265,241	—	265,241	321,807
	\$ 49,838,971	\$ 19,365,583	\$ 30,473,388	\$ 28,726,590

The cost and accumulated amortization of capital assets at December 31, 2010 amounted to \$47,583,563 and \$18,856,973 respectively.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

5. Note payable to City of Kingston:

In consideration for transfer of the City of Kingston's electricity distribution business, the City of Kingston took back a note payable on January 1, 2000, for an amount equivalent to 50% of the value of net assets transferred. The note payable amounts to \$10,880,619 (2010 -\$10,880,619). As part of the 2011 Kingston Hydro distribution rate rebasing application, the Ontario Energy Board ordered that Kingston Hydro use a deemed debt rate of 5.87% per annum (2010 -7.25%). This rate became effective May 1, 2011. The note payable has no fixed terms of repayment and is unsecured. It is not the intent of the City of Kingston to demand repayment before January 1, 2013. Interest charges on the note payable for the 2011 fiscal year were \$688,743 (2010-\$788,845).

6. Bank loans and long-term debt:

(a) Bank loans:

	2011	2010
Operating facility of \$5,000,000, available by way of a Prime Rate Based Loan or Bankers' Acceptances with interest at the bank's rate on Bankers' Acceptances plus a 0.50% stamping fee, drawn at a rate of 3.0%	\$ 3,775,000	\$ 3,475,000
Committed floating rate revolving term loan facility to a maximum of \$3,000,000, available by way of a Prime Rate Based Loan or Bankers' Acceptances with interest at the bank's rate on Bankers' Acceptances plus a 0.75% stamping fee, drawn at a rate of 3.0%	2,250,000	2,250,000
Demand loan of \$3,000,000, available by way of a Prime Rate Based Loan or Bankers' Acceptances with interest at the bank's rate on Bankers' Acceptances plus a 1.00% stamping fee, drawn at a rate of 3.0%	2,500,000	—
	8,525,000	5,725,000
Current portion of long-term debt	279,927	270,989
	\$ 8,804,927	\$ 5,995,989

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

6. Bank loans and long-term debt (continued):

(b) Long-term debt:

	2011	2010
Committed reduced term facility (single draw), fixed rate of 3.25%, due May 2019	\$ 2,315,687	\$ 2,407,410
Less: current portion of long-term debt	(279,927)	(270,989)
	<u>\$ 2,035,760</u>	<u>\$ 2,136,421</u>

Principal payments on long-term debt based on scheduled repayments are as follows:

2012	\$ 279,927
2013	289,161
2014	298,700
2015	308,554
2016	318,734
2017 and thereafter	820,611
	<u>\$ 2,315,687</u>

(c) To comply with requirements of the IESO, as a supplier of energy to the wholesale electricity market, the Company is required to post security determined in relation to the Company's credit rating. A letter of credit has been provided in the amount of \$5,301,839 as of December 31, 2011 (2010 - \$5,301,839).

Bank indebtedness is secured by a general security agreement representing a first charge on all the Company's assets.

7. Pension agreements:

On behalf of their employees who provide services to the Company, Utilities Kingston, a related corporation, makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Total contributions by that Company to OMERS for 2011 were \$1,140,699 (2010 - \$920,731).

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

8. Regulatory assets and liabilities:

(a) Regulatory assets are comprised of:

	2011	2010
Regulatory assets	\$ 5,988,664	\$ 4,147,700
Retail settlement variances	2,634,215	(198,971)
	<u>\$ 8,622,879</u>	<u>\$ 3,948,729</u>

(b) Regulatory liabilities are comprised of:

	2011	2010
Regulatory asset recoveries	\$ 1,658,334	\$ 1,856,591

9. Related party transactions:

(a) 1425445 Ontario Limited (operating as Utilities Kingston):

During the year, the Company paid \$12,584,240 (2010 - \$9,944,539) to 1425445 Ontario Limited (operating as Utilities Kingston) for support services and capital works. 1425445 Ontario Limited is a shared-services business incorporated to provide support services to both the Company and to various infrastructure businesses of the City of Kingston. There was no balance owing at December 31, 2011 with respect to these transactions.

(b) City of Kingston:

During the year, the Company contracted for certain financial services from the City of Kingston. As at December 31, 2011, the Company had an amount due to the City of Kingston representing the cumulative net balance of cash receipts and disbursements processed by the City of Kingston on behalf of the Company, in the amount of \$263,177 (2010 due from the City of Kingston - \$2,305,059). The City of Kingston pays the Company interest on the balance at a rate of prime minus 1.65%.

Charges for the above services are recorded at exchange amounts established and agreed to by the related parties.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

10. Employee future benefit liabilities:

(a) Pension plan:

The former Hydro-Electric Commission of the Corporation of the City of Kingston entered into agreements in 1995 with a number of former employees on non-contributory defined benefit pension plans. An actuarial report of the accrued pension liability indicates that the present value of the accrued pension benefits as at December 31, 2011 is \$165,569 (2010 - \$164,393).

Information with respect to the accrued pension liability is as follows:

	2011	2010
Accrued pension liability, January 1	\$ 164,389	\$ 168,549
Expenses recognized for the period	7,833	8,296
Pension payments	(6,653)	(12,456)
Accrued pension liability, December 31	\$ 165,569	\$ 164,389

(b) Extended health care, dental and life insurance benefits:

The Company is responsible for providing post employment extended health care, dental and life insurance benefits to employees of Utilities Kingston through the service agreement with Utilities Kingston. An independent actuarial study of the post-retirement and post-employment benefits has been undertaken. The most recent actuarial valuation of the future benefits was completed as at December 31, 2010. This resulted in a net unamortized actuarial loss to be amortized beginning in 2011, on a straight-line basis over the expected average remaining service life of the related employee groups, which was estimated to be 13 years.

The significant actuarial assumptions adopted in estimating the Company's accrued benefit obligation are as follows:

Discount rate	4.75% per annum
Salary escalation	3.0% per annum
Dental benefits escalation	4.0% per annum
Health benefits escalation	7.0% per annum in 2011, decreasing to 4.0% over 9 years

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

10. Employee future benefit liabilities (continued):

(b) Extended health care, dental and life insurance benefits (continued):

Information with respect to these accrued benefit liabilities is as follows:

	2011	2010
Accrued benefit liabilities, January 1	\$ 1,049,078	\$ 1,006,343
Service cost	43,680	43,783
Interest	51,000	54,306
Other	(119,406)	(5,472)
Amortization of actuarial loss	30,239	37,353
Benefits paid for the period	(120,066)	(87,235)
Payments to Utilities Kingston	(200,000)	—
Accrued benefit liabilities, December 31	\$ 734,525	\$ 1,049,078

These accrued benefit liabilities at December 31 include the following components:

	2011	2010
Accrued benefit obligation	\$ 1,086,505	\$ 1,324,753
Unamortized actuarial losses	(151,980)	(275,675)
Payments to Utilities Kingston	(200,000)	—
Accrued benefit liabilities, December 31	\$ 734,525	\$ 1,049,078

These benefits will be paid to Utilities Kingston as future benefit obligations are paid by Utilities Kingston to its employees as part of the support services contract with the Company.

(c) Future benefit liabilities:

	2011	2010
Future benefit liabilities are comprised of:		
Pension plan	\$ 165,569	\$ 164,389
Health, dental and life insurance	734,525	1,049,078
	\$ 900,094	\$ 1,213,467

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

11. General liability insurance:

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE) which is a pooling of general liability risks. Members of MEARIE would be assessed, on a pro-rata basis, based on the total of their respective deposit premiums should losses be experienced by MEARIE that are in excess of their reserves and supplemental insurance, for the years in which the Company, and the former Hydro-Electric Commission, has been a member. The Company has not been made aware of any additional assessments.

12. Contingent liabilities:

- (a) The nature of the Company's activities is such that there may be litigation pending at any time. With respect to claims at December 31, 2011 against the Company, management believes there are valid defenses and appropriate insurance coverage in place. In the event any claims specifically are successful, management believes that such claims are not expected to have a material effect on the financial position of the Company.
- (b) A class action was brought under the Class Proceedings Act, 1992. The plaintiff class seeks \$500 million in restitution for amounts paid to Toronto Hydro and to other Ontario municipal electric utilities ("LDCs") who received late payment penalties which constitute interest at an effective rate in excess of 60% per year, contrary to section 347 of the Criminal Code. On February 22, 2011 the OEB released its Decision and Order on the Late Payment Penalty Generic Hearing (EB-2010-0295). The OEB has found that the costs sought to be recovered by distributors, namely the settlement of litigation before the Ontario Superior Court of Justice, were prudently incurred.

Kingston Hydro Corporation's share of the Late Payment Penalty class action costs approved for recovery is \$104,031. The Company made its required payment of \$104,031 to a social agency in 2011 and is in the process of recovering the amount through a Late Payment Penalty rate rider which commenced on May 1, 2011 and will end on April 30, 2012.

- (c) The Company provides a guarantee in favour of an affiliated company, 1425445 Ontario Limited, with a value no greater than 25% of the Company's equity less the outstanding note receivable from 1425445 Ontario Limited. At December 31, 2011, this guarantee remained in place.

No provision has been made in these financial statements in respect of any of the above contingent liabilities as management has assessed the risk of loss to be remote.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

13. Payments in lieu of corporate income taxes:

The provision for amounts in lieu of corporate income taxes ("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:

	2011	2010
Federal and Ontario statutory income tax rate	28.25%	31.00%
Income before provision for PILs	\$ 1,255,955	\$ 817,363
Provision for PILs at statutory rate	\$ 354,807	\$ 253,383
Increase (decrease) resulting from:		
Capital cost allowance less than (in excess of) depreciation and amortization	(213,693)	(53,869)
Ontario Capital Tax	—	18,000
Tax effect of regulatory asset recoveries in current year	58,522	37,507
Tax effect of other miscellaneous adjustments	(66,538)	17,035
Provision for PILs	\$ 133,098	\$ 272,056
Effective income tax rate	10.6%	33.3%

Tax effects of temporary difference that give rise to future tax assets and liabilities are as follows:

Excess of tax values over accounting values of fixed assets	\$ 1,242,836	\$ 1,392,443
Future benefit liabilities	225,024	303,367
Regulatory liabilities	415,498	464,148
	\$ 1,883,358	\$ 2,159,958

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

14. Change in non-cash operating balances:

	2011	2010
Decrease (increase) in due from City of Kingston	\$ 3,619,236	\$ (421,641)
Decrease (increase) in accounts receivable	(481,844)	720,208
Decrease (increase) in billed revenue receivable	266,355	(1,105,630)
Increase in payments in lieu of income taxes	(194,995)	(682,000)
Increase in unbilled revenue	(133,646)	(420,925)
Decrease (increase) in inventory	(423,543)	83,381
Decrease (increase) in prepaid expenses	61,718	(40,711)
Increase in regulatory assets	(2,775,639)	(2,747,843)
Increase (decrease) in due to retailers	(59,828)	345,734
Decrease in accounts payable and accrued liabilities	(116,724)	(205,773)
Increase (decrease) in deposits payable	450,593	(754,275)
Decrease in regulatory liabilities	—	(473,654)
Increase (decrease) in future benefit liabilities	(313,373)	38,580
	<u>\$ (101,690)</u>	<u>\$ (5,664,549)</u>

15. Power distribution:

As part of its license with the OEB, the Company is required to distribute power to the residents of the City of Kingston and to charge its ratepayers at rates established by the OEB. In addition, it is required to remit to the IESO payments for the purchase of commodity in addition to other costs specified by the OEB. The Company is not permitted to profit from the purchase and sale of power.

	2011	2010
Sales	\$ 62,084,765	\$ 58,725,968
Costs of power	(62,084,765)	(58,725,968)
	<u>\$ —</u>	<u>\$ —</u>

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

16. Financial instruments:

(a) Fair value of financial instruments:

The carrying values of the amount due to City of Kingston, accounts receivable, billed revenue receivable, payments in lieu of income taxes, bank loan, accounts payable and accrued liabilities, due to retailers and deposits payable approximate their fair value due to the expected short-term maturity of these instruments. The fair value of the regulatory assets and liabilities are not determinable due to lack of market rates and terms.

The fair value of the note payable to City of Kingston is not determinable due to its related party terms.

(b) Credit risks:

Credit risk is the risk that a counterparty will fail to discharge its obligation to the Company reducing the expected cash inflow from Company assets recorded at the balance sheet date. Credit risk can be concentrated in debtors that are similarly affected by economic or other conditions. The Company has assessed that there are no significant concentrations of credit risk.

17. Capital risk management:

The Company's objectives when managing capital are to safeguard its assets while at the same time maintain investor and creditor confidence, and to sustain future development of the business.

The Company includes shareholder's equity and long-term debt including the note payable to the City of Kingston in the definition of capital. To maintain or adjust the capital structure, the Company may issue new shares, issue new debt with different characteristics, acquire or dispose of assets, or adjust the amount of cash and short-term investment balances held.

There were no changes in the Company's approach to capital management during the period. As part of its lending arrangements, the Company is subject to various financial covenants, including debt service coverage ratio and debt to capitalization ratio.

In addition, the note payable to the City of Kingston is subordinated to the Company's bank in favour of the bank loan.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2011

18. Change in contributed surplus:

Prior to January 1, 2011, the Company paid a rate per use for vehicles that had been purchased and maintained by the City of Kingston. These funds were put towards the operation and maintenance of the vehicles, as well as contributing to a City of Kingston reserve fund, intended for the replacement of the fleet when necessary. During 2011 the Company allocated the portion of the City of Kingston reserve fund related to the replacement of the Company's fleet, to the Company's contributed surplus account in the amount of \$1,051,000.

19. Comparative figures:

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

Attachment 2 of 4

2012 Audited Statements

Financial Statements of

KINGSTON HYDRO CORPORATION

Year ended December 31, 2012



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kingston Hydro Corporation

We have audited the accompanying financial statements of Kingston Hydro Corporation, which comprise the balance sheet as at December 31, 2012, the statements of earnings, retained earnings and cash flows for the year then ended, and notes, comprising 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 our 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, we 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 Kingston Hydro Corporation as at December 31, 2012, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

April 22, 2013

Kingston, Canada

KINGSTON HYDRO CORPORATION

Financial Statements

Year ended December 31, 2012

Financial Statements

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Statement of Retained Earnings	3
Statement of Cash Flows	4
Notes to Financial Statements	5

KINGSTON HYDRO CORPORATION

Balance Sheet

December 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Cash	\$ 7,615	\$ 7,236
Due from City of Kingston (note 9(b))	3,806,851	—
Miscellaneous accounts receivable	380,713	1,325,250
Billed revenue receivable	5,502,095	4,884,119
Unbilled revenue	7,374,211	7,139,708
Inventory	1,369,970	1,465,887
Payments in lieu of corporate income taxes recoverable (note 14)	—	876,995
Prepaid expenses	160,534	81,271
	18,601,989	15,780,466
Regulatory assets (note 8(a))	12,919,441	8,622,879
Capital assets (note 4)	32,067,891	30,473,388
Future taxes (note 14)	1,808,510	1,883,358
	\$ 65,397,831	\$ 56,760,091
Liabilities and Shareholder's Equity		
Current liabilities:		
Bank loans (note 6(a))	\$ 8,589,996	\$ 8,804,927
Due to City of Kingston	—	263,177
Accounts payable and accrued liabilities	7,406,949	8,020,462
Due to retailers	1,131,989	1,430,563
Deposits payable	140,898	990,670
Payments in lieu of corporate income taxes payable (note 14)	43,268	—
	17,313,100	19,509,799
Regulatory liabilities (note 8(b))	1,547,582	1,658,334
Note payable to City of Kingston (note 5)	10,880,619	10,880,619
Long-term debt (note 6(b))	10,993,734	2,035,760
Employee future benefit liabilities (note 10(d))	984,635	900,094
	41,719,670	34,984,606
Shareholder's equity:		
Share capital:		
Authorized:		
Unlimited Class A common shares		
Issued and outstanding:		
120 Class A common shares	12,380,617	12,380,617
Contributed surplus	3,893,103	3,893,103
Retained earnings	7,404,441	5,501,765
	23,678,161	21,775,485
Commitments (note 13)		
Contingent liabilities (notes 11 and 12)		
	\$ 65,397,831	\$ 56,760,091

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

KINGSTON HYDRO CORPORATION

Statement of Earnings

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Revenue:		
Local distribution revenue (note 3)	\$ 11,206,972	\$ 10,345,456
Account set-up charge	54,472	54,237
Pole rentals	154,608	176,650
Interest	132,468	109,679
Miscellaneous	314,709	270,282
	11,863,229	10,956,304
Operating expenses:		
Distribution expenses, operation	2,309,839	2,564,487
Distribution expenses, maintenance	873,655	810,263
General and administrative	1,927,241	1,736,330
Community relations	201,696	204,150
Billing and collecting	979,092	845,161
Other expenses	—	359,047
	6,291,523	6,519,438
Earnings before the undernoted	5,571,706	4,436,866
Interest expense	1,040,769	1,025,258
Depreciation and amortization	2,270,810	2,155,653
Earnings before income taxes	2,260,127	1,255,955
Payments in lieu of corporate income taxes (note 14):		
Current	393,355	54,755
Future (reduction)	(35,904)	78,343
	357,451	133,098
Net earnings	\$ 1,902,676	\$ 1,122,857

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

Statement of Retained Earnings

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Retained earnings, beginning of year	\$ 5,501,765	\$ 4,378,908
Net earnings	1,902,676	1,122,857
Retained earnings, end of year	\$ 7,404,441	\$ 5,501,765

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

Statement of Cash Flows

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operations:		
Net earnings	\$ 1,902,676	\$ 1,122,857
Items not involving cash:		
Depreciation and amortization	2,270,810	2,155,653
Future income taxes (reduction)	(35,904)	78,343
Change in non-cash operating balances (note 15)	(9,014,933)	(101,690)
	(4,877,351)	3,255,163
Financing:		
Proceeds from bank loans	9,750,000	2,808,938
Repayment of long-term loan payable	(1,006,957)	(280,661)
	8,743,043	2,528,277
Investments:		
Purchase of capital assets	(4,052,050)	(6,208,435)
Contributions toward costs of capital assets acquired	186,737	407,473
	(3,865,313)	(5,800,962)
Increase (decrease) in cash	379	(17,522)
Cash, beginning of year	7,236	24,758
Cash, end of year	\$ 7,615	\$ 7,236

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements

Year ended December 31, 2012

The principal business of Kingston Hydro Corporation (the "Company") is to distribute electric power to the residents of the City of Kingston and to manage the City's electric power system. The business is regulated by the Ontario Energy Board through the issuance of licenses which require compliance with established market rules and codes. The Company is wholly-owned by the Corporation of the City of Kingston (the "City of Kingston").

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") including accounting principles prescribed by the Ontario Energy Board (the "OEB") in the Accounting Procedures Handbook (the "AP Handbook") for Electric Distribution Utilities, and reflect the significant accounting policies summarized below:

(a) Rate regulation:

Kingston Hydro Corporation is regulated by the Ontario Energy Board ("OEB") under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would apply to enterprises operating in a non-regulated environment. Specifically, the following accounting treatments have been applied:

- (i) Costs incurred with respect to deregulation of the electricity industry in Ontario, have been deferred pursuant to regulations underlying the Electricity Act, 1998, ("EA") and are subject to review and approval for recovery by the OEB.
- (ii) An amount to represent the cost of funds used during construction and development has been added to the carrying value of assets under construction based on the value of construction-in-progress for those projects with a construction life greater than one year.
- (iii) The Company has deferred the recognition of certain pre-market opening cost of power variances and post-market opening retail settlement variances in accordance with Article 490 of the OEB's AP Handbook.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(b) Revenue recognition:

Revenue is recognized on the accrual basis, which includes an estimate of unbilled revenue, representing customer usage from the date of each customer's last meter reading until the end of the fiscal year. Actual results could differ from estimates made of actual electricity usage.

Billed and unbilled revenues presented on the balance sheet include distribution revenue as well as power charges billed and collected on behalf of the Independent Electricity System operator ("IESO").

The Company presents distribution revenue earned on a gross basis but presents amounts billed in respect of power, connection, transmission and wholesale market service charges on a net basis.

Services and other revenue are recognized as services are rendered or contract milestones are achieved.

(c) Inventory:

Inventories consist primarily of maintenance and construction materials. To the extent that such materials are used for upgrades and improvements to its electricity distribution system, they are capitalized as capital assets. Once capitalized, these items are not amortized until they are put into service. Inventories are carried at the lower of cost and net realizable value, with cost determined on an average cost basis net of a provision for obsolescence.

(d) Capital assets:

Capital assets are recorded at cost and include contracted services, materials, labour, engineering costs, overhead and an allowance for the cost of funds used during construction when applied. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers. The OEB requires that such contributions, whether in cash or in-kind, be offset against the related asset cost. Contributions in-kind are valued at their fair market value at the date of their contributions.

When identifiable assets, such as buildings, substation equipment, system supervisory equipment, meters, tools and vehicles are retired or otherwise disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal period. The cost and related accumulated amortization of grouped assets, such as the overhead distribution system, is removed from the accounts at the end of their estimated service life.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(d) Capital assets (continued):

Depreciation is provided on the straight-line basis using the following annual rates:

Asset	Rate
Buildings and fixtures	2.00%
Substation equipment	3.33%
Distribution system	4.00%
Meters	4.00%
Tools and equipment	10.00%
System supervisory equipment	6.67%
Application software	20.00%
Vehicles	10.00%
Leasehold improvements	Over the term of the lease
Miscellaneous intangible plant	2.50%

Capital work-in-progress comprises capital assets under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed.

(e) Contributed capital:

Amounts recovered from customers on capital projects are recorded as a capital asset contra account and amortized on a straight-line basis at the same rate used for amortization of the related property and equipment. Contributed capital is included in the respective capital asset categories in note 4.

(f) Incorporation costs:

Incorporation costs are recorded at cost, net of accumulated amortization. Amortization is provided on a straight-line basis over ten years.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(g) Regulatory assets:

Regulatory assets are comprised principally of the following:

- (i) Retail settlement variances - represent accumulated variances that have occurred since January 1, 2005 and that have accumulated pursuant to direction from the OEB. Specifically, these amounts include:
 - variances between the amount charged by the IESO and Hydro One Network Inc. for the operation of the markets and grid, as well as various wholesale market settlement charges, transmission charges as compared to the amount billed to consumers based on the OEB approved wholesale market services rate; and
 - variances between the amounts charged by the IESO to allow for purchases of imported power as compared to the amounts billed to consumers based on the OEB approved rates.
- (ii) Regulatory asset recoveries - represent accumulated recoveries of regulatory assets through increased rates over a two-year period.

Regulatory assets incur interest at a rate of 1.47% (2011 – 1.47%) per annum, calculated using the simple interest method.

(h) Measurement uncertainty:

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

Accounts receivable, billed revenue receivable and unbilled revenue are stated after evaluation of amounts expected to be collected or recovered and an appropriate allowance for doubtful accounts.

Employee future benefit liabilities owing to 1425445 Ontario Limited (operating as “Utilities Kingston”) are based on certain assumptions arising from an actuarial valuation performed on behalf of that Company. These assumptions include interest (discount) rate, salary escalation, the average retirement age of employees, employee turnover and expected health and dental care costs.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(h) Measurement uncertainty (continued):

Due to inherent uncertainty involved in making estimates, actual results could differ from those estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the OEB and Minister of Energy. Any adjustments to the estimates made will be recorded in the year they are identified.

