

POWERSTREAM INC.

2016 – 2020 Custom IR Rate Application

Overview

July 28, 2015

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PowerStream Presenters

Shelly Cunningham
SVP, Engineering Services

Carolyn Young
SVP, Finance

Colin Macdonald
SVP, Regulatory Affairs & Customer Service

Key Messages

- PowerStream uses very rigorous processes for budgeting and forecasting
- PowerStream needs to make ongoing investments in infrastructure to ensure reliability and good customer service
- PowerStream is improving productivity, but has further work to do

PowerStream's "History"

2004: Hydro Vaughan and Markham Hydro merge/Richmond Hill Hydro purchased, to form PowerStream

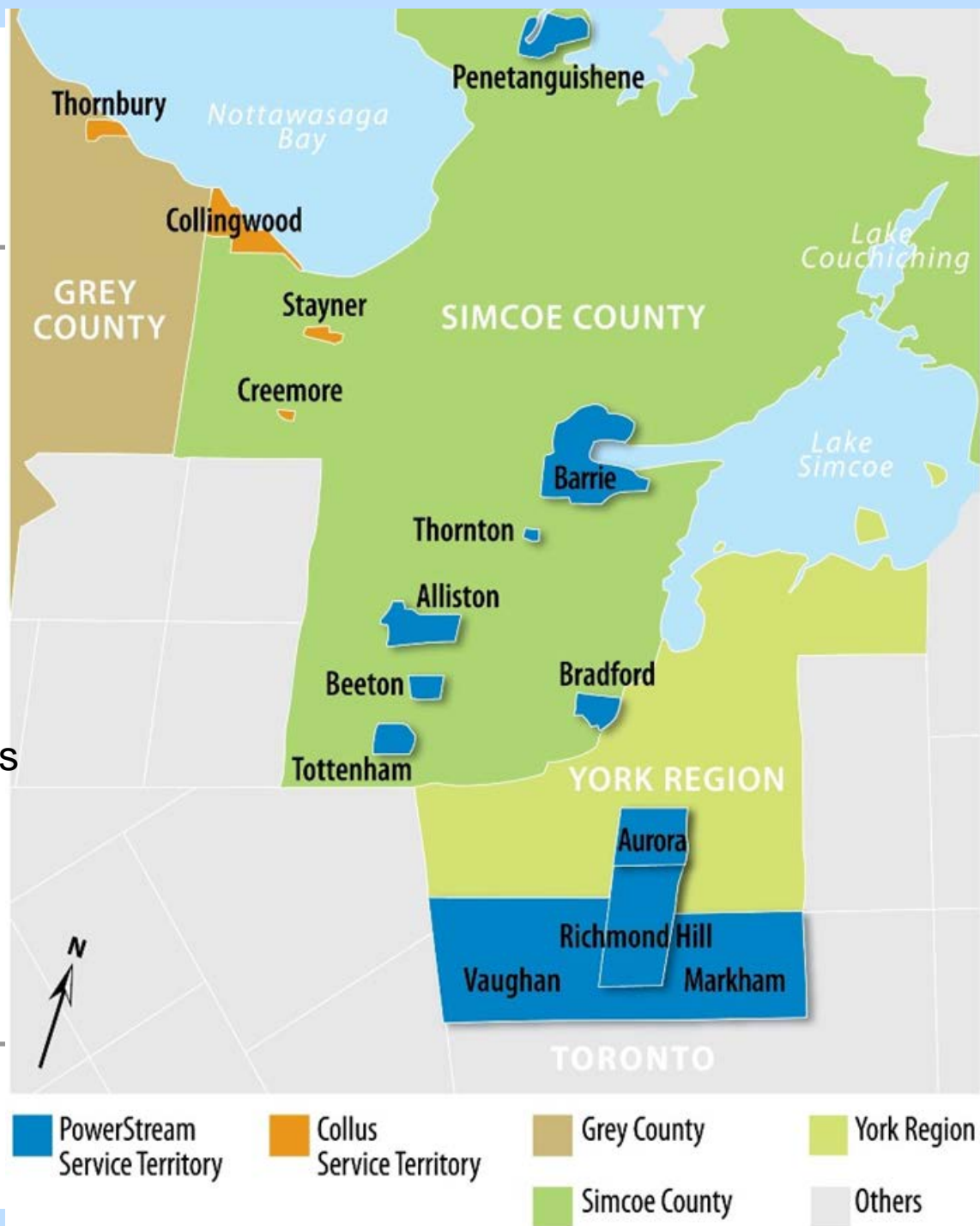
2005: PowerStream purchases Aurora Hydro

