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# Exhibit 1

# ADMINISTRATION

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Date Filed: August 26, 2016

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# Tab 1 of 10

# Table of Contents

# Table of Contents


| Title | Reference |
|---|---|
| **1.0 ADMINISTRATION** | **E1** |
| **1.1 Table of Contents** | **E1\T1** |
| **1.2 Executive Summary/Management Discussion and Analysis** | **E1\T2** |
| 1.2.1 Executive Summary | E1\T2\S1 |
| **1.3 Administration** | **E1\T3** |
| 1.3.1 Legal Application | E1\T3\S1 |
| 1.3.2 Certification of Evidence | E1\T3\S2 |
| 1.3.3 Application Contact Information | E1\T3\S3 |
| 1.3.4 Legal Representation | E1\T3\S4 |
| 1.3.5 Applicants internet access Social Media Accounts | E1\T3\S5 |
| 1.3.6 Statement as to who is affected by application and Publication | E1\T3\S6 |
| 1.3.7 Bill Impacts for public notice of application | E1\T3\S7 |
| 1.3.8 Statement of requested hearing form | E1\T3\S8 |
| 1.3.9 Rate Order Requirement for Implementation | E1\T3\S9 |
| 1.3.10 Statement of Deviations from the Filing Requirements | E1\T3\S10 |
| 1.3.11 Statement of Changes to methodologies used | E1\T3\S11 |
| 1.3.12 Statement Confirming Monthly Billing | E1\T3\S12 |
| 1.3.13 Board Direction from previous EDR decisions | E1\T3\S13 |
| 1.3.14 Conditions of Service | E1\T3\S14 |
| 1.3.15 Confirmation of Rates and Charges | E1\T3\S15 |
| 1.3.16 Corporate and utility organizational structure | E1\T3\S16 |

| Title | Reference |
|---|---|
| 1.3.16.1 London Hydro's Board of Directors' Corporate Governance Manual | E1\T3\S16\Att1 |
| 1.3.16.1.1 Board of Directors' Corporate Governance Manual | E1\T3\S16\Att1.1 |
| 1.3.16.2 London Hydro's Statement of Corporate Governance Practices | E1\T3\S16\Att2 |
| 1.3.16.2.1 Statement of Corporate Governance Practices | E1\T3\S16\Att2.1 |
| 1.3.16.3 London Hydro's Corporate Code of Conduct | E1\T3\S16\Att3 |
| 1.3.16.3.1 London Hydro's Corporate Code of Conduct | E1\T3\S16\Att3.1 |
| 1.3.17 List of specific approvals requested | E1\T3\S17 |
| 1.3.17.1 OEM Appendix 2-A | E1\T3\S17\Att1 |
| 1.3.18 OEB Checklist Completion | E1\T3\S18 |
| 1.3.18.1 OEB Checklist | E1\T3\S18\Att1 |
| **1.4 Distribution System Overview** | **E1\T4** |
| 1.4.1 Description of applicants service area | E1\T4\S1 |
| 1.4.1.1 Service area map | E1\T4\S1\Att1 |
| 1.4.2 Neighbouring Distributors | E1\T4\S2 |
| 1.4.3 Host\Embedded Distributor | E1\T4\S3 |
| 1.4.4 Statement of deemed transmission assets | E1\T4\S4 |
| **1.5 Application Summary** | **E1\T5** |
| 1.5.1 A. Revenue Requirement | E1\T5\S1 |
| 1.5.2 B. Budgeting and Accounting Assumptions | E1\T5\S2 |
| 1.5.3 C. Load Forecast Summary | E1\T5\S3 |
| 1.5.4 D. Rate Base and Capital Plan | E1\T5\S4 |
| 1.5.5 E. OM&A Expense | E1\T5\S5 |
| 1.5.6 F. Cost of Capital | E1\T5\S6 |