(i) Payments in lieu of corporate income taxes ("PILs"):

The Company is exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA").

Pursuant to the Electricity Act ("EA"), 1998, the Company is required to compute payments in lieu of taxes under the ITA and OCTA and remit such amounts there under to the Ontario Electricity Financial Corporation ("OEFC"). These amounts, referred to as PILs under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro continuing in OEFC.

The Company applies the asset and liability method of accounting for payments in lieu of income taxes. Under the asset and liability method, future tax assets and liabilities are recognized, to the extent such are determined likely to be realized, for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Future income taxes recoverable have been recorded in the accounts and a corresponding regulatory liability has been set up as future income taxes are recovered through future rate increases/decreases.

(j) Employee future benefit liabilities:

The Company's employee future benefit liabilities represent its accumulated obligation to Utilities Kingston under a service agreement.

The Company accrues its obligations to Utilities Kingston for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of salary escalation, retirement ages of Utilities Kingston's employees and expected health care costs.

Utilities Kingston's employees participate in the Ontario Municipal Employees Retirement Fund (OMERS), a multi-employer public sector pension fund, as a defined benefit plan.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(k) Financial instruments:

(i) Section 3855, *Financial Instruments - Recognition and Measurement*:

Under the standards, financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. The standards require that all financial instruments be classified either as held-for-trading ("HFT") financial assets or liabilities, available-for-sale ("AFS") financial assets, held-to-maturity (HTM") financial assets, loans and receivables or other liabilities. The standards require that all financial instruments, including all derivatives, be measured subsequent to their initial recognition at fair value with the exception of loans and receivables, debt securities classified as HTM financial assets, AFS financial assets that do not have quoted market prices in an active market and other liabilities.

Classification of financial instruments:

The following is a summary of the classification the Company has applied to each of its significant categories of financial instruments outstanding.

Financial instrument	Classification
Due from the City of Kingston	Loans and receivables
Amounts receivable	Loans and receivables
Billed revenue receivable	Loans and receivables
Bank loan	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Due to retailers	Other liabilities
Deposits payable	Other liabilities
Note payable to City of Kingston	Other liabilities

Held-for-trading

The Company has not designated any non-derivative financial assets as HFT, nor has it designated any non-derivative financial liabilities as HFT.

Available-for-sale

The Company has not designated any financial assets as AFS.

Held-to-maturity

The Company has not designated any financial assets as HTM.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments. Loans and receivables are recorded at amortized cost, using the effective interest rate method.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(k) Financial instruments (continued):

(i) Section 3855, *Financial Instruments - Recognition and Measurement (continued)*:

Other liabilities

Other liabilities captures all financial liabilities that are not required to be designated by the Company as held for trading upon initial recognition. Other liabilities are recorded at amortized cost, using the effective interest rate method.

Derivatives

The Company has not identified any derivative instruments.

(ii) Section 1535, *Capital Disclosures*:

This section requires the disclosure of (i) an entity's objectives, policies and process for managing capital; (ii) quantitative data about an entity's managed capital; (iii) whether an entity has complied with externally imposed capital requirements; and (iv) if an entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance. Disclosure requirements pertaining to Section 1535 are contained in note 18 - Capital Risk Management.

2. Transition to International Financial Reporting Standards:

Publicly accountable enterprises in Canada were required to adopt International Financial Reporting Standards ("IFRS") in place of Canadian GAAP for annual reporting purposes for fiscal years beginning on or after January 1, 2011. On September 10, 2010, the Accounting Standards Board granted an optional one-year deferral for IFRS adoption for entities subject to rate regulation.

In February 2013, the Accounting Standards Board (AcSB) decided to extend the existing deferral of the mandatory IFRS changeover date for entities with qualifying rate-regulated activities by an additional year to January 1, 2015. The Company elected to take the deferral of its adoption of IFRS; therefore, it continues to prepare its consolidated financial statements in accordance with Canadian GAAP accounting standards in Part V of the CICA Handbook.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2012

3. Electricity industry regulation:

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

On May 1, 2011 the Company's distribution rate as approved by the OEB provided for a revised rate of return of 6.74%, as compared to 7.54% in 2010.

Effective May 1, 2012, the OEB approved a 0.88% price cap index adjustment to the Company's distribution rates, in accordance with the OEB's 3rd Generation Incentive Regulation Mechanism. The adjustment was applied to fixed and variable distribution rates uniformly across all customer classes.

Also effective May 1, 2012 the OEB approved the recovery of an Incremental Revenue Requirement, through a variable rate rider, to allow for recovery of the Company's investments in incremental capital projects. The adjustment was applied uniformly across all customer classes.

On August 24, 2012, the Company filed an application with the OEB for the disposition and recovery of costs related to Smart Meter deployment. The OEB approved a fixed distribution rate increase for the recovery of smart meters effective January 1, 2013. The adjustment was applied to residential and General Service less than 50kW customers.

On August 31, 2012, the Company filed an application under the OEB's Incentive Regulation Mechanism to increase its distribution rates by approximately 0.48% effective May 1, 2013. At December 31, 2012, the application was still under review by the OEB.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2012

4. Capital assets:

	Cost	Accumulated amortization	2012 Net book value	2011 Net book value
Land	\$ 197,343	\$ —	\$ 197,343	\$ 197,343
Buildings and fixtures	678,863	204,501	474,362	482,944
Substation equipment	8,270,955	2,212,155	6,058,800	6,291,612
Distribution system:				
Overhead	17,359,296	6,735,696	10,623,600	10,081,716
Underground	14,252,062	5,577,441	8,674,621	8,787,658
Transformers	3,768,237	2,204,241	1,563,996	1,645,421
Miscellaneous intangible plant	242,440	27,654	214,786	220,847
Meters	781,296	213,929	567,367	516,229
Tools and equipment	1,182,706	765,934	416,772	435,115
System supervisory equipment	2,681,901	1,866,052	815,849	614,636
Vehicle	2,704,800	1,302,365	1,402,435	682,735
Application software	431,658	356,206	75,452	111,866
Leasehold improvements	333,900	218,507	115,393	140,025
Capital work-in-progress	867,115	—	867,115	265,241
	\$ 53,752,572	\$ 21,684,681	\$ 32,067,891	\$ 30,473,388

The cost and accumulated amortization of capital assets at December 31, 2011 amounted to \$49,838,971 and \$19,365,583 respectively.

5. Note payable to City of Kingston:

In consideration for transfer of the City of Kingston's electricity distribution business, the City of Kingston took back a note payable on January 1, 2000, for an amount equivalent to 50% of the value of net assets transferred. The note payable amounts to \$10,880,619 (2011 - \$10,880,619). As part of the 2011 Kingston Hydro distribution rate rebasing application, the Ontario Energy Board ordered that Kingston Hydro use a deemed debt rate of 5.87% per annum. This rate became effective May 1, 2011. The note payable has no fixed terms of repayment and is unsecured. It is not the intent of the City of Kingston to demand repayment before January 1, 2014. Interest charges on the note payable for the 2012 fiscal year were \$638,692 (2011 - \$688,743).

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2012

6. Bank loans and long-term debt:

(a) Bank loans:

	2012	2011
Operating facility of \$5,000,000, available by way of a Prime Rate Based Loan or Bankers' Acceptances with interest at the bank's rate on Bankers' Acceptances plus a 0.50% stamping fee, drawn at a rate of 1.7%	\$ 5,000,000	\$ 3,775,000
Committed floating rate revolving term loan facility to a maximum of \$3,000,000, available by way of a Prime Rate Based Loan or Bankers' Acceptances with interest at the bank's rate on Bankers' Acceptances plus a 0.75% stamping fee, drawn at a rate of 2.3%	3,000,000	2,250,000
Demand loan of \$3,000,000, available by way of a Prime Rate Based Loan or Bankers' Acceptances with interest at the bank's rate on Bankers' Acceptances plus a 1.00% stamping fee, drawn at a rate of 3.0%	—	2,500,000
	8,000,000	8,525,000
Current portion of long-term debt	589,996	279,927
	\$ 8,589,996	\$ 8,804,927

(b) Long-term debt:

	2012	2011
Committed reduced term facility (single draw), fixed rate of 3.25%, due May 2019	\$ 2,035,002	\$ 2,315,687
Committed reduced term facility (single draw), fixed rate of 3.03% due February 2019	2,180,908	—
Committed reduced term facility (single draw), fixed rate of 3.25% due January 2022	3,867,820	—
Committed reduced term facility (single draw), fixed rate of 3.92% due December 2042	3,500,000	—
	11,583,730	2,315,687
Less: current portion of long-term debt	589,996	279,927
	\$ 10,993,734	\$ 2,035,760

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2012

6. Bank loans and long-term debt (continued):

(b) Long-term debt (continued):

Principal payments on long-term debt based on scheduled repayments are as follows:

2013	\$ 589,996
2014	605,550
2015	625,757
2016	646,645
2017	669,121
2018 and thereafter	8,446,661
	<hr/>
	\$ 11,583,730

- (c) To comply with requirements of the IESO, as a supplier of energy to the wholesale electricity market, the Company is required to post security determined in relation to the Company's credit rating. A letter of credit has been provided in the amount of \$5,301,839 as of December 31, 2012 (2011 - \$5,301,839).

Bank indebtedness is secured by a general security agreement representing a first charge on all the Company's assets.

7. Pension agreements:

On behalf of their employees who provide services to the Company, Utilities Kingston, a related corporation, makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Total contributions by that Company to OMERS for 2012 were \$1,422,098 (2011 - \$1,140,699).

8. Regulatory assets and liabilities:

(a) Regulatory assets are comprised of:

	2012	2011
Regulatory assets	\$ 8,166,977	\$ 5,988,664
Retail settlement variances	4,752,464	2,634,215
	<hr/>	
	\$12,919,441	\$ 8,622,879

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2012

8. Regulatory assets and liabilities (continued):

(b) Regulatory liabilities are comprised of:

	2012	2011
Other regulatory liabilities	\$ 1,547,582	\$ 1,658,334

9. Related party transactions:

(a) 1425445 Ontario Limited (operating as Utilities Kingston):

During the year, the Company paid \$12,660,486 (2011 - \$12,584,240) to 1425445 Ontario Limited (operating as Utilities Kingston) for support services and capital works. 1425445 Ontario Limited is a shared-services business incorporated to provide support services to both the Company and to various infrastructure businesses of the City of Kingston. There was no balance owing at December 31, 2012 with respect to these transactions.

(b) City of Kingston:

During the year, the Company contracted for certain financial services from the City of Kingston. As at December 31, 2012, the Company had an amount due from the City of Kingston representing the cumulative net balance of cash receipts and disbursements processed by the City of Kingston on behalf of the Company, in the amount of \$3,806,851 (2011 due to the City of Kingston - \$263,177). The City of Kingston pays the Company interest on the balance at a rate of prime minus 1.65%.

Charges for the above services are recorded at exchange amounts established and agreed to by the related parties.

10. Employee future benefit liabilities:

(a) Pension plan:

The former Hydro-Electric Commission of the Corporation of the City of Kingston entered into agreements in 1995 with a number of former employees on non-contributory defined benefit pension plans. An actuarial report of the accrued pension liability indicates that the present value of the accrued pension benefits as at December 31, 2012 is \$199,907 (2011 - \$165,569).

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2012

10. Employee future benefit liabilities (continued):

(b) Extended health care, dental and life insurance benefits:

The Company has an obligation with respect to post employment extended health care, dental and life insurance benefits that are provided to employees of Utilities Kingston through the service agreement with Utilities Kingston. An independent actuarial study of the post-retirement and post-employment benefits has been undertaken for Utilities Kingston. The most recent actuarial valuation of the future benefit liability for Utilities Kingston was completed as at December 31, 2012. The Company is responsible for approximately 25% of the post-employment benefit liability of Utilities Kingston.

These accrued benefit liabilities at December 31 include the following components:

	2012	2011
Accrued benefit liabilities, January 1	\$ 734,525	\$ 1,049,078
Service Cost (reduction)	(248,724)	(114,553)
Payments to Utilities Kingston	–	(200,000)
Accrued benefit liabilities, December 31	\$ 485,801	\$ 734,525

These benefits will be paid to Utilities Kingston as future benefit obligations are paid by Utilities Kingston to its employees as part of the support services contract with the Company.

(c) Accumulated sick leave:

Utilities Kingston provides accumulated sick leave benefits to all its employees. Under the plan, the sick leave days accumulate from year to year but are non-vested. The Company is responsible for approximately 25% of the accrued benefit liability of Utilities Kingston. The amount of the Company's accrued benefit liability for accumulated sick leave that does not vest has been actuarially determined as at December 31, 2012 and is \$298,927 (2011 - \$Nil).

(d) Future benefit liabilities:

	2012	2011
Future benefit liabilities are comprised of:		
Pension plan	\$ 199,907	\$ 165,569
Health, dental and life insurance	485,801	734,525
Accumulated sick leave	298,927	–
	\$ 984,635	\$ 900,094

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2012

11. General liability insurance:

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE) which is a pooling of general liability risks. Members of MEARIE would be assessed, on a pro-rata basis, based on the total of their respective deposit premiums should losses be experienced by MEARIE that are in excess of their reserves and supplemental insurance, for the years in which the Company, and the former Hydro-Electric Commission, has been a member. The Company has not been made aware of any additional assessments.

12. Contingent liabilities:

- (a) The nature of the Company's activities is such that there may be litigation pending at any time. With respect to claims at December 31, 2012 against the Company, management believes there are valid defenses and appropriate insurance coverage in place. In the event any claims specifically are successful, management believes that such claims are not expected to have a material effect on the financial position of the Company.
- (b) A class action was brought under the Class Proceedings Act, 1992. The plaintiff class seeks \$500 million in restitution for amounts paid to Toronto Hydro and to other Ontario municipal electric utilities ("LDCs") who received late payment penalties which constitute interest at an effective rate in excess of 60% per year, contrary to section 347 of the Criminal Code. On February 22, 2011 the OEB released its Decision and Order on the Late Payment Penalty Generic Hearing (EB-2010-0295). The OEB has found that the costs sought to be recovered by distributors, namely the settlement of litigation before the Ontario Superior Court of Justice, were prudently incurred.

Kingston Hydro Corporation's share of the Late Payment Penalty class action costs approved for recovery is \$104,031. The Company made its required payment of \$104,031 to a social agency in 2011 and recovered the amount through a Late Payment Penalty rate rider which commenced on May 1, 2011 and ended on April 30, 2012.

No provision has been made in these financial statements in respect of any of the above contingent liabilities as management has assessed the risk of loss to be remote.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2012

13. Commitments:

The Company has committed funds to various capital projects at December 31, 2012, which are in various stages of completion. These commitments are summarized in the following table:

	Total price	Costs incurred to date
Various construction projects	\$ 3.626 million	\$ 3.308 million

14. Payments in lieu of corporate income taxes:

The provision for amounts in lieu of corporate income taxes ("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:

	2012	2011
Federal and Ontario statutory income tax rate	26.25%	28.25%
Income before provision for PILs	\$ 2,559,054	\$ 1,255,955
Provision for PILs at statutory rate	\$ 671,752	\$ 354,807
Increase (decrease) resulting from:		
Capital cost allowance in excess of depreciation and amortization	(232,047)	(213,693)
Tax effect of regulatory asset recoveries in current year	40,988	58,522
Tax effect of other miscellaneous adjustments	(44,027)	(66,538)
Provision for PILs	\$ 436,666	\$ 133,098
Effective income tax rate	17.1%	10.6%

Tax effects of temporary difference that give rise to future tax assets and liabilities are as follows:

Excess of tax values over accounting values of fixed assets	\$ 1,136,576	\$ 1,242,836
Future benefit liabilities	260,928	225,024
Regulatory liabilities	411,006	415,498
	\$ 1,808,510	\$ 1,883,358

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2012

15. Change in non-cash operating balances:

	2012	2011
Decrease (increase) in due from City of Kingston	\$ (4,070,028)	\$ 3,619,236
Decrease (increase) in accounts receivable	944,537	(481,844)
Decrease (increase) in billed revenue receivable	(617,976)	266,355
Decrease (increase) in payments in lieu of income taxes	920,263	(194,995)
Increase in unbilled revenue	(234,503)	(133,646)
Decrease (increase) in inventory	95,917	(423,543)
Decrease (increase) in prepaid expenses	(79,263)	61,718
Increase in regulatory assets	(4,296,562)	(2,775,639)
Decrease in due to retailers	(298,574)	(59,828)
Decrease in accounts payable and accrued liabilities	(613,513)	(116,724)
Increase (decrease) in deposits payable	(849,772)	450,593
Increase (decrease) in future benefit liabilities	84,541	(313,373)
	<u>\$ (9,014,933)</u>	<u>\$ (101,690)</u>

16. Power distribution:

As part of its license with the OEB, the Company is required to distribute power to the residents of the City of Kingston and to charge its ratepayers at rates established by the OEB. In addition, it is required to remit to the IESO payments for the purchase of commodity in addition to other costs specified by the OEB. The Company is not permitted to profit from the purchase and sale of power.

	2012	2011
Sales	\$ 65,548,409	\$ 62,084,765
Costs of power	(65,548,409)	(62,084,765)
	<u>\$ —</u>	<u>\$ —</u>

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2012

17. Financial instruments:

(a) Fair value of financial instruments:

The carrying values of the amount due to City of Kingston, miscellaneous accounts receivable, billed revenue receivable, unbilled revenue, payments in lieu of corporate income taxes, bank loan, accounts payable and accrued liabilities, due to retailers and deposits payable approximate their fair value due to the expected short-term maturity of these instruments. The fair value of the regulatory assets and liabilities are not determinable due to lack of market rates and terms.

The fair value of the note payable to City of Kingston is not determinable due to its related party terms.

(b) Credit risks:

Credit risk is the risk that a counterparty will fail to discharge its obligation to the Company reducing the expected cash inflow from Company assets recorded at the balance sheet date. Credit risk can be concentrated in debtors that are similarly affected by economic or other conditions. The Company has assessed that there are no significant concentrations of credit risk.

18. Capital risk management:

The Company's objectives when managing capital are to safeguard its assets while at the same time maintain investor and creditor confidence, and to sustain future development of the business.

The Company includes shareholder's equity and long-term debt including the note payable to the City of Kingston in the definition of capital. To maintain or adjust the capital structure, the Company may issue new shares, issue new debt with different characteristics, acquire or dispose of assets, or adjust the amount of cash and short-term investment balances held.

There were no changes in the Company's approach to capital management during the period. As part of its lending arrangements, the Company is subject to various financial covenants, including debt service coverage ratio and debt to capitalization ratio.

In addition, the note payable to the City of Kingston is subordinated to the Company's bank in favour of the bank loan.

Attachment 3 of 4

2013 Audited Statements

Financial Statements of

KINGSTON HYDRO CORPORATION

Year ended December 31, 2013



KPMG LLP

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kingston Hydro Corporation

We have audited the accompanying financial statements of Kingston Hydro Corporation, which comprise the balance sheet as at December 31, 2013, the statements of earnings, retained earnings and cash flows for the year then ended, and notes, comprising 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 our 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, we 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 Kingston Hydro Corporation as at December 31, 2013, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 14, 2014

Kingston, Canada

KINGSTON HYDRO CORPORATION

Financial Statements

Year ended December 31, 2013

Financial Statements

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Balance Sheet

	2013	2012
Assets		
Current assets:		
Cash	\$ 11,766	\$ 7,615
Due from City of Kingston (note 9(b))	5,714,669	3,806,851
Miscellaneous accounts receivable	762,931	380,713
Billed revenue receivable	5,455,560	5,502,095
Unbilled revenue	8,413,472	7,374,211
Inventory	1,584,441	1,369,970
Prepaid expenses	180,850	160,534
Payments in lieu of corporate income taxes receivable (note 13)	70,662	—
	22,194,351	18,601,989
Regulatory assets (note 8)	10,226,731	12,919,441
Capital assets (note 4)	38,258,818	32,067,891
Future taxes (note 13)	1,195,152	1,808,510
Derivative asset (note 16(c))	90,678	—
	\$ 71,965,730	\$ 65,397,831

	2013	2012
Liabilities and Shareholder's Equity		
Current liabilities:		
Bank loans (note 6(a))	\$ 11,652,155	\$ 8,589,996
Accounts payable and accrued liabilities	9,579,586	7,406,949
Due to retailers	122,832	1,131,989
Deposits payable	35,574	140,898
Payments in lieu of corporate income taxes payable (note 13)	—	43,268
	<u>21,390,147</u>	<u>17,313,100</u>
Other liabilities	915,221	1,547,582
Note payable to City of Kingston (note 5)	10,880,619	10,880,619
Long-term debt (note 6(b))	12,844,796	10,993,734
Employee future benefit liabilities (note 10(d))	1,056,346	984,635
	<u>47,087,129</u>	<u>41,719,670</u>
Shareholder's equity:		
Share capital:		
Authorized:		
Unlimited Class A common shares		
Issued and outstanding:		
120 Class A common shares	12,380,617	12,380,617
Contributed surplus	3,893,103	3,893,103
Accumulated other comprehensive income	90,678	—
Retained earnings	8,514,203	7,404,441
	<u>24,878,601</u>	<u>23,678,161</u>
Contingent liabilities (notes 11 and 12)		
	<u>\$ 71,965,730</u>	<u>\$ 65,397,831</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director _____ Director

KINGSTON HYDRO CORPORATION

Statement of Earnings

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Revenue:		
Local distribution revenue (notes 1(d) and 3)	\$ 12,071,921	\$ 11,206,972
Account set-up charge	56,115	54,472
Pole rentals	162,839	154,608
Interest	162,178	132,468
Miscellaneous	217,108	314,709
	12,670,161	11,863,229
Operating expenses:		
Distribution expenses, operation	2,877,204	2,309,839
Distribution expenses, maintenance	985,322	873,655
General and administrative	1,992,146	1,927,241
Community relations	120,438	201,696
Billing and collecting	1,031,455	979,092
	7,006,565	6,291,523
Earnings before the undernoted	5,663,596	5,571,706
Interest expense	1,316,926	1,040,769
Depreciation and amortization	2,257,208	2,270,810
Earnings before income taxes	2,089,462	2,260,127
Payments in lieu of corporate income taxes (note 13):		
Current	348,703	393,355
Future reduction	(19,003)	(35,904)
	329,700	357,451
Net earnings	1,759,762	1,902,676
Other comprehensive income:		
Change in fair value of cash flow hedge	90,678	—
Total comprehensive income	\$ 1,850,440	\$ 1,902,676

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

Statement of Retained Earnings

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Retained earnings, beginning of year	\$ 7,404,441	\$ 5,501,765
Net earnings	1,759,762	1,902,676
Dividends on common shares	(650,000)	—
Retained earnings, end of year	\$ 8,514,203	\$ 7,404,441

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

Statement of Cash Flows

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Cash provided by (used in):		
Operations:		
Net earnings	\$ 1,759,762	\$ 1,902,676
Items not involving cash:		
Depreciation and amortization	2,257,208	2,270,810
Future income tax reduction	(19,003)	(35,904)
Change in employee future benefit liabilities	71,711	84,541
Change in non-cash operating balances (note 14)	119,387	(9,099,474)
	4,189,065	(4,877,351)
Financing:		
Dividends paid	(650,000)	—
Proceeds from bank loans	5,500,000	9,750,000
Repayment of long-term loan payable	(586,779)	(1,006,957)
	4,263,221	8,743,043
Investments:		
Purchase of capital assets	(9,191,190)	(4,052,050)
Contributions toward costs of capital assets acquired	743,055	186,737
	(8,448,135)	(3,865,313)
Increase in cash	4,151	379
Cash, beginning of year	7,615	7,236
Cash, end of year	\$ 11,766	\$ 7,615

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements

Year ended December 31, 2013

The principal business of Kingston Hydro Corporation (the "Company") is to distribute electric power to the residents of the City of Kingston and to manage the City's electric power system. The business is regulated by the Ontario Energy Board through the issuance of licenses which require compliance with established market rules and codes. The Company is wholly-owned by the Corporation of the City of Kingston (the "City of Kingston").