2009: PowerStream and Barrie Hydro Merge

2012: PowerStream purchases 50% of Collus Power

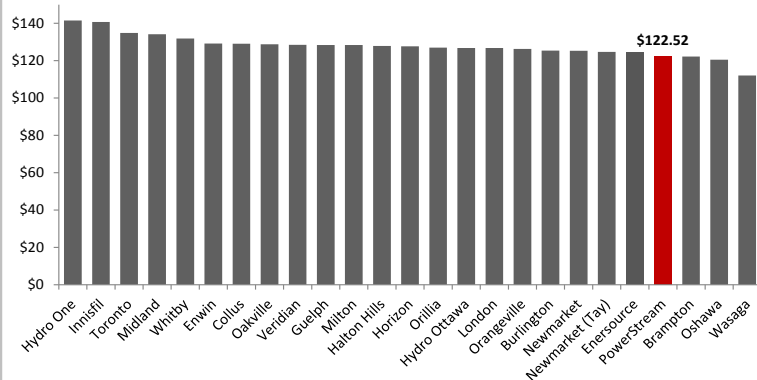
PowerStream Service Territory

- 2nd largest municipally owned distributor
- More than 350,000 customers

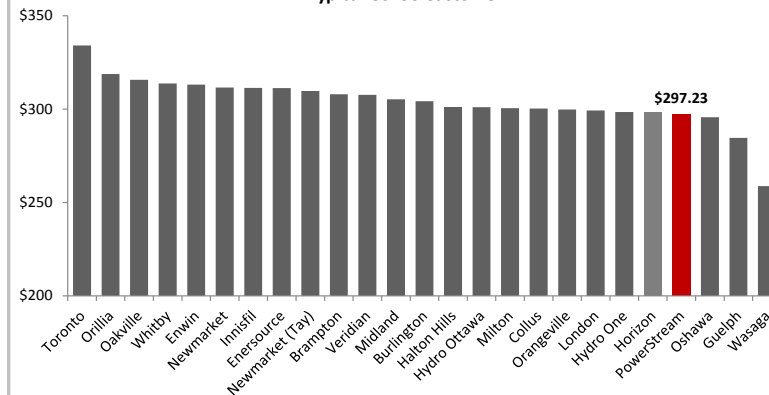


Competitive Rates

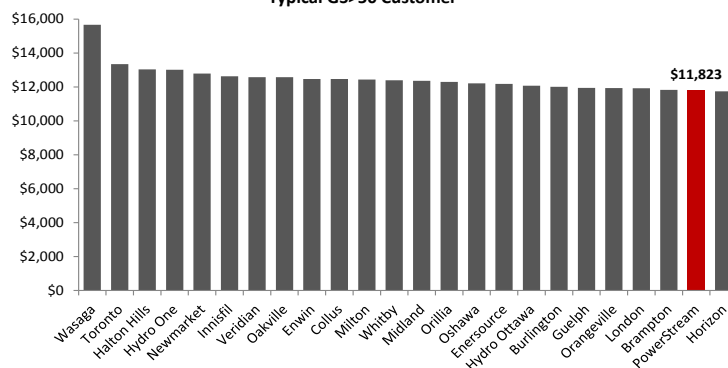
2014 Total Bill
Typical Residential Customer