| Title | Reference |
|---|---|
| 1.5.7 G. Cost Allocation and Rate Design | E1\T5\S7 |
| 1.5.8 H. Deferral and Variance Accounts | E1\T5\S8 |
| 1.5.9 I. Summary of Bill Impacts | E1\T5\S9 |
| **1.6 Customer Engagement** | **E1\T6** |
| 1.6.1.1 Appendix 2-AC Customer Engagement Activities Summary | E1\T6\S1\Att1 |
| **1.7 Performance Measurement** | **E1\T7** |
| **1.8 Financial Information** | **E1\T8** |
| 1.8.1.1 Audited Financial Statements | E1\T8\S1\Att1 |
| 1.8.1.1.1 2013 Audited Financial Statements | E1\T8\S1\Att1.1 |
| 1.8.1.1.2 2014 Audited Financial Statements | E1\T8\S1\Att1.2 |
| 1.8.1.1.3 2015 Audited Financial Statements | E1\T8\S1\Att1.3 |
| 1.8.1.2 RRR Financial Reconciliations | E1\T8\S1\Att2 |
| 1.8.1.2.1 2013 Reconciliation | E1\T8\S1\Att2.1 |
| 1.8.1.2.2 2014 Reconciliation | E1\T8\S1\Att2.2 |
| 1.8.1.2.3 2015 Reconciliation | E1\T8\S1\Att2.3 |
| 1.8.1.3 Annual Reports | E1\T8\S1\Att3 |
| 1.8.1.3.1 2013 Annual Report | E1\T8\S1\Att3.1 |
| 1.8.1.3.2 2014 Annual Report | E1\T8\S1\Att3.2 |
| 1.8.1.3.3 2015 Annual Report | E1\T8\S1\Att3.3 |
| 1.8.1.4 Rating Agency Report | E1\T8\S1\Att4 |
| **1.9 Distributor Consolidation** | **E1\T9** |
| 1.9.1 Statement on Distributor Consolidation | E1\T9\S1 |
| **1.10 Materiality Threshold** | **E1\T10** |

| Title | Reference |
|---|---|
| **2.0 RATE BASE** | **E2** |
| **2.1 Rate Base** | **E2\T1** |
| 2.1.2 Gross Assets (PP&E) and Accumulated Depreciation | E2\T1\S2 |
| 2.1.3 Allowance for Working Capital | E2\T1\S3 |
| **2.2 Capital Expenditures** | **E2\T2** |
| 2.2.2 Required Information | E2\T2\S2 |
| 2.2.3 Analysis of Capital Expenditure | E2\T2\S3 |
| 2.2.4 Capital Spending by DSP Investment Category | E2\T2\S4 |
| 2.2.5 Capitalization Policy | E2\T2\S5 |
| 2.2.6 Capitalization of Overhead | E2\T2\S6 |
| 2.2.7 Cost of Eligible Investment for Connection of Qualifying Generation Facilities | E2\T2\S7 |
| 2.2.8 Addition of Previously Approved ACM and ICM Project Assets to Rate Base | E2\T2\S8 |
| 2.2.9 New Policy Options for the Funding of Capital - Advanced Capital Module | E2\T2\S9 |
| 2.2.10 Service Quality and Reliability Performance | E2\T2\S10 |
| **2.3 Prescribed Table Listing** | **E2\T3** |
| 2.3.1.1 Appendix 2-1 Fixed Assets Continuity Schedules | E2\T3\S1\App1 |
| 2.3.1.2 Appendix 2-2 Capitalization Policy | E2\T3\S1\App2 |
| 2.3.1.3 Appendix 2-3 Lead Lag Study | E2\T3\S1\App3 |
| 2.3.1.4 Appendix 2-4 New Policy Options for the Funding of Capital | E2\T3\S1\App4 |
| 2.3.1.5 Appendix 2-5 Service Quality and Reliability Performance | E2\T3\S1\App5 |
| 2.3.1.6 Appendix 2-6 Distribution System Plan | E2\T3\S1\App6 |