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") including accounting principles prescribed by the Ontario Energy Board (the "OEB") in the Accounting Procedures Handbook (the "AP Handbook") for Electric Distribution Utilities, and reflect the significant accounting policies summarized below:

(a) Rate regulation:

Kingston Hydro Corporation is regulated by the Ontario Energy Board ("OEB") under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would apply to enterprises operating in a non-regulated environment. Specifically, the following accounting treatments have been applied:

- (i) Costs incurred with respect to deregulation of the electricity industry in Ontario, have been deferred pursuant to regulations underlying the Electricity Act, 1998, ("EA") and are subject to review and approval for recovery by the OEB.
- (ii) An amount to represent the cost of funds used during construction and development has been added to the carrying value of assets under construction based on the value of construction-in-progress for those projects with a construction life greater than one year.
- (iii) The Company has deferred the recognition of certain pre-market opening cost of power variances and post-market opening retail settlement variances in accordance with Article 490 of the OEB's AP Handbook.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(b) Revenue recognition:

Revenue is recognized on the accrual basis, which includes an estimate of unbilled revenue, representing customer usage from the date of each customer's last meter reading until the end of the fiscal year. Actual results could differ from estimates made of actual electricity usage.

Billed and unbilled revenues presented on the balance sheet include distribution revenue as well as power charges billed and collected on behalf of the Independent Electricity System operator ("IESO").

The Company presents distribution revenue earned on a gross basis but presents amounts billed in respect of power, connection, transmission and wholesale market service charges on a net basis.

Services and other revenue are recognized as services are rendered or contract milestones are achieved.

(c) Inventory:

Inventories consist primarily of maintenance and construction materials. To the extent that such materials are used for upgrades and improvements to its electricity distribution system, they are capitalized as capital assets. Once capitalized, these items are not amortized until they are put into service. Inventories are carried at the lower of cost and net realizable value, with cost determined on an average cost basis net of a provision for obsolescence.

(d) Capital assets:

Effective January 1, 2013, the Company revised its estimates of useful lives of certain items of property, plant and equipment and as a result changed its amortization rates. A comparative table of amortization rates is provided in note 1(d). The impact of the change in 2013 was a reduction of amortization expense of approximately \$1,153,881. Further, in accordance with OEB accounting requirements, an offsetting reduction of \$1,153,881 has been recorded against distribution revenue and an increase to regulatory liabilities. As a result, the impact on net earnings before income taxes is \$Nil.

Capital assets are recorded at cost and include contracted services, materials, labour, engineering costs, overhead and an allowance for the cost of funds used during construction when applied. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers. The OEB requires that such contributions, whether in cash or in-kind, be offset against the related asset cost. Contributions in-kind are valued at their fair market value at the date of their contributions.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(d) Capital assets (continued):

When identifiable assets, such as buildings, substation equipment, system supervisory equipment, meters, tools and vehicles are retired or otherwise disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal period. The cost and related accumulated amortization of grouped assets, such as the overhead distribution system, is removed from the accounts at the end of their estimated service life.

Depreciation is provided on the straight-line basis using the following annual rates:

2012 and prior:

Asset	Rate
Buildings and fixtures	2.00%
Substation equipment	3.33%
Distribution system	4.00%
Meters	4.00%
Tools and equipment	10.00%
System supervisory equipment	6.67%
Application software	20.00%
Vehicles	10.00%
Leasehold improvements	Over the term of the lease
Miscellaneous intangible plant	2.50%

2013 and forward:

Asset	Rate
Buildings and fixtures	1.67% to 3.33%
Substation equipment	1.67% to 5.00%
Distribution system	1.67% to 2.86%
Meters	2.50% to 6.67%
Tools and equipment	10.00% to 20.00%
System supervisory equipment	5.00%
Application software	20.00%
Vehicle	8.33% to 12.50%
Leasehold improvements	Over the term of the lease
Miscellaneous intangible plant	2.50%

Capital work-in-progress comprises capital assets under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(e) Contributed capital:

Amounts recovered from customers on capital projects are recorded as a capital asset contra account and amortized on a straight-line basis at the same rate used for amortization of the related property and equipment. Contributed capital is included in the respective capital asset categories in note 4.

(f) Incorporation costs:

Incorporation costs are recorded at cost, net of accumulated amortization. Amortization is provided on a straight-line basis over ten years.

(g) Regulatory assets:

Regulatory assets are comprised principally of the following:

(i) Retail settlement variances - represent accumulated variances that have occurred since January 1, 2012 and that have accumulated pursuant to direction from the OEB. Specifically, these amounts include:

- variances between the amount charged by the IESO and Hydro One Network Inc. for the operation of the markets and grid, as well as various wholesale market settlement charges, transmission charges as compared to the amount billed to consumers based on the OEB approved wholesale market services rate; and
- variances between the amounts charged by the IESO to allow for purchases of imported power as compared to the amounts billed to consumers based on the OEB approved rates.

(ii) Regulatory asset recoveries - represent accumulated recoveries of regulatory assets through increased rates until April 30, 2015.

Regulatory assets incur interest at a rate of 1.47% (2012 – 1.47%) per annum, calculated using the simple interest method.

(h) Measurement uncertainty:

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

Accounts receivable, billed revenue receivable and unbilled revenue are stated after evaluation of amounts expected to be collected or recovered and an appropriate allowance for doubtful accounts.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(h) Measurement uncertainty (continued):

Employee future benefit liabilities owing to 1425445 Ontario Limited (operating as Utilities Kingston) ("Utilities Kingston") are based on certain assumptions arising from an actuarial valuation performed on behalf of that Company. These assumptions include interest (discount) rate, salary escalation, the average retirement age of employees, employee turnover and expected health and dental care costs.

Due to inherent uncertainty involved in making estimates, actual results could differ from those estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the OEB and Minister of Energy. Any adjustments to the estimates made will be recorded in the year they are identified.

(i) Payments in lieu of corporate income taxes ("PILs"):

The Company is exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA").

Pursuant to the Electricity Act ("EA"), 1998, the Company is required to compute payments in lieu of taxes under the ITA and OCTA and remit such amounts there under to the Ontario Electricity Financial Corporation ("OEFC"). These amounts, referred to as PILs under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro continuing in OEFC.

The Company applies the asset and liability method of accounting for payments in lieu of income taxes. Under the asset and liability method, future tax assets and liabilities are recognized, to the extent such are determined likely to be realized, for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Future income taxes recoverable have been recorded in the accounts and a corresponding regulatory liability has been set up as future income taxes are recovered through future rate increases/decreases.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(j) Employee future benefit liabilities:

The Company's employee future benefit liabilities represent its accumulated obligation to Utilities Kingston under a service agreement.

The Company accrues its obligations to Utilities Kingston for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of salary escalation, retirement ages of Utilities Kingston's employees and expected health care costs.

Utilities Kingston's employees participate in the Ontario Municipal Employees Retirement Fund (OMERS), a multi-employer public sector pension fund, as a defined benefit plan.

(k) Financial instruments:

(i) Section 3855, *Financial Instruments - Recognition and Measurement*:

Under the standards, financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. The standards require that all financial instruments be classified either as held-for-trading ("HFT") financial assets or liabilities, available-for-sale ("AFS") financial assets, held-to-maturity (HTM") financial assets, loans and receivables or other liabilities. The standards require that all financial instruments, including all derivatives, be measured subsequent to their initial recognition at fair value with the exception of loans and receivables, debt securities classified as HTM financial assets, AFS financial assets that do not have quoted market prices in an active market and other liabilities.

Classification of financial instruments:

The following is a summary of the classification the Company has applied to each of its significant categories of financial instruments outstanding.

Financial instrument	Classification
Due from the City of Kingston	Loans and receivables
Amounts receivable	Loans and receivables
Billed revenue receivable	Loans and receivables
Bank loan	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Due to retailers	Other liabilities
Deposits payable	Other liabilities
Note payable to City of Kingston	Other liabilities

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(k) Financial instruments (continued):

(i) Section 3855, *Financial Instruments - Recognition and Measurement (continued)*:

Held-for-trading

The Company has not designated any non-derivative financial assets as HFT, nor has it designated any non-derivative financial liabilities as HFT.

Available-for-sale

The Company has not designated any financial assets as AFS.

Held-to-maturity

The Company has not designated any financial assets as HTM.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments. Loans and receivables are recorded at amortized cost, using the effective interest rate method.

Other liabilities

Other liabilities captures all financial liabilities that are not required to be designated by the Company as held for trading upon initial recognition. Other liabilities are recorded at amortized cost, using the effective interest rate method.

Derivatives

The company monitors the risks associated with changes in interest rates on its operations, and where appropriate, uses instruments to hedge these risks. Therefore certain derivative instruments qualify for hedge accounting.

Hedging items and hedged items are presented in the financial statements in the same manner as other assets and liabilities. For derivative instruments that qualify for hedge accounting and which are designated as cash flow hedges, the effective portion of any gain or loss, net of tax, is reported as a component of accumulated Other Comprehensive Income. Any gains or losses that represent either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in results of operations.

Any gains or losses that were recognized in Other Comprehensive Income should be reclassified into net earnings in the same period or periods during which the asset acquired or liability incurred affects net earnings. If at any time, it is expected that all or a portion of a net loss recognized in other comprehensive income will not be recovered in one or more future periods, the Company will reclassify the amount immediately into net earnings.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(k) Financial instruments (continued):

(ii) Section 1535, *Capital Disclosures*:

This section requires the disclosure of (i) an entity's objectives, policies and process for managing capital; (ii) quantitative data about an entity's managed capital; (iii) whether an entity has complied with externally imposed capital requirements; and (iv) if an entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance. Disclosure requirements pertaining to Section 1535 are contained in note 18 - Capital Risk Management.

(l) Comprehensive Income

The Company discloses Comprehensive Income in accordance with Canadian generally accepted accounting principles. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net earnings calculated in accordance with generally accepted accounting principles. These items could include the following:

- (i) unrealized gains and losses on translating financial statements of self sustaining foreign operations (net of gains and losses on hedges of net investments);
- (ii) unrealized gains and losses on financial assets classified as 'available for sale' during the period (net of realized gains and losses as a reclassification to income);
- (iii) change in gains and losses on derivatives designated as cash flow hedges.

2. Transition to International Financial Reporting Standards:

- (a) Publicly accountable enterprises in Canada were required to adopt International Financial Reporting Standards ("IFRS") in place of Canadian GAAP for annual reporting purposes for fiscal years beginning on or after January 1, 2011. On September 10, 2010, the Accounting Standards Board granted an optional one-year deferral for IFRS adoption for entities subject to rate regulation.

In February 2013, the Accounting Standards Board (AcSB) decided to extend the existing deferral of the mandatory IFRS changeover date for entities with qualifying rate-regulated activities by an additional year to January 1, 2015. The Company elected to take the deferral of its adoption of IFRS; therefore, it continues to prepare its consolidated financial statements in accordance with Canadian GAAP accounting standards in Part V of the CPA Canada – Handbook.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

2. Transition to International Financial Reporting Standards:

- (b) The International Accounting Standards Board ("IASB") issued IFRS 14 Regulatory Deferral Accounts in January 2014. This standard provides specific guidance on accounting for the effects of rate regulation and permits first-time adopters of IFRS to continue using previous GAAP to account for regulatory deferral account balances while the IASB completes its comprehensive project in this area. Adoption of this standard is optional for entities eligible to use it. Deferral account balances and movements in the balances will be required to be presented as separate line items on the face of the financial statements distinguished from assets, liabilities, income and expenses that are recognized in accordance with other IFRSs. Extensive disclosures will be required to enable users of the financial statements to understand the features and nature of and risks associated with rate regulation and the effect of rate regulation on the entity's financial position, performance and cash flows.

3. Electricity industry regulation:

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

On May 1, 2011 the Company's distribution rate as approved by the OEB provided for a revised rate of return of 6.74%, as compared to 7.54% in 2010.

Effective May 1, 2012, the OEB approved a 0.88% price cap index adjustment to the Company's distribution rates, in accordance with the OEB's 3rd Generation Incentive Regulation Mechanism. The adjustment was applied to fixed and variable distribution rates uniformly across all customer classes.

Also effective May 1, 2012 the OEB approved the recovery of an Incremental Revenue Requirement, through a variable rate rider, to allow for recovery of the Company's investments in incremental capital projects. The adjustment was applied uniformly across all customer classes.

On August 24, 2012, the Company filed an application with the OEB for the disposition and recovery of costs related to Smart Meter deployment. The OEB approved a fixed distribution rate increase for the recovery of smart meters effective January 1, 2013. The adjustment was applied to residential and General Service less than 50kW customers.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

3. Electricity industry regulation (continued):

Effective May 1, 2013, the OEB approved a 48% adjustment to the Company's distribution rates, in accordance with the OEB's 3rd Generation Incentive Regulation Mechanism. The adjustment was applied to fixed and variable distribution rates uniformly across all customer classes.

On November 1, 2013, the Company filed an application under the OEB's Incentive Regulation Mechanism to increase its distribution rates by approximately 1.4% effective May 1, 2014. The application was approved by the OEB on March 13, 2014.

4. Capital assets:

	Cost	Accumulated amortization	2013 Net book value	2012 Net book value
Land	\$ 197,343	\$ —	\$ 197,343	\$ 197,343
Buildings and fixtures	719,769	221,045	498,724	474,362
Substation equipment	8,552,199	2,382,698	6,169,501	6,058,800
Distribution system:				
Overhead	18,537,361	6,975,710	11,561,651	10,623,600
Underground	16,205,980	5,372,526	10,833,454	8,674,621
Transformers	3,880,160	2,192,960	1,687,200	1,563,996
Miscellaneous intangible plant	242,440	33,715	208,725	214,786
Meters	5,346,160	1,279,484	4,066,676	567,367
Tools and equipment	1,239,474	872,912	366,562	416,772
System supervisory equipment	2,693,645	1,923,926	769,719	815,849
Vehicle	2,794,065	1,492,337	1,301,728	1,402,435
Application software	697,116	512,350	184,766	75,452
Leasehold improvements	335,574	226,579	108,995	115,393
Capital work-in-progress	303,774	—	303,774	867,115
	\$ 61,745,060	\$ 23,486,242	\$ 38,258,818	\$ 32,067,891

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

5. Note payable to City of Kingston:

In consideration for transfer of the City of Kingston's electricity distribution business, the City of Kingston took back a note payable on January 1, 2000, for an amount equivalent to 50% of the value of net assets transferred. The note payable amounts to \$10,880,619 (2012 - \$10,880,619). As part of the 2011 Kingston Hydro distribution rate rebasing application, the Ontario Energy Board ordered that Kingston Hydro use a deemed debt rate of 5.87% per annum. This rate became effective May 1, 2011. The note payable has no fixed terms of repayment and is unsecured. It is not the intent of the City of Kingston to demand repayment before January 1, 2015. Interest charges on the note payable for the 2013 fiscal year were \$638,692 (2012 - \$638,692).

6. Bank loans and long-term debt:

(a) Bank loans:

	2013	2012
Operating facility of \$5,000,000, available by way of a Prime Rate Based Loan or Bankers' Acceptances with interest at the bank's rate on Bankers' Acceptances plus a 0.50% stamping fee, drawn at a rate of 1.7% (facility 1)	\$ 8,000,000	\$ 5,000,000
Committed floating rate revolving term loan facility to a maximum of \$3,000,000, available by way of a Prime Rate Based Loan or Bankers' Acceptances with interest at the bank's rate on Bankers' Acceptances plus a 0.75% stamping fee, drawn at a rate of 2.0% (facility 3)	3,000,000	3,000,000
	11,000,000	8,000,000
Current portion of long-term debt	652,155	589,996
	\$11,652,155	\$ 8,589,996

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

6. Bank loans and long-term debt (continued):

(b) Long-term debt:

	2013	2012
Committed reduced term facility (single draw), fixed rate of 3.67%, due December 18, 2020 (facility 3)	\$ 2,500,000	\$ –
Committed reduced term facility (single draw), fixed rate of 3.25%, due May 2019 (facility 4)	1,745,058	2,035,002
Committed reduced term facility (single draw), fixed rate of 3.03% due February 2019 (facility 6)	2,095,665	2,180,908
Committed reduced term facility (single draw), fixed rate of 3.25% due January 2022 (facility 5; was facility 7 in 2012)	3,719,068	3,867,820
Committed reduced term facility (single draw), fixed rate of 3.92% due December 2042 (Infrastructure Ontario)	3,437,160	3,500,000
	13,496,951	11,583,730
Less: current portion of long-term debt	652,155	589,996
	<u>\$ 12,844,796</u>	<u>\$10,993,734</u>

Principal payments on long-term debt based on scheduled repayments are as follows:

2014	\$ 652,155
2015	674,102
2016	696,794
2017	721,141
2018	742,732
2019 and thereafter	10,010,027
	<u>\$ 13,496,951</u>

- (c) To comply with requirements of the IESO, as a supplier of energy to the wholesale electricity market, the Company is required to post security determined in relation to the Company's credit rating. A letter of credit has been provided in the amount of \$5,301,839 as of December 31, 2013 (2012 - \$5,301,839).

Bank indebtedness is secured by a general security agreement representing a first charge on all the Company's assets.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

7. Pension agreements:

On behalf of their employees who provide services to the Company, Utilities Kingston, a related corporation, makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Total contributions by that Company to OMERS for 2013 were \$1,687,050 (2012 - \$1,422,098).

8. Regulatory assets and liabilities:

Regulatory assets are comprised of:

	2013	2012
Regulatory assets	\$ 3,313,117	\$ 8,166,977
Retail settlement variances	6,913,614	4,752,464
	<u>\$ 10,226,731</u>	<u>\$12,919,441</u>

9. Related party transactions:

(a) 1425445 Ontario Limited (operating as Utilities Kingston):

During the year, the Company paid \$12,050,344 (2012 - \$12,660,486) to 1425445 Ontario Limited (operating as Utilities Kingston) ("Utilities Kingston") for support services and capital works. Utilities Kingston is a shared-services business incorporated to provide support services to both the Company and to various infrastructure businesses of the City of Kingston. There was no balance owing at December 31, 2013 with respect to these transactions.

(b) City of Kingston:

During the year, the Company contracted for certain financial services from the City of Kingston. As at December 31, 2013, the Company had an amount due from the City of Kingston representing the cumulative net balance of cash receipts and disbursements processed by the City of Kingston on behalf of the Company, in the amount of \$5,714,669 (2012 - \$3,806,851). The City of Kingston pays the Company interest on the balance at a rate of prime minus 1.65%.

Charges for the above services are recorded at exchange amounts established and agreed to by the related parties.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

10. Employee future benefit liabilities:

(a) Pension plan:

The former Hydro-Electric Commission of the Corporation of the City of Kingston entered into agreements in 1995 with a number of former employees on non-contributory defined benefit pension plans. An actuarial report of the accrued pension liability indicates that the present value of the accrued pension benefits as at December 31, 2013 is \$193,915 (2012 - \$199,907).

(b) Extended health care, dental and life insurance benefits:

The Company has an obligation with respect to post employment extended health care, dental and life insurance benefits that are provided to employees of Utilities Kingston through the service agreement with Utilities Kingston. An independent actuarial study of the post-retirement and post-employment benefits has been undertaken for Utilities Kingston. The most recent actuarial valuation of the future benefit liability for Utilities Kingston was completed as at December 31, 2012. The Company is responsible for approximately 25% of the post-employment benefit liability of Utilities Kingston.

These accrued benefit liabilities at December 31 include the following components:

	2013	2012
Accrued benefit liabilities, January 1	\$ 485,801	\$ 734,525
Service cost (reduction)	41,501	(248,724)
Accrued benefit liabilities, December 31	\$ 527,302	\$ 485,801

These benefits will be paid to Utilities Kingston as future benefit obligations are paid by Utilities Kingston to its employees as part of the support services contract with the Company.

(c) Accumulated sick leave:

Utilities Kingston provides accumulated sick leave benefits to all its employees. Under the plan, the sick leave days accumulate from year to year but are non-vested. The Company is responsible for approximately 25% of the accrued benefit liability of Utilities Kingston. The amount of the Company's accrued benefit liability for accumulated sick leave that does not vest has been actuarially determined as at December 31, 2013 and is \$335,130 (2012 - \$298,927).

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

10. Employee future benefit liabilities (continued):

(d) Future benefit liabilities:

	2013	2012
Future benefit liabilities are comprised of:		
Pension plan	\$ 193,915	\$ 199,907
Health, dental and life insurance	527,302	485,801
Accumulated sick leave	335,130	298,927
	<hr/>	<hr/>
	\$ 1,056,347	\$ 984,635

11. General liability insurance:

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE) which is a pooling of general liability risks. Members of MEARIE would be assessed, on a pro-rata basis, based on the total of their respective deposit premiums should losses be experienced by MEARIE that are in excess of their reserves and supplemental insurance, for the years in which the Company, and the former Hydro-Electric Commission, has been a member. The Company has not been made aware of any additional assessments.

12. Contingent liabilities:

(a) The nature of the Company's activities is such that there may be litigation pending at any time. With respect to claims at December 31, 2013 against the Company, management believes there are valid defenses and appropriate insurance coverage in place. In the event any claims specifically are successful, management believes that such claims are not expected to have a material effect on the financial position of the Company.

No provision has been made in these financial statements in respect of any of the above contingent liabilities as management has assessed the risk of loss to be remote.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

13. Payments in lieu of corporate income taxes:

The provision for amounts in lieu of corporate income taxes ("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%	26.25%
Income before provision for PILs	\$ 2,089,462	\$ 2,559,054
Provision for PILs at statutory rate	\$ 553,707	\$ 671,752
Increase (decrease) resulting from:		
Capital cost allowance in excess of depreciation and amortization	(293,154)	(232,047)
Tax effect of regulatory asset recoveries in current year	63,951	40,988
Tax effect of other miscellaneous adjustments	24,199	(44,027)
Provision for PILs	\$ 348,703	\$ 436,666
Effective income tax rate	16.69%	17.10%

Tax effects of temporary difference that give rise to future tax assets and liabilities are as follows:

	2013	2012
Excess of tax values over accounting values of fixed assets	\$ 671,791	\$ 1,136,576
Future benefit liabilities	279,931	260,928
Regulatory liabilities	243,430	411,006
	\$ 1,195,152	\$ 1,808,510

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

14. Change in non-cash operating balances:

	2013	2012
Increase in due from City of Kingston	\$ (1,907,818)	\$ (4,070,028)
Decrease (increase) in accounts receivable	(382,218)	944,537
Decrease (increase) in billed revenue receivable	46,535	(617,976)
Increase in unbilled revenue	(1,039,261)	(234,503)
Decrease (increase) in inventory	(214,471)	95,917
Increase in prepaid expenses	(20,316)	(79,263)
Decrease (increase) in regulatory assets	2,692,710	(4,296,562)
Increase in payment in lieu of corporate income taxes receivable	(70,662)	—
Decrease in due to retailers	(1,009,157)	(298,574)
Increase (decrease) in accounts payable and accrued liabilities	2,172,637	(613,513)
Decrease in deposits payable	(105,324)	(849,772)
Increase (decrease) in payments in lieu of income taxes payable	(43,268)	920,263
	\$ 119,387	\$ (9,099,474)

15. Power distribution:

As part of its license with the OEB, the Company is required to distribute power to the residents of the City of Kingston and to charge its ratepayers at rates established by the OEB. In addition, it is required to remit to the IESO payments for the purchase of commodity in addition to other costs specified by the OEB. The Company is not permitted to profit from the purchase and sale of power.