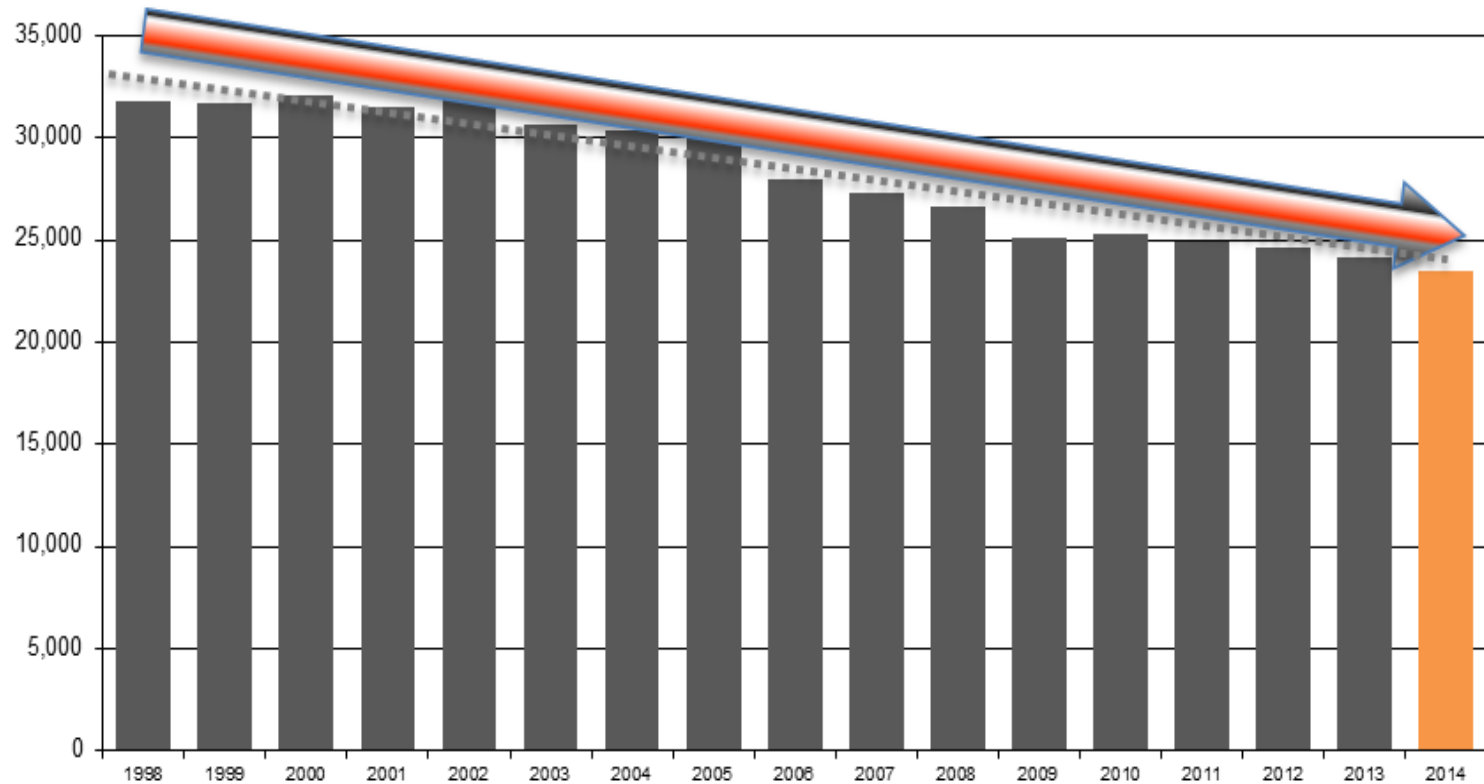
2014 Total Bill
Typical GS<50 Customer



2014 Total Bill
Typical GS>50 Customer



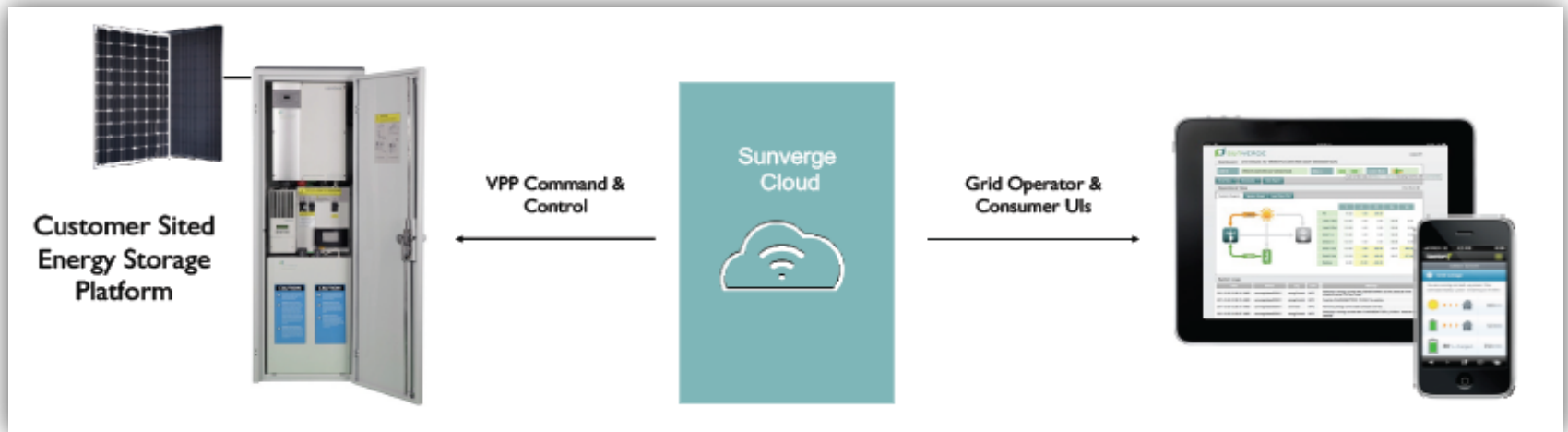
Total **Normalized** Energy Sales per Customer (1998 - 2014)



