EB-2015-0003

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act*, *1998*, S.O. 1998, c.15, Schedule B;

AND IN THE MATTER OF an Application by PowerStream Inc. for an Order approving rates and other service charges for the distribution of electricity for the years 2016 through 2020.

CROSS-EXAMINATION COMPENDIUM OF THE SCHOOL ENERGY COALITION
(Panel 1 – General)

November 20, 2015

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POWERSTREAM INC.

2015-2020 Budget Guidelines

SMT/SLT Budget Kickoff Meeting

May 29, 2013

2014-2018 Budget Kick Off Agenda

1. Introduction
2. Regulatory Requirement (Tom – 5 min)
3. OM&A Budget Guidelines (Dianne - 5 min)
4. HR Headcount Guidelines (Barb - 5 min)
5. Capital Budget Guidelines and target (Phil - 5 min)
6. PMO Projects-OM&A and Capital (Louise - 5 min)

Where are we?

- Rates have been approved via a COS application (2012) since January 1, 2013.
- PowerStream is currently under incentive regulation (3rd Generation IRM) and our next scheduled rebasing year is 2017
- Under IRM revenue (rate) increases are significantly constrained (1.3% for 2014) causing distributors to control costs in order to make the allowed return
- January 1, 2014 rates, include an IRM adjustment
- In addition as of January 1, 2014, rates are adjusted to include ICM (Incremental Capital Module) funding.
- This was a result of OEB approval of PowerStream's request for additional funding to help meet capital requirements

OEB's Renewed Regulatory Framework

- In 2013, the OEB issued a report outlining 3 new "paths" for rate applications:
  - Historic IR – no rebasing, multi-year very modest rate increases, available in 2014
  - Custom IR – multi-year rate basing, complex, minimum 5 years, available in 2014
  - 4th Generation IR – 4 years following next rebasing (instead of 3), has same ICM (Incremental Capital Module) that does not adequately support capital spending, available after next rebasing year (2017 for PS). Note that the OEB subsequently put restrictions on filing regular ICMs

Custom IR - Current Plan

- Timing:
  - File in April, 2015 for rebased rates effective January 1, 2016
  - Would seek rebasing for each year 2016 to 2020
- Needs:
  - Five year forecasts for revenue, OM&A, capital (depreciation), interest and PILS
  - Underpinning reports – “Chapter 5 Filing Requirements”, Investment Plans, Regional Plans, Benchmarking, Rate Mitigation
  - Significant upfront customer engagement
  - Test spending trends against appropriate benchmarks
- Risks:
  - How to protect against all the things that can happen in 5 years (economy, M&A, government directives, new technologies, etc.)

How do we succeed at being “Rate Ready”?

- Having sufficient detail to justify rebasing in each year 2016 to 2020 is a high threshold; need detailed budgets 2015 to 2020
- Need to identify specific productivity savings
- Look at Horizon and Hydro One application
- Identify risks and “what if’s”
- Start early, a lot of writing can be done now – a lot of year-over-year analysis can also be done
- January to April 2015 will be a sprint

2015-2020 OM&A Budget Guidelines

- 6 year budget development for business operations & regulatory support. (including headcount plans)
- Early preliminary budget submission deadlines to allow for time to work strategically regarding developing decisions for rate filing
- Rate Ready OM&A approach such as other expense and work order budget enhanced by:
  - identifying controllable vs non-controllable spending;
  - explaining increases/decreases;
  - providing justification for spending exceeding target
  - Indentifying productivity gains/improvements

Target assumptions:
- Labour increases set based on 2014 headcount budget + 4%
- No headcount increases considered for baseline budget or outlook years
- 2014 other expenses (including work orders) are based on historical actual average (2011-2013) + 1%
- Separate process lead by HR regarding headcount

Budget HR Assumptions:

- Headcount is based on 2014 Budget as baseline for 2015
- No headcount increases included in baseline
- Labour increases excluding headcount increases assumed to be 4%
- 4% is representative of the average increase related to contract, step & merit increases across the organization
- HR will assist with the development of 6 year headcount plans

Capital Budget Guidelines

- 10 years of capital projects completed and transferred to new investment decision tool C55
- All staff trained on C55
- Optimization questions being completed for 6 years of capital projects through May 15 – August 1
- Management approval of their capital projects by August 29
- Answers to optimization questions need to be done well
- Business Cases also through Capital Inflow site

Capital Budget Guidelines cont'd

A full Business Case is required for the following projects:

- Distribution Projects (non-program work) equal or greater than $500K
- Technology Based Projects equal or greater than $100K

There is no formal sign off for distribution projects or distribution programs under $500K and technology projects under $100K. Director level still needs to review and approve

To be successful this year there can be no straggling projects.

Your assistance in getting your team members to complete their part, complete it well and on-time is appreciated!

PMO Project Identification-OM&A or Capital

As a guideline, if all 3 of the following are true, then the project is likely a PMO project:

1. High Value Project Identified from Various Sources:
   - Directly linked to a 2014 Corporate Initiative
   - Process Improvement Initiative directly related to one of the Key Processes
   - External customers impacted

2. Project Involves/Impacts more than 1 Department other than IS

3. Project requires Change Management-staff and processes will be significantly impacted
   - Fundamental change to jobs, work activities, work practices, processes
   - Significant amount of training required

The PMO recommends but the PMO Steering Committee and EOC are the ultimate decision-makers in regard to which projects end up in the PMO.

A Project Initiation Form (PIF) must be completed for all 2015 PMO projects by Aug 29/14

If you need help to determine if a project is a PMO project, contact Karen Campball x 25015 or Louise Guathier x24477

PMO Project Key Dates - OM&A or Capital

Approval to Proceed Gate - 2015

- Mandatory by Aug 29/14
  - Project Initiation Form (PIF)

- Best Effort by Dec 31/14
  - Stakeholder Analysis
  - Scope Document
  - Documented Business Requirements

- Mandatory by March 31/15
  - All planning documents completed & detailed consolidated schedule submitted to PMO**

**Schedule becomes the baseline for tracking project schedule variance

2015-2020 Budget Submission Timeline

May	FP & HR partners work with the BU's to begin to validate current headcount & compensation
May-Aug 1	Complete answers to optimization questions for 6 years of projects
June 30	Initial submission of Divisional 6 year OM&A Budget input information
June 30	Cut off: Headcount requests to HR
July	Initial roll-up/consolidation of data & review of preliminary 6 year OM&A Budgets
July 18	Preliminary additional headcount information to Financial Services
July 20-31	Preliminary Grand Summary details prepared, reviewed by FP for reasonability
July 20-31	FPs meet with VPs/SVPs to discuss preliminary Divisional 6 year OM&A budget
Aug 5 -15	BWG discuss preliminary OM&A budget results/Financial Outlook
Aug 15-29	All Capital projects to be reviewed by Managers, Directors & VPs
Aug 29	Cut off: PMO – PIF for all PMO projects / IS – PIF for all non-PMO projects*
Aug 29	Cut off: Capital budget
Sept 9-11	Run investment decision tool for capital expenditures
Sept 12	Update to EOC/EMT regarding 6 year OM&A Budget
Sept 18	AFC update regarding 6 year OM&A Budget
Sept 27	Capital budget set
Oct 31	Final 5 year OM&A & Capital budgets due
Nov	EOC/EMT review of final 6 year OM&A & Capital budgets
Dec 11/18	AFC and Board Review/Approval depending on rate filing approval timelines

2015-2020 Target Budget/Outlook

Statement of Operations

(MIFRS) (in Millions of Dollars)	Forecast Core 2014	Budget Core 2015	Rebasing Core 2016	Rebasing Core 2017	Rebasing Core 2018	Rebasing Core 2019	Rebasing Core 2020
Cost of Power	944.4	949.3	969.6	998.7	1,028.7	1,059.5	1,091.3
Distribution Revenue	162.1	166.4	199.6	208.7	217.8	226.4	233.9
Other Revenue	9.1	9.9	9.9	9.9	10.0	10.2	10.4
OM&A	87.7	93.6	95.8	98.1	100.8	103.5	106.4
Depreciation Expense	35.8	41.4	43.4	45.1	46.7	48.0	49.3
Interest Expense	21.8	25.9	26.5	29.0	31.8	33.6	35.0
EBT	25.9	15.4	43.8	46.4	48.5	51.5	53.6
Provision for Income Taxes	(6.1)	(8.3)	5.2	5.3	5.1	5.6	6.1
Net Income	**32.0**	**23.7**	**38.6**	**41.1**	**43.4**	**45.9**	**47.5**
ROE - Approved Rate Base	9.6%	7.1%	9.1%	9.1%	9.0%	9.0%	8.9%
ROE - Realtime Rate Base	8.8%	6.1%	9.1%	9.1%	9.0%	9.0%	8.9%
Net Capital Expenditure	108.2	114.9	121.4	120.1	114.0	105.0	100.0
Statutory Tax Rate	26.5%	26.5%	26.5%	26.5%	26.5%	126.5%	226.5%
Rate Base - Approved	832	832	1,056	1,134	1,209	1,277	1,336
Rate Base - Real Time	904	978	1,056	1,134	1,209	1,277	1,336
Change in debt (repayment)	80.0	45.0	40.0	50.0	40.0	35.0	-
Cash ending balance	51.0	50.6	51.8	49.3	45.8	49.1	44.4
Debt/Equity Ratio	**62.5%**	**62.8%**	**61.9%**	**62.4%**	**62.6%**	**62.5%**	**62.0%**
FFO/debt ratio - 12% threshold	11.8%	10.6%	12.4%	12.1%	12.0%	12.0%	12.0%

Original Proposal February 24, 2015

	2016	2017	2018	2019	2020	Totals
Deficiency	$29,002,822	$46,658,845	$56,378,893	$65,963,572	$74,549,701	$272,553,833
Rev. Current Rates	$162,444,344	$163,344,950	$164,308,195	$165,283,011	$166,318,900	$821,699,400
Base RR	$191,447,166	$210,003,795	$220,687,088	$231,246,583	$240,868,601	$1,094,253,233
Weighted Rate Inc.	17.85%	9.09%	4.47%	4.17%	3.51%	44.82%
Offsets	$12,590,603	$12,718,312	$12,816,681	$12,938,953	$13,069,086	$64,133,635
Service RR	$204,037,769	$222,722,107	$233,503,769	$244,185,536	$253,937,687	$1,158,386,868
Growth Rate		0.5544%	0.5897%	0.5933%	0.6267%	
Rev at Prior Rates	$162,444,344	$192,508,566	$211,242,187	$221,996,392	$232,695,890	
One Year Deficiency		$17,495,229	$9,444,901	$9,250,191	$8,172,711	

Original RRWF as Filed

	2016	2017	2018	2019	2020	Totals
Deficiency	$29,477,552	$47,717,370	$57,451,810	$67,086,026	$75,650,338	$277,383,096
Rev. Current Rates	$162,444,354	$163,344,950	$164,308,195	$165,283,011	$166,318,900	$821,699,410
Base RR	$191,921,906	$211,062,321	$221,760,005	$232,369,037	$241,969,237	$1,099,082,505
Weighted Rate Inc.	18.15%	9.37%	4.45%	4.17%	3.48%	45.49%
Offsets	$12,590,603	$12,718,312	$12,816,681	$12,938,953	$13,069,086	$64,133,635
Service RR	$204,512,509	$223,780,633	$234,576,686	$245,307,990	$255,038,323	$1,163,216,140
Growth Rate		0.5544%	0.5897%	0.5933%	0.6267%	
Rev at Prior Rates	$162,444,354	$192,985,927	$212,306,954	$223,075,673	$233,825,378	
One Year Deficiency		$18,076,394	$9,453,050	$9,293,363	$8,143,859	

RRWF After Interrogatories

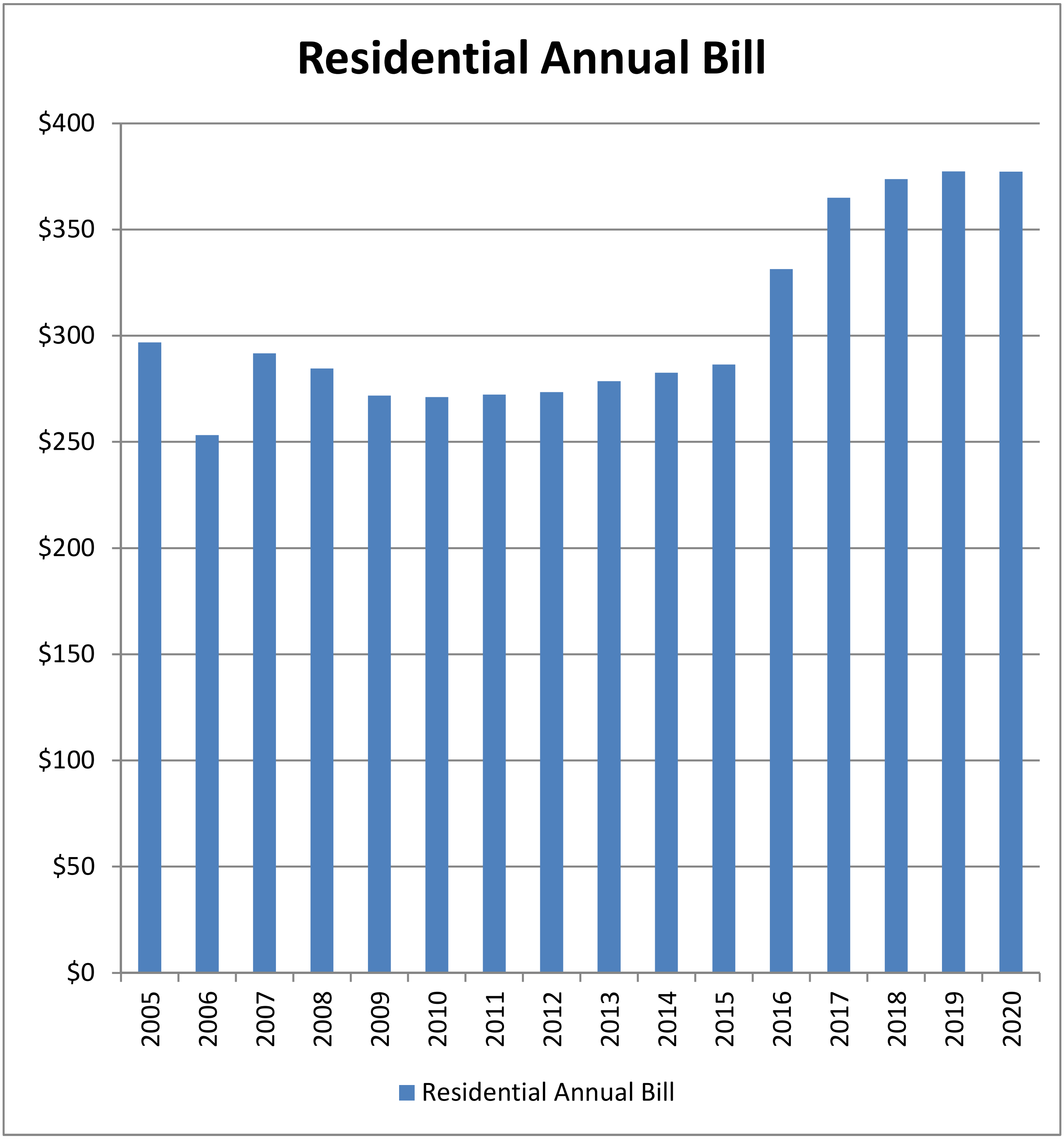
	2016	2017	2018	2019	2020	Totals
Deficiency	$25,230,966	$47,825,791	$58,063,067	$67,664,670	$75,940,745	$274,725,239
Rev. Current Rates	$161,792,522	$162,498,923	$163,366,863	$164,347,366	$165,701,810	$817,707,483
Base RR	$187,023,488	$210,324,714	$221,429,930	$232,012,036	$241,642,555	$1,092,432,722
Weighted Rate Inc.	15.59%	11.97%	4.72%	4.15%	3.30%	45.83%
Offsets	$12,590,603	$12,718,312	$12,816,681	$12,938,953	$13,069,086	$64,133,635
Service RR	$199,614,091	$223,043,025	$234,246,611	$244,950,989	$254,711,640	$1,156,566,357
Growth Rate		0.4366%	0.5341%	0.6002%	0.8241%	
Rev at Prior Rates	$161,792,522	$187,840,050	$211,448,101	$222,758,919	$233,924,128	
One Year Deficiency		$22,484,664	$9,981,829	$9,253,117	$7,718,427	

Typical 4GIRM Results

Rebasing Escalator	6%					
4GIRM Escalator	1.85%					
Rev. Prior Rates	$161,792,522	$172,248,858	$176,372,498	$180,713,534	$185,573,610	$876,701,023
Escalator	$9,707,551	$3,186,604	$3,262,891	$3,343,200	$3,433,112	$22,933,359
Base RR	$171,500,073	$175,435,462	$179,635,390	$184,056,735	$189,006,722	$899,634,382
Offsets	$12,590,603	$12,718,312	$12,816,681	$12,938,953	$13,069,086	$64,133,635
Service RR	$184,090,676	$188,153,774	$192,452,071	$196,995,688	$202,075,808	$963,768,017
Cumulative Increase	$9,707,551	$12,894,155	$16,157,046	$19,500,247	$22,933,359	$81,192,358
Difference	$15,523,415	$34,889,252	$41,794,540	$47,955,301	$52,635,833	$192,798,340
Weighted Rate Inc.	6.00%	1.85%	1.85%	1.85%	1.85%	14.17%

Rates based on PowerStream PEG Forecast

Rev. Prior Rates	$155,048,150	$161,471,104	$168,666,862	$178,322,591	$189,276,169	$852,784,876
Escalator Percent	3.690%	3.901%	5.094%	5.275%	5.097%	
Escalator Amount	$5,721,022	$6,299,660	$8,591,848	$9,406,438	$9,647,377	$39,666,345
Base RR	$160,769,172	$167,770,765	$177,258,710	$187,729,029	$198,923,546	$892,451,221
Offsets	$12,590,603	$12,718,312	$12,816,681	$12,938,953	$13,069,086	$64,133,635
Service RR	$173,359,775	$180,489,076	$190,075,391	$200,667,982	$211,992,631	$956,584,856
Cumulative Increase	-$1,023,350	$5,276,310	$13,868,158	$23,274,596	$32,921,973	$74,317,686
Difference	$26,254,316	$42,553,949	$44,171,220	$44,283,007	$42,719,009	$199,981,501
Weighted Rate Inc.	-0.63%	3.90%	5.09%	5.27%	5.10%	20.35%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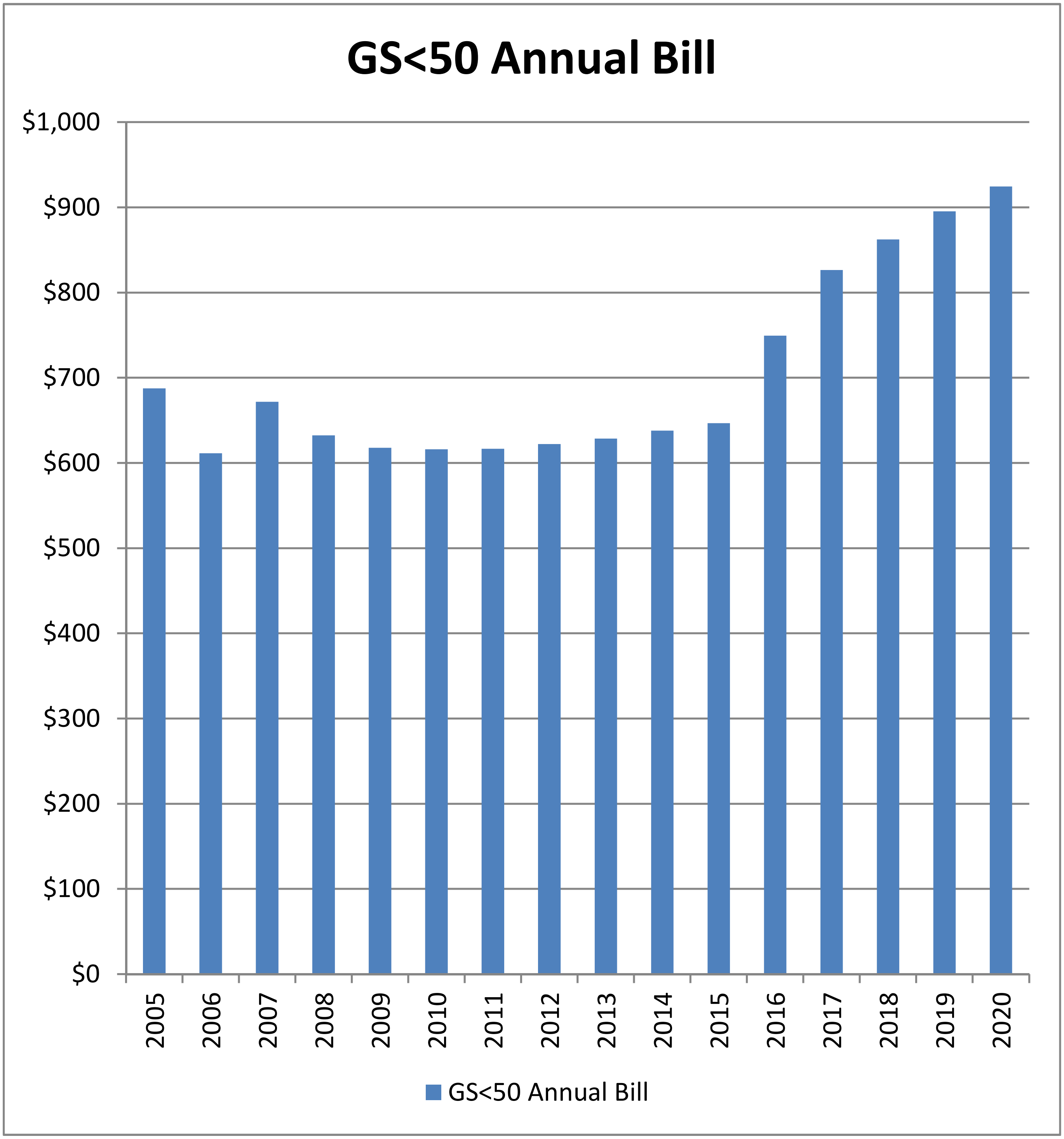
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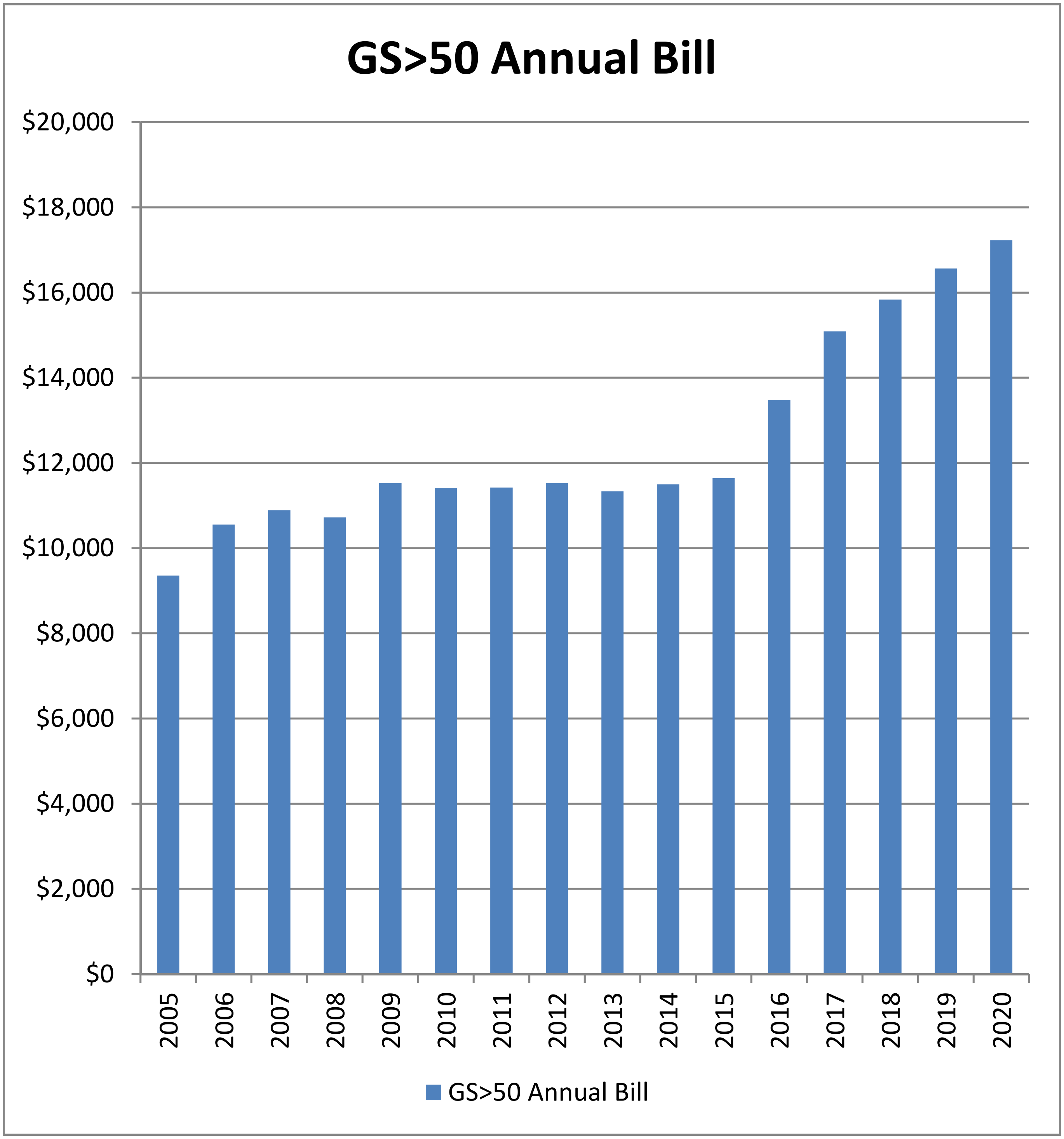
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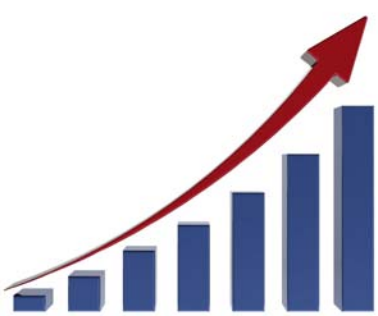