	2013	2012
Sales	\$ 72,678,286	\$ 65,548,409
Costs of power	(72,678,286)	(65,548,409)
	\$ —	\$ —

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

16. Financial instruments:

(a) Fair value of financial instruments:

The carrying values of the amount due to City of Kingston, miscellaneous accounts receivable, billed revenue receivable, unbilled revenue, payments in lieu of corporate income taxes, bank loan, accounts payable and accrued liabilities, due to retailers and deposits payable approximate their fair value due to the expected short-term maturity of these instruments. The fair value of the regulatory assets and liabilities are not determinable due to lack of market rates and terms.

The fair value of the note payable to City of Kingston is not determinable due to its related party terms.

(b) Credit risks:

Credit risk is the risk that a counterparty will fail to discharge its obligation to the Company reducing the expected cash inflow from Company assets recorded at the balance sheet date. Credit risk can be concentrated in debtors that are similarly affected by economic or other conditions. The Company has assessed that there are no significant concentrations of credit risk.

(c) Derivative Instruments:

At December 31, 2013 the Company has four interest rate swap contracts totaling \$10,059,791 that were used to convert floating rate debt to fixed rate debt. These swaps qualify as cash flow hedges. The Company's cash flow hedge exposure at December 31, 2013 equals about 42% of total long-term debt.

The unrealized gain or loss on these contracts is included as a component of other comprehensive income (loss) for the period. As of December 31, 2013, an asset of \$90,678 is included in long-term assets related to these contracts.

17. Capital risk management:

The Company's objectives when managing capital are to safeguard its assets while at the same time maintain investor and creditor confidence, and to sustain future development of the business.

The Company includes shareholder's equity and long-term debt including the note payable to the City of Kingston in the definition of capital. To maintain or adjust the capital structure, the Company may issue new shares, issue new debt with different characteristics, acquire or dispose of assets, or adjust the amount of cash and short-term investment balances held.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2013

17. Capital risk management (continued):

There were no changes in the Company's approach to capital management during the period. As part of its lending arrangements, the Company is subject to various financial covenants, including debt service coverage ratio and debt to capitalization ratio.

In addition, the note payable to the City of Kingston is subordinated to the Company's bank in favour of the bank loan.

18. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.



File Number:EB-2015-0083

Exhibit: 1
Tab: 5
Schedule: 1

Date Filed: June 1, 2015

Attachment 4 of 4

2014 Audited Statements

Financial Statements of

KINGSTON HYDRO CORPORATION

Year ended December 31, 2014



KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kingston Hydro Corporation

We have audited the accompanying financial statements of Kingston Hydro Corporation, which comprise the balance sheet as at December 31, 2014, the statements of earnings, retained earnings and cash flows for the year then ended, and notes, comprising 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 our 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, we 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 Kingston Hydro Corporation as at December 31, 2014, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 31, 2015

Kingston, Canada

KINGSTON HYDRO CORPORATION

Financial Statements

Year ended December 31, 2014

Financial Statements

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KINGSTON HYDRO CORPORATION

Balance Sheet

December 31, 2014, with comparative information for 2013

	2014	2013
Assets		
Current assets:		
Cash	\$ 16,184	\$ 11,766
Due from City of Kingston (note 9(b))	5,939,971	5,714,669
Miscellaneous accounts receivable	455,967	762,931
Billed revenue receivable	5,190,108	5,455,560
Unbilled revenue	8,621,770	8,413,472
Inventory	1,589,731	1,584,441
Prepaid expenses	130,742	180,850
Payments in lieu of corporate income taxes receivable (note 13)	57,151	70,662
	22,001,624	22,194,351
Regulatory assets (note 8)	9,705,204	10,226,731
Capital assets (note 4)	39,984,498	38,258,818
Future taxes (note 13)	796,239	1,195,152
Derivative asset (note 16(c))	—	90,678
	\$ 72,487,565	\$ 71,965,730

	2014	2013
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Liabilities and Shareholder's Equity

Current liabilities:

Bank loans (note 6(a))	\$ 10,705,021	\$ 11,652,155
Accounts payable and accrued liabilities	9,355,850	9,579,586
Due to retailers	44,878	122,832
Deposits payable	—	35,574
	20,105,749	21,390,147

Derivative liability (note 16(c))	262,554	—
Note payable to City of Kingston (note 5)	10,880,619	10,880,619
Employee future benefit liabilities (note 10(d))	1,096,482	1,056,346
Long-term debt (note 6(b))	13,638,967	12,844,796
Other liabilities	436,096	915,221
	46,420,467	47,087,129

Shareholder's equity:

Share capital:

Authorized:

Unlimited Class A common shares

Issued and outstanding:

120 Class A common shares

Contributed surplus	3,893,103	3,893,103
Accumulated other comprehensive income	(192,978)	90,678
Retained earnings	9,986,356	8,514,203
	26,067,098	24,878,601

Contingent liabilities (notes 11 and 12)

	\$ 72,487,565	\$ 71,965,730
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See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

KINGSTON HYDRO CORPORATION

Statement of Earnings

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Revenue:		
Local distribution revenue (notes 1(b) and 3)	\$ 11,312,689	\$ 12,071,921
Account set-up charge	55,654	56,115
Pole rentals	163,504	162,839
Interest	211,396	162,178
Miscellaneous	163,715	217,108
	11,906,958	12,670,161
Operating expenses:		
Distribution expenses, operation	2,352,843	2,877,204
Distribution expenses, maintenance	970,785	985,322
General and administrative	2,035,211	1,992,146
Community relations	79,874	120,438
Billing and collecting	1,029,447	1,031,455
	6,468,160	7,006,565
Earnings before the undernoted	5,438,798	5,663,596
Interest expense	1,281,504	1,316,926
Depreciation and amortization	1,666,551	2,257,208
Earnings before payments in lieu of corporate income taxes	2,490,743	2,089,462
Payments in lieu of corporate income taxes (note 13):		
Current	288,226	348,703
Future reduction	(10,636)	(19,003)
	277,590	329,700
Net earnings	2,213,153	1,759,762
Other comprehensive income:		
Change in fair value of cash flow hedge	(283,656)	90,678
Total comprehensive income	\$ 1,929,497	\$ 1,850,440

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

Statement of Retained Earnings

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Retained earnings, beginning of year	\$ 8,514,203	\$ 7,404,441
Net earnings	2,213,153	1,759,762
Dividends on common shares	(741,000)	(650,000)
Retained earnings, end of year	\$ 9,986,356	\$ 8,514,203

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

Statement of Cash Flows

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operations:		
Net earnings	\$ 2,213,153	\$ 1,759,762
Items not involving cash:		
Depreciation and amortization	1,666,551	2,257,208
Future income tax reduction	(10,636)	(19,003)
Change in employee future benefit liabilities	40,136	71,711
Change in non-cash operating balances (note 14)	381,409	119,387
	4,290,613	4,189,065
Financing:		
Dividends paid	(741,000)	(650,000)
Proceeds from bank loans	1,500,000	5,500,000
Repayment of long-term debt payable	(652,964)	(586,779)
Repayment of bank loan	(1,000,000)	—
	(893,964)	4,263,221
Investments:		
Purchase of capital assets	(3,527,142)	(9,191,190)
Contributions toward costs of capital assets acquired	134,911	743,055
	(3,392,231)	(8,448,135)
Increase in cash	4,418	4,151
Cash, beginning of year	11,766	7,615
Cash, end of year	\$ 16,184	\$ 11,766

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements

Year ended December 31, 2014

The principal business of Kingston Hydro Corporation (the "Company") is to distribute electric power to the residents of the City of Kingston and to manage the City of Kingston's electric power system. The business is regulated by the Ontario Energy Board through the issuance of licenses which require compliance with established market rules and codes. The Company is wholly-owned by the Corporation of the City of Kingston (the "City of Kingston").

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") including accounting principles prescribed by the Ontario Energy Board (the "OEB") in the Accounting Procedures Handbook (the "AP Handbook") for Electric Distribution Utilities, and reflect the significant accounting policies summarized below:

(a) Rate regulation:

Kingston Hydro Corporation is regulated by the Ontario Energy Board ("OEB") under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would apply to enterprises operating in a non-regulated environment. Specifically, the following accounting treatments have been applied:

- (i) Costs incurred with respect to deregulation of the electricity industry in Ontario, have been deferred pursuant to regulations underlying the Electricity Act, 1998, ("EA") and are subject to review and approval for recovery by the OEB.
- (ii) An amount to represent the cost of funds used during construction and development has been added to the carrying value of assets under construction based on the value of construction-in-progress for those projects with a construction life greater than one year.
- (iii) The Company has deferred the recognition of certain pre-market opening cost of power variances and post-market opening retail settlement variances in accordance with Article 490 of the OEB's AP Handbook.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(b) Revenue recognition:

Revenue is recognized on the accrual basis, which includes an estimate of unbilled revenue, representing customer usage from the date of each customer's last meter reading until the end of the fiscal year. Actual results could differ from estimates made of actual electricity usage.

Billed and unbilled revenues presented on the balance sheet include distribution revenue as well as power charges billed and collected on behalf of the Independent Electricity System Operator ("IESO").

The Company presents distribution revenue earned on a gross basis but presents amounts billed in respect of power, connection, transmission and wholesale market service charges on a net basis.

Services and other revenue are recognized as services are rendered or contract milestones are achieved.

(c) Inventory:

Inventories consist primarily of maintenance and construction materials. To the extent that such materials are used for upgrades and improvements to its electricity distribution system, they are capitalized as capital assets. Once capitalized, these items are not amortized until they are put into service. Inventories are carried at the lower of cost and net realizable value, with cost determined on an average cost basis net of a provision for obsolescence.

(d) Capital assets:

Capital assets are recorded at cost and include contracted services, materials, labour, engineering costs, overhead and an allowance for the cost of funds used during construction when applied. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers. The OEB requires that such contributions, whether in cash or in-kind, be offset against the related asset cost. Contributions in-kind are valued at their fair market value at the date of their contributions.

When identifiable assets, such as buildings, substation equipment, system supervisory equipment, meters, tools and vehicles are retired or otherwise disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal period. The cost and related accumulated amortization of grouped assets, such as the overhead distribution system, is removed from the accounts at the end of their estimated service life.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(d) Capital assets (continued):

Depreciation is provided on the straight-line basis using the following annual rates:

Asset	Rate
Buildings and fixtures	1.67% to 3.33%
Substation equipment	1.67% to 5.00%
Distribution system	1.67% to 2.86%
Meters	2.50% to 6.67%
Tools and equipment	10.00% to 20.00%
System supervisory equipment	5.00%
Application software	20.00%
Vehicle	8.33% to 12.50%
Leasehold improvements	Over the term of the lease
Miscellaneous intangible plant	2.50%

Capital work-in-progress comprises capital assets under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed.

(e) Contributed capital:

Amounts recovered from customers on capital projects are recorded as a capital asset contra account and amortized on a straight-line basis at the same rate used for amortization of the related property and equipment. Contributed capital is included in the respective capital asset categories in note 4.

(f) Incorporation costs:

Incorporation costs are recorded at cost, net of accumulated amortization. Amortization is provided on a straight-line basis over ten years.

(g) Regulatory assets:

Regulatory assets are comprised principally of the following:

- (i) Retail settlement variances - represent accumulated variances that have occurred since January 1, 2012 and that have accumulated pursuant to direction from the OEB. Specifically, these amounts include:
 - variances between the amount charged by the IESO and Hydro One Network Inc. for the operation of the markets and grid, as well as various wholesale market settlement charges, transmission charges as compared to the amount billed to consumers based on the OEB approved wholesale market services rate; and
 - variances between the amounts charged by the IESO to allow for purchases of imported power as compared to the amounts billed to consumers based on the OEB approved rates.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(g) Regulatory assets (continued):

- (ii) Regulatory asset recoveries - represent accumulated recoveries of regulatory assets through increased rates until April 30, 2015.

Regulatory assets earn interest at a rate of 1.47% (2013 – 1.47%) per annum, calculated using the simple interest method.

(h) Measurement uncertainty:

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

Miscellaneous accounts receivable, billed revenue receivable and unbilled revenue are stated after evaluation of amounts expected to be collected or recovered and an appropriate allowance for doubtful accounts.

Employee future benefit liabilities owing to 1425445 Ontario Limited (operating as Utilities Kingston) ("Utilities Kingston") are based on certain assumptions arising from an actuarial valuation performed on behalf of Utilities Kingston. These assumptions include interest (discount) rate, salary escalation, the average retirement age of employees, employee turnover and expected health and dental care costs.

Due to inherent uncertainty involved in making estimates, actual results could differ from those estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the OEB and Minister of Energy. Any adjustments to the estimates made will be recorded in the year they are identified.

(i) Payments in lieu of corporate income taxes ("PILs"):

The Company is exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA").

Pursuant to the Electricity Act ("EA"), 1998, the Company is required to compute payments in lieu of taxes under the ITA and OCTA and remit such amounts there under to the Ontario Electricity Financial Corporation ("OEFC"). These amounts, referred to as PILs under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro continuing in OEFC.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(i) Payments in lieu of corporate income taxes ("PILs") (continued):

The Company applies the asset and liability method of accounting for payments in lieu of income taxes. Under the asset and liability method, future tax assets and liabilities are recognized, to the extent such are determined likely to be realized, for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Future income taxes recoverable have been recorded in the accounts and a corresponding regulatory liability has been set up as future income taxes are recovered through future rate increases/decreases.

(j) Employee future benefit liabilities:

The Company's employee future benefit liabilities represent its accumulated obligation to Utilities Kingston under a service agreement.

The Company accrues its obligations to Utilities Kingston for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of salary escalation, retirement ages of Utilities Kingston's employees and expected health care costs.

Utilities Kingston's employees participate in the Ontario Municipal Employees Retirement Fund (OMERS), a multi-employer public sector pension fund, as a defined benefit plan.

(k) Financial instruments:

(i) Section 3855, *Financial Instruments - Recognition and Measurement*:

Under the standards, financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. The standards require that all financial instruments be classified either as held-for-trading ("HFT") financial assets or liabilities, available-for-sale ("AFS") financial assets, held-to-maturity (HTM") financial assets, loans and receivables or other liabilities. The standards require that all financial instruments, including all derivatives, be measured subsequent to their initial recognition at fair value with the exception of loans and receivables, debt securities classified as HTM financial assets, AFS financial assets that do not have quoted market prices in an active market and other liabilities.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(k) Financial instruments (continued):

(i) Section 3855, *Financial Instruments - Recognition and Measurement (continued)*:

Classification of financial instruments:

The following is a summary of the classification the Company has applied to each of its significant categories of financial instruments outstanding.

Financial instrument	Classification
Due from City of Kingston	Loans and receivables
Miscellaneous accounts receivable	Loans and receivables
Billed revenue receivable	Loans and receivables
Bank loans	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Due to retailers	Other liabilities
Deposits payable	Other liabilities
Note payable to City of Kingston	Other liabilities

Held-for-trading

The Company has not designated any non-derivative financial assets as HFT, nor has it designated any non-derivative financial liabilities as HFT.

Available-for-sale

The Company has not designated any financial assets as AFS.

Held-to-maturity

The Company has not designated any financial assets as HTM.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments. Loans and receivables are recorded at amortized cost, using the effective interest rate method.

Other liabilities

Other liabilities captures all financial liabilities that are not required to be designated by the Company as held for trading upon initial recognition. Other liabilities are recorded at amortized cost, using the effective interest rate method.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(k) Financial instruments (continued):

(i) Section 3855, *Financial Instruments - Recognition and Measurement (continued)*:

Derivatives

The company monitors the risks associated with changes in interest rates on its operations, and where appropriate, uses instruments to hedge these risks. Therefore certain derivative instruments qualify for hedge accounting.

Hedging items and hedged items are presented in the financial statements in the same manner as other assets and liabilities. For derivative instruments that qualify for hedge accounting and which are designated as cash flow hedges, the effective portion of any gain or loss, net of tax, is reported as a component of accumulated Other Comprehensive Income. Any gains or losses that represent either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in results of operations.

Any gains or losses that were recognized in Other Comprehensive Income should be reclassified into net earnings in the same period or periods during which the asset acquired or liability incurred affects net earnings. If at any time, it is expected that all or a portion of a net loss recognized in other comprehensive income will not be recovered in one or more future periods, the Company will reclassify the amount immediately into net earnings.

(ii) Section 1535, *Capital Disclosures*:

This section requires the disclosure of (i) an entity's objectives, policies and process for managing capital; (ii) quantitative data about an entity's managed capital; (iii) whether an entity has complied with externally imposed capital requirements; and (iv) if an entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance. Disclosure requirements pertaining to Section 1535 are contained in note 18 - Capital Risk Management.

(l) Comprehensive income:

The Company discloses comprehensive income in accordance with Canadian generally accepted accounting principles. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net earnings calculated in accordance with generally accepted accounting principles. These items could include the following:

- (i) unrealized gains and losses on translating financial statements of self-sustaining foreign operations (net of gains and losses on hedges of net investments);

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

- (l) Comprehensive income (continued):
 - (ii) unrealized gains and losses on financial assets classified as 'available for sale' during the period (net of realized gains and losses as a reclassification to income);
 - (iii) change in gains and losses on derivatives designated as cash flow hedges.

2. Transition to International Financial Reporting Standards:

- (a) Publicly accountable enterprises in Canada were required to adopt International Financial Reporting Standards ("IFRS") in place of Canadian GAAP for annual reporting purposes for fiscal years beginning on or after January 1, 2011. On September 10, 2010, the Accounting Standards Board granted an optional one-year deferral for IFRS adoption for entities subject to rate regulation.

In February 2013, the Accounting Standards Board (AcSB) decided to extend the existing deferral of the mandatory IFRS changeover date for entities with qualifying rate-regulated activities by an additional year to January 1, 2015. The Company elected to take the deferral of its adoption of IFRS; therefore, it continues to prepare its financial statements in accordance with Part V of the CPA Canada Handbook – Accounting.

- (b) The International Accounting Standards Board ("IASB") issued IFRS 14 Regulatory Deferral Accounts in January 2014. This standard provides specific guidance on accounting for the effects of rate regulation and permits first-time adopters of IFRS to continue using previous GAAP to account for regulatory deferral account balances while the IASB completes its comprehensive project in this area. Adoption of this standard is optional for entities eligible to use it. Deferral account balances and movements in the balances will be required to be presented as separate line items on the face of the financial statements distinguished from assets, liabilities, income and expenses that are recognized in accordance with other IFRSs. Extensive disclosures will be required to enable users of the financial statements to understand the features and nature of and risks associated with rate regulation and the effect of rate regulation on the entity's financial position, performance and cash flows.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

3. Electricity industry regulation:

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

On May 1, 2011 the Company's distribution rate as approved by the OEB provided for a revised rate of return of 6.74%, as compared to 7.54% in 2010.

Effective May 1, 2012, the OEB approved a 0.88% price cap index adjustment to the Company's distribution rates, in accordance with the OEB's 3rd Generation Incentive Regulation Mechanism. The adjustment was applied to fixed and variable distribution rates uniformly across all customer classes.

Also effective May 1, 2012 the OEB approved the recovery of an Incremental Revenue Requirement, through a variable rate rider, to allow for recovery of the Company's investments in incremental capital projects. The adjustment was applied uniformly across all customer classes.

On August 24, 2012, the Company filed an application with the OEB for the disposition and recovery of costs related to Smart Meter deployment. The OEB approved a fixed distribution rate increase for the recovery of smart meters effective January 1, 2013. The adjustment was applied to residential and General Service less than 50kW customers.

Effective May 1, 2014, the OEB approved a 1.4% adjustment to the Company's distribution rates, in accordance with the OEB's 3rd Generation Incentive Regulation Mechanism. The adjustment was applied to fixed and variable distribution rates uniformly across all customer classes.

On October 1, 2014, the Company filed an application under the OEB's Incentive Regulation Mechanism to increase its distribution rates by approximately 1.3% effective May 1, 2015.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

4. Capital assets:

	Cost	Accumulated amortization	2014 Net book value	2013 Net book value
Land	\$ 197,343	\$ —	\$ 197,343	\$ 197,343
Buildings and fixtures	725,659	235,369	490,290	498,724
Substation equipment	8,799,340	2,565,778	6,233,562	6,169,501
Distribution system:				
Overhead	19,983,580	7,289,139	12,694,441	11,561,651
Underground	17,308,323	5,618,972	11,689,351	10,833,454
Transformers	4,009,492	2,253,707	1,755,785	1,687,200
Miscellaneous intangible plant	242,440	39,776	202,664	208,725
Meters	5,572,468	1,611,204	3,961,264	4,066,676
Tools and equipment	1,392,007	975,515	416,492	366,562
System supervisory equipment	2,722,392	1,983,858	738,534	769,719
Vehicle	2,951,072	1,676,729	1,274,343	1,301,728
Application software	750,716	606,753	143,963	184,766
Leasehold improvements	335,574	234,693	100,881	108,995
Capital work-in-progress	85,585	—	85,585	303,774
	\$ 65,075,991	\$ 25,091,493	\$ 39,984,498	\$ 38,258,818

Cost and accumulated amortization of capital assets at December 31, 2013 amounted to \$61,745,060 and \$23,486,242, respectively.

5. Note payable to City of Kingston:

In consideration for transfer of the City of Kingston's electricity distribution business, the City of Kingston took back a note payable on January 1, 2000, for an amount equivalent to 50% of the value of net assets transferred. The note payable amounts to \$10,880,619 (2013 - \$10,880,619). As part of the 2011 Kingston Hydro distribution rate rebasing application, the Ontario Energy Board ordered that Kingston Hydro use a deemed debt rate of 5.87% per annum. This rate became effective May 1, 2011. The note payable has no fixed terms of repayment and is unsecured. It is not the intent of the City of Kingston to demand repayment before January 1, 2015. Interest charges on the note payable for the 2014 fiscal year were \$638,692 (2013--\$638,692).