| Title | Reference |
|---|---|
| **3.0 OPERATING REVENUE** | **E3** |
| **3.1 Load and Revenue Forecasts** | **E3\T1** |
| 3.1.1 Load and Revenue Forecasts Overview | E3\T1\S1 |
| 3.1.2 Load Forecast | E3\T1\S2 |
| 3.1.2.1 RRWF Sheet 10 Load Forecast | E3\T1\S2\Att1 |
| 3.1.3 CDM Adjusted for the Load Forecast | E3\T1\S3 |
| 3.1.3.1 OEB Appendix 2-I LF_CDM | E3\T1\S3\Att1 |
| **3.2 Accuracy of Load Forecast and Variance Analyses** | **E3\T2** |
| 3.2.1.1 Appendix 2-IB Customer, Connections, Load Forecast and Revenues Data and Analysis | E3\T2\S1\Att1 |
| **3.3 Other Revenues** | **E3\T3** |
| 3.3.1.1 OEB Appendix 2-H Other Operating Revenue | E3\T3\S1\Att1 |
| 3.3.1.1.1 OEB Appendix 2-H | E3\T3\S1\Att1.1 |
| **4.0 OPERATING COSTS** | **E4** |
| **4.1 Overview** | **E4\T1** |
| **4.2 Operating Expenses** | **E4\T2** |
| **4.3 London Hydro Programs** | **E4\T3** |
| 4.3.1 Asset Management | E4\T3\S1 |
| 4.3.2 Operations and Maintenance | E4\T3\S2 |
| 4.3.3 Information Technology | E4\T3\S3 |
| 4.3.4 Customer Service and Collections | E4\T3\S4 |
| 4.3.5 Corporate Communications | E4\T3\S5 |
| 4.3.6 Human Resources, Health and Safety | E4\T3\S6 |

| Title | Reference |
|---|---|
| 4.3.7 Facilities and Environmental Services | E4\T3\S7 |
| 4.3.8 Corporate Services | E4\T3\S8 |
| 4.3.9 Locate Services | E4\T3\S9 |
| 4.3.10 Material Management | E4\T3\S10 |
| 4.3.11 Fleet Services | E4\T3\S11 |
| **4.4 Consolidated Cost Elements** | **E4\T4** |
| **4.5 Depreciation and Amortization Expense** | **E4\T5** |
| **4.6 Taxes or Payments in Lieu of Taxes ("PILs")** | **E4\T6** |
| **4.7 Additional Details on Operating Costs** | **E4\T7** |
| **4.8 Prescribed Tables Listing** | **E4\T8** |
| 4.8.1 Appendices Listing | E4\T8\S1 |
| 4.8.1.1 Appendix 4-1: E&Y Evaluation of JDE Upgrade and Deployment Options | E4\T8\S1\App1 |
| 4.8.1.2 Appendix 4-2: Corporate Communications Advertising Samples | E4\T8\S1\App2 |
| 4.8.1.3 Appendix 4-3: Global Reporting Initiative TM (GRI) | E4\T8\S1\App3 |
| 4.8.1.4 Appendix 4-4: OEB PILS Work Form for 2017 (pdf) | E4\T8\S1\App4 |
| 4.8.1.5 Appendix 4-5: CCA Schedules 2013 TO 2017 | E4\T8\S1\App5 |
| 4.8.1.6 Appendix 4-6: 2015 Income Tax Return | E4\T8\S1\App6 |
| 4.8.1.7 Appendix 4-7: Post-Retirement Obligation Actuarial Valuation Report for 2015 | E4\T8\S1\App7 |
| 4.8.1.8 Appendix 4-8: Insured Retirees' Buyout Listing | E4\T8\S1\App8 |
| 4.8.1.9 Appendix 4-9: BMA Management Consulting Water Services Contract Analysis | E4\T8\S1\App9 |
| 4.8.1.10 Appendix 4-10: Purchasing Department Policies and Procedures | E4\T8\S1\App10 |