PowerStream
YOUR CURRENT CONNECTION

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1 Executive Summary

In February 2012, PowerStream embarked on its annual planning process to review the current strategy and revised the Strategic Plan for the Corporation, which involved a series of interviews, meetings and workshops held with senior representatives of all areas of the organization and members of the Board of Directors and Shareholders. As part of this process, PowerStream undertook a scenario planning and review exercise, to determine potential industry trends and outcomes which may have an impact on the Corporation. The formal planning process included an Environmental Scan and Industry Review, Strategic Risk assessment and review of PowerStream's current performance and progress made against the 2015 Critical Success Factors. This information was used as input for the SWOT (Strengths-Weaknesses-Opportunities-Threats) analysis, which helped to define key trends and issues that were used to validate the corporate Vision, Mission and Values and determine strategic priorities that led to an update of the corporate strategy.

The planning process was completed in May, 2012 with a review and discussion of strategic themes and objectives, and refinement of the strategy statement to operationalize the corporate vision, and led to the creation of the Strategy Map. Following this formal process, Corporate Initiatives were reviewed and refined to support the corporate strategy and annual Targets and Measures were defined to measure progress against the Vision, which led to the development of the Balanced Scorecard. These are primarily in support of the Core Business. At such time as new affiliates are created, it will be appropriate for such business to develop their own Strategic Plans, aligned with the overall corporate strategy. The intent of this document is to capture the essence of PowerStream's strategic plan and assist management in setting priorities and developing action plans that support the corporate strategy.

PowerStream is the second largest municipally owned local distribution company in Ontario. The Corporation believes there is value to its customers and municipal shareholders in continuing to grow the company and provide a broader range of services to its customers as the business evolves, given the current operating environment for rate regulated electrical utilities in Ontario. In order to ensure that benefits of continued growth are realized by our key stakeholders, PowerStream's aim is to be a leading utility with respect to size, scale, and scope, enabling the Corporation to realize the potential synergies and efficiencies that come with growth.

To grow new business successfully, it is imperative that the corporate structure is conducive to and supports the development of new business opportunities and investment. In this regard, PowerStream may need to develop an 'unregulated affiliate' structure, or such other business structures as may be appropriate for new businesses that would be reviewed on a case-by-case basis, subject to the approval of the Board and Shareholders.

PowerStream's vision of future growth for its core distribution business continues to be focused on York Region and Simcoe County, along with the service territory of Hydro One Brampton. This geographic footprint will position PowerStream for the continued development of an industry leading regional utility, capable of influencing and supporting energy policy in Ontario, while meeting the increasing regulatory and operating challenges Local Distribution Companies (LDCs) face. This inspiring vision will help PowerStream attract and retain the best and most talented staff, in order to continue its successful track record in the electricity market in Ontario.

A recent example of continued growth has been the successful conclusion of the PowerStream and Town of Collingwood negotiations, resulting in the formation of a strategic partnership in the joint ownership of the local electric utility, formerly known as Collus Power, now Collus PowerStream. The Town of Collingwood and PowerStream each own a 50 percent interest in Collus PowerStream.

Using this model of consolidation and ownership enables the Town of Collingwood to retain partial control and realize proceeds from the partial sale of the utility and provides the opportunity for PowerStream to provide support for several of Collus PowerStream's operational areas under shared services agreements. PowerStream and Collus PowerStream intend to build upon this concept, by using a similar model for consolidation and ownership, to pursue growth opportunities with other utilities.

PowerStream's Strategic Plan, along with the Strategy Map, Balanced Scorecard and method for Monitoring and Reporting progress, sets in place a formal structure for managing performance at PowerStream. With this structure in place, along with the underlying values of Respect, Teamwork, Performance, Accountability and Initiative, PowerStream's Vision "…leading the way into the future with boldness, innovation and industry best in class performance", will be realized.

Vision

We will be a socially responsible company, committed to the environment and sustainable growth, leading the way into the future with boldness, innovation and best in class performance.

Mission

To deliver reliable power and related services safely and efficiently to support our customers' quality of life, and to provide value to our shareholders and the communities we serve.

Strategy

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

Values

Respect
Teamwork
Performance
Accountability
Initiative

Connecting To Our Values ▸ *Working the PowerStream Way*

We Respect ourselves, our teammates, and the public and we put safety first.

- ❖ We work safely and efficiently all the time
- ❖ We focus on preventing injuries
- ❖ We have high standards for safety, including public safety
- ❖ We recognize that healthy employees working safely are essential to our success

We value Teamwork and we ensure we provide excellent service to our customers.

- ❖ We are knowledgeable and courteous sharing information to serve our customers
- ❖ We work hard together to provide high levels of customer service
- ❖ We support one another in earning the trust and confidence of our customers
- ❖ We deliver on our commitments by working collaboratively

We take Initiative and foster pride in our work and our performance.

- ❖ We strive for excellence
- ❖ We recognize performance and reward success
- ❖ We support training initiatives that are aligned with corporate objectives
- ❖ We encourage innovation and seek ways to be more efficient

We are Accountable stewards of our resources in support of our communities.

- ❖ We respect the environment
- ❖ We are committed to conservation initiatives
- ❖ We are good corporate citizens
- ❖ We comply with all laws, regulations and legal obligations

We believe in Performance and providing value to our shareholders.

- ❖ We are committed to the success of our organization
- ❖ We strive to obtain our corporate objectives
- ❖ We conduct ourselves with integrity and are accountable for our actions
- ❖ We will earn the trust and confidence of our shareholders

Our Strategic Themes

In order to provide a clear line-of-sight, PowerStream's corporate strategy has been divided into five key strategic themes.

Customer Focus

Customer focus is one of the key strategic themes, which places the customer in the centre of our organizational activities (i.e. customer-centric strategy) to achieve a competitive advantage that enables long-term sustained success through:

Knowledge of Customers and Markets

The systems, processes and strategies by which PowerStream can ensure it has an ongoing understanding of the needs and expectations of present and potential Customers as the distribution business evolves.

Customer Relationship Management

The systems, processes and strategies by which PowerStream can manage and evaluate relationships with its customers, including:

- The value created for our customers
- Processes to make it easy for our customers to do business with us
- Processes for encouraging, receiving and responding to customer feedback
- How we manage and develop relationships with our customers
- How we use and apply customer information and feedback to improve our standards, processes and evolve our services

Customer Perception of Value

The systems, processes and strategies by which PowerStream can measure Customers' perceptions of the value we provide. This includes measuring our competence and how well we meet Customer expectations in comparison with other relevant service providers.

Implementation of the customer focused strategy is a complex process that continuously balances between the ideals of a customer focused strategy and the reality of operational processes.

Operational Excellence

Having an operational excellence focus enables PowerStream to streamline its processes and improve asset performance while keeping costs under control. *Operational Excellence* is a systematic approach used to drive an organization toward world-class execution, integrating Operational Excellence concepts, methods and tools into an organization's operating model, principles, and culture.

All Operational Excellence organizations have built an operating model based on:

- Processes for end-to-end product supply and basic services that are optimized and streamlined to minimize costs, wastes, and hassle
- Operations that are standardized, simplified, and tightly controlled
- Management systems that focus on integrated, reliable, and high-speed transactions
- A culture that seeks to reduce waste, reward efficiency and relentlessly pursue continuous improvement

Regulatory Excellence

Predicting regulatory outcomes and planning business strategies to benefit from change are now widely considered essential elements of good business practice. Such planning involves evaluating the impact, or potential impact of legislation and policy. In addition, regulatory excellence includes being a respected player and gaining the endorsement and respect of customers, intervenors and the Ontario Energy Board itself.

Regulation is generally viewed as a substitute for competition. To be a respected player and influence the path of regulation, PowerStream must demonstrate the robustness of its operational and decision-making process and be successful in gaining approval of its regulatory submissions.

While the chance of anticipating each and every detail is remote because there are simply too many variables, by paying attention to social, technological, economic and political trends, one can get a useful sense of the shifting powers, ideologies and interests that will drive the regulatory agenda. Executives making strategic decisions will better understand the larger forces that underlie and give general direction to upcoming regulatory changes.

The social and regulatory trends are undeniable, but investments and strategies should not be based on short-term trends. Being informed of the longer trends as well as the specific regulatory developments can give firms better information to help them make better and earlier strategic investment decisions. A better understanding of the broader context will help executives focus on how external forces are shaping the regulatory environment.

Proactively shaping the regulatory landscape

The decision still remains, however, whether to be a passive taker of whatever regulation might be developed or to actively help to try to shape the regulatory environment.

Companies face a choice of how proactive their non-market strategy should be, particularly in terms of shaping the evolving regulatory frameworks. Clearly, being able to influence the rules of the game by effectively influencing the regulatory context will have a huge impact on competitiveness and profitability.

Growth & Sustainability

PowerStream believes that there is value to our customers and shareholders in continuing to grow the company given the current operating environment for rate regulated utilities in Ontario. PowerStream's aim is to be a leading utility with respect to size, scale, and scope, enabling the Corporation to realize the potential synergies and efficiencies that come with growth.

Expansion of business activities will occur where:

- It enhances the Corporation's strategic position
- Economies of scale and scope exist
- It adds value to PowerStream
- It provides the targeted financial return to its Shareholders

The Corporation will seek business expansion through:

- Acquisitions, amalgamations or strategic partnerships with other utilities
- Continuing to own the customer and expand its organic growth customer objectives
- Continuing to expand its development, ownership and operation of renewable generation facilities, where the risk profile is acceptable, and long-term Government backed contracts are available
- Exploring and developing new business opportunities that are outside of the rate-regulated environment
- Pursuing new areas in technology and innovation, independently, or through strategic partnership arrangements

It is clear that sustainability is becoming integral to the way to do business. Many companies are demonstrating that by placing the stewardship of the environment and society at the centre of their strategies and operations, they are better placed to manage or improve their reputation, comply with regulations and reduce costs. Perhaps more interesting is the emerging trend of sustainability being seen as a source of revenue and business growth.

Among the explanations for this growing trend is the constraint on resources combined with the impact of the CO2e emissions debate, which is helping to establish a platform for entirely new products and services, such as distributed renewable energy or electric vehicles. Meanwhile, weak economic growth in many mature economies today is resulting in a need to identify new sources of revenues and the consequent search for new product and services categories.

High Performance Culture

Company culture is at the heart of competitive advantage, because it determines how things are done and how people behave; it is the hardest thing for competitors to copy. High performers create an environment with a unique personality and soul, and with a passion for performance, so that employees make the right decisions and do the right thing wherever they are in the business.

A true high-performance organizational culture provides a company with its single greatest source of competitive advantage. The culture inspires people to go the extra mile – to make and execute good decisions even when nobody's looking. Culture at its most basic level is the *sum of an organization's behaviors and practices.* It reveals itself in big and small decisions as well as daily practices ("how we do things around here") that tend to perpetuate themselves. Culture often goes unnoticed, yet a healthy culture is essential to a healthy organization.

Business success depends on employee innovation, drive, skill, motivation and dedication. "Engaged employees," provide tangible advantages to the organization and its bottom line: greater customer satisfaction, reduced turnover, higher productivity, improved profitability, better safety results, and higher shareholder value.

Our Strategic Objectives

In order to attain the corporate Vision and Mission, the following objectives need to be achieved.

Financial

F1 Increase Shareholder Value

F2 Provide an optimized Rate of Return

F3 Pursue Core Business Growth

F4 Develop New Revenue Streams

Customers

C1 Deliver Professional Services and an Exceptional Customer Experience

C2 Provide Customers with Cost Effective, Competitive Distribution Rates

C3 Continue Developing the PowerStream Brand

C4 Deliver Superior Performance in Everything We Do

C5 Foster Conservation and Sustainability

Processes

I1 Focus on Continuous Improvement of Key Processes

I2 Enhance Project Management Capabilities and Expertise

I3 Shape and Influence Positive Advocacy

I4 Develop a Rate Submission Ready Organization

Foundation

E1 Be a Best-In-Class Employer

E2 Ensure a Safe and Healthy Workplace

E3 Build Integrated Technology Platforms

E4 Investigate and Apply New and Innovative Technologies

E5 Enhance Governance and Shareholder Relations

2 Vision, Mission and Strategy Statement

A vision statement reflects the organization's preferred future. It is a vivid description of what it will be like when the company achieves the preferred future goal. It is one that everyone can embrace and see with clarity. It is what we aspire to be.

A mission statement reflects the core purpose of the organization. This is why we exist.

Senior representatives of all areas of the organization and members of the Board of Directors reviewed the vision and mission and determined they were still applicable and did not need any revisions.

A strategy statement provides a more tangible means of defining and describing what is, in many cases, written as a noble and aspirational goal (i.e. the Vision), but is often difficult to put in practical terms.

Senior representatives of the organization and members of the Board of Directors developed the strategy statement to more clearly define the Vision and to set a target and timeline in which to achieve it.

Our Vision

We will be a socially responsible company, committed to the environment and sustainable growth, leading the way into the future with boldness, innovation and best in class performance

Our Mission

To deliver reliable power and related services safely and efficiently to support our customers' quality of life, and to provide value to our shareholders and the communities we serve.

Our Strategy

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

PowerStream's Vision of the Future

The pace of change is so great that it is difficult to predict the environment one year into the future. Nonetheless, PowerStream is of the view that the distribution sector is poised for tremendous change that will be caused by increasing customer expectations, the need for new sources of capital as well as the emergence of new technology and innovation.

As we begin the second decade of the 21st century, global social and economic forces are having a dramatic impact on the world's energy sector. Technological advancements in power generation and delivery, environmental concerns, domestic energy security as well as rising global demand for energy, are key drivers of this change. As a result, industries and companies within the broader energy sector, and more specifically within the power distribution sector, are being compelled to re-examine their structures and business models in order to find ways of being more efficient in a world where the pace of social and technological change is almost staggering.

Customers are also demanding and expecting more from their product and service suppliers. In an era where consumer expectations are driven by a technological world where the desire is for faster and smarter products and services, the business of electricity distribution needs to evolve to meet this challenge. Furthermore, there is increased competition for the traditional "electricity customer" relationship that the monopoly provider has owned for more than a century. Emerging competition to 'own' the customer relationship is coming from new market participants such as demand response (DR) agents, retailers, sub-metering providers, gas demand side management (DSM), renewable suppliers as well as the likes of new products and services such as Rogers Smart Home Monitoring. Tomorrow's utility must be in a position to evolve its business model in order to adapt to changing customer requirements and increased competition and provide a broader range of services to its customers.

PowerStream has developed a 'vision of the future' to help envision our organization, as it implements the corporate strategy to achieve its future goal. The vision is divided into three distinct timeframes:

The Past - (Where We Came From)

In this view, there is centralized electricity generation (primarily hydro, coal, gas or nuclear generation plants). Transmission wires carry electricity across the province to local distribution companies, to distribute power to homes and businesses within their service territory. Data collection of customers' electricity consumption is done manually, with staff being sent out to read customers' mechanical meters.

The Present - (Where We Are Today)

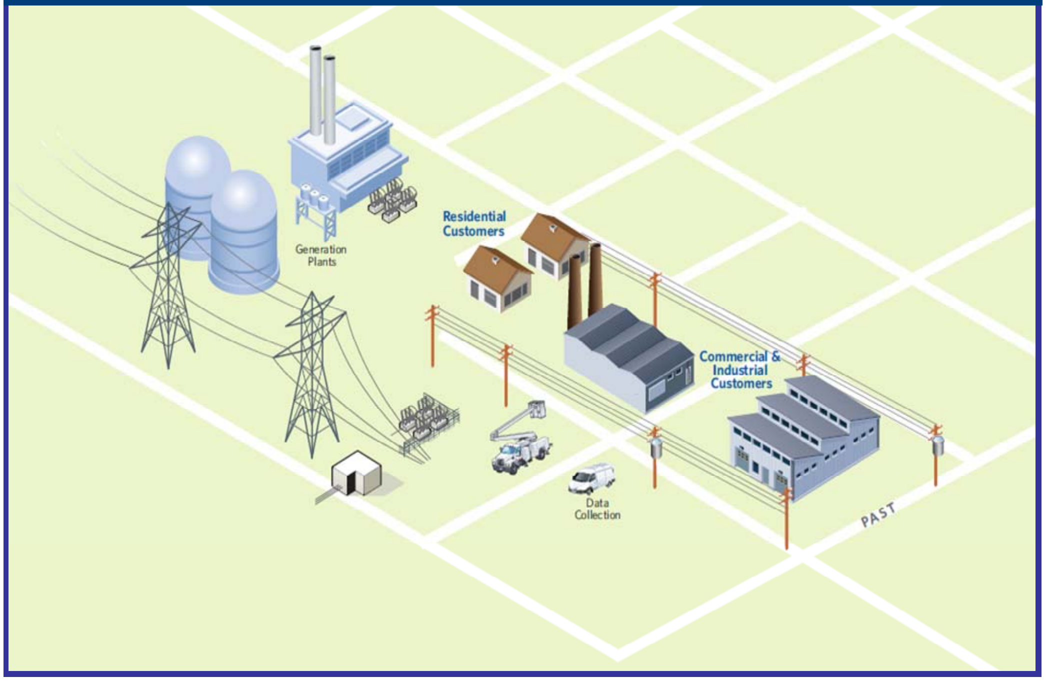
In this view, smart meters facilitate smart grid technology, modernizing the distribution system and allowing for more responsive networks, remote data collection, distributed generation, conservation, demand response, time-of-use pricing, smart suite metering - the foundation of a Social Energy Network. The Green Energy Act enables LDCs to build and own renewable generation facilities anywhere in the province.