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

6. Bank loans and long-term debt:

(a) Bank loans:

	2014	2013
Operating facility of \$8,000,000, available by way of a Prime Rate Based Loan or Bankers' Acceptances with interest at the bank's rate on Bankers' Acceptances plus a 0.50% stamping fee, drawn at a rate of 1.7% (facility 1)	\$ 7,000,000	\$ 8,000,000
Committed floating rate revolving term loan facility to a maximum of \$3,000,000, available by way of a Prime Rate Based Loan or Bankers' Acceptances with interest at the bank's rate on Bankers' Acceptances plus a 0.75% stamping fee, drawn at a rate of 2.0% (facility 3)	3,000,000	3,000,000
	10,000,000	11,000,000
Current portion of long-term debt (note 6(b))	705,021	652,155
	\$ 10,705,021	\$ 11,652,155

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

6. Bank loans and long-term debt (continued):

(b) Long-term debt:

	2014	2013
Committed reduced term facility (single draw), fixed rate of 3.67%, due December 18, 2020 (facility 3)	\$ 2,453,395	\$ 2,500,000
Committed reduced term facility (single draw), fixed rate of 3.25%, due May 2019 (facility 4)	1,445,549	1,745,058
Committed reduced term facility (single draw), fixed rate of 3.03% due February 2019 (facility 6)	2,007,803	2,095,665
Committed reduced term facility (single draw), fixed rate of 3.25% due January 2022 (facility 5; was facility 7 in 2013)	3,565,408	3,719,068
Committed reduced term facility (single draw), fixed rate of 3.92% due December 2042 (Infrastructure Ontario)	3,371,833	3,437,160
Capital loan, fixed rate of 3.24%, due December 9, 2021	1,500,000	—
	14,343,988	13,496,951
Less: current portion of long-term debt	705,021	652,155
	\$ 13,638,967	\$ 12,844,796

Principal payments on long-term debt based on scheduled repayments are as follows:

2015	\$ 705,021
2016	728,729
2017	753,235
2018	778,572
2019	504,064
2020 and thereafter	10,874,367
	\$ 14,343,988

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

6. Bank loans and long-term debt (continued):

- (c) To comply with requirements of the IESO, as a supplier of energy to the wholesale electricity market, the Company is required to post security determined in relation to the Company's credit rating. A letter of credit has been provided in the amount of \$5,301,839 as at December 31, 2014 (2013 - \$5,301,839).

Bank indebtedness is secured by a general security agreement representing a first charge on all the Company's assets.

7. Pension agreements:

On behalf of their employees who provide services to the Company, 1425445 Ontario Limited (operating as Utilities Kingston), a related corporation, makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Total contributions by that Company to OMERS for 2014 were \$1,766,892 (2013 - \$1,687,050).

8. Regulatory assets and liabilities:

Regulatory assets are comprised of:

	2014	2013
Regulatory assets	\$ 2,209,581	\$ 3,313,117
Retail settlement variances	7,495,623	6,913,614
	<u>\$ 9,705,204</u>	<u>\$10,226,731</u>

9. Related party transactions:

- (a) 1425445 Ontario Limited (operating as Utilities Kingston):

During the year, the Company paid \$10,126,834 (2013 - \$12,050,344) to 1425445 Ontario Limited (operating as Utilities Kingston) ("Utilities Kingston") for support services and capital works. Utilities Kingston is a shared-services business incorporated to provide support services to both the Company and to various infrastructure businesses of the City of Kingston. There was no balance owing at December 31, 2014 with respect to these transactions.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

9. Related party transactions (continued):

(b) City of Kingston:

During the year, the Company contracted for certain financial services from the City of Kingston. As at December 31, 2014, the Company had an amount due from the City of Kingston representing the cumulative net balance of cash receipts and disbursements processed by the City of Kingston on behalf of the Company, in the amount of \$5,939,971 (2013 - \$5,714,669). The City of Kingston pays the Company interest on the balance at a rate of prime minus 1.65%.

Charges for the above services are recorded at exchange amounts established and agreed to by the related parties.

10. Employee future benefit liabilities:

(a) Pension plan:

The former Hydro-Electric Commission of the Corporation of the City of Kingston entered into agreements in 1995 with a number of former employees on non-contributory defined benefit pension plans. An actuarial report of the accrued pension liability indicates that the present value of the accrued pension benefits as at December 31, 2014 is \$187,538 (2013 - \$193,915).

(b) Extended health care, dental and life insurance benefits:

The Company has an obligation with respect to post employment extended health care, dental and life insurance benefits that are provided to employees of Utilities Kingston through the service agreement with Utilities Kingston. An independent actuarial study of the post-retirement and post-employment benefits has been undertaken for Utilities Kingston. The most recent actuarial valuation of the future benefit liability for Utilities Kingston was completed as at December 31, 2012. The Company is responsible for approximately 25% of the post-employment benefit liability of Utilities Kingston.

These accrued benefit liabilities at December 31 include the following components:

	2014	2013
Accrued benefit liabilities, January 1	\$ 527,302	\$ 485,801
Service cost (reduction)	37,210	41,501
Accrued benefit liabilities, December 31	\$ 564,512	\$ 527,302

These benefits will be paid to Utilities Kingston as future benefit obligations are paid by Utilities Kingston to its employees as part of the support services contract with the Company.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

10. Employee future benefit liabilities (continued):

(c) Accumulated sick leave:

Utilities Kingston provides accumulated sick leave benefits to all its employees. Under the plan, the sick leave days accumulate from year to year but are non-vested. The Company is responsible for approximately 25% of the accrued benefit liability of Utilities Kingston. The amount of the Company's accrued benefit liability for accumulated sick leave that does not vest has been actuarially determined as at December 31, 2014 and is \$344,433 (2013 - \$335,130).

(d) Future benefit liabilities:

	2014	2013
Future benefit liabilities are comprised of:		
Pension plan	\$ 187,538	\$ 193,915
Health, dental and life insurance	564,512	527,301
Accumulated sick leave	344,432	335,130
	<u>\$ 1,096,482</u>	<u>\$ 1,056,346</u>

11. General liability insurance:

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE) which is a pooling of general liability risks. Members of MEARIE would be assessed, on a pro-rata basis, based on the total of their respective deposit premiums should losses be experienced by MEARIE that are in excess of their reserves and supplemental insurance, for the years in which the Company, and the former Hydro-Electric Commission, has been a member. The Company has not been made aware of any additional assessments.

12. Contingent liabilities:

- (a) The nature of the Company's activities is such that there may be litigation pending at any time. With respect to claims at December 31, 2014 against the Company, management believes there are valid defenses and appropriate insurance coverage in place. In the event any claims specifically are successful, management believes that such claims are not expected to have a material effect on the financial position of the Company.

No provision has been made in these financial statements in respect of any of the above contingent liabilities as management has assessed the risk of loss to be remote.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

13. Payments in lieu of corporate income taxes:

The provision for amounts in lieu of corporate income taxes ("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:

	2014	2013
Federal and Ontario statutory income tax rate	26.50%	26.50%
Earnings before provision for PILs	\$ 2,490,743	\$ 2,089,462
Provision for PILs at statutory rate	\$ 660,047	\$ 553,707
Increase (decrease) resulting from:		
Capital cost allowance in excess of depreciation and amortization	(450,327)	(293,154)
Tax effect of regulatory asset recoveries in current year	64,776	63,951
Tax effect of other miscellaneous adjustments	13,730	24,199
Provision for PILs	\$ 288,226	\$ 348,703
Effective income tax rate	11.57%	16.69%

Tax effects of temporary difference that give rise to future tax assets and liabilities are as follows:

	2014	2013
Excess of tax values over accounting values of fixed assets	\$ 319,634	\$ 671,791
Future benefit liabilities	290,567	279,931
Regulatory liabilities	116,462	243,430
Derivative liability	69,576	—
	\$ 796,239	\$ 1,195,152

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

14. Change in non-cash operating balances:

	2014	2013
Increase in due from City of Kingston	\$ (225,302)	\$ (1,907,818)
Decrease (increase) in miscellaneous accounts receivable	306,964	(382,218)
Decrease in billed revenue receivable	265,452	46,535
Increase in unbilled revenue	(208,298)	(1,039,261)
Increase in inventory	(5,290)	(214,471)
Decrease (increase) in prepaid expenses	50,108	(20,316)
Decrease (increase) in payment in lieu of corporate income taxes receivable	13,511	(113,930)
Decrease in regulatory assets	521,527	2,692,710
Increase (decrease) in accounts payable and accrued liabilities	(223,735)	2,172,637
Decrease in due to retailers	(77,954)	(1,009,157)
Decrease in deposits payable	(35,574)	(105,324)
	\$ 381,409	\$ 119,387

15. Power distribution:

As part of its license with the OEB, the Company is required to distribute power to the residents of the City of Kingston and to charge its ratepayers at rates established by the OEB. In addition, it is required to remit to the IESO payments for the purchase of commodity in addition to other costs specified by the OEB. The Company is not permitted to profit from the purchase and sale of power.

	2014	2013
Sales	\$ 74,734,540	\$ 72,678,286
Costs of power	(74,734,540)	(72,678,286)
	\$ —	\$ —

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

16. Financial instruments:

(a) Fair value of financial instruments:

The carrying values of the amount due to City of Kingston, miscellaneous accounts receivable, billed revenue receivable, unbilled revenue, payments in lieu of corporate income taxes, bank loans, accounts payable and accrued liabilities, due to retailers and deposits payable approximate their fair value due to the expected short-term maturity of these instruments. The fair value of the regulatory assets and liabilities are not determinable due to lack of market rates and terms.

The fair value of the note payable to City of Kingston is not determinable due to its related party terms.

(b) Credit risks:

Credit risk is the risk that a counterparty will fail to discharge its obligation to the Company reducing the expected cash inflow from Company assets recorded at the balance sheet date. Credit risk can be concentrated in debtors that are similarly affected by economic or other conditions. The Company has assessed that there are no significant concentrations of credit risk.

(c) Derivative instruments:

At December 31, 2014 the Company has five interest rate swap contracts totaling \$10,972,155 (2013 - \$10,059,791) that were used to convert floating rate debt to fixed rate debt. These swaps qualify as cash flow hedges. The Company's cash flow hedge exposure at December 31, 2014 equals about 45% (2013 - 42%) of total long-term debt.

The unrealized gain or loss on these contracts is included as a component of other comprehensive income (loss) for the period. As of December 31, 2014, a liability of \$262,554 (2013 - asset of \$90,678) is included in long-term liabilities related to these contracts.

17. Capital risk management:

The Company's objectives when managing capital are to safeguard its assets while at the same time maintain investor and creditor confidence, and to sustain future development of the business.

The Company includes shareholder's equity and long-term debt including the note payable to the City of Kingston in the definition of capital. To maintain or adjust the capital structure, the Company may issue new shares, issue new debt with different characteristics, acquire or dispose of assets, or adjust the amount of cash and short-term investment balances held.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2014

17. Capital risk management (continued):

There were no changes in the Company's approach to capital management during the period. As part of its lending arrangements, the Company is subject to various financial covenants, including debt service coverage ratio and debt to capitalization ratio.

In addition, the note payable to the City of Kingston is subordinated to the Company's bank in favour of the bank loan.



File Number: EB-2015-0083

Date Filed: June 1, 2015

Exhibit 1

Tab 6 of 8

Materiality Threshold

Materiality Threshold

MATERIALITY THRESHOLD

Kingston Hydro is using a materiality threshold of \$65,000 throughout this application. This threshold is based on the OEB's Filing Requirements for Electricity Distribution Rate Applications, last revised on July 17, 2013, whereby a threshold of 0.5% of distribution revenue requirement is to be used for a distributor with a distribution revenue requirement greater than \$10 million and less than or equal to \$200 million. Kingston Hydro's 2016 revenue requirement is projected to be a minimum of \$13 million, making \$65,000 an appropriate threshold to use in this application.



File Number: EB-2015-0083

Date Filed: June 1, 2015

Exhibit 1

Tab 7 of 8

Administration

Accuracy Certification

ACCURACY CERTIFICATION

As President and Chief Executive Officer and Chief Financial Officer of Kingston Hydro Corporation, we certify that the evidence filed in this Kingston Hydro distribution rates application is accurate, consistent and complete to the best of our knowledge or belief. The filing is consistent with the requirements of the Chapter 2 *Filing Requirements for Electricity Distribution Companies' Cost of Service Rate Applications Based on a Forward Test Year*, updated July 18, 2014.



James Keech



Randy Murphy

Application Contact Information

APPLICANT CONTACT INFORMATION

Mailing Address:

Kingston Hydro Corporation
85 Lappan's Lane
P.O. Box 790
Kingston ON
K7L 4X7

Key Contacts:

President and Chief Executive Officer

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Telephone: 613-546-1181 Extension 2217
Facsimile: 613-546-5921
E-mail: jkeech@kingstonhydro.com

Corporate Secretary

Nancy Taylor
Telephone: 613-546-1181 Extension 2460
Facsimile: 613-546-5921
E-mail: ntaylor@kingstonhydro.com

Chief Financial Officer

Randy Murphy
Telephone: 613-546-1181 Extension 2317
Facsimile: 613-546-5921
E-mail: rmurphy@kingstonhydro.com

Identification of Legal Representation

IDENTIFICATION OF LEGAL REPRESENTATION

Mr. Andrew Taylor

Andrew Taylor, Energy Law

120 Adelaide Street West

Suite 2500

Toronto, ON

M5H 1T1

Telephone: 416-644-1568

Facsimile: 416-367-1954

Email: ataylor@energyboutique.ca

Applicants Internet Address

APPLICANTS INTERNET ADDRESS

Kingston Hydro's internet address is:

www.kingstonhydro.com

Social Media:

<http://www.facebook.com/utilitieskingston>

<http://twitter.com/utilitieskngstn>

http://www.youtube.com/channel/UCeH6OuP_mGVgkrfZgKolrKA



File Number: EB-2015-0083

Exhibit: 1
Tab: 7
Schedule: 5
Page: 1 of 1

Date Filed: June 1, 2015

1 Application Contact Information

2

3 Please see Exhibit 1, Tab 7, Schedule 2

Statement of Who will be Affected by Application

STATEMENT OF WHO WILL BE AFFECTED BY APPLICATION

All Kingston Hydro customers in Kingston Hydro's distribution service territory will be affected by this Application.

Kingston Hydro will publish the Notice of Application in Kingston Hydro's service area in the Kingston Whig-Standard, the English language newspaper with the largest paid circulation in the service area, according to the best information available. There are no paid circulation French language newspapers in the service area.

This Application and all documents related to this Application will be made available on Kingston Hydro's website at: www.kingstonhydro.com under Regulatory Affairs.

The Application will also be available on the Ontario Energy Board's website at www.ontarioenergyboard.ca, under Board File Number EB-2015-0083.

Bill Impacts

BILL IMPACTS

The distribution only bill impacts for 800 kWh residential and 2000 kWh GS<50 (sub-total A of OEB Appendix 2-W) are presented below in the following tables for Test Years 2016 – 2020. OEB Appendix 2-W may be found in Exhibit 8 Tab 4 Schedule 3 Attachment 1, Bill Impact Information.

The distribution only bill impact for a Residential customer consuming 800 kWh per month for 2016 Test Year is an increase of \$1.05 or 3.84%.

Bill Impacts	2015 Charge (\$)	2016 Charge (\$)	2017 Charge (\$)	2018 Charge (\$)	2019 Charge (\$)	2020 Charge (\$)
Residential, 800 kWh						
Sub-total A. Distribution (excluding pass through)	\$ 27.43	\$ 28.48	\$ 27.83	\$ 27.74	\$ 26.66	\$ 28.35
\$ Change		\$ 1.05	-\$ 0.74	\$ 0.09	-\$ 0.09	\$ 0.61
% Change		3.84%	-2.60%	0.32%	-0.32%	2.20%

The distribution only bill impact for a General Service less than 50 kW customer consuming 2,000 kWh per month for 2016 Test Year is an increase of \$3.47 or 6.88%.

Bill Impacts	2015 Charge (\$)	2016 Charge (\$)	2017 Charge (\$)	2018 Charge (\$)	2019 Charge (\$)	2020 Charge (\$)
GS < 50 kW, 2000 kWh						
Sub-total A. Distribution (excluding pass through)	\$ 50.50	\$ 53.97	\$ 51.38	\$ 52.75	\$ 54.14	\$ 55.44
\$ Change		\$ 3.47	-\$ 2.59	\$ 1.37	\$ 1.39	\$ 1.30
% Change		6.88%	-4.81%	2.67%	2.64%	2.40%

Statement of Requested Hearing Form

STATEMENT OF REQUESTED HEARING FORM

This Application is supported by written evidence. The written evidence will be pre-filed and may be amended from time to time, prior to the Board's final decision on the Application.

Kingston Hydro requests that, pursuant to Section 34.01 of the Board's *Rules of Practice and Procedure*, this proceeding be conducted by way of written hearing as Kingston Hydro believes that this is the most cost effective and efficient manner to deal with this Application.

Kingston Hydro will submit a list of witnesses and their curricula vitae ("CVs") if the Board determines that an oral hearing is required for this Application. No list is included with this Application.

List of Approvals Requested

LIST OF APPROVALS REQUESTED

Kingston Hydro Corporation is requesting that the Board provide it with an order or orders approving or fixing just and reasonable rates for the distribution of electricity and other changes, as specified in this Application, to be effective January 1, 2016, and for 2017 through 2020 distribution rates each subject to annual adjustments.

In this application, Kingston Hydro Corporation has proposed, in addition to rate charges, matters which require the Board's consideration and approval.

These include the following:

1. The Applicant requests that the Board approve the 2016 Schedule of Rates and Charges as found at Exhibit 8 Tab 4 Schedule 1 Attachment 2.
2. Specifically, the Applicant hereby applies for an order or orders granting approval of:
 - a. The alignment of rate year with fiscal year;
 - b. Its forecasted 2016 Service Revenue Requirement of \$12,861,717 which leads to a Base Distribution Revenue Requirement of \$12,284,719, net of other revenue;
 - c. Distribution rates that will allow the Applicant to recover its forecasted 2016; distribution Revenue Requirement, effective January 1, 2016;

- 1 d. Its proposed load forecast for the 2016-2020 period as detailed in Exhibit
2 3;
- 3 e. Its proposed cost allocation methodology for the 2016-2020 period as
4 detailed in Exhibit 7;
- 5 f. Its proposed PILS recovery amounts for 2016-2020 as detailed in Exhibit
6 4;
- 7 g. Its proposed capital additions and depreciation expense from 2016
8 through 2020 as set out in Exhibit 2 Tab 1 Schedule 1 Attachment 1 OEB
9 Appendix 2-BA;
- 10 h. Its proposed long term debt rates for 2016-2020 as detailed in Exhibit 5.
- 11 i. As explained in more detail at Exhibit 1, Tab 3, Schedule 1, a rate
12 adjustment methodology whereby the 2017-2020 rates would be adjusted
13 annually each year from 2017 to 2020 using the elements of the Board's
14 annual 4GIRM process, but utilizing the approvals obtained in this
15 proceeding. For greater clarity, during the period of 2017 to 2020, rates
16 would be set based on:
- 17
- 18 i. An annual adjustment to Rate Base based on each year's capital
19 additions and depreciation expense as approved in this proceeding;
- 20 ii. An annual adjustment to operating expenses based on the
21 calculated depreciation expense for each year as approved in this
22 proceeding;
- 23 iii. An adjustment to the previous year's approved OM&A that arises
24 from the OEB's annual price cap index adjustment mechanism;
- 25 iv. Change to Rate Base as a result of changes in working capital that
26 arise from changes in third-party pass through costs (i.e. cost of
27 power and changes in annual OM&A as per (iii) above);
- 28 v. Changes in tax rates;

- 1 vi. Changes in the cost of capital parameters;
- 2 vii. Changes in third-party pass through costs including Retail
- 3 Transmission Service rates and low voltage rates; and
- 4 viii. Disposition of deferral and variance account balances.
- 5
- 6 j. The Applicant's current distribution rates becoming interim commencing
- 7 January 1, 2016;
- 8 k. The dispersal of Group 1 and 2 deferral and variance accounts as detailed
- 9 at Exhibit 9 Tab 1 Schedule 1 and additionally:
- 10
- 11 i. The recovery of stranded meter costs of \$1,898,506 collected
- 12 through a rate rider over a five year period as described at Exhibit 9
- 13 Tab 1 Schedule 14, and Exhibit 2 Tab 1 Schedule 5.
- 14 ii. The recovery of smart meter capital costs outstanding from the
- 15 2012 Smart Meter Disposition Application (EB-2012-0310) and per
- 16 the Board's Directive in the Decision, to be brought forward at this
- 17 time for disposition. The amount to be collected through a rate rider
- 18 over a one year period as described at Exhibit 9 Tab 1 Schedule
- 19 14.
- 20 iii. The disposition of the incremental capital true-up collected through
- 21 a rate rider over a one year period as described at Exhibit 9 Tab 1
- 22 Schedule 14 and Exhibit 2 Tab 2 Schedule 8.
- 23 iv. The disposition of accounting changes through CGAAP costs of
- 24 (\$3,970,644) credited through a rate rider over a five year period as
- 25 described at Exhibit 9 Tab 1 Schedule 12.
- 26 v. The dispersal of Lost Revenue Adjustment Mechanism costs
- 27 through a rate rider over a one year period as described at Exhibit 9
- 28 Tab 1 Schedule 14 and Exhibit 4 Tab 6 Schedule 1.

- 1 I. Updated Retail Transmission Service Charge rates as described at Exhibit
2 8 Tab 2 Schedule 1;
3 m. An updated loss adjustment factor based on the most recent five year
4 average as described at Exhibit 8 Tab 3 Schedule 1;
5 n. The Specific Service Charges, Retail Service Charges, Transformer
6 Allowance and Primary Metering Allowance as they currently exist.

Statement of Deviation from Filing Requirements

STATEMENT OF DEVIATION FROM FILING REQUIREMENTS

Kingston has not, to the best of its knowledge, deviated from Chapter 2 of the Board's Filing Requirements for Electricity Distribution Rate Applications, issued July 18, 2014, or Chapter 5 of the Board's Filing Requirements for Electricity Distribution Rate Applications, issued March 28, 2013.

Statement of Changes in Methodology

STATEMENT OF CHANGES IN METHODOLOGIES

Kingston Hydro has prepared this Application in accordance with the filing requirements issued by the Board as Chapter 2 of the Filing Requirements For Electricity Distribution Rate Applications 2014 Edition for 2015 Rates Applications issued July 18, 2014.

Kingston Hydro has prepared this application on the basis of modified IFRS. Previous applications made to the Ontario Energy Board were on the basis of Canadian Generally Accepted Accounting Principles.

Kingston Hydro believes it has met the filing requirements in all relevant aspects.

Identification of Board Directives from Previous Board Decisions

IDENTIFICATION OF BOARD DIRECTIVES FROM PREVIOUS BOARD DECISIONS

Kingston Hydro has one outstanding Board Directive from a previous Board Decision.

From Kingston's 2012 Smart Meter Disposition Application (EB-2012-0310) Decision and Order, page 11, with regard to the issue of capital costs for 380 meters replaced:

"Kingston is directed to remove the capital costs for the 380 meters replaced in 2012 from the determination of the SMDRs and SMIRRs. The capital costs for these smart meters should continue to be recorded in the Capital Cost sub-account of Account 1555. Kingston is directed to bring forward for disposition and recovery the balance of this sub-account in its next cost of service application."

In this Custom IR Application, the balance of this sub-account has been brought forward for disposition. Further detail about this balance and disposition may be found in Exhibit 9 Deferral and Variance Accounts.

Reference to Conditions of Service

REFERENCE TO CONDITIONS OF SERVICE

Kingston Hydro confirms the current version of its Conditions of Service, version 3.0, is publicly available on its website at <http://www.kingstonhydro.com/ConditionsOfService>.