| Title | Reference |
|---|---|
| 4.8.1.11 Appendix 4-11: LRAM 2011-2014 Final Results Report | E4\T8\S1\App11 |
| 4.8.1.12 Appendix 4-12: LRAM 2015 (Selected Pages From) Verified Results Report | E4\T8\S1\App12 |
| **5.0 COST OF CAPITAL AND CAPITAL STRUCTURE** | **E5** |
| **5.1 Capital Structure and Cost of Capital** | **E5\T1** |
| 5.1.1.1 OEB Appendix 2-OA Capital Structure and Cost of Capital | E5\T1\S1\Att1 |
| 5.1.1.2 OEB Appendix 2-OB Debt Instruments | E5\T1\S1\Att2 |
| **6.0 CALCULATION OF REVENUE DEFICIENCY OR SUFFICIENCY** | **E6** |
| **6.1 Overview** | **E6\T1** |
| 6.1.1 Revenue Deficiency or Sufficiency | E6\T1\S1 |
| 6.1.1.1 Revenue Requirement Calculation | E6\T1\S1\Att1 |
| 6.1.1.2 2017 Cost of Power Calculation | E6\T1\S1\Att2 |
| 6.1.1.2.1 2017 Commodity Price Calculation | E6\T1\S1\Att2.1 |
| 6.1.1.2.2 2017 Cost of Power Calculation | E6\T1\S1\Att2.2 |
| 6.1.2 Comparison to 2013 Deficiency | E6\T1\S2 |
| 6.1.2.1 Compare 2013 vs 2017 Revenue Requirement | E6\T1\S2\Att1 |
| 6.1.2.2 OEB RRWF Model | E6\T1\S2\Att2 |
| **7.0 COST ALLOCATION** | **E7** |
| **7.1 Overview** | **E7\T1** |
| 7.1.1 Cost Allocation Study Requirements | E7\T1\S1 |
| 7.1.2 Class Revenue Requirements | E7\T1\S2 |
| 7.1.3 Revenue-to-Cost Ratios | E7\T1\S3 |
| 7.1.4 Confirmation of Communication - Unmetered Load | E7\T1\S4 |
| 7.1.4.1 Sample Letter to USL Customers | E7\T1\S4\Att1 |

| Title | Reference |
|---|---|
| 7.1.4.2 OEB CA Input Sheet I-6 | E7\T1\S4\Att2 |
| 7.1.4.2.1 OEB CA Input Sheet I-6.1 Revenue | E7\T1\S4\Att2.1 |
| 7.1.4.2.2 OEB CA Input Sheet I-6.2 Customer Data | E7\T1\S4\Att2.2 |
| 7.1.4.3 OEB CA Input Sheet I-8 | E7\T1\S4\Att3 |
| 7.1.4.4 OEB CA Output Sheet O-1 | E7\T1\S4\Att4 |
| 7.1.4.5 OEB CA Output Sheet O-2 | E7\T1\S4\Att5 |
| 7.1.4.6 OEB RRWF Sheet 11 Tables 1 to 4 | E7\T1\S4\Att6 |
| **8.0 RATE DESIGN** | **E8** |
| **8.1 Fixed/Variable Proportion** | **E8\T1** |
| **8.2 Residential Rate Design Policy** | **E8\T2** |
| 8.2.1.1 Tab 12 RRWF Residential Rate Design | E8\T2\S1\Att1 |
| **8.3 Retail Transmission Service Rates (RTSR)** | **E8\T3** |
| 8.3.1.1 OEB RTSR Model | E8\T3\S1\Att1 |
| **8.4 Retail Service Charges** | **E8\T4** |
| **8.5 Regulatory Charges** | **E8\T5** |
| **8.6 Smart Metering Entity Charge** | **E8\T6** |
| **8.7 Specific Service Charges** | **E8\T7** |
| 8.7.2 Cellular Meter Read Charge | E8\T7\S2 |
| **8.8 Low Voltage Service Rates** | **E8\T8** |
| **8.9 Loss Adjustment Factors** | **E8\T9** |
| 8.9.1.1 OEB Appendix 2-R | E8\T9\S1\Att1 |
| **8.10 Transformer Ownership Allowance** | **E8\T10** |