The Future - (Where We're Going)

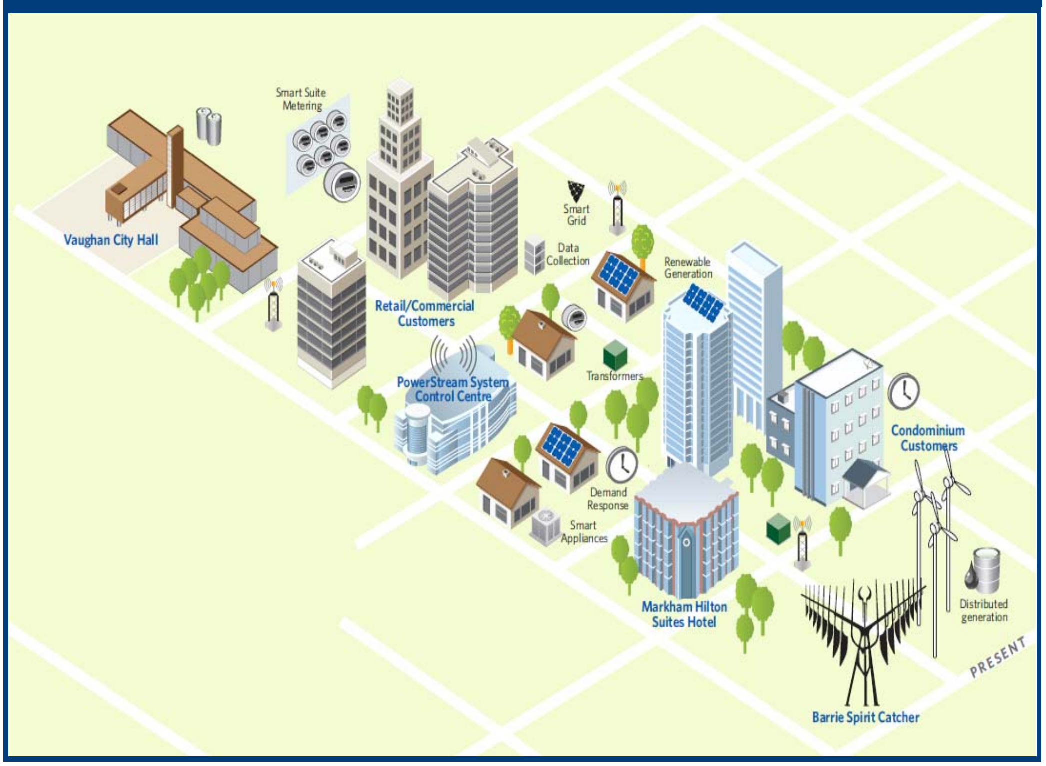
In our vision of the future, LDCs take advantage of new opportunities to provide additional services to customers facilitated by new and innovative technologies relating to a self-healing grid, home area networks, electric vehicle smart charging stations, vehicle-to-home power supply, smart appliances, distributed and renewable generation, as well as energy storage.

In combination with what has been learned from past and present experiences, local distribution companies in the future with size and resources, will be able to provide additional benefits and value to customers as diversified energy service companies, taking advantage of new systems and technologies to be more efficient and responsive to customer needs and expectations, within the framework of a Social Energy Network.

The Past - (Where We Came From)



The Present - (Where We Are Today)



❖ Vision, Mission & Strategy Statement

The Future - (Where We're Going)

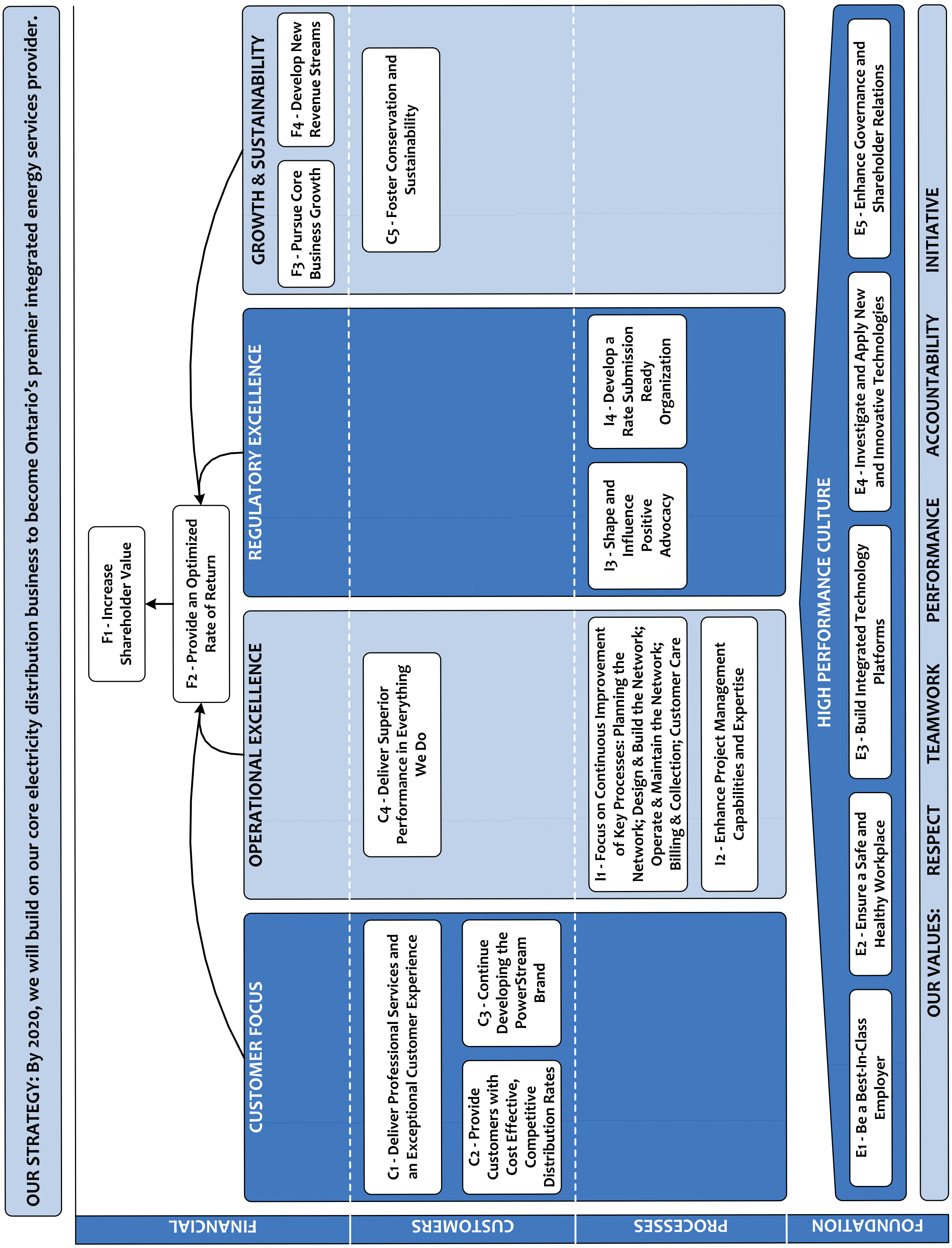
PowerStream - (Past, Present and Future)

3 Strategy Map

PowerStream's Strategy Map is a visual tool that has resulted from plotting and distributing the organization's eighteen strategic objectives, grouped into five strategic themes (i.e. Customer Focus, Operational Excellence, Regulatory Excellence, Growth & Sustainability and High Performance Culture) across four perspectives (i.e. Financial, Customers, Processes and Foundation).

As is displayed on the strategy map, some of the strategic objectives are focused on improving "operational excellence" while others focus on developing a "high performance culture". The strategy map helps PowerStream to tell the story of how value is created for the organization. Achieving the objectives found in the Foundation category (the bottom row), *enables* the organization to achieve its Processes objectives (the next row up), which in turn *enables* the organization to achieve *results* in the Customers and Financial category (the top two rows).

Strategy Map



4 Strategic Objectives

During 2009, Management developed a number of objectives, targets and measures, which are reviewed annually, to help guide our efforts over the years 2010-2015 as we pursue our Vision. Management presented and reviewed these Critical Success Factors with the Board and Shareholder representatives at our annual Strategic Planning sessions and uses them as an interim set of guideposts that will help to guide us towards the achievement of our long-term Vision.

The 2013 strategic objectives were developed as a result of the 2012 annual planning process and are directly related to the fulfillment of our Mission and corporate Strategy. Achieving these objectives will also move us closer towards achieving our long-term Vision. The objectives are categorized into four perspectives (Financial, Customers, Processes and Foundation). Achievement of the objectives in the Foundation and Processes perspectives (the Enablers) will help to achieve the objectives in the Customers and Financial perspectives (the Results).

2015 Critical Success Factors

The 2015 Critical Success Factors are an interim set of guideposts that will help to guide us towards the achievement of our long-term Vision.

Health and Safety ▸ *Zero Serious Injuries*

Achieve Zero serious injuries in each year of the five-year period from 2010 through 2015. (Serious injury definition as per the Occupational Health & Safety Act, plus internal additions to the definition)

Employee Satisfaction ▸ *95% Level of Employee Satisfaction*

Achieve an overall score of 95% on the combined average of the five key employee engagement questions on the Employee Survey by the year 2015.

Business Excellence ▸ *Excellence Canada Level 3 Achievement*

Achieve Level 3 status in the Excellence Canada Progressive Excellence Program based on external third party assessment by the year 2015.

Customer Satisfaction ▸ *95% Level of Customer Satisfaction*

Achieve an overall Customer Satisfaction score of 95%, including the achievement of a minimum monthly Reliability Index of 99.99% (excluding Loss of Supply and Major Event days). Also achieve a “5-9’s” (99.999%) Reliability Index (excluding Loss of Supply and Major Event Days) across all service areas for a minimum 9 of 12 months by the year 2015.

Environmental Sustainability

Achieve and maintain recognition as an Environmental Leader organization with the Ministry of Environment’s Environmental Leaders Program combined with the meeting or exceeding of our OEB mandated CDM targets.

Shareholder Value ▸ *5 Year Average ROE Exceeds OEB Allowable Rate*

Achieve an average consolidated ROE over the five year period 2010 - 2015 that exceeds the OEB allowable rate as established in the PowerStream South 2009 Rate Rebasing settlement agreement rate decision.

Profitable New Growth ▸ *25% of Net Income from New Businesses*

Achieve 25% of annual Net Income by 2015 from new businesses to include mergers and acquisitions, Renewable Generation and other allowable business activities as defined by the OEB, including the achievement of growth in customer base to between 400,000 and 500,000.

Social Responsibility & Community Support

Deliver annual contributions to charitable and community organizations that represent a minimum of 2% of Net Income in each year of the five year period of 2010 – 2015.

2013 Strategic Objectives

The 2013 Strategic Objectives will enable us to fulfill our Mission and corporate Strategy.

Perspective	Definition	Objective
Financial	**Increase Shareholder Value** Shape and maintain a healthy business and continue to create and embark on opportunities for further growth and development that will optimize shareholder value.	F1
	Provide an Optimized Rate of Return Deliver the optimum rate of return and provide the shareholders with regular dividend and interest payments consistent with the shareholders dividend policy.	F2
	Pursue Core Business Growth Develop the full potential of the core business and pursue growth opportunities for existing revenue streams, including mergers and acquisitions.	F3
	Develop New Revenue Streams Grow new revenue opportunities within the parameters of the evolving business model.	F4
Customers	**Deliver Professional Services and an Exceptional Customer Experience** Deliver responsive, thorough and courteous customer service and consistent, reliable electrical service that meets the needs of our customer.	C1
	Provide Customers with Cost Effective, Competitive Distribution Rates Provide excellent, cost effective energy products and services, utilizing a rate structure that is competitive with similar-sized utilities.	C2
	Continue Developing the PowerStream Brand Develop a brand proposition that when conveyed in marketing and advertising campaigns, will provide an attractive, unique and relevant message to current and potential customers.	C3
	Deliver Superior Performance in Everything We Do Utilize the philosophy, tools, and methods of continuous improvement to ensure that we consistently improve and evolve the processes, products, and services we provide for our customers and stakeholders.	C4
	Foster Conservation and Sustainability Ensure a full suite of innovative CDM programming is available for customers while responsibly managing the resources used internally to minimize our carbon footprint and environmental impacts.	C5

Strategic Objectives

Perspective	Definition	Objective
Processes	**Focus on Continuous Improvement of Key Processes** Utilize prevention-based process management methodologies to drive efficiency and effectiveness of key processes, ensuring they are continually reviewed, stabilized and improved.	I1
	Enhance Project Management Capabilities and Expertise Promote the adoption and use of a standardized project management approach across PowerStream, which will support our ability to create and sustain transformational change and achieve our objectives.	I2
	Shape and Influence Positive Advocacy Actively participate in opportunities to shape and influence regulatory and government policy consistent with our strategic direction.	I3
	Develop a Rate Submission Ready Organization Develop the knowledge, skill, resources and expertise to prepare and successfully defend rate applications submitted to the regulator.	I4
Foundation	**Be a Best-In-Class Employer** Enhance our culture through positive labour relations and by focusing and aligning our collective efforts and initiatives to achieve our strategic objectives.	E1
	Ensure a Safe and Healthy Workplace Equip and empower all employees and contractors to work safely, stay healthy, and identify and manage risks and potential losses.	E2
	Build Integrated Technology Convert and integrate single mission critical technology platforms (ERP, CIS, GIS, OMS, AMS) to enable productivity and process improvement.	E3
	Investigate and Apply New and Innovative Technologies Find, investigate and apply new and innovative technologies to grow the business, drive efficiencies and gain competitive advantage. Continue PowerStream's path of technological innovation with development of a Smart Grid strategy that appropriately responds to the requirements of our evolving business model and the needs of our customers.	E4
	Enhance Governance and Shareholder Relations Ensure we meet or exceed recognized standards for good governance and maintain an excellent relationship with our shareholders.	E5

5 Link with J2E

PowerStream's "Journey to Excellence" (J2E) initiative is designed around the Excellence, Innovation and Wellness (EIW) Standard from Excellence Canada, a not-for-profit organization which focuses on enhancing the quality of business excellence across Canada. This Progressive Excellence Program consists of four levels of certification in the area of business excellence. We achieved Level 1 certification in 2010 and Level 2 in 2012. Level 1, the *Foundation* level, demonstrates that we are committed to excellence, innovation and wellness; there is a long-term strategic focus on excellence, innovation and wellness that promotes good principles and practices; there is a commitment to continuous improvement.
.
Level 2 (Silver), the *Advancement* level, builds on the commitment established in Level 1. This includes having a solid methodology in place to develop excellence, innovation and wellness in the organization and implement continuous improvement in key areas; transitioning from a focus on "reacting" to issues to a more "proactive" approach; achieving positive results from improvement efforts. A significant focus on project and process improvement was an important part of achieving Level 2 status.

A subsequent goal of this endeavour is to see PowerStream certified at Level 3 (Gold), the *Role Model* level, by the end of 2015. At this level, PowerStream must demonstrate consistency in the solid implementation of excellence, innovation and wellness practices established in Level 2. This includes an organization-wide implementation of the strategic focus on excellence, innovation and wellness; maintaining a sound, systematic approach to achieving and promoting excellence, innovation and wellness practices in the organization. Sustained results in all areas of the Excellence Canada framework will be required to reach this goal.

In setting and maintaining goals for achieving a *Role Model* designation, six key drivers are considered and evaluated:

- Leadership and Governance,
- Strategy and Planning
- Customer Experience
- People Engagement
- Process and Project Management
- Partners and Suppliers

Excellence, Innovation and Wellness Drivers

Leadership and Governance

The focus for this driver is on creating the culture, values and overall direction for success. Leadership is about demonstrating good governance and innovation, and fulfilling the organization's legal, ethical and societal obligations.

Strategy and Planning

Planning incorporates developing business and improvement plans across all drivers, and monitoring, evaluating and reporting on the progression in meeting defined strategic goals, as well as goals within all plans. All plans are linked to the organization's Strategic Plan.

Customer Experience

Customer Experience examines how the organization engages the customers for satisfaction and success. It includes listening, acting and reporting on 'Voice of the Customer' feedback.

People Engagement

People engagement examines how employees are treated, encouraged, supported and enabled to contribute to the organization's overall success. It includes the wellness of employees and their families including mental and physical wellness and a safe environment.

Process and Project Management

Process and project management includes a disciplined and common approach toward analyzing and solving process problems and project management across the organization. This facilitates a prevention-based (rather than correction-based) approach to process management.

Partners and Suppliers

This examines the organization's external relationships with other organizations, institutions and/or alliances that are critical to meeting the strategic objectives. Such working relationships can include suppliers, partnerships (both financial and non-financial) and joint ventures/projects.

6 Planned Actions

To provide direction on how PowerStream can fulfill its goals in order to achieve its vision, a set of specific corporate initiatives are developed that link to and support the achievement of the strategic objectives. Corporate initiatives are the means through which the corporate strategy is translated into practice. The initiatives are collections of finite-duration discretionary projects and programs, outside of the organization's day-to-day operational activities, that are designed to help the organization achieve its targeted performance. Consideration is given to ensure that the initiatives are developed using SMART principles (i.e. Specific, Measurable, Achievable, Realistic and Timely).

The corporate initiatives are reviewed and refined on an annual basis to ensure they address and support the strategic objectives on the Strategy Map. Department action plans are developed to implement and support the corporate initiatives from an operational stand-point. Department plan interdependencies are reviewed and addressed, to ensure the organization has the resources and capacity available to implement the projects and plans. Closed-loop monitoring links execution of the project/process initiative and subsequent results to the strategic objective, thereby ensuring that the initiative has a direct impact on the fulfillment of the corporate strategy.

7 Monitoring And Reporting

In order to successfully achieve the objectives of the Strategic Plan, the following steps will be followed:

1. The Board will review and approve updates to the Strategic Plan annually, incorporating scenario planning, an environmental scan and industry review, strategic risk assessment, current performance and progress review and SWOT analysis into the formal planning process, to ensure that the goals and directions are appropriate and provide a framework for the development of Business Plans and the normal operations of the Corporation.

2. The Strategic Plan will be communicated to PowerStream personnel at all staff levels, to ensure that everyone is engaged in the more detailed development and implementation of the corporate initiatives that will achieve the objectives of the Strategic Plan.

3. Management will develop Business and Operational Plans to implement the Strategic Plan.

4. Management will assign responsibility for and develop appropriate corporate initiatives, performance measures, timelines and resources required for the implementation of the Business Plans.

5. Management will develop the targets and measures for the strategic objectives and create the Balanced Scorecard.

6. The corporate initiatives, Business Plans and Balanced Scorecard will be approved by the Board.

7. The Strategic Plan objectives and Business Plans will become a regular component of PowerStream's management meetings - the Strategic Plan will be a living document and a constant work in progress.

8. Periodic reporting to the Board will be provided with respect to progress made against the Strategic Plan.

9. Every three years, the PowerStream Executive Management Team, the Board and the Shareholders will undertake a more comprehensive review of the Strategic Plan. This process will be followed by an update and approval by the Board of any revisions made to the Strategic Plan.

2020 Vision - (Critical Success Factors)

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

By 2020 we intend to achieve the following results in order to successfully pursue our Strategy:

1. ***Health and Safety* (Zero Serious Injuries)** - Achieve Zero serious injuries in each year until 2020. (Serious injury definition as per the Occupational Health & Safety Act plus internal additions to the definition)

2. ***Employee Satisfaction* (95% Level of Employee Satisfaction)** - Maintain an overall score of 95% on the combined average of the five key employee engagement questions (see Appendix A for list of the five questions) on the Employee Survey and achieve 70% top box score (strongly agree)

3. ***Business Excellence* (Excellence Canada Order of Excellence Achievement)** - Achieve Order of Excellence status in Excellence Canada's Progressive Excellence Program based on external third party assessment

4. ***Customer Satisfaction***

a) **95% Level of Customer Satisfaction** - Achieve an overall Customer Satisfaction score of 95%
b) Achieve an average of 40 Customer minutes of Interruption per customer per year
c) Reliability Centers of Focus - Defined sub-set of geographic areas that have reliability concerns based on outage history or sensitive loads where a specific improvement program is in place to ensure reliability performance is at least equal to or greater than the overall system wide average

5. ***Corporate Social Responsibility***

a) Reduce PowerStream's Environmental footprint
b) Meet or exceed mandated CDM targets

6. ***Shareholder Value***

Achieve a consolidated ROE that Exceeds OEB approved rate by 100 basis points.

7. ***Profitable New Growth* (15-20% of Net Income from New Businesses)** - Grow annual revenues to approximately $2-3 billion and achieve 15-20 % of annual Net Income from new businesses to include mergers and acquisitions, Renewable Generation, sub metering, co-generation, and other allowable business activities, including the achievement of growth in customer base to 600,00 to 750,000.

F-CCC-30

REF: Ex. F/T1/p. 7

If the CIS system has been replaced prior to the plan period why is the replacement considered a ”productivity initiative” for the period 2016-2020?

RESPONSE:

While the CIS system is being replaced and is due to go live in 2015, realization of the productivity savings will only occur after the system has been stabilized and users have adopted and become proficient in their use of the new tool.

In PowerStream’s case we will be transitioning from 30 year old legacy practices and procedures, as such, there will still be work required post go live in order to ensure the business processes mirror the available system functionality, otherwise the potential of the system will not be realized.

F-Energy Probe-9

REF: Ex. F, Tab 2, Table 1

a) Please provide a live Excel spreadsheet that includes all of the data used to generate the predicted total costs in Table 1.

b) If available, please update Table 1 to include actual costs for 2014.

c) Please explain why PowerStream is forecasting to be above the predicted total costs in 2014 through 2020 when it has historically always been under the predicted total.

d) Please explain how the forecast total, OM&A and actual capital costs have been calculated both historically and over the forecast period.

RESPONSE:

a) The live Excel spreadsheet that includes all of the data used to generate the predicted total costs in Exhibit F, Tab 2, Table 1 is attached as F-Energy Probe-9 Appendix A.

b) PowerStream has used the PEG model to derive future values of predicted costs and compare them to actual and forecasted costs using the PEG's definitions of Capital and OM&A costs, updating it with the 2014 actuals for OM&A and Capital Additions. The results are shown in Table 1 below.