The Industry is Being Transformed

- Increasing customer sophistication
- Quickly evolving technology
- Off-grid options create “competition”
- Need to upgrade aging infrastructure

Residential Solar Storage Project



- 20 home pilot
- IESO Conservation Fund

OUR STRATEGY: By 2020, we will build on our core electricity distribution business to become Ontario's premier integrated energy services provider.

Increase Shareholder Value

Provide an Optimized Rate of Return

FINANCIAL

CUSTOMERS

PROCESSES

FOUNDATION

**CUSTOMER
FOCUS**

**OPERATIONAL
EXCELLENCE**

**REGULATORY
EXCELLENCE**

**GROWTH &
SUSTAINABILITY**

HIGH PERFORMANCE CULTURE

OUR VALUES:

RESPECT

TEAMWORK

PERFORMANCE

ACCOUNTABILITY

INITIATIVE

Reading the Application

- I. Application Overview and Executive Summary
- II. Rate Proposal from February 24, 2015 (unchanged) & Appendices
- III. Interrogatory Responses
- IV. Technical Conference Undertakings
- V. Revenue Requirement Update from April 24, 2015
- VI. Additional Information – Mainly Chapter 2 Appendices for Completeness

RRFE Outcomes

Customer Focus:

- Customer Satisfaction Surveys
- Customer Engagement Process for Custom IR
- Newsletters, website, social media
- 300,000 phone calls and 20,000 e-mails annually



Operational Effectiveness:

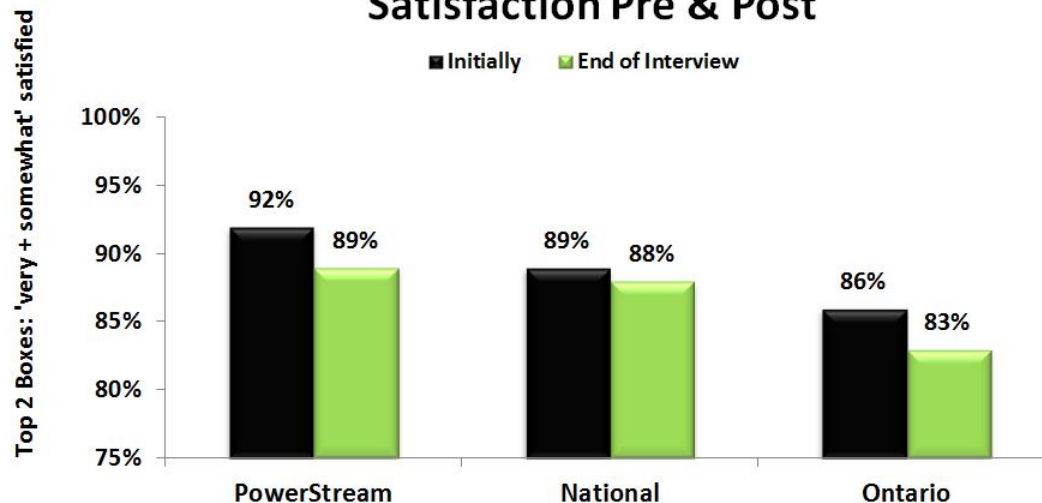
- “Journey to Excellence” – Excellence Canada framework
- Cost reductions through productivity improvements
- Focus on maintaining distribution system reliability

Customer Satisfaction: PRE

Electricity bill payers who are 'very or fairly' satisfied with...					
	2015	2014	2013	2012	2011
PowerStream	92%	87%	91%	86%	88%
National	89%	89%	90%	88%	89%
Ontario	86%	83%	90%	86%	84%

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

Satisfaction Pre & Post



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



RRFE Outcomes

Public Policy Responsiveness:

- Leader in working with OEB and Ministry to ensure thoughtful and timely implementation of changes
- Compliance is a very high priority at PowerStream
- Shelly Cunningham and Colin Macdonald appointed to new OEB Standing Committees