| Title | Reference |
|---|---|
| **8.11 Other Tariff Sheet Changes** | **E8\T11** |
| 8.11.1 Net Metering | E8\T11\S1 |
| 8.11.2 Standby Rates Final | E8\T11\S2 |
| **8.12 Tariff of Rates and Charges** | **E8\T12** |
| 8.12.1.1 Current Tariff of Rates and Charges | E8\T12\S1\Att1 |
| 8.12.1.2 Proposed Tariff of Rates and Charges | E8\T12\S1\Att2 |
| 8.12.1.3 2017_Tariff_Schedule_and_Bill_Impact_Model_V1.0 | E8\T12\S1\Att3 |
| **8.13 Revenue Reconciliation** | **E8\T13** |
| 8.13.1.1 Fixed/Variable Revenue Reconciliation | E8\T13\S1\Att1 |
| 8.13.1.2 Tab 13 RRWF Rate Design | E8\T13\S1\Att2 |
| **8.14 Bill Impact Information** | **E8\T14** |
| 8.14.1.1 LH Bill Impacts RPPTOU | E8\T14\S1\Att1 |
| 8.14.1.2 LH Bill Impacts NONRPP | E8\T14\S1\Att2 |
| **8.15 Rate Mitigation** | **E8\T15** |
| 8.15.1 RRFE Report Mitigation Statements | E8\T15\S1 |
| **9.0 DEFERRAL AND VARIANCE ACCOUNTS** | **E9** |
| 9.1.1 Introduction | E9\T1\S1 |
| 9.1.2 Deferral and Variance Account Balances | E9\T1\S2 |
| 9.1.3 Group 1 Deferral and Variance Accounts | E9\T1\S3 |
| 9.1.4 Group Two Deferral and Variance Accounts | E9\T1\S4 |
| 9.1.5 Renewable Generation Connection and Smart Grid Development Deferral Accounts – Climate Change Projects | E9\T1\S5 |
| 9.1.6 Accounts Not Submitted For Recovery | E9\T1\S6 |

| Title | Reference |
|---|---|
| 9.1.7 Accounts Submitted For Recovery | E9\T1\S7 |
| 9.1.8 Methods of Disposition of DVA Balances | E9\T1\S8 |
| 9.1.9 Proposed Rate Riders | E9\T1\S9 |
| 9.1.10 Request for Approval of The Use of New Variance Accounts | E9\T1\S10 |
| 9.1.11 Energy Sales and Cost of Power | E9\T1\S11 |
| 9.1.11.1 APPENDIX 9A Deferral and Variance Accounts Continuity Schedule and Rate Rider Calculation | E9\T1\S11\App1 |
| 9.1.11.2 APPENDIX 9B One-Time Incremental IFRS Transition Costs | E9\T1\S11\App2 |
| 9.1.11.3 APPENDIX 9C Climate Change Projects ED Capital and OM&A Disposal Generator Revenue Requirement and Rate Rider Calculation | E9\T1\S11\App3 |
| 9.1.11.4 APPENDIX 9D City of London Integrated Energy Mapping Strategy | E9\T1\S11\App4 |
| 9.1.11.5 APPENDIX 9E Electric Mobility Adoption and Prediction Report | E9\T1\S11\App5 |

File Number: EB-2016-0091

Date Filed: August 26, 2016

# Exhibit 1

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# Tab 2 of 10

# Executive Summary/Management Discussion and Analysis

# 2.1.1 EXECUTIVE SUMMARY

## OVERVIEW

London Hydro is a Local Distribution Company that services the City of London, Ontario, Canada. With a peak load of 719 megawatts, we deliver a safe and reliable supply of electricity to over 154,000 customers from the residential, institutional, commercial and industrial sectors, through 3,364 kilometres of overhead and underground cables, spanning 420 square kilometres of service territory. As a municipally-owned subsidiary company, we operate much like a private entity under the Ontario Business Corporations Act (incorporated on April 26, 2000 under the laws of the Province of Ontario), paying an annual dividend to our sole shareholder, the City of London. In essence, all Londoners own London Hydro.