Table 1: Predicted vs. Actual (and Forecasted) Costs ($000)

Year	Predicted Total Costs	Actual Total Costs	Actual OM&A	Actual Capital
2010	212,561	196,831	51,332	145,499
2011	218,280	204,310	54,882	149,428
2012	216,915	207,288	58,480	148,808
2013	219,646	212,560	60,250	152,309
2014	**234,087**	**233,194**	**62,119**	**171,075**
2015	241,962	252,487	69,674	182,814
2016	250,890	267,801	70,309	197,492
2017	260,721	281,862	72,465	209,398
2018	274,073	297,945	75,437	222,507
2019	288,617	313,082	77,734	235,348
2020	303,449	327,765	79,734	248,030

c) PowerStream is experiencing substantial changes in operating conditions as compared to the previous year. For example, there are substantial increases in the capital costs related to sustainment of assets; replacement of capital stock and distribution infrastructure, some of which was financed by contributed capital and therefore never attracted a depreciation charge; extraordinary expenditures like a new transformer station; and a new Customer Information System, which requires substantial initial investments.

There are significant net incremental new costs in 2014 and 2015 related primarily to the new customer billing and information system (“CIS”), system hardening to better withstand storms and increased costs to meet customer expectations and compliance requirements. The need for increased capital spending on sustainment causes the capital portion of Actual (and forecasted) cost to continue to rise faster than predicted costs until 2018-2019. At this point the Actual costs and predicted costs are increasing at the same rate.

d) The Board has determined that the Pacific Economic Group (PEG) econometric model will be used for benchmarking distributor cost performance and for informing the Board’s annual assignment of stretch factors to distributors. Given reasonable expectations about future values of output, input prices, and business conditions, the econometric cost model above can be used to forecast future values of predicted costs. PowerStream performed the following steps to derive the predicted cost:

Step 1: Compute Projections of Relevant Variables

OM&A Price Index

The OM&A Price index constructed as a weighted average of a labor and non-labor component, with the weights determined by the Board to reflect the historical share of labor and non-labor OM&A expenses in the Ontario electricity distribution industry. Specifically, 70/30 AWE/GDPIPI split, where AWE is Statistics Canada's Average Weekly Earnings for all workers in Ontario, used for the labor price component, and GDPIPI is Statistics Canada's Ontario Gross Domestic Product Implicit Price Index for Final Domestic Demand, used for the non-labor component. Future values of AWE were forecasted out from a reference year of 2013 based on the 5-year historic average growth rate (1.872%) of AWE. Future values of each GDPIPI were forecasted out from a reference year of 2014 based on the 5-year historic average growth rate (1.580%) of GDPIPI.

Capital Price Index

The Capital Price index is a constructed variable based on Depreciation, EUCPI, and WACC. Rate of depreciation is set at 4.59%. Future values of EUCPI (Statistics Canada's Electric Utility Construction Price Index) were forecasted out from a reference year of 2014 using the 10-year historic average growth rate (2.04%) of EUCPI. WACC is the Weighted Average Cost of Capital for Ontario distributors, as computed by the Board. WACC was assumed to be fixed at its 2015 value (6.48%).

Outputs

Output is measured in terms of number of customers; system capacity, as proxied by peak demand; and deliveries. PowerStream forecasted each of these variables based on its internal knowledge of its customer base and service territory.

Business Conditions

The relevant business condition variables are average distribution line length, percent of customers added in last 10 years, and a time trend. Given the forecast of the number of customers, it is straightforward exercise to forecast the first two of these business conditions. The time trend is simply a time index which begins in 2007.

Step 2: Acquire the Sample Means of each variable

Step 3: Acquire parameters from the model specific to the LDC

- Table 16 of PEG's Final Report lists the estimated parameters from the industry model (i.e. including all distributors).

Step 4: Construct Predicted Costs

- Construct Econometric Variables
- Construct relative capital price;
- Mean normalize each variable using its 2002-2013 samples mean;
- Construct logs;
- Construct higher order and interaction terms.
- Construct Linear Prediction
- Multiply each econometric variable by its corresponding LDC specific parameter (Step 3) and then sum over all the products.
- Construct Predicted Costs
- Predicted Total Cost is equal to the exponential of the linear prediction, and then scaled up by OM&A Price Index (Step 1).

PowerStream performed the following steps to derive the actual cost:

Step 1: Derive OM&A Costs

OM&A costs consist of operation, maintenance, billing and collection, community relations, administrative and general expenses, insurance expenses, and advertising expenses. These costs are adjusted by subtracting any HV expenses, and adding back any LV costs. For the years 2014 to 2020, forecasts of operations costs equals budgeted costs. HV adjustments for the years 2014-2020 were assumed to be constant at 600,000. Estimation of 2014-2020 LV costs was based on the cost of power forecast, Account 4750.

Step 2: Derive Capital Costs

Capital costs are defined as the product of the quantity of capital and the capital price. Capital prices - forecasted values of capital prices for the years 2014-2020, are the same values that were used to construct the Predicted costs. Projections of capital additions were obtained from the capital budget and match capital additions used for rate base calculations.

The stretch factors for the price cap IR for 2014 and 2015 are set based on 2010 to 2012 and 2011 to 2013 costs respectively. These 3 year averages show PowerStream's actual costs below predicted costs but within 10%. This has resulted in PowerStream being assigned a stretch factor of 0.3% in both years. Benchmarking of PowerStream's costs using Board's benchmarking methodology for setting of stretch factors is discussed further in Exhibit F, Tab 2.

The above review of the Board's price cap IR approach to productivity has been used to help inform PowerStream regarding the Board's expectations for productivity in Custom IR rate setting and to interpret the following statement from the RRFE:

> *The Board is satisfied that the Custom IR process will be sufficiently rigorous that an assessment of the adequacy of past and future productivity levels can be made and the results of that assessment can be incorporated into the distributor's future rates.*[3]

Based on the Board's approach under price cap IR, PowerStream concludes that the Board's expectation would be for PowerStream to demonstrate annual productivity savings of 0.3% or greater.

Based on PowerStream's 2013 Board Approved Base Revenue Requirement of $154.2 million, the expected productivity saving for 2014 is approximately $0.5 million. By 2020 the expected productivity savings grow to $3.2 million as illustrated in Table 1 directly below.

Table 1: Expected Productivity Savings ($ Millions)

Productivity Savings Expected	2014	2015	2016	2017	2018	2019	2020	Total
Added in 2014	$ 0.46	$ 0.46	$ 0.46	$ 0.46	$ 0.46	$ 0.46	$ 0.46	$ 3.24
Added in 2015		$ 0.46	$ 0.46	$ 0.46	$ 0.46	$ 0.46	$ 0.46	$ 2.78
Added in 2016			$ 0.46	$ 0.46	$ 0.46	$ 0.46	$ 0.46	$ 2.31
Added in 2017				$ 0.46	$ 0.46	$ 0.46	$ 0.46	$ 1.85
Added in 2018					$ 0.46	$ 0.46	$ 0.46	$ 1.39
Added in 2019						$ 0.46	$ 0.46	$ 0.93
Added in 2020							$ 0.46	$ 0.46
Total	$ 0.46	$ 0.93	$ 1.39	$ 1.85	$ 2.31	$ 2.78	$ 3.24	$ 12.95
Based on:								
2013 Board Approved Revenue Requirement	$154.2	X Factor	0.30%	Annual savings requirement			$ 0.46	

[3] RRFE page 74

Expected vs. Estimated Productivity Savings

PowerStream has estimated its Productivity Savings as shown in Table 2 below.

Table 2: Estimated Productivity Savings ($ Millions)

	2014	2015	2016	2017	2018	2019	2020	Total
Capital		$3.8	$4.1	$4.5	$4.7	$5.0	$5.0	$27.1
OM&A	$2.5	($0.8)	($1.0)	$0.3	$1.2	$2.0	$3.0	$7.1
Total	**$2.5**	**$3.0**	**$3.1**	**$4.8**	**$5.9**	**$7.0**	**$8.0**	**$34.2**

Details in support of Capital and OM&A savings estimates are discussed later in this exhibit.

Table 3 directly below compares the Board's expected productivity savings with PowerStream's estimated productivity savings.

Table 3: Expected vs. Estimated Productivity Savings ($ Millions)

	2014	2015	2016	2017	2018	2019	2020	Total
OEB Expected Productivity Savings	$ 0.5	$ 0.9	$ 1.4	$ 1.9	$ 2.3	$ 2.8	$ 3.2	$ 13.0
Estimated Productivity Savings	$ 2.5	$ 3.0	$ 3.1	$ 4.8	$ 5.9	$ 7.0	$ 8.0	$ 34.3
Over (under) achieved	$ 2.0	$ 2.1	$ 1.7	$ 2.9	$ 3.6	$ 4.2	$ 4.8	$ 21.3

The results indicate that PowerStream's capital and OM&A amounts underpinning its revenue requirement proposals reflect productivity savings in excess of the Board's expectation under the X factor. For each of the years 2014-2020, estimated productivity savings exceed the Board's expected savings. For the entire period, the additional productivity savings over Board expectations total $21.3 million.

Operating Costs – Estimated Productivity Savings

PowerStream has used a top-down analysis of its operating costs (OM&A) to estimate the magnitude of productivity savings reflected in its forecasted OM&A costs. This has been done by a comparison of "Status Quo" OM&A to Forecasted OM&A.

Status Quo OM&A is an estimate of what OM&A would have been if the productivity initiatives had not been undertaken. When PowerStream staff are preparing their capital and operating

F-SEC-6

REF: EX. F-1, p.4

With respect to the excepted vs estimated product savings:

a. Please confirm that the estimated productivity savings set out in Table 2 are incremental savings per year, not cumulative savings.

b. Please revise Table 3 to only include savings for 2017-2020.

RESPONSE:

a) PowerStream cannot confirm this.

Exhibit F, Tab 1, Table 2 is a summary of the annual capital and OM&A estimated productivity savings. These totals are compared in Table 3 to the "OEB Expected Productivity Savings" which come from Table 1.

The "OEB Expected Productivity Savings" from Table 1 are annual targets, e.g. year two expected productivity savings are equal to the productivity savings, based on the X in the IRM IPI-X price cap formula for both years 1 and 2. The productivity factor under IRM reduces the revenue requirement collected in rates in year two by both the year 1 and the year 2 productivity reductions. The Table 1 annual amounts are cumulative.

The estimated productivity savings from OM&A in Table 4 and summarized in Table 2 have been calculated on the same basis. For example the OM&A productivity savings for 2020 of $3.0 million are comparable to the OEB Expected Productivity Savings from Table 1 and Table 3 for 2020 of $3.2 million, i.e. measured in terms of the impact on revenue requirement in the year.

In responding to this question PowerStream realized that the "Additional Productivity Savings from Capital" presented in Table 2 were not calculated on a revenue requirement basis and these amounts are incremental not cumulative. This must be restated for the capital productivity savings to be properly compared with the OEB Expected Productivity Savings based on the IRM X factor.

In the tables below, PowerStream has restated the capital savings to reflect the revenue requirement reduction rather than the capital savings. The amounts also reflect the pattern that the capital savings in 2016 reduce revenue requirement in years 2016 to 2020, capital savings in 2017 reduce revenue requirement in years 2017 to 2020 and so on.

Table F-SEC-6-1 is a restated version of Table 2 with the savings from capital calculated on a comparable basis to OEB Expected Productivity Savings.

Table F-SEC-6-1: Estimated Productivity Savings ($ Millions)

	2014	2015	2016	2017	2018	2019	2020	Total
Capital		$0.4	$0.8	$1.2	$1.6	$2.1	$2.6	$8.6
OM&A	$2.5	($0.8)	($1.0)	$0.3	$1.2	$2.0	$3.0	$7.2
Total	**$2.5**	**($0.4)**	**($0.2)**	**$1.5**	**$2.8**	**$4.1**	**$5.6**	**$15.8**

Table F-SEC-6-2 is a restated version of Table 3 incorporating the revised estimated productivity savings from Table F-SEC-6-1.

Table F-SEC-6-2: Expected vs. Estimated Productivity Savings ($ Millions)

	2014	2015	2016	2017	2018	2019	2020	Total
OEB Expected Productivity Savings	$0.5	$0.9	$1.4	$1.9	$2.3	$2.8	$3.2	$13.0
Estimated Productivity Savings	$2.5	($0.4)	($0.2)	$1.5	$2.8	$4.1	$5.6	$15.8
Over (under) achieved	**$2.0**	**($1.4)**	**($1.6)**	**($0.4)**	**$0.5**	**$1.3**	**$2.4**	**$2.9**

Tables F-SEC-6-3 and F-SEC-4 show the calculation of the productivity savings from capital measured in terms of reduced revenue requirement.

Table F-SEC-6-3: Capital Savings Impact on Revenue Requirement ($ Millions)

	2015	2016	2017	2018	2019	2020
Capital Savings	$ 3.80	$ 4.10	$ 4.50	$ 4.70	$ 5.00	$ 5.00
Cumulative savings	$ 3.80	$ 7.90	$ 12.40	$ 17.10	$ 22.10	$ 27.10
Reduced revenue requirement:						
Return on Rate base (WACC 6.0%)	$ 0.23	$ 0.47	$ 0.74	$ 1.03	$ 1.33	$ 1.63
Depreciation	$ 0.08	$ 0.18	$ 0.28	$ 0.38	$ 0.49	$ 0.60
Taxes	$ 0.05	$ 0.11	$ 0.17	$ 0.23	$ 0.30	$ 0.36

Decreased Revenue Requirement	$ 0.36	$ 0.76	$ 1.19	$ 1.64	$ 2.11	$ 2.59

Note: Results from this table rounded to one decimal place in Table F-SEC-6-1 above.

Table F-SEC-6-4: Capital Savings Impact on Revenue Requirement – Tax Calculation ($ Millions)

	2015	2016	2017	2018	2019	2020
Equity (@40% of rate base)	$ 1.52	$ 3.16	$ 4.96	$ 6.84	$ 8.84	$ 10.84
Return on equity	8.93%	9.30%	9.30%	9.30%	9.30%	9.30%
Reduction to target net income	$ 0.14	$ 0.29	$ 0.46	$ 0.64	$ 0.82	$ 1.01
Taxes at 26.5%	$ 0.04	$ 0.08	$ 0.12	$ 0.17	$ 0.22	$ 0.27
Taxes with gross up	$ 0.05	$ 0.11	$ 0.17	$ 0.23	$ 0.30	$ 0.36

b) Table F-SEC-6-5 is an updated version of Table 3 presenting only the productivity savings for 2017 to 2020.

Table F-SEC-6-5: Expected vs. Estimated Productivity Savings ($ Millions)

	2017	2018	2019	2020	Total
OEB Expected Productivity Savings	$ 1.9	$ 2.3	$ 2.8	$ 3.2	$ 10.2
Estimated Productivity Savings	$ 1.5	$ 2.8	$ 4.1	$ 5.6	$ 14.0
Over (under) achieved	-$ 0.4	$ 0.5	$ 1.3	$ 2.4	$ 3.8

F-SEC-11

REF: Ex. F-2

Please provide copies of all benchmarking studies, reports, and analysis undertaken by Powerstream itself or by a third-party, that are not already included in the materials provided.

RESPONSE:

PowerStream participates in two benchmarking surveys:

- CEA 2013 Service Continuity Data on Distribution System Performance in Electrical Utilities, Composite, Non-Confidential
- MEARIE 2014 Utility Performance Management Survey (UPM)

The CEA report is provided as F-SEC-11 Appendix A. MEARIE has agreed to its reports being provided on a confidential basis. The MEARIE UPM reports are provided on a confidential basis as F-SEC-11 Appendices B-1 and B-2.

PowerStream also has a Key Process Scorecard that it uses for internal benchmarking. The current scorecard is provided as F-SEC-11 Appendix C

These activities are aligned to PowerStream's continuous improvement philosophy and belief that what gets measured gets better. These activities are undertaken by PowerStream in order to determine what and where improvements are called for. We have also indicated below, how this information is currently used to improve PowerStream's performance.

Key Process Scorecard

PowerStream's Corporate Key Processes have been defined as those processes critical to delivering power to customers and receiving prompt payment for services. Consideration of PowerStream's Vision and Mission were a fundamental component in the identification and development of PowerStream's Key Processes and Sub Processes.

Key processes were identified using the experience of PowerStream's Senior Leadership Team (SLT) and other key stakeholders at a series of working group meetings. In total 5 Key Processes were identified along with 24 Sub-Processes that directly supported or enabled the Key Processes.

In 2013 the inaugural version of PowerStream's monthly Key Process Scorecard was launched. In collaboration with Engineering, Operations & Construction and Customer Service, 17 Key Process Measures were defined and target performance levels were established. A variety of methods were used to establish targets including alignment with PowerStream strategy, other LDC performance, OEB targets, existing areas of opportunity, continuous improvement culture.

How the information is used:

- Annual review with senior Division leaders to assess performance against target as well as to discuss opportunities for improvement and/or target adjustments.
- Business process improvement opportunities discussed here. Manager BPI documents opportunities if material. Business Process Improvement initiatives reviewed annually during PowerStream's Business Planning process.
- At annual review meetings, performance against target is demonstrated via charts and graphs to assist in communicating the results
- Key Process Scorecard is distributed Corporate wide, shared at department meetings and made available on Corp. Intranet site.

See attached example of PowerStream's Key Process Scorecard results for December 2014.

Annual MEARIE UPM Survey Results

PowerStream participates annually in the MEARIE survey along with approx. 24 other LDC's.

There are a total of 88 Ratios (Financial Performance, Customer Service, Efficiency, System Reliability, Resource Management) that are produced as a result of the data gathered during the annual survey. Each participant receives a customized performance scorecard showing PS's results over the last 3 years relative to the other 24 participants. Participants are categorized as Small, Medium & Large. In the 2013 survey there were 12 "Large Participants" (40,000 customers and above) including; Enersource, Horizon, Hydro One Brampton, Waterloo North, Kitchener, EnWin, Oakville, London, Veridian, Entegrus, Thunder Bay. Hydro Ottawa did not participate in 2013.

Results are presented in the MEARE "Ratios Report" and show last 3 years (2013, 2012, 2011) for each ratio for each of the 24 participants. This allows PS to see how it measures up in relation to the other participants. PS undertakes further analysis of 26 of the Key Metrics, utilizing Ratio data for each of the “Large Participants” (of which there are 12), in order to provide more relevant information for benchmarking analysis. PS reviews current performance vs prior year as well as the trend over the three year period. As well, PS reviews current performance relative to the “Large Participants” performance. And finally, PS reviews current performance versus “like” distributors that participated (Large City Southern High U/G category) i.e. Horizon, H1Brampton, London, Enersource.

This analysis of performance results has many purposes including:

- Providing the content for continuous improvement messages
- Bottom quartile results have been used to provide support for the initiation of improvement projects such as the Material Requirement Planning project with an objective to increase inventory turnover.
- Creating the impetus to do a deeper dive review when results appear unfavourable
- Opportunity to check in with cohorts who participate in the survey to see what they are doing to achieve their results and to assess interpretation of metric
- Opportunity to keep Senior PowerStream leaders abreast of available benchmarking data

2013 PowerStream results

- For most of the 26 key ratios, PowerStream’s performance in 2013 had improved over 2012

In comparison to the other Large LDC’s in the survey:

- PowerStream did have some below average and bottom quartile results in some of the metrics, however, in most of these cases, PowerStream results improved over the previous year.
- PowerStream has a below average monthly bill for 1000kWh residential customer.
- PowerStream’s has one of the highest billing accuracy percentages
- PowerStream is a top performer in this group when it comes to Number of customers per FTE.
- PowerStream has below average overtime hours as a percent of regular hours
- Below average performance in Outage Minutes and # of interruptions per customer due to the December 2013 ice storm.

F-SEC-14

REF: Ex. F-2, p.5

For each third-party review, please provide copies of their reports.

RESPONSE:

There are no third-party reviews of the Peer-to-Peer Benchmarking information provided in this rate proposal.

This information was compiled by PowerStream from data available from the Ontario Energy Board website.

The cost comparisons provided in this section were taken from the Ontario Energy Board's 2013 Yearbook of Electricity Distributors. It can be found at: http://www.ontarioenergyboard.ca/oeb/_Documents/RRR/2013_Yearbook_of_Electricity_Distributors.pdf

F-VECC-7

REF: Ex. F/T-2/pg.3 & Appendix 2-L

a) Please explain how the degradation in labour productivity as measured by OM&A costs per FTE (going from $150/FTE in 2013 to $185/FTE in 2020) is congruent with the proposition of PowerStream that there are productivity savings with the proposed rate plan.
b) Please confirm that no total factor productivity study, capital cost benchmarking study or an overall OM&A benchmarking study has been completed in support of the rate proposal.
c) Please confirm that under the proposal PowerStream is predicting a decline in its productivity as measured by the predicted vs actual/forecast costs (as shown in Figure 1).

RESPONSE:

a) The OM&A costs per FTE metric in a given period is the result of changes in OM&A costs and changes in FTEs. Changes in OM&A costs are a function of a number of factors, such as labour cost increases arising from additional labour to serve an increasing customer base, from salary progression, from non-labour cost increases and from changes in the various programs and activities. These and other factors are discussed in Appendix J. As shown in Appendix 2-L, increases in the OM&A per FTE metric have been occurring for the period prior to the term of the proposed rate plan and continue during the rate plan. Increases in the OM&A per FTE, both historically and for the rate plan, is not incompatible with achievement of productivity savings. The proper assessment is not whether the OM&A per FTE metric shows "degradation"; such "degradation" is an expected occurrence for a utility with a growing customer base. Rather, the proper assessment is whether the degree of "degradation" is appropriate. In that regard, PowerStream has estimated in Table 3 of Exhibit F, Tab1 and as updated in the response to F-SEC-6 that it will have achieved $15.8 million in productivity savings from 2014 to 2020, $13.8 million of which pertain to the proposed 5-year rate plan. These productivity savings exceed the OEB Expected Savings of $11.6 million for the 5-year period.

b) PowerStream's evidence on Benchmarking is contained in Exhibit F, Tab 2. It consists of the Predicted Cost model benchmarking, based on the PEG model used by the Board, and Peer-to-Peer Benchmarking. No other total factor productivity study, capital cost benchmarking study or an overall OM&A benchmarking study has been undertaken.

c) PowerStream confirms that the Predicted Cost model shows an increase in actual/forecasted costs relative to the predicted costs from the Predicted Cost model but reiterates that there are a number of factors, as set out in Exhibit F, Tab 2 that must be considered before drawing hard conclusions regarding such comparison.

F-VECC-8

REF: Ex. F/T-2/pg.4-6

a) At the above reference PowerStream lists a number of factors which it postulates makes it different (and hence non-comparable in some aspect) to other Ontario distributors. What study has the PowerStream undertaken to understand what difference exist between its operations and that of other Utilities?

b) Has PowerStream undertaken any similar studies of the working capital requirements of other bi-monthly billing utilities?