Description of Operating Environment

DESCRIPTION OF OPERATING ENVIRONMENT

DISTRIBUTION SYSTEM

Distribution Characteristics and Assets: As of December 31, 2013

System Voltage Levels	44kV, 4.16/2.4kV, 13.8/8kV
Distribution Stations Total	17 (16 Stations: 44 to 4.16kV, 1 Station: 44 to 13.8/8kV)
Number of Transformers Total	2,100 (37 sub-transmission, 2,063 distribution)
Lines: Overhead Circuits	233 Km
Underground Circuits	129 Km

Embedded Generation

Cogen	15,000kW (not dispatchable by LDC or IESO)
Solar Photovoltaic	46.28kW
Wind	1.8kW

Load Customer Classes Served (Based on 2013 Actuals)

Residential	23,622
General Service < 50 kW	3,099
General Service 50 to 4,999 kW	374
Large Use	3

1	Unmetered Scattered Load	149
2	Wholesale Market Participant	1
3	Street Lighting (connections)	5,392
4	Standby Power— <i>approved on an interim basis</i>	0

5

6 **Neighbouring Utilities:** Hydro One Networks

7 **Host or Embedded Utility Status:** Partially embedded distributor

8

9 **Kingston Hydro Corporation's Distribution System**

10

11 A map showing Kingston Hydro's distribution service territory and schematics of
12 Kingston Hydro's distribution system is provided as Exhibit 1, Tab 7, Schedule 14,
13 Attachment 1.

14

15 Kingston Hydro delivers electricity within an urban service area across 233 kilometers of
16 overhead and 129 kilometers of underground lines to 23,622 residential customers and
17 3,476 commercial/industrial/institutional customers, 149 unmetered scattered load
18 customers, and one street light customer with 5, 392 street light connections. Kingston
19 Hydro also has a few embedded generation customers.

20

21 Kingston Hydro has traditionally utilized 44kV and 5kV distribution voltages and more
22 recently it has begun to utilize 13.8kV. Kingston Hydro currently owns and operates 17
23 substations, of which 16 transform 44kV to 5kV and 1 transforms 44kV to 13.8kV. At
24 the time of Kingston Hydro's last Cost of Service application electrical feeders in 13 of
25 the substations were protected by traditional electromechanical relays and currently
26 only 6 remain, while remote monitoring and control of these feeders is done using an
27 older SCADA Remote Terminal Unit (RTU) technology with serial communications.
28 Similarly, electrical feeders in 4 substations using newer Intelligent Electronic Devices

1 (IEDs) existed and now 11 substations utilize the newer Intelligent Electronic Devices
2 (IEDs) which provide integrated protection, remote monitoring and control through
3 Ethernet communications. Kingston Hydro views SCADA upgrades at substations to be
4 one of the first steps in creating an intelligent/Smart Grid system.

5
6 Underground distribution is found mainly in the downtown core and newer subdivisions.
7 Overhead distribution is generally prevalent in the City Right-of-Way outside of the
8 downtown core and in older subdivisions the overhead lines are located in backyards.
9 The underground electric cable network in the downtown core consists mainly of 5kV
10 paper insulated lead cables (PILC) and 120/208V rubber weatherproof (RW) cables in
11 concrete encased duct. Underground electrical vault structures are typically located
12 near intersections and distribute 5kV and 120/208V to businesses 1 to 2 blocks away.
13 Typical vault equipment includes a 5kV oil switch, a 750kVA distribution transformer and
14 120/208V circuit breakers. Refurbishment strategies have been established to rebuild
15 the underground concrete vaults, replace PILC cable with Cross-Link Polyethylene
16 (XLPE) cable, replace 5kV oil switches (18 remain) with 15kV SF6 sealed switchgear (7
17 installed) and replace standalone 120/208V circuit breakers with a new circuit breaker
18 panel enclosure.

20 **Heritage and Limestone Service Area Characteristics**

21
22 The City of Kingston was incorporated in 1846, making it one of the oldest cities in
23 Canada. The City's heritage department has begun to actively document sites of
24 historical and archeological significance. It is not uncommon for Kingston Hydro to
25 retain the services of an archeologist to document historic finds during excavation work
26 on underground infrastructure projects. Archeological sites are typically assessed with
27 consideration of three occupation periods: British, French and First Nations (pre-
28 European contact).

1 Kingston is often called the “Limestone City” because limestone bedrock is commonly
2 encountered 30cm to 1m below the surface and many of the older homes and
3 landmarks around the City were constructed from limestone quarried from the local
4 area. Electrical underground structures were commonly placed on top of limestone
5 bedrock just inches below the asphalt roadway surface leaving the underground
6 structures and asphalt more susceptible to damage from natural freeze-thaw cycles.
7 Rock removal must typically be factored into upgrades to bring underground
8 infrastructure up to current road construction standards and for the installation of poles,
9 which adds extra cost and time to projects.

11 **Explanation of Partially Embedded Utility Status**

13 Kingston Hydro Corporation is a Registered Market Participant for the purposes of
14 settlement with the Independent Electricity System Operator. However, Kingston Hydro
15 is also a distributor that is partially embedded within Hydro One Network’s 44kV
16 distribution system.

18 Kingston Hydro is supplied directly by dedicated 44kV feeders from the Frontenac
19 Transformer Station as well as by dedicated embedded Hydro One 44kV distribution
20 feeders from the Gardiner Transformer Station.

22 Barriefield Village and Canadian Forces Base Kingston, which are serviced by Kingston
23 Hydro, are supplied by a shared embedded Hydro One 44kV distribution feeder from
24 the Frontenac Transformer Station.

Attachment 1 of 1

Kingston Hydro's Distribution Service Territory and Schematics

City of Kingston

Area: 450 km² (174 sq mi)

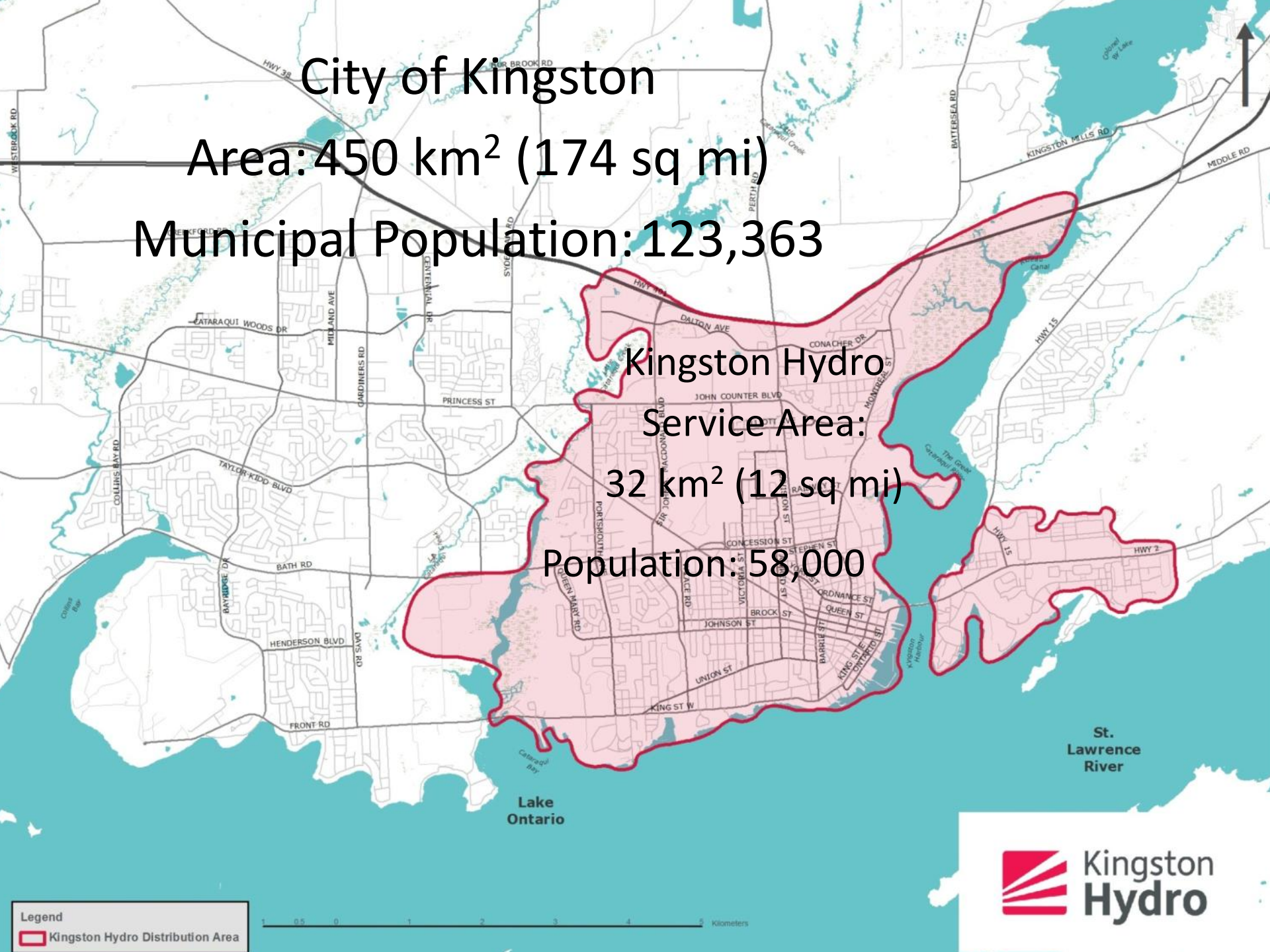
Municipal Population: 123,363

Kingston Hydro

Service Area:

32 km² (12 sq mi)

Population: 58,000



Legend

Kingston Hydro Distribution Area

0 0.5 1 2 3 4 5 Kilometers

Kingston
Hydro

Identification of Embedded/Host Distributors

Identification of Embedded/Host Distributors

Kingston Hydro advises that as of December 2014 there are no embedded or host distributors within Kingston Hydro's distribution territory.

Statement of Deemed Transmission/High Voltage Assets

STATEMENT OF DEEMED TRANSMISSION/HIGH VOLTAGE ASSETS

Kingston Hydro has no transmission assets (>50kV) deemed previously by the Board as distribution assets. Kingston Hydro is not seeking approval to have any assets deemed as distribution assets in this application.

Corporate Governance

CORPORATE STRUCTURE AND GOVERNANCE

In accordance with Section 2.4.8 of the Ontario Energy Board's Filing Requirements for Electricity Distribution Rate Applications - 2014 Edition for 2015 Rates Applications, this schedule provides information about Kingston Hydro's corporate and utility organizational structure and corporate governance practices. The schedule includes the following attachments:

- Shareholder Agreement for Kingston Hydro
(Exhibit 1 Tab 7 Schedule 17 Attachment 1)
- Service Agreement between Kingston Hydro and Utilities Kingston
(Exhibit 1 Tab 7 Schedule 17 Attachment 2)
- Code of Conduct for Utilities Kingston
(Exhibit 1 Tab 7 Schedule 17 Attachment 3)
- Mission Vision and Values Statement
(Exhibit 1 Tab 7 Schedule 17 Attachment 4)

Corporate Structure

Kingston Hydro Corporation (KHC) is a Local Distribution Company (LDC) which owns and is responsible for the operation of an electricity distribution system in a portion of the City of Kingston. KHC is owned by a sole shareholder which is the City of Kingston.

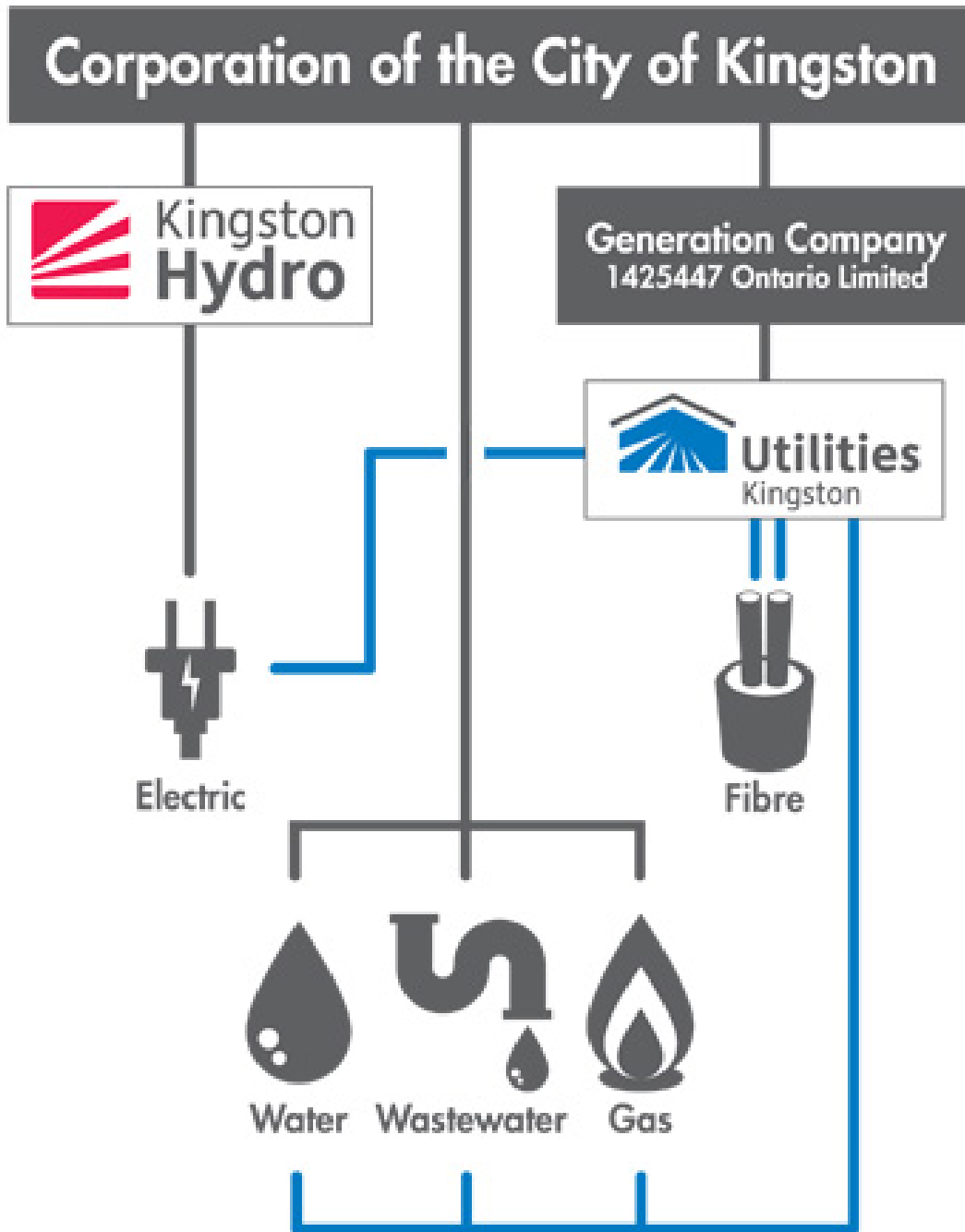
1 The City of Kingston is also the sole shareholder of 1425447 Ontario Limited, a
2 company established to provide renewable energy generation services within the City of
3 Kingston which to date has not participated in such activity and essentially sits inactive.

4
5 Utilities Kingston (UK) officially known as 1425445 Ontario Limited is wholly owned by
6 1425447 Ontario Limited which, as noted above, is wholly owned by the City of
7 Kingston. UK is an asset management services company who provides services under
8 contract to KHC for electricity distribution and conservation and demand management.
9 UK also provides utility management services to the City of Kingston for the municipally
10 owned utilities of Gas, Water and Wastewater.

11
12 Utilities Kingston and the Generation Company are affiliated with Kingston Hydro
13 through the ultimate shareholder, the City of Kingston.

14
15 All three companies were incorporated under the *Business Corporations Act (Ontario)*,
16 on September 19, 2000.

Figure 1 – Corporate Structure



Officers of Kingston Hydro

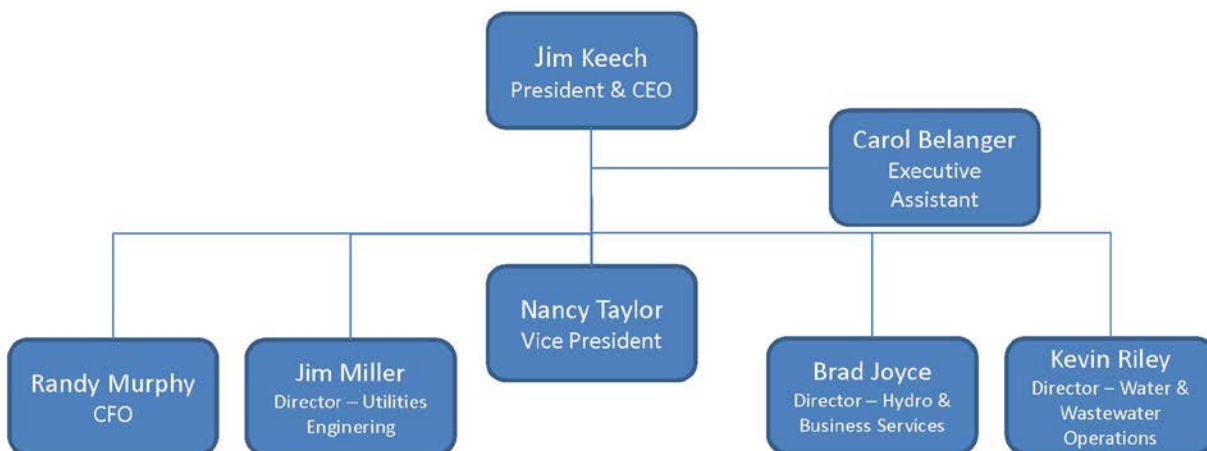
Kingston Hydro has the following corporate officers:

- Chairman of the Board of Directors
- President and Chief Executive Officer
- Chief Financial Officer
- Corporate Secretary

Kingston Hydro contracts the management operations and maintenance of its distribution assets to Utilities Kingston. Utilities Kingston utilizes a multi utility services model to achieve the best savings and service delivery for its customers.

Utilities Kingston's Executive structure is shown in Figure 2.

Figure 2 – Utilities Kingston Executive Structure



Planned changes in corporate and organizational structure

There are no planned changes to the corporate or operational structure at the time of this filing.

Overview of Corporate Governance

Kingston Hydro is wholly-owned by the City of Kingston, and is incorporated under the *Ontario Business Corporation Act*. The City of Kingston is the shareholder of Kingston Hydro. Kingston Hydro is governed by a Shareholders Agreement that provides for the following:

- Composition of the Board of Directors;
- Quorum for the Board of Directors; and
- Other matters related to corporate governance

Kingston Hydro Corporation's Board of Directors

Kingston Hydro Corporation's Board of Directors is comprised of five (5) members. Two are independent members as defined in the Ontario Energy Board's Affiliated Relationships Code (ARC). The Board of Directors' composition is compliant with ARC in that at least one third of the regulated distribution company's directors are independent from any affiliates.

It is essential that all members of the Board exercise independent judgment and are fully aware of their fiduciary duty to the corporation. Great care is taken at all times to ensure all members are acting independently and in the best interest of the corporation

1 when sitting as the Board of KHC or representing KHC in any manner. All members of
2 the Board are free to challenge others when this is not the case.

3
4 Each director is provided ample time and opportunity to receive and review relevant
5 information and provided the opportunity to challenge how the officers of the
6 Corporation are discharging their duties and achieving their goals. Directors are
7 selected based on their knowledge, experience and desire to better the corporation, its
8 customers and the community.

9
10 The Board of Directors has adopted a Code of Conduct that also pertains to all Utilities
11 Kingston employees. This code is included in Exhibit 1 Tab 7 Schedule 17 Attachment
12 3.

14 **The Board of Directors**

15
16 The Shareholders Agreement states that “The Directors of the Corporation shall be as
17 follows:

- 18
19 • The Mayor of the Shareholder
20 • The Chief Administrative Officer of the Shareholder
21 • The President and Chief Executive Officer of Utilities Kingston
22 • Two Residents of the City of Kingston to be appointed by the Shareholder

23
24 A vacancy among the Directors shall be filled by the Shareholder, based on
25 recommendations from a committee of the Board, consisting of any or all members of
26 the Board with the exception of the President and CEO.

Board Mandate

Article IV of the Shareholders Agreement - "Directors' Powers and Matters Requiring Shareholder Approval" states that "subject to the provision of this declaration, the Directors' shall manage or supervise the business and affairs of the Corporation."

Board Meetings

The Kingston Hydro Corporation Board of Directors has on average five regularly scheduled meetings each year. In addition ad-hoc meetings may be held to discuss pertinent issues as they arise. During the strategic planning process several day long meetings of the Board of Directors may be held to facilitate the process. The 2015 schedule of meetings is provided as follows:

- January 12, 2015
- March 31, 2015
- April 29, 2015
- May 25, 2015 – Annual Meeting of the Shareholder of Kingston Hydro Corporation
- September 21, 2015
- Strategic Planning Session (day-long session to be determined)
- November/December Meeting (to be determined)

Orientation and Continuing Education

New members attend orientation sessions with executive officers of the corporation and receive a briefing and either actual copies of written materials or direction as to where to access such materials electronically. Such materials may include but is not limited to the following:

- Code of Conduct
- Directors and Officers insurance
- Shareholder Declaration
- Mission, Vision and Values Statement
- Annual Reports
- Audited Statements and findings
- UK and KHC Strategic Plans
- Shareholders Strategic Plan
- Copies of past Board meeting minutes
- Copies of the last Shareholder meeting minutes
- Organization and corporate structure explanations

Access to current Legislation and regulations including but not limited to the following:

- *Ontario Energy Board Act, 1998*
- *Electricity Act 1998*
- Distribution System Code
- Affiliate Relationship Code
- Standard Supply Service Code
- Retail Settlement Code

Continuing Education

There is no formal continuing education program for Board members.

Management presents information to Board members throughout the year at Board meetings to update the Board on various topics. These topics include items such as Operating and Capital budgets, proposed and yearly updates, OEB rate submissions,

1 status of capital projects throughout the year, industry issues that may impact the
2 corporation such as consolidation or proposed changes to legislation, and status of
3 achievements for Conservation and Demand Management.

4
5 One member of the Board has successfully completed the program and received the
6 Institute of Corporate Directors (ICD.D) designation.

7
8 Board members have the opportunity to attend industry events.

9 10 **Ethical Business Conduct**

11
12 Kingston Hydro Board members have adopted the same Code of Conduct and abide by
13 the same values as all employees of Utilities Kingston. Members are expected to follow
14 all pertinent laws and legislation that applies to an Ontario Business Corporation Board,
15 and the Ontario Electricity Distribution Industry.

16 17 **Nomination of Directors**

18
19 When a vacancy of one of the independent members of the Board arises an ad hoc
20 Nominating Committee is formed. The President and CEO is not, and will not be a
21 member of this committee. The committee conducts a search, evaluates the candidates
22 then makes a recommendation to the Shareholder for final approval.

23 24 **Board Committee**

25
26 The only formal committee of the Board is the Audit Committee.

27
28 As noted, a nominating committee is established on an ad hoc basis when required.