Financial Performance:

- Rigorous processes for OM&A and Capital planning
- Decision making process seeks to ensure sustainable investments

RRFE – Board Policies

Rate-setting:

- Custom IR most appropriate for PowerStream due to ongoing capital spending requirements
- Five year term, off-ramp provision, limited annual updates
- “Catch up” for price cap in 2014 and 2015

Planning:

- Distribution System Plan completed in accordance with Board’s Chapter 5 Filing Requirements
- Use optimization software to aid in developing capital project portfolio
- Integrated Regional Resource Plans (notably York Region)

RRFE – Board Policies

Measuring Performance:

- Have utilized “balanced scorecard” approach for many years

Scorecard - PowerStream Inc.

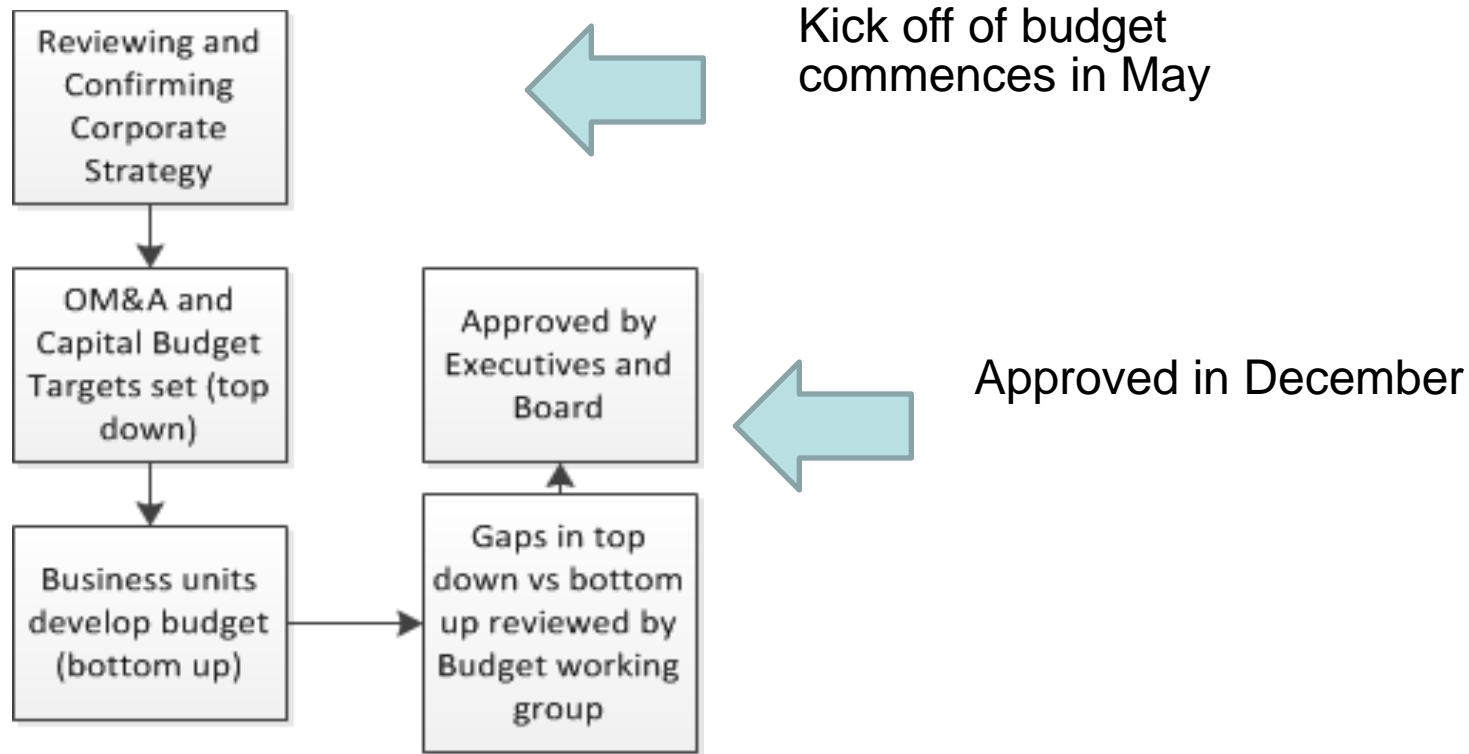
9/15/2014

Performance Outcomes	Performance Categories	Measures	2009	2010	2011	2012	2013	Trend	Industry	Distributor
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	New Residential/Small Business Services Connected on Time	97.60%	97.60%	93.10%	98.10%	98.10%	⬆️		90.00%
		Scheduled Appointments Met On Time	100.00%	99.30%	98.70%	99.60%	99.80%	⬆️		90.00%
		Telephone Calls Answered On Time	69.20%	68.30%	77.20%	69.20%	68.30%	⬆️		65.00%
	Customer Satisfaction	First Contact Resolution								
		Billing Accuracy					99.93%			
Customer Satisfaction Survey Results						91%				
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	Safety	Public Safety (measure to be determined)								
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted	1.59	0.54	1.05	1.04	9.77	⬆️		at least within 0.54 - 1.59