RESPONSE:

a) PowerStream has not undertaken studies of other utilities. The comments are based on PowerStream's general knowledge concerning the industry.

The primary difference is the level of capital spending required to upgrade existing assets. The fact that there are differing capital investment requirements among distributors is discussed in the RRFE and is the basis for the differing rate methods: 4th Generation IR, Custom IR and Annual Index. This is evidenced by the fact that all of these rate methods are being selected by distributors.

b) PowerStream has not undertaken any studies of the working capital requirements of other bi-monthly billing utilities.

Appendix 2-JC
OM&A Programs Table

Programs (000's)	Last Rebasing Year (2013 Board-Approved)**	Last Rebasing Year (2013 Actual)	2014 Actual	2015 Bridge Year	2016 Test Year	2017 Test Year	2018 Test Year	2019 Test Year	2020 Test Year	Variance 2016 Test Year vs. Last rebasing year (2013 Board -Approved)
Asset Management										
Smart Grid	$ -	$ -	$ -	$ -	$ 463	$ 469	$ 475	$ 481	$ 488	$ 463
System Control	$ 3,343	$ 3,408	$ 3,653	$ 3,837	$ 3,954	$ 4,233	$ 4,393	$ 4,561	$ 4,559	$ 611
Lines	$ 12,046	$ 13,919	$ 13,040	$ 14,161	$ 15,172	$ 15,898	$ 16,783	$ 17,488	$ 18,301	$ 3,126
Protection and Control	$ 1,512	$ 1,327	$ 1,353	$ 1,464	$ 1,390	$ 1,425	$ 1,347	$ 1,411	$ 1,443	$ (122)
Stations	$ 2,055	$ 1,795	$ 2,079	$ 2,174	$ 2,238	$ 2,298	$ 2,359	$ 2,422	$ 2,481	$ 183
Metering	$ 3,478	$ 2,988	$ 3,696	$ 3,652	$ 3,800	$ 3,937	$ 3,913	$ 3,887	$ 3,936	$ 322
Asset Investment Planning	$ 2,986	$ 2,718	$ 3,024	$ 3,301	$ 3,392	$ 3,516	$ 3,597	$ 3,662	$ 3,735	$ 405
Engineering Design Distribution	$ 3,983	$ 3,758	$ 3,948	$ 4,040	$ 4,149	$ 4,255	$ 4,337	$ 4,420	$ 4,505	$ 166
Engineering and Operations Strategy	$ 2,460	$ 2,356	$ 2,587	$ 2,777	$ 2,839	$ 2,896	$ 2,948	$ 3,003	$ 3,059	$ 379
Subtotal	**$ 31,864**	**$ 32,270**	**$ 33,379**	**$ 35,405**	**$ 37,398**	**$ 38,926**	**$ 40,152**	**$ 41,336**	**$ 42,507**	**$ 5,534**
Finance										
Rates and Regulatory Affairs	$ 2,778	$ 2,363	$ 3,074	$ 3,259	$ 3,034	$ 3,061	$ 3,115	$ 3,080	$ 3,134	$ 256
Customer Service	$ 14,124	$ 13,642	$ 16,089	$ 16,711	$ 17,282	$ 20,441	$ 20,685	$ 21,090	$ 21,508	$ 3,157
Corporate Finance and Reporting	$ 5,386	$ 5,124	$ 5,138	$ 5,701	$ 6,049	$ 6,183	$ 6,308	$ 6,534	$ 6,589	$ 662
Subtotal	**$ 22,289**	**$ 21,129**	**$ 24,301**	**$ 25,672**	**$ 26,364**	**$ 29,685**	**$ 30,108**	**$ 30,704**	**$ 31,232**	**$ 4,075**
Corporate Services										
Supply Chain Services	$ 5,812	$ 5,514	$ 5,737	$ 5,979	$ 6,277	$ 6,351	$ 6,424	$ 6,493	$ 6,559	$ 466
Information Services	$ 6,904	$ 6,458	$ 6,061	$ 9,132	$ 9,085	$ 9,260	$ 9,256	$ 9,454	$ 9,484	$ 2,181
Corporate Communications	$ 1,399	$ 1,431	$ 1,740	$ 1,806	$ 2,124	$ 2,194	$ 2,221	$ 2,250	$ 2,276	$ 725
Legal	$ 479	$ 385	$ 351	$ 513	$ 639	$ 737	$ 761	$ 787	$ 808	$ 160
Human Resources and Organizational Effectiveness	$ 4,870	$ 5,037	$ 5,125	$ 5,458	$ 5,669	$ 5,736	$ 5,776	$ 5,883	$ 5,982	$ 799
Corporate	$ 5,588	$ 4,968	$ 5,667	$ 5,364	$ 5,318	$ 5,434	$ 5,543	$ 5,646	$ 5,750	$ (270)
Strategic Direction	$ 3,736	$ 3,655	$ 3,092	$ 3,227	$ 3,342	$ 3,485	$ 3,482	$ 3,557	$ 3,630	$ (394)
Subtotal	**$ 28,788**	**$ 27,450**	**$ 27,774**	**$ 31,480**	**$ 32,454**	**$ 33,197**	**$ 33,464**	**$ 34,068**	**$ 34,489**	**$ 3,666**
Total	**$ 82,941**	**$ 80,849**	**$ 85,454**	**$ 92,558**	**$ 96,216**	**$ 101,808**	**$ 103,724**	**$ 106,109**	**$ 108,228**	**$ 13,275**

** OEB 2013 Approved Budget is $ 80,000. Difference of $ 2,941 relates to Joint Services Costs included in OM&A. The Revenue for Joint Services is included in Other Income.

Ontario Energy Board

Commission de l’énergie de l’Ontario

EB-2013-0416/EB-2014-0247

IN THE MATTER OF AN APPLICATION BY

HYDRO ONE NETWORKS INC.

FOR APPROVAL OF DISTRIBUTION RATES FOR 2015 TO 2019

DECISION
March 12, 2015

forms used in this Decision to identify intervenors. The transcription record of the decision on a motion by the City of Hamilton is attached as Appendix 2.

3.0 ALIGNMENT WITH THE RENEWED REGULATORY FRAMEWORK FOR ELECTRICITY

The Renewed Regulatory Framework for Electricity is a comprehensive, performance-based approach to regulation that focuses on the achievement of outcomes that ensure Ontario's electricity system provides value for money for customers. The OEB's RRFE Report (*Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*, issued October 18, 2012) provides three rate-setting options under which a distributor may apply for rates to be set, depending on its capital requirements.

The Custom Incentive Rate-setting option (Custom IR) is described by the OEB as suitable for distributors with large or highly variable capital requirements. Hydro One applied for rates under this option, and asked the OEB to set rates for each of five years (2015 – 2019) based on its cost forecasts for those years. The company indicated that cost savings from productivity improvements were embedded in the cost forecasts, and that the company would bear the risk of failing to achieve these savings.

At page 13 of the RRFE Report, the OEB provides a table of the elements of each rate-setting method. Parties in the hearing criticized Hydro One's application as being non-compliant or inadequate with respect to some of these elements. The criticisms included:

- The form of the application: Custom Cost of Service rather than Custom IR
- Lack of a productivity factor
- Lack of a stretch factor
- Weak benchmarking evidence
- Lack of appropriate sharing of benefits between the utility and its customers (e.g. through an earnings sharing mechanism)
- Proposed annual adjustments, unforeseen events and off-ramps that differ from OEB policy

- Overall lack of consistency and comparability with incentive rate-setting particularly with regard to the specification and use of a custom index approach to rate-setting that includes explicit, externally imposed improvement incentives.

In its May 30, 2014 evidence update, Hydro One provided eight outcomes by which to measure its five year plan. The company agreed to report annually on these outcomes, including the results achieved and actual amounts spent on the programs. Many parties submitted that additional reporting, for example, on actual capital spending and the results of the smart grid program, was necessary.

Parties submitted that the inadequacies of the application should be addressed by the OEB through either denial of the five year application (i.e. set rates for only one or two years) or substantive adjustments to the five year plan such as using 2015 as a base year and setting rates for 2016 – 2019 through an index.

Findings

The OEB has concluded, for the reasons set out below, that Hydro One's application is insufficient as a Custom IR application under RRFE and has determined that it will deny approval of the proposed five-year plan. Instead the OEB will approve rates for a three-year period based on the evidence provided. This change from what was applied for by Hydro One is due to a number of shortcomings with Hydro One's proposed approach. The OEB is directing Hydro One to address those shortcomings, set out below, over the next three years in preparation for the next rates application.

3.1 Inconsistency with outcome-based regulation

Hydro One chose to interpret the OEB's Custom IR option, referred to in the RRFE Report as "custom index", to include "custom cost of service". The OEB does not accept this interpretation. All three rate-setting methods are described in the Report as incentive rate-setting, not cost of service.

Cost of service rate-setting has an important role in performance-based regulation regimes to periodically examine in detail the costs and activities underpinning rates. However, the OEB continues to believe that multi-year incentive rate-setting, with its emphasis on results, is the most effective way to incent behaviour similar to that seen in commercially-oriented, consumer market-driven companies. Incentive rate-setting differs from cost of service rate-setting in that it relies less on a utility's internal cost, output, and service quality to establish rates, and more on benchmarks of cost, output, and service quality that are external to the utility revealing superior performance and encouraging best practice. The decoupling of rates from the utility's own costs simulates a competitive market environment and is more compatible with an outcomes-based approach to regulation.

The OEB finds that Hydro One's proposed plan is deficient in this regard, as it includes limited prospects for continuous improvement, lacks any externally imposed improvement incentives, includes limited cost and productivity benchmarking support, and fails to demonstrate value to customers commensurate with the forecasted spending.

3.2 Lack of externally imposed incentives

The OEB expects Custom IR rate setting to include expectations for benchmark productivity and efficiency gains that are external to the company. The OEB does not equate Hydro One's embedded annual savings with productivity and efficiency incentives. Incentive-based or performance-based rates are set to provide companies with strong incentives to continuously seek efficiencies in their businesses.

The OEB does not believe that Hydro One's plan contains adequate efficiency incentives to drive year-over-year continuous improvement in the company. Furthermore, the plan lacks measurement of increased efficiency year-over-year in a form illustrating trends in a transparent fashion.

It is not sufficient to embed savings in cost forecasts. As already noted, the OEB's Custom IR is an incentive rate-setting approach designed to drive efficiencies. Benefits from explicit, objectively determined productivity and efficiency adjustments such as stretch factors include mimicking competitive market conditions, sharing anticipated savings with ratepayers “up front”, and facilitating a more outcome-based approach to regulation.

As already noted, traditional cost of service review will continue to entail detailed input cost assessments. However, Custom IR proceedings are intended to be framed more like performance inquiries resulting in multi-year outcome commitments and measures that facilitate year-over-year performance assessment. The productivity and efficiency elements allow the OEB to move away from detailed input cost assessment and focus more on utility performance. These factors provide utilities with strong incentives to continually seek efficiencies and share expected savings with ratepayers “up front” avoiding “after the fact” regulatory scrutiny.

3.3 Weak benchmarking evidence

The RRFE policy articulates the importance the OEB places on benchmarking. Benchmarking evidence, whether it compares a utility’s performance to itself year-over-year, or to other utilities, is a critical input to the OEB’s assessment of utility performance.

Benchmarking, when used in combination with specific cost drivers and other sources of utility performance information, allows for an overall assessment of a utility’s cost and outcome performance.

A majority of parties were critical of the lack of benchmarking in Hydro One’s plan. Hydro One described eight benchmarking or similar studies it had undertaken. The OEB agrees with the submissions of OEB staff and the majority of the intervenors that the studies provided in this proceeding by Hydro One, lack:

1) a top-down perspective of what the appropriate level of costs should be; and

2) measures of Hydro One’s cost performance against other comparable utilities.

Parties also pointed out that no total factor productivity study, capital cost benchmarking study or an overall OM&A benchmarking study, were submitted.

Accordingly, the OEB does not find this evidence sufficient to provide a complete assessment of Hydro One's cost and outcome performance. The OEB disagrees with Hydro One's assertion that external benchmarking will not assist the OEB in determining whether costs at Hydro One are reasonable. As stated earlier, benchmarking information is used in combination with specific cost drivers and other sources of utility performance information. Benchmarking evidence is expected to include an explanation of any significant divergence from the optimal benchmark.

While the OEB considers Hydro One's benchmarking efforts for this proceeding to be inadequate, the weakness of the benchmarking evidence does not completely impede the OEB's ability to assess the reasonableness of the cost forecasts in this case. As described later in this Decision, the OEB will disallow some of the requested costs in certain areas, and direct Hydro One to address a number of shortcomings in its plan, including specific benchmarking evidence the OEB expects to be filed in Hydro One's next rates application.

The OEB acknowledges that Hydro One expressed concern over the OEB's approach to estimating total factor productivity and benchmarking of distributors' total costs as it applies to Hydro One. Despite Hydro One's perception of shortcomings of the approach, the OEB's studies do provide important information regarding Hydro One's performance. For example, according to the 2013 Benchmarking Update[2], Hydro One's average cost performance has improved by 10.4% over the 2012 benchmarking study.

In addition, as OEB staff pointed out in its submission, Hydro One's response to staff IR #60 showed that "…while Hydro One's productivity continues to be negative, it appears it may become less so." In other words, while Hydro One's productivity trend is negative, the evidence indicates that the trend may become less negative and may continue to improve over the next few years.

[2] Empirical Research in Support of Incentive Rate-Setting: 2013 Benchmarking Update prepared for the OEB by Pacific Economics Group Research, LCC, issued July 2014, Table 3.

The OEB sees value in Hydro One measuring its own total factor productivity over time to be able to demonstrate improvement in productivity to its customers and the OEB. The OEB requires Hydro One to conduct such a study. Given Hydro One's concerns, the OEB leaves it to Hydro One to determine its preferred total factor productivity study method. However, the period of the study should include years at least going back to 2002. The results of the study must be filed as part of Hydro One's next rates application.

3.4 Limited prospects for continuous improvement

The OEB is concerned that under Hydro One's proposed plan, lack of efficiency incentives lessens the probability of achieving continuous improvement.

Hydro One's forecasted annual savings built into its forecasted costs are summarized in the evidence[3]. Several parties noted, and Hydro One acknowledged, that most of the savings come from investments made in 2010 through to 2014. In its submission, OEB staff calculated Hydro One's new savings each year for 2015, 2016, 2017, 2018 and 2019 at $27.7 million, $8.1 million, $3.8 million, $1.0 million, and $0.2 million, respectively. In short, the savings are declining over time.

While Hydro One characterises its forecasted annual savings as ambitious, the OEB is concerned that the declining trend and relatively small savings do not show Hydro One to be a company with a strong orientation towards continuous improvement. Furthermore, Hydro One's proposed plan does not include any measure of continuous improvement. In response to questions from parties on how any savings beyond those forecasted will be measured and treated, Hydro One indicated that any such savings would be re-invested into the company's work plan. Hydro One explained that its customers would benefit from this re-investment though the additional work that Hydro One would be able to carry out.

Hydro One has stated that it is in the fourth quartile of North American utility performance with respect to system reliability and that it has no plan to improve on that

[3] Exhibit A Tab 19 Schedule 1, page 4, Table 2

score. It submits that to do so would not be cost effective and its customers would not want to pay the cost associated with the improvements. The OEB considers Hydro One's stance on its performance to be misplaced. Rather than argue that it would be too expensive to move up the ladder in comparison to those that are in the first, second and third quartile, Hydro One should be finding cost effective ways to improve its performance and provide evidence intended to convince the OEB that it has identified more appropriate benchmarks to which it can and will compare itself for continuous improvement tracking purposes.

The OEB expects distributors to embrace the principles of continuous improvement and to develop plans which provide benefits to customers. If the benefits are considered to be the ability to re-invest in additional work then the product of that additional work should be measurable desired outcomes.

3.5 Value to customers

The OEB agrees with the Canadian Manufacturers and Exporters' (CME's) characterization of RRFE as a shift in focus for rate regulation away from input cost assessment to utility performance, underscored by an understanding of value for customers.

It is the OEB's view that Hydro One's customer engagement in relation to its application appears to have been generally good, with the exception of the consultation regarding seasonal rates (which was criticized by a number of parties). Otherwise, the OEB accepts that Hydro One made a good attempt to understand what its customers want and link that to the priorities in its proposed plan.

Hydro One's responsiveness to feedback is evident in the way its proposed plan evolved over the course of the pre-hearing and hearing processes. The resultant set of eight outcome measures are a reasonable reflection of the areas where Hydro One is proposing to increase capital or operating expenditures over the next few years. Hydro One proposed targets for each measure. While varying views and some concerns were expressed by parties on certain details associated with Hydro One's proposed measures, the OEB supports Hydro One's overall approach to customer engagement. However, the OEB notes that some of Hydro One's chosen measures may not be effective measures of value to customers. In Hydro One's proposed plan, spending levels are clearly measured, but from a customer's standpoint, what will be gained from that spending is not always clear.

A number of Hydro One's measures are activity-based such as the number of substations refurbished, rather than being outcome-based whereby the number of outages avoided or length of outages reductions as a result of the substation refurbishment would be measured.

Furthermore, in some cases the trends in targets for the proposed measures do not show year-over-year improvement. Based on the evidence provided, it is unclear whether Hydro One's customers would understand the value proposition associated with Hydro One's plan.

The Association of Major Power Consumers (AMPCO) proposed revisions to a number of Hydro One's outcome measures for the Board's consideration:

- Vegetation management and pole replacement should be based on a cost per unit metric.

- The proposed measure "number of PCB oil replacements" does not equate with the RRFE expectations of continuous improvement and cost effectiveness. "Cost per pole-top transformer with PCB oil replaced" would be a more appropriate measure.

- The substation refurbishments metric could be revised to reflect unit costs instead of number of substations refurbished, with a cost per transformer refurbished or cost per transformer replaced as a more appropriate metric.

As previously noted, it is clear that the distribution system is in need of investment, and changes to system performance may not be immediately visible. Rather, system performance may erode without the investment. However, the OEB agrees with

AMPCO's suggestion that in the absence of an outcome measure to demonstrate performance improvement value to customers, Hydro One could have brought forward unit cost metrics to demonstrate cost performance improvements (e.g., reduced cost per transformer replaced). This is another way to demonstrate value for customers.

UNANIMOUS SHAREHOLDERS AGREEMENT

THIS AGREEMENT made as of November 1, 2013.

BETWEEN:

THE CORPORATION OF THE CITY OF MARKHAM
(hereinafter referred to as "**Markham**")

- and -

MARKHAM ENTERPRISES CORPORATION (hereinafter referred to as "**MEC**")

- and -

THE CORPORATION OF THE CITY OF VAUGHAN
(hereinafter referred to as "**Vaughan**")

- and -

VAUGHAN HOLDINGS INC.
(hereinafter referred to as "**VHI**")

- and -

THE CORPORATION OF THE CITY OF BARRIE
(hereinafter referred to as "**Barrie**")

- and -

BARRIE HYDRO HOLDINGS INC.
(hereinafter referred to as "**BHHI**")

- and -

POWERSTREAM HOLDINGS INC.
(hereinafter referred to as "**Corporation**")

- and -

POWERSTREAM INC.
(hereinafter referred to as the "**LDC**")

- and -

POWERSTREAM ENERGY SERVICES INC.
(hereinafter referred to as "**Energy**")

WHEREAS the Corporation was formed by Certificate of Articles of Incorporation dated July 24, 2013 under the *Business Corporations Act*;

AND WHEREAS each of LDC and Energy are wholly-owned Subsidiaries of the Corporation;

AND WHEREAS certain of the Parties hereto were party to an amended and restated shareholders agreement for LDC dated as of November 23, 2010 (the "**Prior PowerStream Agreement**");

AND WHEREAS it is intended to terminate and release the Prior PowerStream Agreement, and replace and supersede it with this Agreement;

AND WHEREAS the authorized capital of the Corporation consists of an unlimited number of Common Shares, of which 100,000 are issued and outstanding, and an unlimited number of Class A Common Shares, of which 64,497 are outstanding.

AND WHEREAS at the date hereof all of the issued Common Shares and Class A Common Shares of the Corporation are registered and beneficially owned by as follows:

SHAREHOLDERS	COMMON SHARES	CLASS A COMMON SHARES
MEC	34,185	22,048
VHI	45,315	29,226
BHHI	20,500	13,223

AND WHEREAS Markham, Vaughan and Barrie are the sole shareholders of MEC, VHI and BHHI respectively and Markham, Vaughan and Barrie are hereinafter referred to as the "**Municipal Shareholders**";

AND WHEREAS the Shareholders and the Municipal Shareholders desire to provide for certain arrangements for the ongoing operation and control of the Corporation and its Subsidiaries and providing for certain restrictions on any arrangements respecting dealings with shares of the Corporation and Holdco Shares which are issued and outstanding from time to time;

NOW THEREFORE THIS AGREEMENT WITNESSES that in consideration of the premises and the mutual covenants and agreements herein contained the Parties hereto agree as follows:

ARTICLE ONE
INTERPRETATION

Section 1.01 Definitions

In this Agreement, unless something in the subject matter or context is inconsistent therewith:

"**Accountant**" means a national firm of chartered accountants which is not the Auditor, selected pursuant to Section 3.05(5);

"**Affiliate**" has the meaning ascribed thereto in the *Business Corporations Act* (Ontario);

"Affiliate Relationships Code" means the Affiliate Relationships Code for Electricity Distributors and Transmitters issued by the OEB revised May 16, 2008, as amended from time to time and any replacement code or directive;

"Agreement" means this unanimous shareholders agreement and all schedules attached hereto and all amendments made hereto and thereto by written agreement between the Parties;

"Applicable Law" means, collectively, all applicable federal, provincial (including the *Electricity Act* and the *Ontario Energy Board Act*) and municipal laws, statutes, ordinances, decrees, rules, regulations, by laws, legally enforceable policies, codes (including the Affiliate Relationships Code), or guidelines, judicial, arbitral, administrative, ministerial, departmental or regulatory judgments, orders, decisions, directives, rulings or awards, and conditions of any grant of approval, permission, certification, consent, registration, authority or licence by any statutory body, self regulatory authority or other Governmental Authority;

"Arm's Length" means arm's length as defined in the *Income Tax Act*;

"Asset Value" means the net book value of all of the assets of the Corporation as disclosed in the most recent available annual consolidated audited financial statements of the Corporation;

"Auditor" means the auditor of the Corporation as appointed from time to time in accordance with this Agreement;

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

"Board Approved Transaction" means any Transaction by the Corporation or any Subsidiary involving a business of a Third Party that operates within the Geographic Footprint (except only with respect to Energy) and that meets all of the following criteria:

(a) is consistent with the Corporation's Strategic Plan;

(b) does not materially impair the credit rating of the Corporation;

(c) meets the minimum rate of return as prescribed in the Strategic Plan;

(d) does not result in the allotment or issuance of any Common Shares or Class A Common Shares; and

(e) involves both (i) a purchase price payable by the Corporation or any Subsidiary of less than $10,000,000, and (ii) assets of a business having a book value (net of depreciation and other relevant provisions and reserves), as shown on the most recently available financial statements, of less than $5,000,000; or

(f) as long as (a) through (d) are complied with and is a Transaction in respect of the Permitted Generation Business which, for greater certainty, includes the establishment of a business unit, affiliated corporation, limited partnership or other legal entity;

"Business" means:

(a) the distribution and transmission by the LDC of electricity;

(b) the provision of standard supply service to customers in the service territory permitted by the distribution and transmission licence(s) issued from time to time by the OEB to the LDC or its predecessors;

(c) the Permitted Generation Business;

(d) any other activities permitted by Applicable Law that can be conducted directly by an electricity distributor or transmitter;

(e) energy and related services, including suite metering, to be carried out in an unregulated Affiliate (initially Energy), as unanimously approved from time-to-time by the Shareholders; and

(f) any other business unanimously approved by the Shareholders.