## COST OF SERVICE HIGHLIGHTS

London Hydro is proud of the significant advances in customer focus, operational effectiveness, public policy responsiveness and financial performance it has made over the past four years. These achievements have helped us reduce or mitigate customer rates and enhance the customer experience:

### Safety

- President's Award for 1,250,000 hours without a lost time incident
- Canada's Safest Employer Award for Safety Program
- *Electrical Business Magazine's* Safety Champion award for Safety Program

### Operational Effectiveness

- Remaining one of the lowest cost per customer utilities in the Province
- Continuing our trend of improvement for SAIFI and SAIDI reliability metrics
- Building a strong internal team as a cost effective resourcing model
- Obtaining Measurement Canada accreditation to support meter resealing including servicing five other utilities

## Customer Engagement

- Maintaining an "A" rating in our customer satisfaction surveys
- Launching a new award-winning Customer Engagement platform with growing self-service options
- Co-creating Green Button based solutions through focus groups and collaborative design sessions to help our customers manage their energy costs (e.g., Western and Thames Valley School Board for Interval Data Center to address business needs)
- Leading the industry by being the first utility to offer a loyalty program to promote paperless billing
- Providing on online, self-service Property Management tool, which is currently being used by approximately 200 property managers to manage over 18,000 locations

## Innovation

- EDA Environmental Excellence Award for "Let's Get the Lead Out" program and conference
- Leading Ontario's Green Button adoption to empower customers to manage their energy costs proactively using industry leading applications (e.g., Bidgely - consumption disaggregation)
- Leading the way as an early adopter of emerging technologies to deliver "mobile first," open standards based Cloud solutions to our customers
- Enabling utility collaboration with Festival and Whitby Hydro to utilize a common Cloud platform

## Since our last rebasing, London Hydro has won these additional awards:

- EDA Customer Service Award for customer incentive program
- Marketing Digital Media Campaign Award for Customer Engagement Portal design
- Creativity International Media and Interactive Silver Award for Customer Engagement Portal functionality
- Fire Marshal's Award for CDM Program enhancements
- *Benefits Canada* Gold Award for Employee Wellness Program

- *Canadian Mental Health Association's* Champion of Mental Health award for Mental Health Awareness Program

These and other awards are discussed in more detail later in this section.

## COST OF SERVICE APPLICATION ROADMAP

London Hydro attributes a large portion of its success to the following guiding principles:

- ***Innovation*** - Looking for opportunities for innovation in how we design our internal operational and customer facing solutions
- ***Continuous Improvement*** – Striving for continuous improvement and the provision of service excellence that our customers expect
- ***Cost Control -*** Looking for opportunities to reduce costs for our customers

## *INNOVATION*

Innovation is a cornerstone of London Hydro's vision and values, and it is instrumental in our continuous improvement efforts. However, innovation is not sought for its own sake; London Hydro pursues new initiatives if they serve at least one of four purposes:

- To improve the safety of customers and/or employees,
- To reduce customer costs or enable customers to reduce costs,
- To increase service offerings to our customers while maintaining costs or
- To increase the responsiveness and reliability of the system for our customers.

Examples of innovative programs created by London Hydro during the past four years are outlined briefly below and in more detail throughout the application.

### Let's Get the Lead Out

This industry-changing program focuses on significantly reducing lead components of the distribution underground system, thereby reducing the safety risks from lead exposure for our employees, their families and the public.

### Aeroplan Loyalty Incentive Program

Providing Aeroplan travel rewards for customers who switch to paperless billing has led to London Hydro having significantly more paperless customers than the industry average. This innovation has resulted in a decrease in overall postage expenditures even though postage rates have increased since the last rebasing.