		Average Number of Times that Power to a Customer is Interrupted	1.07	0.80	1.00	1.53	2.24	⬆️		at least within 0.80 - 1.53
	Asset Management	Distribution System Plan Implementation Progress					83.3%			
		Efficiency Assessment				3	3			
	Cost Control	Total Cost per Customer [See Note below]	\$602	\$606	\$614	\$645	\$653			
		Total Cost per Km of Line [See Note below]	\$24,931	\$26,667	\$27,494	\$29,405	\$29,912			
Public Policy Responsiveness Distributors deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directive to the Board).	Conservation & Demand Management	Net Annual Peak Demand Savings (Percent of target achieved)			15.00%	18.00%	33.10%			\$5.57MW
		Net Cumulative Energy Savings (Percent of target achieved)			36.00%	67.00%	92.60%			407.34GWh
	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time		100.00%	100.00%	100.00%	100.00%			
		New Micro-embedded Generation Facilities Connected On Time					93.83%		90.00%	
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)	0.97	1.02	0.91	1.19	0.77			
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio	1.47	1.38	1.30	1.32	1.39			
		Profitability: Regulatory Return on Equity			8.01%	8.01%	8.93%			
		Deemed (included in rates) Achieved			10.09%	8.55%	9.98%			

Note
These figures were generated by the Board based on the total cost benchmarking analysis conducted by Pacific Economics Group Research, LLC and based on the distributor's annual reported information.

Legend:
 ⬆️ up
 ⬆️ down
 ⬆️ flat
 ⬆️ target met
 ⬆️ target not met

OM&A Business Planning and Budgeting Process



- Six year (2015 to 2020) OM&A budgets developed

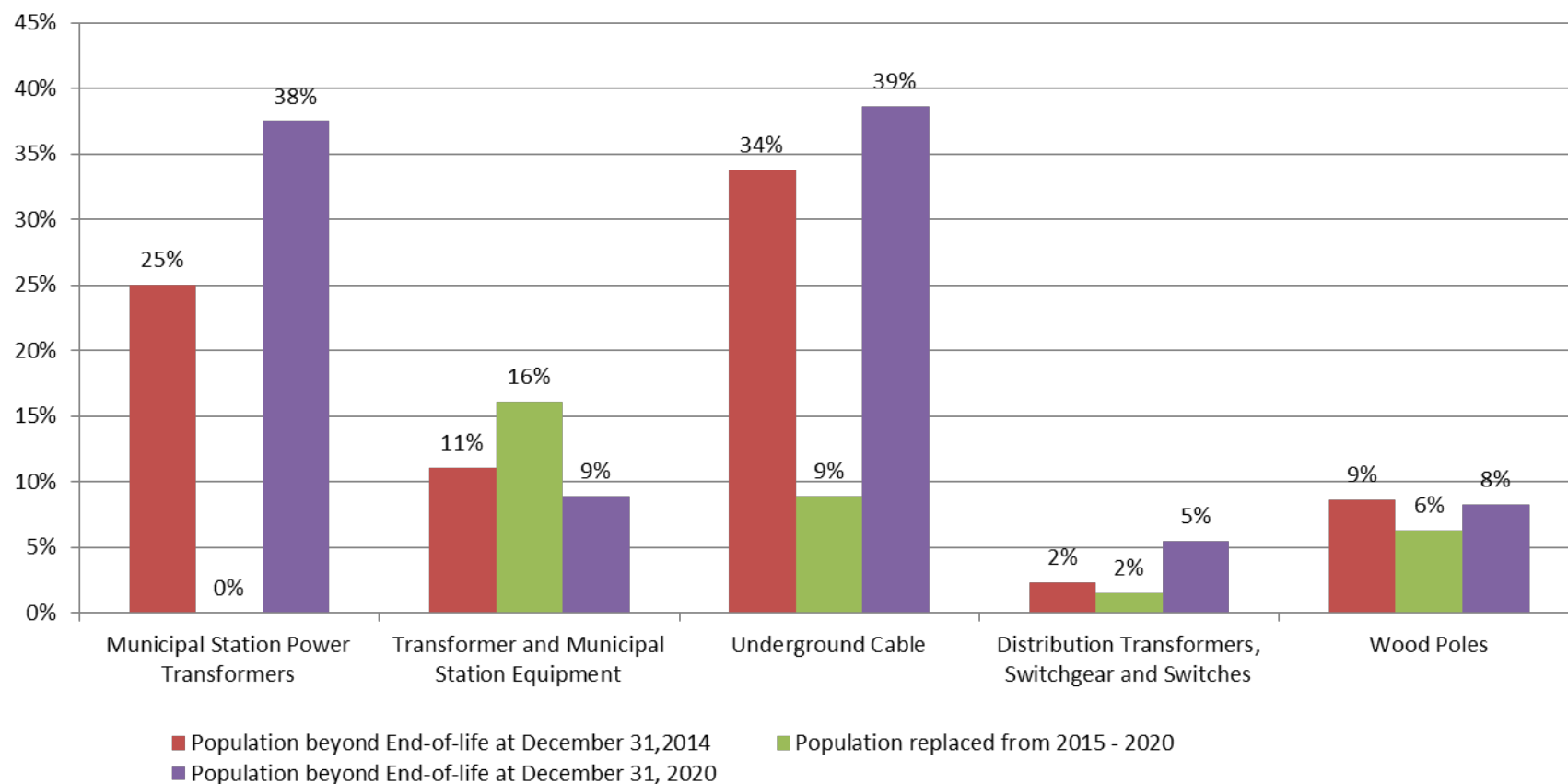
OM&A – 2013 Board Approved vs. 2020 Proposed