"Business Corporations Act" means the *Business Corporations Act* (Ontario), as now enacted or as the same may from time to time be amended, re-enacted or replaced;

"Business Day" means a day other than a Saturday, Sunday or statutory holiday in Ontario;

"By Laws" means the general by law of the Corporation, as amended from time to time, a copy of the By-Laws in force as of the date hereof is annexed hereto as Schedule "B";

"Capital Call" has the meaning set out in Section 3.07(1);

"Class A Common Shares" means the class A common shares of the Corporation issued and outstanding from time to time;

"Communication" has the meaning set out in Section 5.08;

"Common Shares" means the common shares of the Corporation issued and outstanding from time to time;

"Disputes" has the meaning set out in Section 5.10;

"distribute" and **"distributor"** have the meanings ascribed thereto in the *Electricity Act* and **"distributing"** and **"distribution"** have the corresponding meanings;

"Electricity Act" means the *Electricity Act*, 1998 (Ontario), as now enacted or as the same may from time to time be amended, re-enacted or replaced, and any regulations thereunder;

"Former Director" has the meaning set out in Section 2.03(12);

"Geographic Footprint" means the Region of York, County of Simcoe and the service territory of Hydro One Brampton pursuant to its OEB distribution licence, in each case substantially as it exists on the date hereof;

"Governmental Authority" means any government or political subdivision (including without limitation, any municipality or federal or provincial ministry) or quasi governmental or regulatory agency, authority, board, commission, department or instrumentality of any government or political subdivision, or any court or tribunal including the IESO, OEB and OPA;

"Holdco Shares" means a share of any class in the capital of a corporation where such shares are owned by a Municipal Shareholder and where such corporation owns, directly or indirectly, any Shares in the Corporation;

"IESO" means the Ontario Independent Electricity System Operator and any successor;

"Income Tax Act" means the *Income Tax Act* of Canada, as now enacted or as the same may from time to time be amended, re-enacted or replaced, and any regulations thereunder;

"Information" has the meaning set out in Section 4.01(1);

"Merger Agreement" means that certain Merger Participation Agreement dated as of October 10, 2008 among Markham, MEC, Vaughan, VHI, Barrie, BHHI, PowerStream Inc. and Barrie Hydro Distribution Inc.;

"Municipal Shareholders" has the meaning set out in the Recitals hereto;

"Notice" has the meaning set out in Section 3.01(1) and Section 3.04(2), as applicable;

"OEB" means the Ontario Energy Board and any successor;

"Offered Shares" has the meaning set out in Section 3.03(1) and Section 3.05(1), as applicable;

"Offeree" and **"Offerees"** have the respective meanings set out in Section 3.03(2) and Section 3.05(1), as applicable;

"Offeror" has the meaning set out in Section 3.03(1) and Section 3.05(1), as applicable;

"Ontario Energy Board Act" means the *Ontario Energy Board Act*, 1998 (Ontario), as now enacted or as the same may from time to time be amended, re-enacted or replaced, and any regulations thereunder;

"OPA" means the Ontario Power Authority and any successor;

"Party" means a party to this Agreement including any Person that becomes bound by this Agreement as provided herein and **"Parties"** means every Party;

"Permitted Generation Business" means the generation and sale of renewable, solar electricity permitted by Applicable Law;

"Person" includes an individual, corporation, body corporate, partnership, trust, joint venture, unincorporated association, organization, syndicate, executor, administrator, Governmental Authority or other legal or personal representative;

"Prior PowerStream Agreement" has the meaning as set out in the Recitals;

"Pro Rata" means in the same proportion that the number of Shares owned by a Shareholder is to all of the then issued and outstanding Shares of all classes of the Corporation or to all of the then issued and outstanding Shares of that class owned by the relevant Shareholder(s), as the case may be; provided however that, for purposes of Section 3.03 and Section 3.04 only, "Pro Rata" means the same proportion that the number of Shares owned by a Shareholder (including for greater certainty the Shares owned by any Shareholder who is the Third Party referred to in Section 3.03) is to all of the then issued and outstanding Shares of all classes of the Corporation other than the Shares of the Offeror;

"Prospective Purchaser" has the meaning set out in Section 3.03(5);

"Purchase Price" has the meaning set out in Section 3.03(1);

"Purchaser" has the meaning set out in Section 3.04(1);

"Rejected Shares" has the meaning set out in Section 3.03(4) and Section 3.05(7), as applicable;

"Related Party" has the meaning attributed to that term in the *Income Tax Act*;

"Related Shareholder Purchaser" means a Person who does not deal at Arm's Length with a Shareholder;

"Response" has the meaning set out in Section 3.03(3);

"Shared Services Agreements" means those agreements identified in Schedule "C" hereto and any other agreements as may from time to time be entered into between the Corporation or a Subsidiary and a Shareholder or an affiliate of a Shareholder (as determined under the *Business Corporations Act*), provided in each case such agreement complies with the terms of the Affiliate Relationships Code as if such other party were an affiliate of the Corporation or a Subsidiary under the Affiliate Relationships Code;

"Shareholder" means individually any, and **"Shareholders"** means collectively all, of MEC, VHI and BHHI and any Person to whom any Shares are transferred, or issued, in accordance with the terms of this Agreement, at any time subsequent to the date of this Agreement;

"Shareholder Representative" has the meaning set out in Section 2.09;

"Shares" means any authorized class of shares of the Corporation that the Shareholders at the date hereof or hereafter may beneficially own;

"Strategic Plan" means the strategic plan for the Corporation approved by the Shareholders in accordance with this Agreement, establishing the Corporation's terms and conditions for growth and expansion on a prudent and profitable basis through enhancing the Corporation's strategic position and economies of scope and scale, it being understood that such strategic plan will be reviewed and updated from time to time by the Board subject to such Shareholder approvals as are from time to time contemplated hereby;

"Subject Shares" has the meaning set out in Section 3.07(2);

"Subsidiary" has the meaning set out in Section 1(2) of the *Business Corporations Act*, and includes both LDC and Energy;

Tag-Along Exercise Period" has the meaning set out in Section 3.04(2); **"Tag-Along Offer"** has the meaning set out in Section 3.04(1);

"Tag-Along Rights" means the rights of the Shareholders pursuant to Section 3.04;

"Third Party" means a Person with whom all the Shareholders and the Corporation deal with at Arm's Length; provided, however, that for purposes of Section 3.03 and Section 3.04 only, **"Third Party"** means a Person with whom the Offeror is at Arm's Length and, for greater certainty, for purposes of Section 3.03 and Section 3.04 only, **"Third Party"** and **"Prospective Purchaser"** includes another Shareholder or a Related Shareholder Purchaser so long as such other Shareholder or Related Shareholder Purchaser is at Arm's Length to the Offeror;

"Transaction" means an amalgamation, merger or consolidation with, or purchase or acquisition of (i) the business (as a going concern) of, or all or substantially all of the assets of a business (as a going concern) of, another Person or (ii) the shares, partnership interests or other equity interests of another Person; and

"Transfer Tax" means the tax payable pursuant to Section 94 of the *Electricity Act* or any similar tax or replacement or substitution thereof.

Section 1.02 Sections and Headings

The division of this Agreement into Articles and Sections and the insertion of headings are for the convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "hereunder" and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof and include any agreement or instrument supplemental or ancillary hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles and Sections are to Articles and Sections of this Agreement.

Section 1.03 Number

Words importing the singular number only shall include the plural and vice versa, words importing the masculine gender shall include the feminine and neuter genders and vice versa and words importing persons shall include individuals, partnerships, associations, trusts, unincorporated organizations and corporations and vice versa.

Section 1.04 Accounting Principles

Wherever in this Agreement reference is made to accounting principles, such reference shall be deemed to be the International Financial Reporting Standards then in effect in Canada and approved by the Canadian Institute of Chartered Accountants, or any successor institute, applicable as at the date on which such calculation is made or required to be made (**"IFRS"**).

(2) In the event that Applicable Law requires that any number of the directors of the Corporation be independent of any Person, VHI, MEC and BHHI shall include in their respective nominee directors such number of individuals who are so independent on a Pro Rata basis (rounding up to the nearest whole number).

(3) All directors have been appointed for an initial term expiring on or before February 1, 2015 and thereafter, all directors shall be appointed for terms of three (3) years, subject to Section 2.03(10). The Chairperson and Vice-Chairperson of the Board shall each be elected for a term of three (3) years, and nominees of one Shareholder shall not hold both positions at any one time.

(4) Subject to the terms of this Agreement, the Board shall manage or supervise the management of the business and affairs of the Corporation and the Subsidiaries. Without limiting the generality of the foregoing, the Board shall maintain a policy regarding authority limits on management. This policy establishes appropriate limits and controls on the authority of the officers of the Corporation to manage the business and affairs of the Corporation and the Subsidiaries. The Board may, in its discretion, update or amend such policy from time to time.

(5) The Board shall also establish and maintain a policy that will permit the Corporation and the Subsidiaries to only enter into swap and derivative transactions for prudent risk management purposes and not for speculative purposes.

(6) All directors of the Corporation shall act honestly and in good faith with a view to the best interests of the Corporation and shall exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Each Shareholder agrees to nominate individuals to act as directors who, in its reasonable judgment, are able to meet this standard of care and who have appropriate skills and experience.

(7) In addition to the requirements of the *Business Corporations Act* or any other requirements outlined in this Agreement, the Shareholders will give due regard to the qualifications of candidates and ensure that the members of the Board possess qualifications that will contribute to the success of the Business including:

(a) knowledge of the electricity industry;

(b) regulatory knowledge;

(c) experience with corporate finance; and

(d) business management experience.

(8) Each Shareholder entitled herein to nominate a director of the Corporation agrees in good faith, and shall use its best efforts, to ensure that it is represented at all meetings of the Shareholders and the Board to ensure that the quorum requirements for such meetings are met.

any meeting of the Board by an instrument in writing delivered to the Secretary of the Corporation.

(14) The remuneration of the members of the Board for their respective services as directors will be as determined by the Shareholders from time to time in accordance with Section 2.06(2). Each director shall be entitled to be reimbursed for reasonable and documented out of pocket expenses incurred in connection with his or her attendance at meetings, or otherwise being engaged in the business, of the Board.

Section 2.04 Auditor and Financial Reporting

(1) The Shareholders shall appoint the Auditor, subject to change in accordance with Section 2.06(1)(f). The Board is authorized to from time to time fix the remuneration of the Auditor.

(2) The financial year end of the Corporation shall be December 31. The initial fiscal period of the Corporation shall be the period from the date of this Agreement through to December 31st of the same year. Audited annual consolidated financial statements for the Corporation shall be presented to the Shareholders and the Board no later than one hundred and twenty (120) days after the financial year end of the Corporation. Unaudited quarterly financial statements for the Corporation shall be presented to the Board no later than sixty (60) days after the end of each applicable quarter.

(3) The Corporation shall present to the Shareholders and the Board unaudited quarterly financial statements in respect of the Permitted Generation Business not later than sixty (60) days after the end of each applicable quarter.

Section 2.05 Offices

Subject to Section 2.06(1)(o), the head office and registered office of the Corporation shall be located in the City of Vaughan, Ontario. In addition, subject to Section 2.06(1)(o) the Corporation shall maintain a minimum of two operation/administration centres (or more if required to ensure that the operations of the Corporation are conducted at the current service levels and other standards, which at a minimum are in compliance with the requirements of the Ontario Energy Board). One such operation/administration centre shall be located in the City of Barrie, Ontario. Also, the Corporation shall maintain a storefront customer centre in each of Markham, Vaughan and Barrie.

Section 2.06 Approval of Certain Matters

(1) In addition to the requirements of the *Business Corporations Act*, none of the following actions shall be taken by the Corporation or any Subsidiary unless Shareholders holding all of the then issued and outstanding Common Shares of the Corporation consent to such action by an instrument or instruments in writing:

(a) the carrying on of any business or activity other than the Business;

(b) the taking of any steps to wind up, dissolve or terminate the corporate existence of the Corporation or any Subsidiary;

(c) the entering into of a Transaction, or any agreement to effect a Transaction, that is not a Board Approved Transaction;

(d) the admission of any new Shareholder, the issuance of any shares by the Corporation or any Subsidiary, the entry into of any agreement or the making of any offer or the granting of any right capable of becoming an agreement to allot or issue any shares of the Corporation or any Subsidiary or any other change in the issued and outstanding share capital of the Corporation or any Subsidiary;

(e) the sale, lease, exchange or disposition (other than in the ordinary course of Business) of assets of the Corporation or any Subsidiary, whether through one transaction, or series of related transactions, having a value of (i) in case of the LDC only, equal to 5% or more of the Asset Value, in the case of assets forming part of the **"rate base"** of the LDC then in effect as approved and determined pursuant to the most recent OEB electricity distribution rate decision responding to the LDC's electricity distribution rate applications to the OEB, or (ii) 9% or more of the Asset Value, in the case of any other assets of the Corporation or any Subsidiary;

(f) any change of Auditor;

(g) any change to the dividend policy set out in Schedule "D";

(h) any name change of the Corporation or any Subsidiary or re branding of the Corporation or any Subsidiary;

(i) the entry by the Corporation or any Subsidiary into a transaction or agreement with a Shareholder, a Related Party of a Shareholder or a Related Party of the Corporation, other than transactions or agreements entered into in the ordinary course of Business on Arm's Length commercial terms (for greater certainty, the entering into of Shared Services Agreements shall be considered part of the Corporation's ordinary course of Business provided that a copy of all such Shared Service Agreements shall be provided forthwith to each Shareholder);

(j) any change in the articles or By-laws of the Corporation or any Subsidiary;

(k) the Corporation or any Subsidiary entering into any agreement other than in the ordinary course of Business (for greater certainty, the entering into of Shared Services Agreements shall be considered part of the Corporation's ordinary course of Business provided that a copy of all such Shared Service Agreements shall be provided forthwith to each Shareholder);

(l) except for any Transaction or Board Approved Transaction, (i) the making or incurring of any single capital expenditure or series of related expenditures by the Corporation or any Subsidiary (net of anticipated capital contributions from customers or others) in excess of 9% of the Asset Value as at such time, or (ii) the making or incurring of, in any financial year of the Corporation, capital expenditures (net of anticipated capital contributions from customers or others) which, in the aggregate, exceed 20% of the Asset Value as at the beginning of such financial year;

(m) the entering into of a partnership, joint venture or any other arrangement for the sharing of profits or union of interests under which the Corporation or any Subsidiary could become jointly and severally liable with any other Person, other than in connection with a Board Approved Transaction;

(n) the entering into of any swap or derivative transaction by the Corporation or any Subsidiary which is not in accordance with the swap and derivative transactions policy approved by the Board in accordance with Section 2.03(5);

(o) any change of the head office of the Corporation or any Subsidiary or the closing of any operations/administration centres of the Corporation or any Subsidiary;

(p) the making of a Capital Call by the Shareholders;

(q) the establishment of any new Subsidiary, other than in connection with a Board Approved Transaction; and

(r) the approval of an updated Strategic Plan for the Corporation by January 1, 2016 and thereafter not later than each three year anniversary of such approval, and any material amendments or alterations to the Strategic Plan, at any time, in each case such approval not to be unreasonably withheld or delayed (provided however that any decision made by or requested from a Shareholder regarding the potential expansion, through a Transaction or otherwise, of the Business outside the Geographic Footprint shall be deemed to have been not unreasonably withheld or delayed).

(2) In addition to the requirements of the *Business Corporations Act*, notwithstanding anything contained herein, the following actions may only be taken by the Corporation or the Subsidiaries, as applicable, if the Shareholders holding a majority of the then issued and outstanding Common Shares consent to such action by an instrument or instruments in writing:

(a) the remuneration of the directors.

(3) Each Shareholder agrees to use its reasonable best efforts, in good faith, to ensure that it is duly represented at all Shareholder meetings.

(4) None of the Shareholders, the Municipal Shareholders nor the Corporation, as applicable, shall take any action that would cause the LDC or any of the Shareholders to lose its exemption from liability for tax under subsection 149 of the *Income Tax Act* (other than as contemplated in Section 3.08) unless all of the Parties consent to such action by an instrument or instruments in writing.

(5) The Shareholders acknowledge that Board Approved Transactions shall not be subject to Shareholder approval but instead will be subject to review and approval by the Board.

Section 2.07 **Objectives and Guiding Principles**

(1) The Parties recognize the following as the objectives and guiding principles of the Corporation, either directly or through the Subsidiaries:

(a) **Business:** The Corporation will engage only in the Business.

The Corporation will, not less than every three (3) years, update and revise the Strategic Plan to reflect business opportunities available, consistent with the *Ontario Energy Board Act* and all other regulatory requirements, which builds upon its excellence in electricity distribution.

In all cases, business expansion will only occur where there is a valid business case which demonstrates that the project will optimize the Corporation's rate of return and Shareholder value.

(b) **For-Profit Corporation:** Subject to Section 2.06(4), the Corporation and the Subsidiaries will be a for profit corporation, with the objective of optimizing its rate of return and Shareholder value. Subject to OEB approval with respect to LDC, the maximum rate of return sought by the Corporation from time to time will be achieved as soon as practical.

(c) **Dividends and Capital Structure:** The Board will declare and cause the Corporation to pay dividends to the Shareholders in accordance with the policy set out in Schedule "D" hereto, as the same may be amended from time to time by the Shareholders in accordance with Section 2.06(1)(g). Subject to the foregoing sentence the Board will establish policies to develop and maintain a financial and capitalization structure for the Corporation consistent with industry standards and sound financial principles in order to provide the Shareholders (and Municipal Shareholders if applicable) with regular dividend and/or interest payments consistent with the preceding paragraph.

(d) **Customers:** The distribution customers of the LDC are the operational priority of the LDC with respect to its electricity distribution business. The LDC will provide a reliable, effective and efficient electricity distribution system. The LDC will harmonize, within OEB guidelines, its distribution rates for distribution customers.

(e) **Employees:** The Corporation and the Subsidiaries will treat all of their employees in a fair and equitable manner. The Corporation and the Subsidiaries will develop with their employees a shared commitment towards high customer service, improved productivity and workplace safety.

The Corporation and the Subsidiaries will ensure that all of their staff understand the Corporation's and the Subsidiaries' business plan and direction, and that they have the skill required to fulfil their part in achieving those goals.

(f) **Community:** With due consideration to the optimization of the rate of return and Shareholder value, the Corporation will be an integral participant and play a significant role in the local communities in which it operates. The Corporation will strive to be a good corporate citizen and a facilitator of economic development throughout the Corporation's service area. The Corporation shall not facilitate economic development in a way that would favour one community over another, or discriminate against any community within the Corporation's service area.

(g) **Founding Shareholders:** This Agreement has been entered into in the spirit of a mutually cooperative partnership of the Shareholders. The Shareholders shall at all times in carrying out their rights, duties and obligations hereunder strive to act fairly and equitably in the interest of all of the communities within the LDC's service area.

(h) **Growth:** The Corporation is committed to pursuing significant growth opportunities on a prudent and profitable basis where it enhances the Corporation's strategic position and economies of scope and scale. Specifically, the LDC will pursue opportunities for the acquisition, merger or other business arrangements with neighbouring local distribution companies within the Geographic Footprint and will consider from time to time other opportunities for acquisition, merger or other business arrangements with other Persons which other opportunities will, upon the recommendations of management and the Board of the Corporation, be reviewed and considered by each Shareholder acting in good faith, all in a manner consistent with the foregoing objectives and principles.

(i) **Distribution System Performance, Reliability and Planning, Customer Service and Employee and Community Safety:** The Corporation shall implement a comprehensive review of the foregoing principles and standards and recommend the desired standards and practices to be followed by the Corporation on a unified basis. The review shall give due consideration to service reliability, costs, and risks. The recommended standards shall be presented to the Board for consideration and, if appropriate, approval.

(j) **Environmental Stewardship:** The Corporation will act as a responsible steward over the resources it manages, exercising a strong commitment to energy conservation and environmental sustainability. The Corporation will employ business and operating practices which seek to minimize its impact on the environment.

(k) **Shareholder/Municipal Shareholder Debt Prepayment:** To the extent prepayment or redemption, as the case may be, is allowable under the terms thereof, if the Board determines that it is in the best interest of the Corporation or the LDC to prepay or redeem any outstanding debt owing to any Shareholders and/or Municipal Shareholders, the Corporation's/LDC's offer of prepayment shall be made to each Shareholder and Municipal Shareholder on an equitable basis.