File Number:EB-2015-0083

Exhibit: 1
Tab: 7
Schedule: 17

Date Filed: June 1, 2015

Attachment 1 of 4

Shareholder Declaration for Kingston Hydro

SHAREHOLDER DECLARATION
OF
THE CORPORATION OF THE CITY OF KINGSTON
(the Shareholder)

Regarding Kingston Hydro Corporation

WHEREAS the Shareholder has carried on an electricity distribution business in the City of Kingston since 1904;

AND WHEREAS the Shareholder has caused a corporation to be incorporated pursuant to section 142 of the *Electricity Act*, 1998, (the Corporation);

AND WHEREAS the Shareholder is transferring its electricity distribution business to the Corporation pursuant to section 145 of the *Electricity Act*, 1998;

AND WHEREAS the Corporation has authorized capital of an unlimited number of one class of shares designated as Class A shares;

AND WHEREAS the Shareholder has subscribed for and is the legal and beneficial owner of all the shares issued by the Corporation (the Shares).

AND WHEREAS the Shareholder wishes to make a declaration for the purpose of establishing and defining rights and obligations with respect to the organization and operation of the affairs of the Corporation, the ownership, disposition and transfer of shares in the capital of the Corporation and such other matters as may hereinafter be referred to (the Declaration).

AND WHEREAS the Shareholder intends that this Declaration should constitute a unanimous Shareholder Agreement pursuant to section 108 of the *Business Corporations Act*.

AND WHEREAS the Corporation will be carrying on an electricity distribution business pursuant to the *Electricity Act*, 1998, and the *Ontario Energy Board Act*, 1998, on behalf of the Corporation of the City of Kingston;

NOW THEREFORE THE SHAREHOLDER DECLARES THAT:

ARTICLE I

DEFINITIONS

1.1 In this Declaration, the following terms shall have the meanings as set out below unless the context requires otherwise:

“Act” means the *Business Corporations Act*, R.S.O. 1990, c. B.16 as from time to time amended or succeeded.

“Articles” means the articles (as defined in the Act) of the Corporation as amended or restated from time to time.

“Auditors” means the auditors of the Corporation, as may be appointed from time to time in accordance with the provisions of this Declaration.

“Authorized Capital,” means the numbers and classes of shares that the Corporation is authorized to issue by virtue of the Articles.

“Board” means the board of Directors of the Corporation, as may be elected from time to time, in accordance with the provisions of this Declaration.

“By-laws” means the by-laws of the Corporation, as amended from time to time in accordance with the provisions of this Declaration and the Act.

“Corporation” means Kingston Hydro Corporation.

“Director” means a person occupying the position of director of the Corporation, and

“Directors” means every Director.

“Shareholder” ” means the Corporation of the City of Kingston, and any other person who acquires shares in accordance with the provisions of this Declaration.

“Shares” means:

- shares of the Corporation;
- rights, warrants, options, and other instruments issued by the Corporation which entitle the holder to acquire from the Corporation shares of the Corporation; and
- instruments which are convertible or exchangeable, either under all the circumstances or under some circumstances, into any of the foregoing.

“Transfer” includes any sale, exchange, transfer, assignment, gift, pledge, encumbrance, hypothecation, alienation, transmission or other transaction, whether voluntary, involuntary or by operation of law, by which the legal or beneficial ownership is transferred from one person to another.

“Utilities Kingston” means 1425445 Ontario Limited, an affiliate of the Corporation

ARTICLE II

THE BUSINESS OF THE CORPORATION

- 2.1 The Shareholder hereby declares that the Corporation shall carry on the following businesses on behalf of the Shareholder:
- (a) the distribution of electricity pursuant to the *Electricity Act*, 1998 and the *Ontario Energy Board Act*, 1998, and regulations there under;
 - (b) the sale of electricity to the public pursuant to section 29 of the *Electricity Act*, 1998; and
 - (c) other activities permitted by the *Electricity Act*, 1998 and the *Ontario Energy Board Act*, 1998
- 2.2 Unless the Shareholder decides otherwise, the Corporation shall not, either directly or indirectly, carry on any business other than the businesses described above, or a business which is incidental to or developed out of the conduct of any business which the Corporation may carry on in accordance with this section.

ARTICLE III

BOARD OF DIRECTORS

- 3.1 **Number of Directors and Vacancies.** Unless the Shareholder otherwise agrees, the Corporation shall have five Directors appointed by the Shareholder. A vacancy among the Directors shall be filled by the Shareholder. The Directors of the Corporation shall be as follows:

The Mayor of the Shareholder

The Chief Administrative Officer of the Shareholder

The President and Chief Executive Officer of Utilities Kingston

Two residents of the City of Kingston to be appointed by the Shareholder.

- 3.2 **Quorum.** A quorum for any meeting shall be 3 of the Directors, provided that at least 2 of the Directors present are either the Mayor of the Shareholder, the Chief Administrative Officer of the Shareholder or the President and Chief Executive Officer of Utilities Kingston. All of the decisions of the Directors shall be by a majority of the Directors present and voting at a duly constituted meeting of Directors. The Chair of meetings of Directors shall not have a second or casting vote.

- 3.3 **Officers.** Unless the Shareholder otherwise agrees, the Corporation shall have the following offices:

Chair

President and Chief Executive Officer

Secretary

Treasurer

The Officers of the Corporation shall be appointed by the Shareholder. The Officers of the Corporation shall be as follows:

Chair – The Mayor of the Shareholder

President and Chief Executive Officer – the President and Chief Executive Officer of Utilities Kingston

Secretary – the Vice-President of Utilities Kingston

Treasurer – the Manager of Finance of Utilities Kingston

ARTICLE IV

DIRECTORS' POWERS AND MATTERS REQUIRING SHAREHOLDER APPROVAL

4.1 **Management.** Subject to the provisions of this Declaration, the Directors shall manage or supervise the business and affairs of the Corporation.

4.2.1 **Shareholder Approval.** Unless the Shareholder otherwise agrees or directs:

- (a) the registered office of the Corporation shall be located at Kingston, Ontario;
- (b) the financial year of the Corporation shall terminate on the 31st day of December each year;

4.2.2 **Shareholder Approval.** Without the approval of the Shareholder, the Corporation shall not:

- (a) amend the Corporation's Articles or by-laws;
- (b) make any material change in the Corporation's business operations;
- (c) make any fundamental change to the Corporation, including dissolution, liquidation, amalgamation or winding-up;
- (d) Acquire, by purchase, lease or otherwise, assets required for the purposes of the business of the Corporation, except in the ordinary course of business.
- (e) Give, sell, convey, transfer, assign, mortgage, lease, pledge, or otherwise dispose of or encumber any assets of the Corporation, except in the ordinary course of business.
- (f) Commence or undertake a new business activity or discontinue an existing business activity.
- (g) Declare dividends payable to the Shareholder, whether payable in money, property, by the issue of fully paid shares of the Corporation,

or options or rights to acquire fully paid shares of the Corporation.

- (h) Amend the provisions of the Corporation's Shareholder Declaration respecting Utilities Kingston, attached hereto as Schedule "A".

4.2.3 Approval of Directors. Without the approval of the Directors the Corporation shall not:

- (a) incur any capital or operating expenditure which is not authorized in the capital or operating budget of the Corporation which budget shall have been approved by the Directors;
- (b) Subject to the limits imposed by the Ontario Energy Board, alter its rates for the distribution of electricity.
- (c) Enter into any agreement with an affiliated or non-affiliated third party for the acquisition or delivery of services, except in the ordinary course of business, and subject to compliance with the provisions of the Affiliate Relationships Code.
- (d) Enter into any sharing arrangement for any undertaking or enterprise with a non-affiliated third party, including without limitation, any joint venture, partnership, leasing or agency arrangement.

- (e) Assume, undertake or make any commitment for debt, provided that the Corporation may, in the ordinary course of business, borrow funds for operating purposes up to an amount equal to fifty per cent (50%) of its budgeted annual revenues.

ARTICLE V

OPERATION AND FINANCING

- 5.1 **Proper Books of Account.** Proper books of account shall be kept for the Corporation and all entries shall be made of all matters and transactions that are usually written or entered therein. The Shareholder shall at all times have full and complete access to such books of account.
- 5.2 **Auditors.** The Shareholder shall appoint the Auditor annually.
- 5.3 **Banking.** The Corporation shall maintain one or more accounts at the bank as the Directors may, from time to time determine. All bank accounts shall be kept in the name of the Corporation. All monies received from time to time for the account of the Corporation shall be paid immediately into such accounts or bank accounts of the Shareholder, provided the Shareholder credits to corporation for all such amounts paid in to the City's banks.
- 5.4 **Financing.** All additional funds required for the purposes of the Corporation shall be obtained to the greatest extent possible through loans made by the Corporation from the Shareholder, the bank or another lender or lenders. The decision as to whether such funds are required, from whom such funds will be borrowed and the terms and conditions of such borrowing shall be determined by the Directors, subject to the provisions of this Declaration.

5.5 Shareholder Advances

- (a) To the extent funds derived from bank financing are insufficient (as determined by the Directors) to finance the operational requirements of the business of the Corporation, the Shareholder agrees to make available to the Corporation such funds as may be required by the Corporation from time to time to satisfy the deficiency.
- (b) Unless otherwise agreed by the Shareholder, the advance shall be upon such terms and conditions as shall be agreed to by the Shareholder and the Corporation, and in default of such agreement, shall be upon the following terms and conditions:
 - (i) each Shareholder Advance shall be evidenced by a promissory note in the principal amount advanced by the Shareholder (a "Promissory Note");
 - (ii) there shall be a separate series of Promissory Notes issued by the Corporation upon the occasion of each advance of funds to the Corporation by the Shareholder; and
 - (iii) Promissory Notes shall have the following attributes:
 - a. interest shall be computed from the date when funds are advanced to the Corporation by the Shareholder, at a rate of interest at least equal to the prime lending rate charged from time to time by the Shareholder's banker, the rate to be determined by the Shareholder;
 - b. interest and principal on each Promissory Note shall be payable at least semi-annually, as determined by the Shareholder's Treasurer and based on the Shareholder's cash flow requirements.

ARTICLE VI

MANAGEMENT MATTERS

- 6.1 **Chair.** The Mayor of the Shareholder shall be the Chair of the Corporation, and in such capacity shall preside at all meetings of the Shareholder and the Directors, report to the annual general meeting of the Shareholder concerning the operations of the Corporation, and have such other duties and authorities as may be designated from time to time by the Directors, subject to the provisions of this Declaration.
- 6.2 **Other Officers.** The Corporation shall retain the President and Chief Executive Officer of Utilities Kingston in the capacity of President and Chief Executive Officer, and in such capacity, such person shall manage and be responsible for the day to day affairs of the Corporation and shall have such other duties and authority as may be designated from time to time by the Directors, subject to the provisions of this Declaration. Similarly, the Corporation shall retain the Vice-President of Utilities Kingston in the capacity of Secretary, and the Manager of Finance of Utilities Kingston in the capacity of Treasurer.
- 6.3 **Management Obligations.** During the terms of their appointment pursuant to this Declaration, the Officers shall:
- (a) devote such time and attention to the business of the Corporation as may be required by the Directors and the Shareholder; and
 - (b) exercise their best efforts, to manage, promote, develop and extend the businesses of the Corporation.

6.4 **Execution of Instruments.** All cheques, bills, notes, drafts or other instruments or documents for the purposes of binding the Corporation in connection with the accounts and transactions with the bank, and all deeds, transfers, assignments, agreements, contracts or obligations for and on behalf of and in the name of the Corporation or relating to the property of the Corporation shall require the signatures of two of the Secretary, the Treasurer, the President and Chief Executive Officer or one Director.

ARTICLE VII

GENERAL MATTERS RELATING TO THE HOLDING

OF SHARES AND PERMITTED TRANSFERS

- 7.1 The Shareholder shall subscribe for all initial shares issued by the Corporation that are voting securities.
- 7.2 **General Prohibition on Issue of Further Shares.** The Corporation shall not issue any shares and shall not grant an option or other right to purchase or subscribe for shares in the capital of the Corporation without the consent of the Shareholder.

ARTICLE VIII

MATTERS RELATING TO THE DISPOSITION AND ACQUISITION OF SHARES

- 8.1 **Permitted Transfers.** Notwithstanding any provision hereof, the Shareholder (the "Selling Shareholder") may from time to time transfer any or all of the Shares beneficially owned by it to another person (the "Purchasing Shareholder") at such price and on such terms and conditions as may be agreed by the Selling Shareholder and the Purchasing Shareholder.

ARTICLE IX
VALUATION OF SHARES

- 9.1 **Determination of Fair Value.** For the purposes of this Declaration, the valuation of the Shares in the capital of the Corporation should reflect, as far as possible, the fair value of the Shares. The Corporation's accountant or such other party as may be agreed to by the Shareholder shall, from time to time, at the request of the Directors or the Shareholder, determine the fair value of the Shares in the capital of the Corporation at the appropriate time using generally accepted valuation principles.

ARTICLE X

GENERAL PROVISIONS

- 10.1 **Endorsement on Share Certificates.** All share certificates issued by the Corporation shall include the following endorsement:

"The transfer of shares of the Corporation represented by this share certificate is restricted pursuant to the terms of a Shareholder Declaration."

- 10.2 **Notice Provisions**

Any notice to be given pursuant to this Declaration may be given to a Shareholder at the address appearing in the books of the Corporation by prepaid registered mail, telecopier or telegram or personal delivery and shall be deemed to have been received, in the case of prepaid registered mail, three days after mailing, and in the case of personal delivery, when delivered, and in the case of telecopier or telegram one day following transmission.

- 10.3 **Invalidity of Provisions**

The invalidity of any provision of this Declaration shall not affect the validity of any other provision.

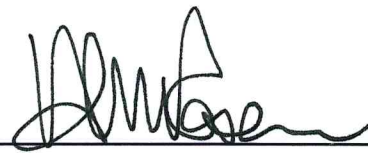
- 10.4 **Conflict with By-laws and Articles.** In the event of any conflict between the provisions of this Declaration and the provisions of the By-Laws or Articles, the provisions of this Declaration shall prevail.

- 10.5 **Conflict with Applicable Legislation.** In the event of any conflict between the provisions of this Declaration and the provisions of the Electricity Act, 1998, and the Ontario Energy Board Act, 1998, and regulations there under, or any other applicable provincial or federal legislation, the provisions of such legislation shall prevail.

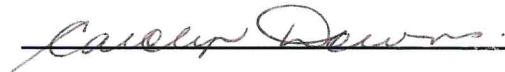
- 10.6 **Entire Declaration.** This Declaration constitutes the entire Declaration of the Shareholder respecting the Corporation, and no supplement, amendment, waiver or termination of this Declaration shall be binding unless executed in writing by the Shareholder.
- 10.7 **Number.** In this Declaration, any reference in the singular shall include the plural, and vice versa, as the circumstances may require.
- 10.8 **Time of the Essence.** In this Declaration, time shall be of the essence.
- 10.9 **Governing Law.** This Declaration shall be governed by and construed in accordance with the laws of the Province of Ontario

IN WITNESS WHEREOF the Shareholder has executed this Declaration this *14th* day of *October*, 2009.

The Corporation of the
City of Kingston



Mayor Harvey Rosen, Chair



City Clerk



File Number:EB-2015-0083

Exhibit: 1
Tab: 7
Schedule: 17

Date Filed: June 1, 2015

Attachment 2 of 4

Service Agreement between Kingston Hydro and Utilities Kingston

SERVICES AGREEMENT

This Agreement made this 17 day of September, 2012

Between:

Kingston Hydro Corporation (Kingston Hydro)

and

1425445 Ontario Limited (Utilities Kingston)

WHEREAS Kingston Hydro has been incorporated as a business corporation pursuant to the provision of section 142 of the Electricity Act, 1998;

AND WHEREAS Utilities Kingston has been incorporated as an affiliated business corporation of Kingston Hydro, as defined in the Business Corporation Act (Ontario) pursuant to Sections 71 and 73 of the Ontario Energy Board Act, 1998;

AND WHEREAS Kingston Hydro wishes to contract with Utilities Kingston to provide certain services described in Schedule "A" attached hereto as part of this Agreement;

AND WHEREAS Utilities Kingston has agreed to provide the services as described in Schedule "A" in a diligent and timely manner in accordance with this Agreement;

THIS AGREEMENT WITNESSES that, in consideration of the mutual covenants and agreements herein contained, the parties hereby covenant and agree with each other as follows:

1.0 DEFINITIONS

- a) "ARC" means the Affiliate Relationships Code issued by the Ontario Energy Board
- b) "CICA" means the Canadian Institute of Chartered Accountants

- c) "City" means the Corporation of the City of Kingston
- d) "Licence" means the license to distribute electricity issued by the Ontario Energy Board
- e) "Records" means the bookkeeping, accounting and record keeping system maintained by Utilities Kingston

2.0 TERM

Unless terminated in accordance with Article 16.0, the term of this Agreement shall be from September 17, 2012 to and including September 16, 2017.

3.0 OBLIGATIONS OF KINGSTON HYDRO

- a) Kingston Hydro shall be responsible for establishing rates and charges for services provided to customers within its service territory in the City of Kingston subject to the approval of the Ontario Energy Board.
- b) Kingston Hydro shall be responsible for approving an annual capital and operating financial plan.

4.0 OBLIGATIONS OF UTILITIES KINGSTON

- a) Utilities Kingston shall be responsible for all aspects of the operation, maintenance, and management of the Business in accordance with Prudent Industry Practice and the terms of this Agreement throughout the term, including without limitation, providing all necessary staff to operate the Business.
- b) Utilities Kingston shall abide by and ensure that its officers, employees, agents and representatives abide by the provisions of all applicable

municipal, provincial and federal legislation, including, without limitation, the by-laws and resolutions of the City of Kingston, the Electricity Act, 1998, the Ontario Energy Board Act, 1998, relevant provisions of the Licence and any directives that may be issued by Kingston Hydro from time to time with regard to the electricity distribution business and the service described in Schedule "A" attached hereto. The foregoing obligation shall survive the termination of this Agreement and shall continue until any applicable statutory limitation period has expired.

- c) Utilities Kingston shall perform periodic reviews to ensure compliance with the Affiliate Relationships Code and provide Kingston Hydro with copies of those
- d) In fulfilling its duties and responsibilities pursuant to this Agreement, Utilities Kingston agrees to comply with all reasonable instructions received from Kingston Hydro.

5.0 RECORDS

- a) Utilities Kingston shall keep records conforming to the requirements prescribed from time to time by Kingston Hydro including but not limited to the Reporting and Record Keeping requirements of the Ontario Energy Board and the provisions of the CICA.
- b) Utilities Kingston shall keep its records associated with the services to be provided separate from any records associated with any other activities to be carried on by Utilities Kingston, as required by section 72 of the Electricity Act, 1998 and the Licence.
- c) Utilities Kingston shall furnish Kingston Hydro with access to such records, including copies of documents therefrom as Kingston Hydro may require from time to time.

- d) Utilities Kingston agrees that Kingston Hydro shall have the right, upon twelve (12) hours notice to Utilities Kingston, to enter Utilities Kingston's premises during business hours to conduct an audit of Utilities Kingston's records in respect of the management of the electricity distribution business and the provision of services pursuant to this Agreement

6.0 CONFIDENTIAL INFORMATION

The parties recognize that in accordance with the ARC, all information that Utilities Kingston receives from Kingston Hydro relating to specific customers, retailers or generators is confidential information and Utilities Kingston undertakes that such confidential information shall not be disclosed by it, except as may be necessary in the proper discharge of its duties under this Agreement, or used for any purpose other than the specific business purposes for which it received the confidential information. Utilities Kingston shall ensure that those employees who have access to such confidential information agree to abide by the ARC and Utilities Kingston's undertaking. The foregoing obligation shall survive the termination of this Agreement.

7.0 MANAGEMENT AND PERSONNEL

- a) Utilities Kingston acknowledges that it is solely responsible for the control and management of its employees.
- b) Utilities Kingston shall provide sufficient qualified management, supervisory and operations personnel and support services to provide the management and delivery of the services under this Agreement, including the appropriate supervision for all such personnel.
- c) Utilities Kingston shall be responsible for administering the payroll obligations for all employees and shall comply with applicable collective

agreements, provincial legislation and payroll obligations including without limitation, federal and provincial income taxes, insurance premiums, contributions to benefit and compensations plans and similar obligations. Utilities Kingston shall maintain in good standing WSIB premiums, pursuant to provincial law covering all its employees who may be employed to provide services under this Agreement.

8.0 PRICING PAYMENTS AND RISK

- a) Kingston Hydro agrees to reimburse all expenses, on a cost recovery basis only, that are incurred in the fulfillment of this Agreement and that have been appropriately allocated to Kingston Hydro by Utilities Kingston.
- b) For the purposes of this section, appropriately allocated means Kingston Hydro's share or proportional share of the expenditures that Utilities Kingston incurs to manage and operate the businesses that it is in. Notwithstanding the foregoing, Kingston Hydro and Utilities Kingston acknowledge that Kingston Hydro will not be responsible for any expenditure of Utilities Kingston that does not contribute to the electricity business. c) Kingston Hydro acknowledges that it is responsible for the risks of over or under provision of service as Utilities Kingston is not earning any profit or reward under the terms of this Agreement.
- c) Kingston Hydro may, at its own expense, conduct an audit of Utilities Kingston's financial records, including, but not limited to, the allocation of expenses under this Agreement.

9.0 INSURANCE

Utilities Kingston shall obtain and keep in force during the term of this Agreement, for the protection of Utilities Kingston and Kingston Hydro insurance coverage as follows:

- a) Comprehensive general, bodily injury and property damage liability insurance with limits of not less than \$5,000,000 inclusive per occurrence for bodily injury, death and damage to property including loss thereof.
- b) Umbrella coverage with limits of not less than \$10,000,000 per occurrence.
- c) Automobile liability insurance with respect to the licensed vehicles which have limits of not less than \$5,000,000 per occurrence in the following forms endorsed to provide both parties with not less than 15 days notice in advance of any cancellation, change or amendment respecting coverage:
 - i) Standard non-owned automobile policy including standard contractual liability endorsement
 - ii) Standard owners forms automobile policy providing third party liability and accident benefits insurance and covering licensed vehicles owned or operated by or on behalf of Utilities Kingston.
- d) All Risks Contractors' Equipment Insurance covering construction machinery and equipment used by Utilities Kingston for maintenance and repair of Kingston Hydro's distribution lines, poles and installations and extensions and additions thereto.
- e) Such other coverage as may be agreed upon by the parties.
- f) Where possible, such coverages shall be in the joint names of Utilities Kingston and Kingston Hydro with loss payable to Utilities Kingston and Kingston Hydro as their respective interests may appear.

10.0 INDEMNIFICATION

The parties shall defend, fully indemnify and hold harmless each other and their respective officers, employees, agents and representatives, from any and all manner of actions, causes of action, proceedings, claims, demands, penalties, fines and costs, including without limitation, all legal costs and disbursements that might be incurred, which other party may suffer, or which may hereafter be sustained or incurred by reason of, or in any way arising out of such damage, loss or injury, including death to any property or person, as a result of its failure or negligence, or its failure at any time to comply with the provisions of this Agreement.

11.0 AUTHORIZED REPRESENTATIVES

- a) Kingston Hydro hereby appoints the Chair of Kingston Hydro as its authorized representative to deal with Utilities Kingston, with authority to act for and on behalf of Kingston Hydro respecting the day to day administration of this Agreement.
- b) Utilities Kingston hereby appoints the President and Chief Executive Officer of Utilities Kingston as its authorized representative to deal with Kingston Hydro, with authority to act on behalf of Utilities Kingston respecting the day to day administration of this Agreement.