	Board Approved	Test Year	Annual Average
Operating Divisions	2013	2020	%
Asset Management	\$ 31.8	\$ 42.5	4.2%
Finance	\$ 22.3	\$ 27.2	2.9%
Corporate Services	\$ 28.8	\$ 34.5	2.6%
Total	\$ 82.9	\$ 104.2	3.3%

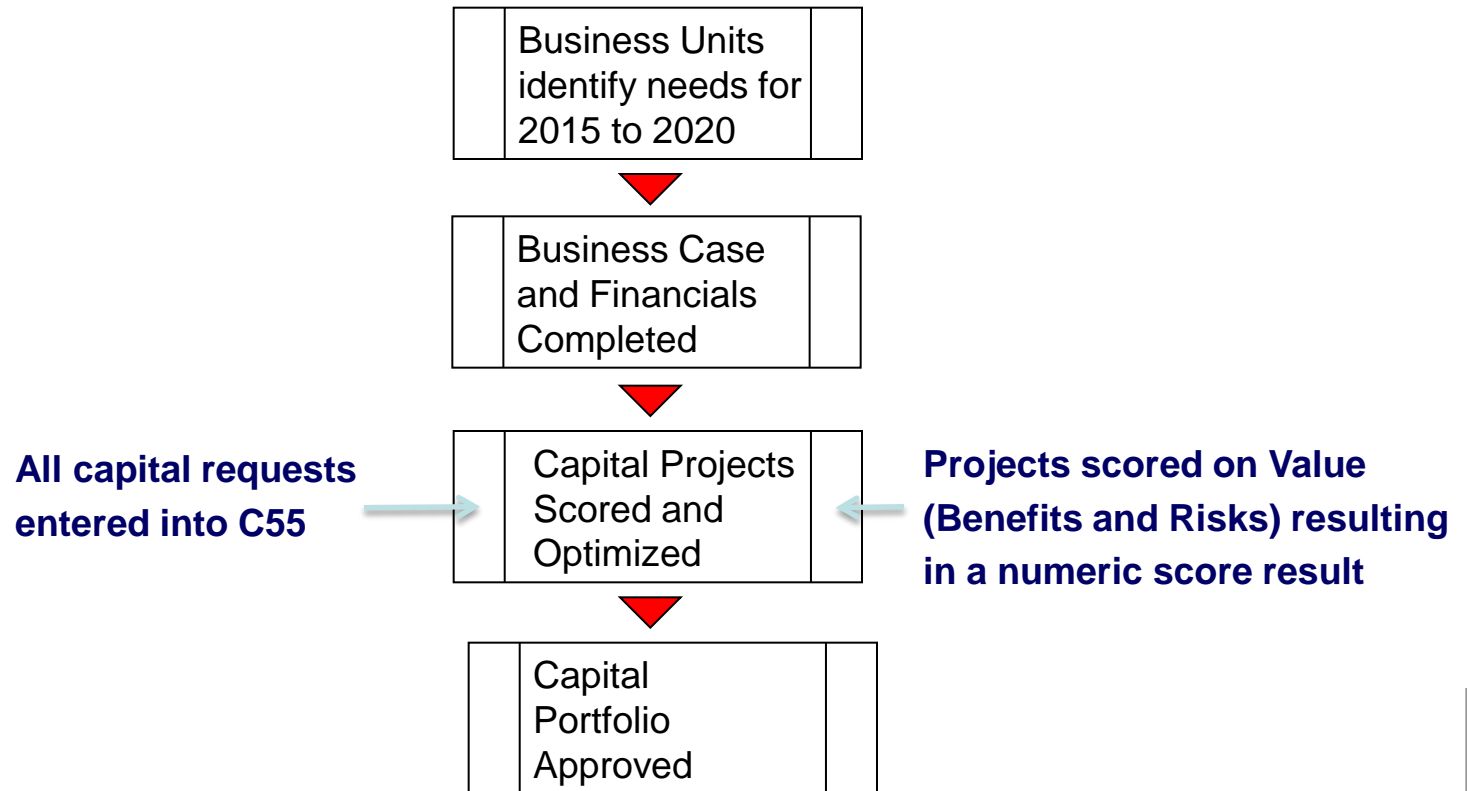
Capital Spending – The Challenge

- PowerStream has already cut \$50 million from the current capital plan
 - The majority of the cuts were through deferrals
 - This will put pressure on future years.
- We predict that the need for future asset replacement will increase
 - Any deferral of existing planned replacements will compound the replacement need in future years.
- The failure mode of the distribution system is dynamic and customer needs change – we cannot foresee all the needs.
 - We know that there will be new priorities that we will have to fit into the current capital plan.

Comparison of Population: Beyond End-of-Life (2014); Future Projected End-of-life (2020); and Replaced for 2015-2020



Capital Budget Process



Value & Risk Scoring

- Benefits scored for key KPIs including financial impact, customer service, reliability, and environmental.
- Risk scored for key categories including regulatory compliance, safety, system capacity, financial and environmental using a probability/consequence matrix.
- Scores are translated and then compared to the project costs and each project is given a final value.

Optimization Process

C55 Optimization (science):

- Maximize total value by adjusting investments to provide optimal value within upper budget constraint, while considering risk exclusions and mandatory projects.

Committee Discussion after C55 Optimization applied (art):