(2) The Shareholders, the directors and management of the Corporation, in exercising their respective rights and duties, shall do so in a manner consistent with these objectives and guiding principles.

Section 2.08 Offices/Officers

The offices and the officers of the Corporation, until changed by the Board, shall consist of the following:

Office	Officer
President and Chief Executive Officer	Brian Bentz
Executive Vice-President and Secretary	Dennis Nolan
Executive Vice-President and Chief Financial Officer	John Glicksman

The offices and the officers of the LDC, until changed by the Board, shall consist of the following:

Office	Officer
President and Chief Executive Officer	Brian Bentz
Executive Vice-President and Chief Operating Officer	Mark Henderson
Executive Vice-President Corporate Services and Secretary	Dennis Nolan
Executive Vice-President and Chief Financial Officer	John Glicksman
Executive Vice-President Renewable Generation and Conservation	Milan Bolkovic

Collus PowerStream Overview presented to Collingwood Town Council

Ed Houghton, President & CEO
Wednesday, January 28, 2015

Benefits of the Strategic Partnership

1. *Complimentary Vision, Mission and Values*. Collus and PowerStream each have a strategic vision, mission and values that compliments each other to describe their future as a regulated electric utility. This will enable the company to effectively implement it's business plan to deliver clean, affordable and reliable energy to its customers now and in the future.

2. *Platform to Leverage Scale.* Ability to leverage the size of PowerStream's operations and diversity compared to those of Collus PowerStream on a standalone basis. To provide (i) enhanced operational stability, (ii) greater ability to execute Conservation and Demand Management programs, (iii) greater ability to validate business strategy execution risk with a leading, large LDC, (iv) increase asset utilization and share reinvestment programs, (v) a stronger voice in shaping Provincial energy and economic development policies, and (vi) allow for additional options for future potential strategic transactions.

Benefits of the Strategic Partnership, *cont'd*

3. *Complimentary Geographic Coverage and Potential Future Diversity.* Ability to take advantage of balanced coverage throughout Central Ontario, where Collus PowerStream and PowerStream have complementary geographic coverage. In addition Collus PowerStream sees value and potential in augmenting its geographic diversity with strategically partnering with other adjacent LDC's to create increases in scale and scope.

4. *Employee Engagement and Combined Expertise.* Will combine complementary areas of expertise drawing on the intellectual capital, technical expertise and experience of a deeper and more diverse workforce. In order to capture the perspective of the Collus PowerStream employees as it pertains to the benefits and successes of the strategic partnership, an internal employee survey was conducted to measure the responses to ten key questions from a "pre-partnership" and "post-partnership" point of view. The survey was distributed to all 28 dedicated employees across all departments using a third-party software which ensured that the responses were posted anonymously so that the employees would be able to posts results freely and candidly.

Collus PowerStream

Proposed Merger of PowerStream, Enersource, and Horizon, and Acquisition of Brampton Hydro

Staff Recommendations Report
Special General Committee
November 11, 2015
7:00 PM

Agenda

1. Decision Support
2. PowerStream vs. MergeCo
3. Relative Valuation
4. Brampton Hydro Acquisition
5. Synergies
6. Risks to the Investment
7. Amendments to the Transaction
8. Guiding Principles for Decision Making
9. Investment Summary
10. Customer Benefits
11. Recommendations

2. PowerStream vs MergeCo - Vision

PowerStream

- Strategic vision to grow via mergers, acquisitions and new business
- Control and influence
  - Pace and speed of investment
  - Nature of business

MergeCo

- Strategic vision to grow via mergers, acquisitions and new business
- Less control and influence
  - Board approved < $75M*
  - 2/3 shareholder > $75M*

  * After 75% of synergies achieved

Vision may not align with the City, e.g. funding capability. Less control and influence over projects and acquisitions selected by MergeCo.

7. Amendments to the Transaction

Completed

- Unanimous shareholder consent for LDC mergers and acquisitions until 75% of synergies achieved
- Founding shareholders maintain original board seats for six years
- Limited Partnership Comfort Letter Received from the Province
- Promissory note extension available until 2056 at OEB deemed rate

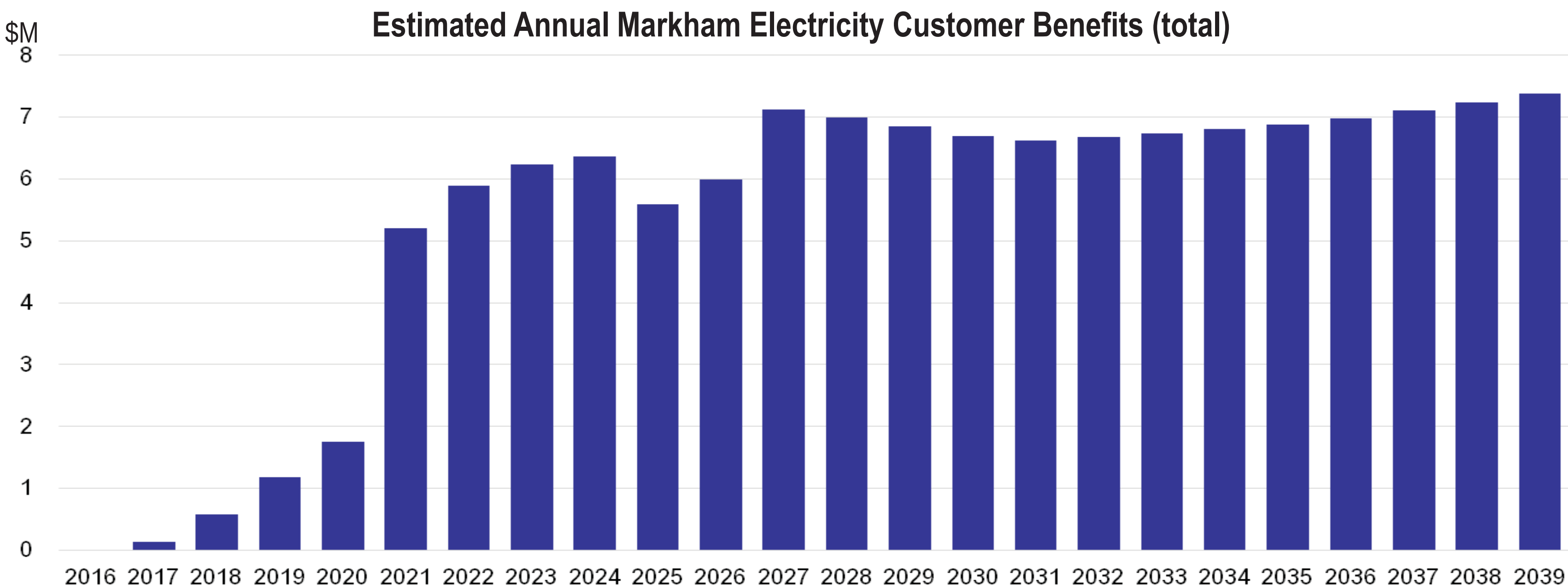
Pending

- Staff are seeking a municipal backstop to fund MEC's portion of the transaction – further follow up underway
- Tax mitigation language has been improved with respect to mitigation of departure tax liability for first and subsequent share sales

9. Investment Summary - Analysis

- Cash flows to Markham estimated to increase by $8-13M Net Present Value (NPV) depending on funding source
- Transaction as an investment does add value vs status quo
- Return on incremental investment is greater than 5% under all funding source options in the long term
- Transaction has risk (predominant risk is the successful achievement of synergies – timing and magnitude)
- Staff have negotiated amendments to reduce the Transaction risk
- Transaction incremental value is not compelling and is not recommended independent of customer benefits

10. Customer Benefits – Markham Average Total of $5.4M per year



Source: Navigant Project Aura Valuation and Business Case Model (September 10, 2015)

Notes:

1) All values nominal

1) Customer benefits over the first 5 years are driven by avoided capital expenditures

2) Customer benefits after the first 5 years are driven by lower operating costs and avoided capital expenditures

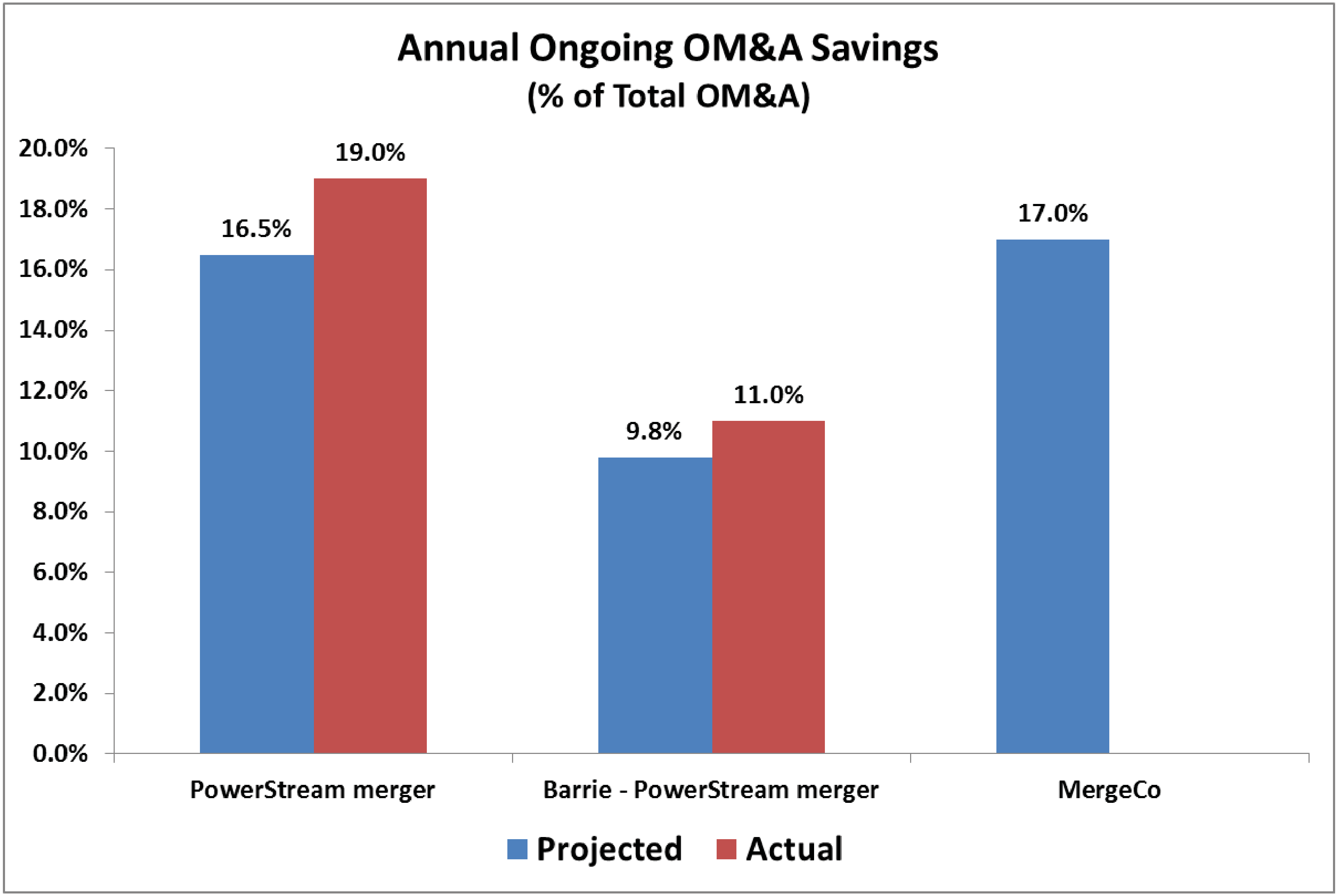
11. Recommendation

- Greater than 5% incremental investment return is expected
- Staff negotiated significant amendments to the Transaction to reduce risk, but it is still not financially compelling given the remaining risk
- The Transaction cannot be recommended by City staff solely on an investment basis
- The Transaction will deliver meaningful customer benefits
  - After year six an average savings of $40/yr for all customers and $24-30/yr for residential utility bills (5-9% of the distribution portion of the bill)
  - Offsetting future increases

Our History

- **2004** – Hydro Vaughan, Markham Hydro and Richmond Hill Hydro merge to become PowerStream
- **2005** – PowerStream purchases Aurora Hydro
- **2008** – Gold LEED certified head office is built in Vaughan
- **2009** – PowerStream and Barrie Hydro merge to create the 2nd largest municipally-owned LDC in Ontario; PowerStream Solar photo voltaic (PV) business is launched
- **2010** – Gold LEED certified service centre is built in Markham
- **2012** – PowerStream acquires a 50% stake in Collingwood's Collus Energy Corp - creates Collus PowerStream Corp
- **2013** – PowerStream launches PowerStream Energy Services Inc (PESI) affiliate, offering new products and services to customers
- **2015** – PowerStream Inc. pursues a mega-merger with Enersource Corporation and Horizon Utilities; proposes to purchase Brampton Hydro

PowerStream Historic Mergers



G. FUTURE REORGANIZATION

Subject	PHI USA	MergeCo USA
Post-Closing Reorganization	Not applicable	Contains detailed plan for reorganization after the Closing under which operating subsidiaries would be converted into limited partnerships. Main purpose is to enable future third-party investment or asset sales without triggering adverse tax consequences (see above under "Tax Indemnity" for brief description of tax regime).

H. GUIDING PRINCIPLES

Subject	PHI USA	MergeCo USA
Guiding Principles	The PHI USA contains 11 Guiding Principles:	The MergeCo USA contains 8 guiding Principles:
	Business: Strategic Plan to be updated every 3 years. Business expansion to occur where business case demonstrates the project will optimize the rate of return and shareholder value	
	For Profit Corporation: optimize rate of return and Shareholder value; achieve maximum rate of return as soon as practical	**Management:** Board oversees business with a view to best interests of Corporation, which may include consumers and ratepayers, Shareholders, employees, creditors, governments and environment. Achieving synergies in the MAAD's application is in the best interests of the Corporation and the Board is committed to achieving such results.
	Dividends and Capital Structure: pay dividends in accordance with policy and develop and maintain a financial and capitalization structure consistent with	

Subject	PHI USA	MergeCo USA
	industry standards and sound financial principles to provide Shareholders with regular dividend and/or interest payments	
	Customers: operational priority; provide reliable, effective and efficient system	**Customers:** similar provision plus: Corporation will not harmonize distribution rates for customers of its predecessor LDC's until the differences between the rates are immaterial.
	Employees: treat in fair and equitable manner	**Employees:** endeavour to treat in fair and equitable manner, aspire to best in class HR policies and practices; adhere to core values, demonstrate shared commitment to high customer service, improved productivity and workplace safety.
	Community: integral to and play significant role in local communities; not favouring one community over another	Same
	Founding Shareholders: mutually cooperative partnership; strive to act fairly and equitably	
	Growth: pursue significant growth opportunities on prudent and profitable basis; enhancing strategic position and economies of scope and scale. Pursue acquisition, merger, or other arrangements	**Growth:** pursue growth opportunities on prudent and profitable basis where aligned with Corporation's strategy; acquisition, merger or other arrangements, acquiring embedded customers in Corporation municipalities (Hydro One customers); unregulated business; require 3rd party investment to finance mergers, new opportunities;
	Distribution performance, reliability and planning, customer service and employee and community safety.	
	Environmental Stewardship: responsible steward, strong commitment to energy conservation and sustainability; minimize impact on environment	**Same**
	Shareholder Debt repayment: if in the best interest of the corporation or LDC to prepay or redeem debt, if permitted.	

J-CCC-62

REF: Ex. J, Appendix 2-JA

Please provide detailed budgets for the following OM&A categories in the same format as Appendix 2-JA: Billing and Collecting; Community Relations; and Administrative and General. Please describe the major components of these budget areas – what specific functions are included. Please explain why spending in each of these areas is increasing over the term of the plan.

RESPONSE:

Billing and Collecting

Finance	Bridge Year	Test Years				
In $000	2015 Budget	2016 Budget	2017 Budget	2018 Budget	2019 Budget	2020 Budget
Customer Service	**$16,711**	**$17,282**	**$16,745**	**$16,881**	**$17,176**	**$17,473**
$ Increase		$571	($537)	$137	$295	$297
% Increase		3.4%	-3.1%	0.8%	1.7%	1.7%

Customer Service handles meter to cash activities for approximately 356,000 customers in the PowerStream service area. Customer Service performs billing, customer relations and customer credit activities.

2016 Budget over 2015 Budget, $571,000 or 3.4%

The year over year increases are moderate at approximately 3.4% for Billing and Collection. In 2016, the CIS stabilization phase begins to wind down in support of the new CIS. The need for temporary staff is lessened in order to provide backfill for daily operations. OM&A labour costs begin to return to relatively normal levels with labour escalation impacts only resulting in an overall increase of $406,000 which includes reductions in CIS stabilization contract costs of approximately $250,000.

2017 Budget over 2016 Budget, ($537,000) or -3.1%

The year over year variance is attributable to the removal of 14 temporary staff that assisted with the implementation and stabilization phases of the new CIS. Temporary staff provided operational support in order to facilitate the dedication of subject matter experts to the stabilization effort. Total Labour costs are lower by approximately $451,000.

2018 to 2020 Budget

The year over year variances are moderate during this period and are mainly attributable to labour cost escalation and increase in general expenses due to inflationary pressures which were offset by the incremental reductions in the outsourced call centre costs. In 2019 and 2020 outsourced call centre is no longer required and costs return to their normal levels.

Community Relations

Corporate Services	Bridge Year	Test Years				
In $000	2015 Budget	2016 Budget	2017 Budget	2018 Budget	2019 Budget	2020 Budget
Corporate Communications	**$1,806**	**$2,124**	**$2,194**	**$2,221**	**$2,250**	**$2,276**
$ Increase		$318	$70	$27	$28	$26
% Increase		17.6%	3.3%	1.3%	1.3%	1.2%

The Corporate Communications function is the business unit responsible for community relations. They are responsible for leading and executing all internal and external communications and related processes for PowerStream. Responsibilities include development, implementation and monitoring of corporate communications strategies and tactics, as well as customer communications, media and general public relations, employee communications, branding, crisis communication, and corporate social responsibility activities.

2016 budget over 2015 bridge, $318,000 or 17.6%

The year over year increase is due to a change in Sponsorship classifications in 2016, resulting in all Sponsorships (see table below) being included in the corporate communications business unit. In prior years, only a small portion of Sponsorships (Character, Fairs/Festivals, Earth Hour) were partially recovered through rates, however, this methodology was revisited and hence revised to include all Sponsorships.

Sponsorships	2016 Budget
Character	$12,500
Fairs/Festivals	$37,000
Earth Hour	$3,000
Hospital Galas	$37,500
Business Awards	$28,500
Parades	$8,500
Misc Corporate	$47,000
Vaughan misc	$22,500
Vaughan Mayor	$41,500
Markham misc	$11,000
Markham Mayor	$19,050
Barrie Misc	$15,000
Barrie Mayor	$9,000
Shareholder unallocated	$25,450
Total Sponsorships	***$317,500***

2020 budget over 2016 budget, $152,000 or 7.2%

The 2016 through 2020 budget years are expected to see an average OM&A increase of 1.8% per annum driven by labour and other general inflationary cost increases.

Administrative and General

The administration and general category includes four business units being corporate services, corporate finance and reporting, rates and regulatory and corporate. The details of these business units are set out below.

Corporate Services

Corporate Services	Bridge Year	Test Years				
In $000	2015 Budget	2016 Budget	2017 Budget	2018 Budget	2019 Budget	2020 Budget
Supply Chain Services	**$5,979**	**$6,277**	**$6,351**	**$6,424**	**$6,493**	**$6,559**
$ Increase		$298	$73	$73	$69	$65
% Increase		5.0%	1.2%	1.2%	1.1%	1.0%
Information Services	**$9,132**	**$9,085**	**$9,260**	**$9,256**	**$9,454**	**$9,484**
$ Increase		($48)	$175	($3)	$197	$30
% Increase		-0.5%	1.9%	-0.04%	2.1%	0.3%
Legal	**$513**	**$639**	**$737**	**$761**	**$787**	**$808**
$ Increase		$126	$99	$24	$26	$21
% Increase		24.6%	15.4%	3.2%	3.4%	2.7%
HR & Organizational Effectiveness	**$5,458**	**$5,669**	**$5,736**	**$5,776**	**$5,883**	**$5,982**
$ Increase		$210	$67	$40	$106	$100
% Increase		3.9%	1.2%	0.7%	1.8%	1.7%

Supply Chain Services oversees the management of Strategic Sourcing and Facilities, Inventory Management and Fleet.

2016 budget over 2015 bridge, $298,000 or 5.0%

The year over year increase in Facilities costs are due to the fact, that previous to 2015, a portion of the office space at PowerStream's Jane street office was utilized by the CIS project team and capitalized in the cost of the CIS project. After quarter two 2015, the project was complete and the office space was reabsorbed into the facilities business unit. In 2016 the full year impact of the reabsorption of office space occurred which increased OM&A.

2020 budget over 2016 budget, $282,000 or 4.5%

The 2016 through 2020 budget years are expected to see a steady OM&A increase of 1.1% per annum driven by labour and other general inflationary cost increases.

Information Services provides Operations and Support; Strategic Planning and Administration; Enterprise Resource Planning (ERP) Services; Customer Information

System (CIS) Services; and Information Security support service activities to the organization.

2020 budget over 2015 bridge, $352,000 or 3.9%

The 2015 through 2020 budget years are expected to see a steady OM&A increase of 0.8% per annum driven by labour and other general inflationary cost increases, except for the increase in 2017 resulting from the addition of the new Security Analyst position, combined with the full year impact of the Sr. Technical Specialist & Database Administrator roles.

<u>Legal</u> is principally responsible for: providing legal advice to staff at all levels on a broad spectrum of matters; reviewing, drafting, and/or negotiating various contracts; and providing counsel on various risk mitigation issues.

2016 budget over 2015 bridge, $126,000 or 24.6%

The 2016 Legal budget is higher than 2015 due to the inclusion of one incremental headcount for a new Contracts Manager position.

2017 budget over 2016 budget, $99,000 or 15.4%

The 2017 Legal budget is higher than 2016 due to the annualized impact of the new Contracts Manager position hired in 2016, in addition to labour and other general inflationary cost increases.