12.0 FAILURE TO COMPLY

The failure of either party to enforce or insist upon compliance with any of the terms and conditions of this Agreement, or a waiver of any default under this Agreement, shall not constitute a general waiver or relinquishment of any such term or condition, or of any subsequent default of the same or any other term or

condition of this Agreement, but the same shall be and remain at all times in full force and effect.

13.0 FORCE MAJEURE

Neither of the parties shall be liable for delay in or failure to perform their respective obligations under this Agreement when such failure is caused by events beyond the reasonable control of either party, such as fire, explosion, flood, act of God or inevitable accident, civil disorder or disturbance, vandalism, war, riot, sabotage, weather or energy related closings, governmental actions or regulations, nor for real or personal property destroyed or damaged due to such events; in the event of catastrophe, the parties obligations shall cease until the cause of such delay or failure is resolved or repaired. The parties shall explore all reasonable avenues available to avoid or resolve events of force majeure in the shortest possible time.

14.0 STRIKES

In the event of a strike the parties shall use reasonable efforts to perform their obligations under this Agreement at a satisfactory level as mutually agreed upon by them. The compensation terms of this Agreement may be modified to allow for changes in service or requirements during the period of the strike.

15.0 DISPUTE RESOLUTION

- a) The Parties agree to consult each other and to negotiate in good faith to resolve any differences or disputes which either Party may have relating to the interpretation, application or implementations of this Agreement, or any dispute which may arise over any costs, fees or other costs incurred and

failing agreement the Parties agree to resolve their disputes by arbitration as provided in Article 15.0 (b)

- b) Arbitration of a dispute shall be commenced by written notice by a party requesting arbitration to the other, which notice shall identify the issue or issues it wishes to submit to arbitration. Within thirty (30) days of the notice, the Parties shall agree upon a single arbitrator and failing agreement then each Party shall appoint an arbitrators and the two appointees shall within forty-five (45) days of the notice of arbitration appoint a third person who shall act as Chair of the arbitration panel and failing agreement the Chair shall be appointed by a judge of the Superior Court of Ontario pursuant to the provisions of the *Arbitration's Act*, RSO 1991 c.A 17.
- c) The commencement of the arbitration and all rules of procedure for the arbitration shall be by agreements of the Parties, or failing agreement, as determined by the arbitrator or Chair of the arbitrator panel. The provisions of the *Arbitration's Act*, RSO 1991 c.A 17 as amended or any successor legislation shall apply to the arbitration.

16.0 TERMINATION

- a) Events of Termination
 - i) If either party breaches a material term of this Agreement, the non breaching party shall give written notice to the other of such breach; if the breach is remedied within 15 days, the notice shall be null and void; if the breach is not or cannot be remedied by the breaching party within the 15 days as aforesaid or within such longer period as may have been stipulated for in such notice, the Agreement may be terminated at the discretion of the non-breaching party. Said

termination shall take effect 30 days from the end of the notice period.

- ii) If either party goes in to receivership or gives notice of insolvency or pending insolvency, the other party may elect to terminate this Agreement.

b) Notice of Termination

Either party may terminate this agreement at any time upon six (6) months written notice to the other party.

17.0 NOTICES

Any notice or communication required or permitted to be given under this Agreement shall be valid only if delivered in writing in accordance with this clause.

Notices can be provided as follows:

Kingston Hydro:

Mayor of the City of Kingston
Kingston City Hall
216 Ontario Street,
Kingston, ON
K7L 2Z3

Utilities Kingston:

President and Chief Executive Officer
1211 John Counter Blvd
Kingston, ON
K7L 4X7

18.0 AMENDMENTS

No amendment to this Agreement shall be of any force or effect unless by writing and signed by both parties.

19.0 SEVERABILITY

If any term or provision of this Agreement is held by a competent authority to be invalid, illegal or unenforceable for any reason, the remaining provisions of this Agreement and its Schedule shall continue in full force and effect.

20.0 ASSIGNMENT

This Agreement may not be assigned by either party to a third party without the written consent of the other party.

21.0 GOVERNING LAW

This Agreement shall be construed and enforced in accordance with the laws of the Province of Ontario.

22.0 TIME OF THE ESSENCE

Time is of the essence in the Agreement and all of the provisions in it.

23.0 ENTIRE AGREEMENT

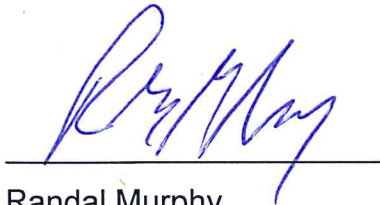
This Agreement, together with the Schedule attached hereto constitutes the entire agreement between the parties with respect to the matters herein and supersedes all prior oral or written representations.

IN WITNESS WHEREOF, the parties have duly executed this Agreement.

For Kingston Hydro Corporation

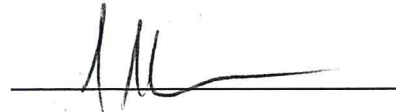
A handwritten signature in black ink, appearing to be 'M. Gerretsen', written over a horizontal line.

Mayor Mark Gerretsen
Chair

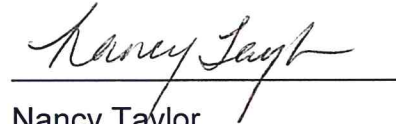
A handwritten signature in blue ink, appearing to be 'R. Murphy', written over a horizontal line.

Randal Murphy
Treasurer

For 1425445 Ontario Limited
(o/as Utilities Kingston)

A handwritten signature in black ink, appearing to be 'J. Keech', written over a horizontal line.

James Keech
President and CEO

A handwritten signature in black ink, appearing to be 'Nancy Taylor', written over a horizontal line.

Nancy Taylor
Corporate Secretary

SCHEDULE A

SCOPE OF SERVICES

Utilities Kingston shall have authority during the Term to manage, control, administer and operate the Business in accordance with Prudent Industry Practice, subject to overall responsibility for management by the Senior Officers and the Board of Directors of Kingston Hydro.

Without limited the generality of the foregoing, Utilities Kingston shall be vested with the following powers which it will exercise on behalf of Kingston Hydro:

- a) to report to the management and Board of Directors of Kingston Hydro with respect to the business and affairs of Kingston Hydro as may be requested from time to time by Kingston Hydro;
- b) to provide all administrative services for the business of Kingston Hydro including accounting and bookkeeping services
- c) to negotiate, execute, amend administer, perform and carry out the terms of all agreements and commitments, the performance of which by or on behalf of Kingston Hydro in respect of the Business and the Business is necessary or advisable; and
- d) to operate and maintain the Business in accordance with Prudent Industry Practice, applicable laws and all Kingston Hydro agreements, to minimize unscheduled outages and to provide maintenance in the most cost effective manner to prevent deterioration beyond normal wear and tear; provided that such efforts shall be necessarily limited by the operating life, capacity and maintenance requirements of the facilities and by the requirements of applicable laws and requirements of the Kingston Hydro distribution licence;
- e) to obtain and maintain all necessary regulatory and operational approvals including those required from the Ontario Energy Board and the Independent Electricity System Operator for the Business and renewals therefore including preparing and submitting all associated applications and filings
- f) to provide administrative services for the Business including:
 - i) arrange insurance for the Business consistent with Prudent Industry Practice
 - ii) maintain and preserve equipment maintenance, accounting, management of billing and receivables, banking and other necessary records, reports, documents, data and the like for the Business

- iii) perform cash management services for the Business
- iv) on a timely basis prepare financial statements and deliver them to Kingston Hydro's Board of Directors
- v) assist in the administration of all agreements to which Kingston Hydro is a party or by which it is bound, including negotiations and communications with third parties in connection therewith; and
- vi) make all banking and financing agreements;
- g) to plan, project manage and execute all capital works as approved by the Board of Kingston Hydro;
- h) perform for Kingston Hydro such other services as may from time to time be reasonably requested or are necessary or appropriate in connection with the operation and maintenance of the facilities



File Number:EB-2015-0083

Exhibit: 1
Tab: 7
Schedule: 17

Date Filed: June 1, 2015

Attachment 3 of 4

Code of Conduct - Utilities Kingston

Progressive Discipline

Utilities Kingston is responsible for establishing reasonable rules and regulations governing the conduct of its employees and has the right to take disciplinary action if the rules are broken.

Progressive discipline provides employees with an appropriate opportunity to correct undesirable conduct and performance through the disciplinary process. A penalty for misconduct or unsatisfactory performance will be determined based on the seriousness of the Behaviour that led to the discipline, as well as the employee's prior disciplinary record. Increasingly severe measures will be imposed where an employee fails to correct a problem after being given a reasonable opportunity to do so. The guiding principle is to use the least severe disciplinary action that will correct the undesirable situation and also maintain a working relationship that meets the employer's standards of conduct and performance. Serious misconduct, however, may result in dismissal without prior discipline.

There are four main types of disciplinary action that may be taken by management.

These include:

- Verbal warning
- Written warning
- Suspension without pay
- Dismissal

Prior to imposing any disciplinary action, managers should consult with the Vice President or Human Resources Coordinator.

The manager has the option of informally advising/counseling the employee about the inappropriate conduct. The intent is therefore to bring the problem to the employee's attention before it becomes necessary to take any of the formal disciplinary steps outlined above. Any discipline will be documented and placed in the employee's personnel file; both the employee and the Union will be advised when a document is placed on the personnel file.

The attached list provides examples of conduct that may be subject to progressive discipline. As judgment is required in undertaking disciplinary actions, the lists are provided as examples only and disciplinary actions are not limited only to the items indicated. The disciplinary action in a particular case may vary depending on the facts and circumstances. As well, in cases of serious or cumulative misconduct, any of the levels of disciplinary actions may be skipped.

The progressive discipline process does not apply to probationary employees.

Examples of Group One Behaviors

First occurrence – Verbal warning

- Absence from duty without advising the supervisor
- Unauthorized leaving of the designated work area at any time without permission from the supervisor
- Repeated late arrival
- Failure to take the most effective route between work locations
- Creating unsanitary or unsafe conditions in the workplace
- Failure to immediately report any personal injury or equipment damage
- Violation of the smoking policy (No smoking in any company building or vehicle)
- Insubordinate behaviour
- Inappropriate or unprofessional comments to customers or co-workers

Examples of Group Two Behaviors

First occurrence – Written warning

- Willful disregard for work procedures or safety rules
- Reporting to work under the influence of drugs or alcohol
- Using abusive or threatening language

Examples of Group Three Behaviors

First occurrence – Suspension without pay or dismissal

- Providing false information with respect to WSIB claims, sick leave, overtime or incident investigations, receipts submitted for reimbursement
- Theft
- Borrowing or other use of equipment or property without proper authorization
- Damage or willful destruction of property belonging to the corporation, employees or customers
- Physical violence toward another individual
- Harassment of another employee

Revised: October 2009



Utilities Kingston

Code of Conduct

for

Employees, Officers and Directors

MISSION

We are a community based corporation dedicated to the responsible management of safe, reliable integrated services.

VISION

To be recognized as a company committed to innovation, prosperity and service excellence, valued by our customers and reinvesting in our community's future.

VALUES

We are a TEAM that is recognized for being;

honest

motivated

respectful

and

reliable

Utilities Kingston Code of Conduct

This Code of Conduct identifies and establishes expectations for every employee to ensure we maintain the organization's good reputation as well as maintaining the respect of our co-workers, customers and stakeholders.

We are each expected to meet the requirements of this Code and to also use our own sense of good judgment in situations that may not be covered in this Code. If ever in doubt on how to handle a situation, contact your Manager or Leader for guidance.

Our Values

How we behave toward co-workers and those outside of Utilities Kingston tells a great deal about the values of our company. It is important that we build and maintain relationships with co-workers based on trust, honesty and mutual respect and that we behave professionally and respectfully towards fellow employees, stakeholders and the general public.

Working with employees throughout the organization we have clarified the things that we can do that will demonstrate our values. These definitions are generic to promote our common understanding. Further dialogue between employees and their supervisors can assist in identifying how these values translate into action.

Honest

To be honest means that we:

- ✓ Clearly identify the problem
- ✓ Tell the truth
- ✓ Take responsibility for our actions
- ✓ Use resources (time, money, tools, equipment) wisely

Motivated

To be motivated means that we:

- ✓ Have a positive attitude
- ✓ Demonstrate a willingness to learn
- ✓ Offer constructive suggestions
- ✓ Recognize accomplishments
- ✓ Give and share credit where credit is due

Respectful

To be respectful means that we:

- ✓ Listen to others
- ✓ Have a right to have our ideas heard
- ✓ Recognize that we each have a valued role in the organization
- ✓ Share our knowledge and expertise
- ✓ Demonstrate professionalism
- ✓ Are courteous and considerate
- ✓ Maintain confidentiality

Reliable

To be reliable means that we:

- ✓ Use our time efficiently
- ✓ Are dependable
- ✓ Make sure the job gets done
- ✓ Offer solutions to the problems that we identify
- ✓ Perform quality work that meets expectations

Professional Behaviour

It is important that our actions represent professional behaviour during working hours and at anytime that we are in a Utilities Kingston uniform or utilizing a Utilities Kingston vehicle.

Work performance

As employees, we take accountability for our work and for our results. We are committed to giving our full effort in everything we do. We recognize that we must continue to seek new ways to be more effective and efficient. We expect our supervisors to set clear expectations and to provide appropriate support and timely feedback on how we have done. We expect a work environment in which suggestions for improvement are welcomed and implemented where appropriate.

Conflicts of Interest

We avoid any situation where our personal interest interferes in any way or even appears to interfere with the interests of Utilities Kingston or of the making of decisions with honesty and integrity.

There are three broad guidelines for avoiding conflicts of interest:

- Any business decision is to be based on merit and made strictly in the best interests of the corporation;
- No personal benefits, whether direct or indirect are to be derived for ourselves, family members or friends as a result of reaching business decisions and
- We are to avoid any situation that may create a conflict of interest between our personal interests and those of Utilities Kingston.

Outside Activities

Employees have a right to personal freedom outside of working hours, however, employees should take care to ensure that activities outside of work do not conflict with corporate activities. Some examples include:

- Employees should not act as directors, officers or employees of any organization that supplies goods or services to Utilities Kingston
- That we do not engage in non-Utilities Kingston work activities on company time
- That we do not use Utilities Kingston tools or equipment to complete work for others unless you have been specifically authorized to do so
- That we do not promote any non-Utilities Kingston product or service on company time

Employees who perform volunteer activities are required to inform their Manager of such affiliation if the work involves time away from their position with Utilities Kingston

Treatment of Others

We treat customers, clients, suppliers, and colleagues with dignity and respect. We do not tolerate personal harassment, including behaviour that demeans, threatens, or humiliates a person or group of people. We do not tolerate sexual or racial harassment or discrimination. We do not tolerate inappropriate comments with respect to race, religion, sexual orientation or gender, even if not directed at a particular employee. We are a diverse organization that promotes accessibility.

Criminal and Other Charges

If you are convicted of a violation of Canadian laws, regulations or statutes and a conviction could affect your ability to carry out the duties of your position, you must inform your Manager immediately. Similarly, if you are charged with such a violation and the charge itself affects your ability to carry out the duties of your position (e.g. your drivers' license was suspended and you drive as part of your job) you must inform your Manager immediately.

Gifts, Hospitality or Other Benefits

During the period of vendor selection, no gifts, hospitality or other benefits should be accepted.

Once the vendor selection process is complete, gifts hospitality and benefits offered as result of your employment can be accepted if:

- The offering is considered a 'normal' expression of courtesy (e.g., a lunch during a meeting). Your supervisor must be advised if you have received a gift with a value of greater than \$50 (excluding meals) and,
- There is no suspicion that the offering has been made to influence your judgment or how you would perform your job

If the gift or hospitality will result in an absence from work, a request for absence must be submitted. In some cases, you may be requested to take the time as vacation.

If you believe a gift is not appropriate and you are unable to decline it, inform your immediate supervisor. If you are in doubt about a gift, contact your immediate supervisor.

Before approaching suppliers for donations or prizes for Utilities Kingston sponsored social events, you should consult with the President and CEO.

Attachment 4 of 4

Mission Vision and Values

MISSION – We are a community based Corporation dedicated to the responsible management of safe, reliable integrated services.

VISION – To be recognized as a Company committed to innovation, prosperity and service excellence, valued by our customers and reinvesting in our community's future.

VALUES – We are a team that is recognized for being: Honest, Motivated, Respectful and Reliable.

Responses to Matters Raised in Letters of Comment Filed

RESPONSES TO MATTERS RAISED IN LETTERS OF COMMENT FILED

Kingston Hydro will respond to any matters that are raised in letters of comment that are filed with the Board during the course of this proceeding. Those responses will be filed as additional evidence.



File Number: EB-2015-0083

Date Filed: June 1, 2015

Exhibit 1

Tab 8 of 8

General

General

GENERAL

In this application, Kingston Hydro is proposing to align its rate year with its fiscal year effective January 1, 2016.

Accounting Standards and Modified IFRS Applications

The accounting standards used for 2014 are under Canadian generally accepted accounting principles ("CGAAP). For 2015 and beyond the accounting standards used are on a modified IFRS basis. For Kingston Hydro, the only change between the two standards that affect ratemaking is the change in useful lives on capital assets. Kingston Hydro effected this change in 2013 for CGAAP purposes such that the modified IFRS useful lives are the same as the CGAAP useful lives.

Kingston Hydro has completed Appendix 2-Y as required at Exhibit 1, Tab 8, Schedule 1, Attachment 1.

PERFORMANCE EVALUATION

Kingston Hydro developed its 2013 Scorecard using the performance outcomes established by the OEB Report entitled Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach dated Oct 18, 2012.

1 The performance outcomes and associated performance measures found in the
2 Kingston Hydro 2013 Scorecard are used to assess whether and how a distributor has
3 planned to deliver value to customers.

4
5 For customer focus, Kingston Hydro has exceeded the “New residential/Small Business
6 Services Connected on Time” and the “Scheduled/Appointments Met on Time” for each
7 of the past 5 years and will continue to monitor to ensure superior customer service.
8 For the “Telephone Calls Answered on Time” indicator, Kingston Hydro slipped below
9 the required 65% calls answered within 30 seconds in 2011 and 2012. However
10 increased monitoring in 2013 and 2014 resulted in the indicator rising to just above the
11 required 65%. Preliminary 2014 numbers for the new 2014 indicators “First Contact
12 Resolution” and “Billing Accuracy” are at 98.3% and 99.7% respectively. 2014
13 “Customer Satisfaction Survey Results” were very positive and are as detailed in Exhibit
14 1, Tab 4 Schedule 1 Attachment 2.

15
16 For operational effectiveness, Kingston Hydro monitors the four performance
17 categories. The categories of safety, system reliability and asset management are key
18 components of our Distribution System Plan. Specifically section 5.2.3 addresses
19 these categories. With respect to the category of “Cost Control”, Kingston Hydro
20 remains one of the lowest cost utilities, on a per customer basis, at \$517 per customer.
21 This metric is up from \$493 in 2012 and had increased 3.4% from \$500 from 2011.
22 Kingston Hydro is 16th lowest cost utility on a per customer basis in the Province out of
23 a reported 73 utilities. Kingston Hydro's cost per km of line is at \$38,667. This amount
24 has increased over the last number of years due to the increased focus on replacing
25 ageing infrastructure.

26
27 For public policy responsiveness, and in particular the draft verified conservation results
28 from the Ontario Power Authority show that by Dec. 31, 2013, Kingston Hydro and its

1 customers have achieved 104% of their “Net Peak Demand Savings” 2011-2014 target
2 under “scenario 2” (i.e. if all demand response contracts currently in place are honoured
3 by customers through Dec. 31, 2014). According the same report, Kingston Hydro and
4 its customers have achieved 111.7% of their “Net Energy Savings” 2011-2014 target.
5 This represents a 6.94 MW reduction in peak demand and a cumulative 41.4 GWh of
6 energy savings from 2011-2014, and achievement of both demand and energy 2011-
7 2014 targets a full year before the end of the current provincial CDM framework. We
8 acknowledge that the methodology in the OEB scorecard is different than the OPA
9 methodology to calculate CDM results. Regarding “New Micro-embedded Generation
10 Facilities Connected On Time” Kingston Hydro is exceeding the industry target.

11
12 For financial performance, Kingston Hydro monitors its liquidity, leverage and
13 profitability. The reported “Liquidity” (Current Assets / Current Liabilities) on the
14 scorecard is not indicative of a true current ratio due to the fact that current liabilities
15 include \$11 million in short term borrowing utilized to fund regulatory asset balances on
16 the balance sheet, which are not included in current assets. For “Leverage” Kingston
17 Hydro’s total Debt to Equity Ratio is increasing as new debt is obtained to fund
18 regulatory asset balances and ongoing capital replacement work. Third party financing
19 ratios are well within the established limits. Kingston Hydro’s “Profitability” is also
20 monitored. The Deemed return on equity is 9.58% and actual return on equity for 2013
21 was 9.03%, 0.55% under the deemed rate. This was due to increased operating costs
22 for 2013 due to additional onetime expenses related to the ice storm and additional
23 onetime expenses related to Smart Meters.

24
25 Each of the four performance outcomes has been considered in the preparation of this
26 application. In particular, section 5.2.3 of the Distribution System Plan details how
27 specific programs and performance measures have been considered.



File Number:EB-2015-0083

Exhibit: 1
Tab: 8
Schedule: 1

Date Filed: June 1, 2015

Attachment 1 of 1

OEB Appendix 2-Y

Appendix 2-Y
Summary of Impacts to Revenue Requirement
from Transition to MIFRS

Revenue Requirement Component	2016 MIFRS	2016 CGAAP without policy changes	Difference	Reasons why the revenue requirement component is different under
Closing NBV 2015	\$ 41,936,623	\$ 38,483,564	\$ 3,453,059	
Closing NBV 2016	\$ 45,818,844	\$ 41,235,425	\$ 4,583,419	This does not include the ICM captial component as this was not affected by the accounting change.
Average NBV	\$ 43,877,734	\$ 39,859,495	\$ 4,018,239	
Working Capital			\$ -	
Rate Base	\$ 43,877,734	\$ 39,859,495	\$ 4,018,239	
Return on Rate Base			\$ -	
			\$ -	
OM&A			\$ -	
Depreciation 2016	\$ 1,767,779	\$ 2,898,139	-\$ 1,130,360	This does not include the ICM captial component as this was not affected by the accounting change.
PILs or Income Taxes			\$ -	
			\$ -	
Less: Revenue Offsets			\$ -	
			\$ -	
			\$ -	
			\$ -	
Insert description of additional item(s) and			\$ -	
Total Base Revenue Requirement	\$ 1,767,779	\$ 2,898,139	-\$ 1,130,360	

Applicants must provide a summary of the dollar impacts of MIFRS to each component of the revenue requirement (e.g. rate base, operating costs, etc.), including the overall impact on the proposed revenue requirement. Accordingly, the applicants must identify financial differences and resulting revenue requirement impacts arising from the adoption of MIFRS as compared to CGAAP prior to capitalization and depreciation policy changes. Applicants should explain the financial differences and may separate the differences arising from changes in capitalization and depreciation policy versus the adoption of IFRS.