- Review projects that were recommended to be deferred one or more years by the program.
- Review projects which must happen in the year it was proposed, regardless of the value of the scoring.
- Consider what the Committee deems necessary to be reinstated.

2014 Budget & 2015-2020 Forecast Spending

CATEGORY	2014 Plan	2015 Plan	2016 Plan	2017 Plan	2018 Plan	2019 Plan	2020 Plan	Total
System Access	26,208	24,145	28,232	28,470	29,561	28,726	31,867	197,209
System Renewal	38,857	42,388	48,715	51,500	52,052	52,971	52,406	338,888
System Service	17,009	27,322	38,322	32,072	29,920	26,963	23,022	194,630
General Plant	26,165	24,545	17,631	19,558	13,967	16,840	18,206	136,911
Total	108,238	118,400	132,900	131,600	125,500	125,500	125,500	867,638

Merger Update

- On April 16, 2015 a proposed merger involving PowerStream, Enersource, Horizon Utilities and a potential merger or purchase of Hydro One Brampton was announced
- Since then:
 - Continued to negotiate with the Province re: Hydro One Brampton
 - Continued to negotiate with the other parties
- Board and Shareholder approval for any recommended transaction is scheduled for September
- Subject to OEB approval through the MAADs framework

Monthly Distribution Rate Impacts – Residential Customers

2016: \$3.72 (\$3.56 for Barrie rate zone)

2017: \$2.88

2018: \$1.45

2019: \$1.43

2020: \$1.25

Key Messages

- PowerStream uses very rigorous processes for budgeting and forecasting
- PowerStream needs to make ongoing investments in infrastructure to ensure reliability and good customer service
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