2020 budget over 2017 budget, $71,000 or 9.6%

The 2017 through 2020 budget years are expected to see an average OM&A increase of 3.2% per annum driven by labour and other general inflationary cost increases.

<u>The HR & Organizational Effectiveness</u> function provides strategic and management partner services to each business unit within PowerStream. The function is, comprised of four teams, specializing in: Human Resources Services; Health & Safety Services; Organizational Effectiveness; Enterprise Risk and Internal Audit.

2016 budget over 2015 bridge, $210,000 or 3.9%

The overall year over year variance in 2016 is due to growth in the Health and Safety and Enterprise Risk & Internal Audit headcount. The new headcount includes the addition of a Health and Safety Trainer role and a new Co-op student role in Enterprise Risk & Internal Audit.

2020 budget over 2016 budget, $313,000 or 5.5%

The 2016 through 2020 budget years are expected to see an average OM&A increase of 1.4% per annum driven by labour and other general inflationary cost increases.

Corporate Finance and Reporting

Finance	Bridge Year	Test Years				
In $000	2015 Budget	2016 Budget	2017 Budget	2018 Budget	2019 Budget	2020 Budget
Corporate Finance & Reporting	**$5,701**	**$6,049**	**$6,183**	**$6,308**	**$6,534**	**$6,589**
$ Increase		$347	$134	$125	$226	$55
% Increase		6.1%	2.2%	2.0%	3.6%	0.8%

Corporate Finance, Accounting, and Reporting team perform two key business support and operational functions being: General Accounting; and Corporate Finance. The General Accounting team provide support to the organization by performing Corporate Accounting and Payroll activities. The Corporate Finance team provides decision making support through financial reporting and analysis; strategic planning, financial modeling, and treasury functions.

2016 Budget over 2015 Budget, $347,000 or 6.1%

The year over year variance is mainly attributable to increases in consulting funds. These costs have increased to fund productivity improvements related to the automation and improvement of some key finance functions. The remainder of the increase is mainly attributable to labour cost escalation and increases in general expenses due to inflationary pressures.

2016 Budget to 2018 Budget, $259,000 or 2.1% average per annum

The year over year variances are moderate during this period and are mainly attributable to labour cost escalation and increases in general expenses due to inflationary pressures.

2019 Budget over 2018 Budget, $226,000 or 3.6%

In addition to labour cost escalation and inflation, there were increases in general expenses due to the increased cost of $81,000 for an additional pre-hire resource to be trained as a Payroll Supervisor in preparation of a retirement in 2020.

2020 Budget over 2019 Budget, $55,000 or 0.8%

The year over year variances are moderate during this period and are mainly attributable to labour cost escalation and increase in general expenses due to inflationary pressures.

Rates and Regulatory

Finance	Bridge Year	Test Years				
In $000	2015 Budget	2016 Budget	2017 Budget	2018 Budget	2019 Budget	2020 Budget
Rates & Regulatory Affairs	**$3,259**	**$3,034**	**$3,061**	**$3,115**	**$3,080**	**$3,134**
$ Increase		($226)	$27	$54	($35)	$54
% Increase		-6.9%	0.9%	1.8%	-1.1%	1.8%

Rates and Regulatory Affairs assists in the development of regulatory strategy, budgeting, analyzing load forecasts and accounting for distribution revenue. In addition, this team is responsible for overseeing the preparation, filing and regulatory process for defending rate applications, performing and monitoring regulatory accounting, and engaging in government relations.

2016 Budget over 2015 Bridge Year, ($226,000) or - 6.9%

In 2015 PowerSteam's legal, consulting and OEB intervenor costs increased as result of the submission of the 2016 to 2020 custom IR rate application. In 2016 OM&A costs are lower due to the reduction in legal, consulting and OEB Intervenor costs as a result of the completion of the 2016 - 2020 Custom IR application.

2020 Budget over 2016 Budget, $100,000 or 0.8%

The year over year variances are moderate during this period and are mainly attributable to labour cost escalation and increase in general expenses due to inflationary pressures

Corporate

Corporate	Bridge Year	Test Years				
In $000	2015 Budget	2016 Budget	2017 Budget	2018 Budget	2019 Budget	2020 Budget
Corporate	**$8,591**	**$8,660**	**$8,919**	**$9,025**	**$9,202**	**$9,380**
$ Increase		$69	$259	$106	$177	$178
% Increase		0.8%	3.0%	1.2%	2.0%	1.9%

The Corporate business unit incorporates the costs associated with the strategic leadership of the Executive Management Team (EMT). Administration costs of Board meetings, including the support of the Audit and Finance Committees, applicable Executive professional development and necessary business travel are supported through this work program.

2016 Budget over 2015 Bridge, $69,000) or 0.8%

The primary reason for this increase is due to the addition of a new headcount in 2016 for Strategic Support. This position is included for half a year in 2016. The remaining year over year variances are moderate during this period and are mainly attributable to labour cost escalation and increase in general expenses due to inflationary pressures offset by the 2015 Website project.

2017 Budget over 2016 Budget, $259,000 or 3.0%

The primary reason for this increase is due to the headcount increase in 2016 for Strategic Support that was included at half year and is now in the forecast for a full year. The remaining year over year variances are moderate during this period and are mainly attributable to labour cost escalation and increase in general expenses due to inflationary pressures.

2017 Budget to 2020 Budget, $461,000 or 1.7% average per annum

For the Budget period 2017 – 2020, cost increases are within 2.0% per year, consistent with inflation and are mainly attributable to labour cost escalation and increase in general expenses due to inflationary pressures.

	2012 Actual	2013 Board Approved	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast
Number of Employees (FTEs including Part-Time)										
Executive	26.30	27.20	27.12	27.18	30.00	30.00	30.00	30.00	30.00	30.00
Management	77.26	83.00	77.29	78.18	82.50	87.50	87.00	87.75	88.75	88.75
Non-Union	51.58	63.00	57.28	58.54	66.50	69.00	73.75	74.00	74.00	74.00
Union	319.86	340.60	318.29	318.97	337.60	338.85	343.60	343.60	344.60	342.60
Temp & students	43.94	36.85	53.12	61.22	50.85	41.52	27.52	27.52	27.52	27.52
Total	**518.94**	**550.65**	**533.10**	**544.09**	**567.45**	**566.87**	**561.87**	**562.87**	**564.87**	**562.87**
Total Salary and Wages										
Executive	$ 4,656,389	$ 4,921,180	$ 4,832,959	$ 5,003,884	$ 5,681,614	$ 5,821,783	$ 5,953,345	$ 6,079,079	$ 6,157,878	$ 6,300,564
Management	$ 8,346,567	$ 9,059,063	$ 8,495,118	$ 8,887,037	$ 9,382,204	$ 10,155,300	$ 10,365,731	$ 10,693,012	$ 11,079,896	$ 11,356,359
Non-Union	$ 4,631,020	$ 5,693,054	$ 5,264,787	$ 5,480,726	$ 6,253,505	$ 6,636,447	$ 7,235,377	$ 7,486,315	$ 7,692,789	$ 7,873,102
Union	$ 23,456,646	$ 25,164,828	$ 24,090,422	$ 24,866,942	$ 25,887,535	$ 26,870,309	$ 28,114,569	$ 28,895,671	$ 29,670,610	$ 30,227,137
Temp & students	$ 1,873,242	$ 1,404,595	$ 2,592,480	$ 3,137,598	$ 2,216,509	$ 1,649,894	$ 985,162	$ 987,389	$ 989,802	$ 992,267
Total	**$ 42,963,863**	**$ 46,242,720**	**$ 45,275,766**	**$ 47,376,187**	**$ 49,421,367**	**$ 51,133,732**	**$ 52,654,185**	**$ 54,141,466**	**$ 55,590,975**	**$ 56,749,428**
Over Time										
Executive	$ -	$ -	$ -	$ -						
Management	$ 107,139	$ -	$ 124,142	$ 274,886	$ 85,000	$ 85,000	$ 85,000	$ 85,000	$ 85,000	$ 85,000
Non-Union	$ 7,653		$ 4,415	$ 27,512						
Union	$ 3,373,889	$ 2,870,725	$ 3,193,871	$ 4,121,769	$ 2,511,718	$ 2,619,847	$ 2,649,972	$ 2,700,969	$ 2,757,366	$ 2,811,170
Temp & students	$ 12,878	$ -	$ 4,140	$ 32,542	$ -	$ -	$ -	$ -	$ -	$ -
Total	**$ 3,501,559**	**$ 2,870,725**	**$ 3,326,569**	**$ 4,456,709**	**$ 2,596,718**	**$ 2,704,847**	**$ 2,734,972**	**$ 2,785,969**	**$ 2,842,366**	**$ 2,896,170**
Performance Incentive Plan										
Executive	$ 1,354,712	$ 1,136,987	$ 1,401,655	$ 1,475,540	$ 1,536,189	$ 1,572,177	$ 1,606,371	$ 1,639,698	$ 1,662,676	$ 1,701,069
Management	$ 556,202	$ 591,353	$ 719,689	$ 749,437	$ 824,993	$ 894,758	$ 916,108	$ 943,802	$ 976,011	$ 1,000,082
Non-Union	$ 292,453	$ 319,375	$ 407,570	$ 392,494	$ 479,040	$ 505,252	$ 548,497	$ 566,894	$ 582,108	$ 595,568
Union	$ -	$ -	$ 17,874	$ 24,420	$ 28,073	$ -	$ -	$ -	$ -	$ -
Temp & students	$ 20,000	$ -	$ 2,739	$ 4,703	$ -	$ -	$ -	$ -	$ -	$ -
Total	**$ 2,223,368**	**$ 2,047,714**	**$ 2,549,527**	**$ 2,646,594**	**$ 2,868,295**	**$ 2,972,187**	**$ 3,070,976**	**$ 3,150,394**	**$ 3,220,795**	**$ 3,296,719**
Total Benefits (Current + Accrued)										
Executive	$ 1,179,348	$ 679,708	$ 1,333,121	$ 1,443,540	$ 990,158	$ 1,006,395	$ 1,021,705	$ 1,044,099	$ 1,064,861	$ 1,089,169
Management	$ 2,782,581	$ 3,110,933	$ 2,989,214	$ 3,092,574	$ 3,495,213	$ 3,721,372	$ 3,776,012	$ 3,871,903	$ 3,994,920	$ 4,093,684
Non-Union	$ 1,216,323	$ 1,574,323	$ 1,481,929	$ 1,460,207	$ 2,194,849	$ 2,314,709	$ 2,511,693	$ 2,575,444	$ 2,626,656	$ 2,686,617
Union	$ 7,434,769	$ 9,885,736	$ 7,793,367	$ 7,871,822	$ 8,315,182	$ 8,598,099	$ 8,930,792	$ 9,110,153	$ 9,315,229	$ 9,504,412
Temp & students	$ 243,113	$ 241,434	$ 328,851	$ 407,221	$ 448,866	$ 405,248	$ 343,882	$ 350,826	$ 357,815	$ 364,977
Total	**$ 12,856,134**	**$ 15,492,134**	**$ 13,926,483**	**$ 14,275,363**	**$ 15,444,267**	**$ 16,045,824**	**$ 16,584,084**	**$ 16,952,425**	**$ 17,359,481**	**$ 17,738,859**
Total Compensation including Benefits										
Executive	$ 7,190,449	$ 6,737,874	$ 7,567,735	$ 7,922,964	$ 8,207,961	$ 8,400,355	$ 8,581,422	$ 8,762,876	$ 8,885,415	$ 9,090,802
Management	$ 11,792,488	$ 12,761,349	$ 12,328,163	$ 13,003,934	$ 13,787,410	$ 14,856,430	$ 15,142,851	$ 15,593,717	$ 16,135,827	$ 16,535,125
Non-Union	$ 6,147,450	$ 7,586,752	$ 7,158,701	$ 7,360,939	$ 8,927,395	$ 9,456,408	$ 10,295,566	$ 10,628,652	$ 10,901,554	$ 11,155,287
Union	$ 34,265,303	$ 37,921,288	$ 35,095,535	$ 36,884,953	$ 36,742,508	$ 38,088,254	$ 39,695,333	$ 40,706,794	$ 41,743,205	$ 42,542,718
Temp & students	$ 2,149,233	$ 1,646,029	$ 2,928,210	$ 3,582,065	$ 2,665,374	$ 2,055,142	$ 1,329,044	$ 1,338,215	$ 1,347,617	$ 1,357,244
Total	**$ 61,544,923**	**$ 66,653,293**	**$ 65,078,344**	**$ 68,754,854**	**$ 70,330,648**	**$ 72,856,589**	**$ 75,044,216**	**$ 77,030,255**	**$ 79,013,616**	**$ 80,681,176**
Total Compensation Charged to OM&A	**$ 40,789,066**	**$ 44,141,066**	**$ 42,914,690**	**$ 43,313,155**	**$ 48,034,792**	**$ 49,894,415**	**$ 51,003,819**	**$ 52,237,951**	**$ 53,416,983**	**$ 54,460,566**
Total Compensation Capitalized	**$ 20,755,857**	**$ 22,512,227**	**$ 22,163,654**	**$ 25,441,699**	**$ 22,295,856**	**$ 22,962,174**	**$ 24,040,397**	**$ 24,792,304**	**$ 25,596,633**	**$ 26,220,610**
% in OMA	**66%**	**66%**	**66%**	**63%**	**68%**	**68%**	**68%**	**68%**	**68%**	**68%**
% in Capital	**34%**	**34%**	**34%**	**37%**	**32%**	**32%**	**32%**	**32%**	**32%**	**32%**

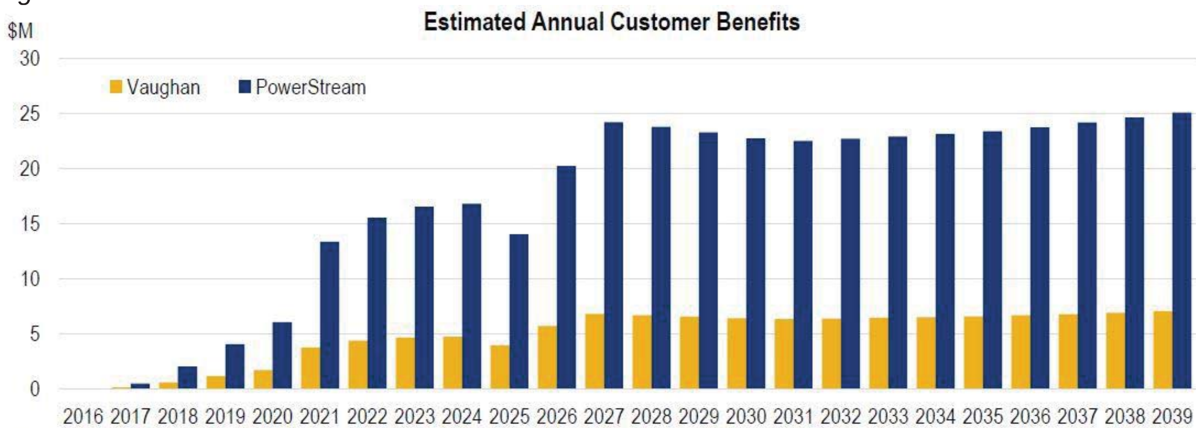
COMMITTEE OF THE WHOLE
WORKING SESSION

September 22, 2015

POWERSTREAM
MERGER AND ACQUISITION

VAUGHAN

Figure 6 – Customer benefits



Source: Navigant Project Aura Valuation and Business Case Model (August 28, 2015)
Notes:
1) All values nominal
1) Customer benefits over the first 10 years are driven primarily by avoided capital expenditures
2) Customer benefits after the first 10 years are driven primarily by lower operating costs

In addition, there are numerous benefits of the merger that go beyond cost savings on customer bills. These include:

- Better ability to serve customers through enhanced and shared systems and range of products or services available.
- Increased resources to respond to reliability issues.
- Investment in new business opportunities improves economic development in the City.

Regional Implications

Residents of York and greater Toronto and Hamilton areas being served by MergeCo can expect reduced upward pressure on future hydro rates with the proposed transaction.

Conclusion

PowerStream, Enersource and Horizon utilities are working to finalize details of their proposed merger and joint proposal to purchase Hydro One Brampton from the Government of Ontario. This proposal is the result of many months of effort and negotiation between the parties, and is currently at the critical phase of PowerStream's Board approval. Once endorsed by PowerStream's Board, recommendations will flow to VHI and subsequently to City Council for consideration.

Subject to a PowerStream Board meeting on September 11, 2015 and a VHI Board meeting on September 16, 2015, a written communication will follow this report outlining VHI Board's recommendation.

The proposed transaction would require an equity cash injection of approximately $56M, subject to closing costs. There is a potential for increased dividend income for the City and synergy savings are also expected to reduce upward pressure on future hydro rates. The investment should be viewed as long term in nature. Additionally, the proposed transaction will result in more

NAVIGANT

Final Report

Decision support for the proposed three-way merger between PowerStream Holdings Inc., Enersource Corporation, and Horizon Holdings Inc., and the joint acquisition of Hydro One Brampton Networks Inc.

Prepared for

Vaughan Holdings Inc.

September 18, 2015

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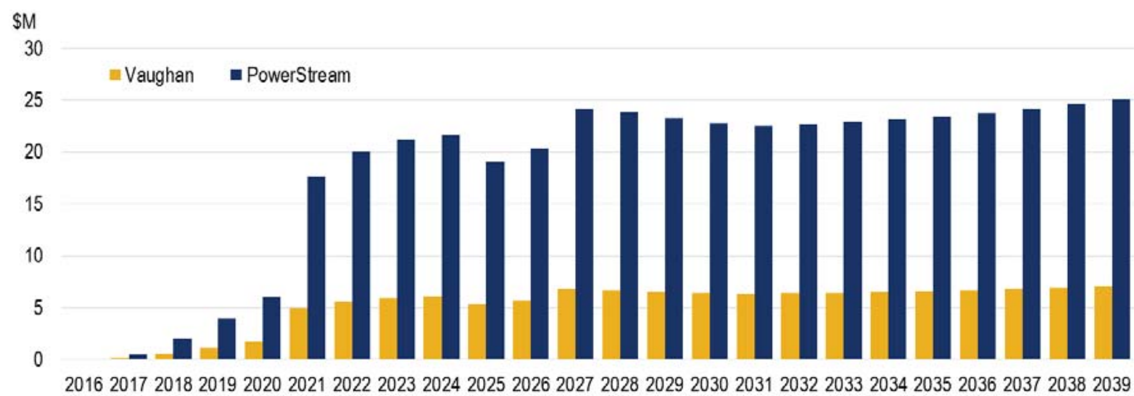
1.5 *Impact on the electricity customer*

Navigant analysed the potential for customer benefits as result of the transaction by comparing the projected revenue for PowerStream under the status quo and the projected revenue for the PowerStream service territory under the proposed transaction. Customer benefits were then allocated to the City of Vaughan based on population across the multiple communities served by PowerStream.

Over 25 years, electricity customers in the City of Vaughan are expected to save a total of $123M as a result of the transaction. Savings for Vaughan residents and businesses average approximately $3.1M per year in the first 10 years, and $6.6M per year thereafter. Total residential taxes levied by the City of Vaughan in 2015 were $757M, and as such savings are equivalent to an initial property tax reduction of 0.4% increasing to 1.0% per year. Savings are expected to be approximately $40 per customer per year and $30 per residential customer per year.

Figure 17: Estimated annual customer benefit



Notes:
1) All values nominal
1) Customer benefits over the first 10 years are driven primarily by avoided capital expenditures
2) Customer benefits after the first 10 years are driven primarily by lower operating costs

The total benefit to the residents and businesses in Vaughan is the combination of the shareholder and electricity customer benefits. The shareholder benefit flows back to residents and businesses in Vaughan indirectly through the municipality, whereas the customer benefits are a direct benefit. Considering these two sources of benefits together Navigant projects that the initial investment of $56M will have a simple payback period of seven years.

Section I

I-Staff-1

Ref: S I-1/T1/S1/p. 1 and S VI/S1/p. 2

At the first reference, it is stated that:

> On April 16, 2015, the potential of a four-party merger involving PowerStream, Enersource, Horizon Utilities and Hydro One Brampton was announced. The parties have signed a non-binding Letter of Intent to explore the potential benefits of a merger. There is also an option for three of the parties to purchase Hydro One Brampton at a pre-defined price.
>
> Currently the parties are in the process of assessing the financial merits of the merger. Transaction costs (before the merger) and transition costs (after the merger) are being weighed against the potential "synergy savings" from bringing four distributors together. If the Shareholders approve the merger (with or without the purchase of Hydro One Brampton) then OEB approval will be sought through a MAADs application.
>
> This Custom IR rate application is for PowerStream as a "standalone" distributor. It is PowerStream's intention to proceed with the Application on this basis regardless of whether or not a decision to merge is made and a MAADs application submitted.

At the second reference, it is stated that the proposed rate plan would terminate under the following conditions:

> PowerStream is proposing to apply the Board's existing policy in relation to off-ramps. Under the RRFE, the Board expects that distributors that apply using the custom rate-setting method will be committed to that method for the duration of the approved term. The Board recognized that a distributor may need to seek early termination and had provided a mechanism for regulatory review to be initiated if the distributor performs outside of the ±300 basis points earnings dead band or if its performance erodes to unacceptable levels.

a) Please confirm that no impacts of the proposed merger are reflected in the application, or if this is not the case, please explain what these impacts are.

b) Please provide an update as to the current status of the merger including the anticipated process for completion and the timing of future milestones to completion.

c) Please confirm that the means of acquiring Hydro One Brampton will have no impact on customer rates during the rate plan period, or if this is not confirmed, please explain.

d) Please state whether or not the potential merger could result in termination of the rate plan. If so, please discuss the circumstances under which this could occur.

RESPONSE:

a) Confirmed.

b) Negotiations are continuing and if they reach a successful conclusion, the transaction will be brought to the respective Boards and Shareholders for approval. Although subject to change, Shareholder deliberations are scheduled to be complete by September 30, 2015.

c) Confirmed.

d) PowerStream is guided by the *Report of the Board: Rate-Making Associated with Distributor Consolidation, March 26, 2015, Board File No. EB-2014-0138*. PowerStream's understanding of this report is that following a merger, any Custom IR plan would continue to its normal termination date. In PowerStream's case, that would be December 31, 2020.