### Moving to the Cloud

When IT systems need to be replaced, London Hydro compares the cost of replacing the same system 'like for like' (premise-based system) with the cost of moving to a Cloud-based system, focusing on achieving the greatest cost savings for customers. Some systems have been evaluated to remain status quo; although, many of the new systems have moved to the Cloud-based platform, resulting in avoided costs for our customers, better performance and availability.

### Green Button

Green Button provides customers (residential and commercial) with the ability to use various applications to access their electricity data using the Green Button Standard (regardless of the utility that maintains the data) so that the customers can use the data in a meaningful way. That is, it turns data into information. Access to this information allows customers to make better decisions about their energy management in a proactive way.

### Automation

London Hydro continues to look for innovative ways to increase efficiency through the automation of many of the back office support roles, such as error checking. As systems become automated, more employees are available to spend time on other projects and challenges. For example, back office staff have been utilized to perform water meter work for the City of London with the efficiencies obtained through this automation process. This particular work has resulted in reduced costs to customers (as the work for the city is a revenue offset). This example demonstrates London Hydro's ability to do more with the same resources.

### Root Cause Analysis

London Hydro has increased the opportunities to find solutions to distribution problems in innovative ways. Specifically, we have increased the number of "root cause analysis" studies to

improve customer service and safety. For example, when significant outages occur, London Hydro investigates to determine if the outage is systemic in nature or an isolated incident. Identifying the root cause of the problem and implementing an appropriate solution may reduce future inconvenience for customers, by preventing similar outages from occurring, while increasing reliability.

## *CONTINUOUS IMPROVEMENT*

London Hydro has approached the RRFE challenge initiated by the OEB with vigor; we feel that we are well on our way to implementing the requirements and have embraced these guidelines in all future planning.

London Hydro strives for continuous improvement and the provision of service excellence that our customers expect, while maintaining costs at a reasonable level. Based on the 2015 PEG results, London Hydro is one of the lowest cost utilities in the Province (consistently in the lowest quartile for both cost per customer for OM&A as well as distribution rates) while maintaining excellent reliability.

London Hydro continues to interact with its customers, both residential and commercial, to obtain information about their preferences and priorities. As a result, we have designed a number of applications to respond to their requests. For example, we have harnessed the Green Button Standard to provide a tool for commercial customers (IDC) that allows them to better monitor and manage their electricity usage. This application allows customers to have access to energy data from a number of locations across different utilities. A number of customers are benefitting from this innovation already. For example, the Thames Valley School Board is able to monitor the electricity usage among all their schools, even those that are not served by London Hydro. This comparison allows them to identify easily the less energy efficient schools so they can make the changes necessary to reduce their bills.

London Hydro has also have revamped the myLondonHydro website, adding many additional self-service options to provide our customers with the power they need to make informed decisions about their electricity usage.

## COSTS

In addition to the initiatives described above, London Hydro has undertaken a number of other new initiatives over the past four years centred on keeping costs as low as possible for customers.

One of the most consistent comments received from customers relates to the challenge of dealing with increased electricity costs. London Hydro utilizes both a top down and bottom up approach to budgeting in an attempt to ensure that the costs associated with running the utility are kept at a prudent level. New services for our customers are analyzed to ensure that the benefits exceed the costs of providing the service. For regulated requirements, the analysis attempts to ensure the best service for the cost is provided.

The top down approach ensures that, excluding the new services and regulated changes, OM&A costs remain at approximately the level of inflation. London Hydro utilizes the cost savings from efficiencies to reduce costs, and we enhance the services offered without incurring additional costs. The bottom up approach ensures that detailed budgets are prepared (down to accounting for each employee of the organization) to ensure that all costs and savings from innovative projects are captured.

The total revenue requirement requested for 2017 represents an 8.7% increase over the 2013 amount, which equates to an annual increase of less than 2.2%. The table below lists year over year changes to the budget levels for decisions that London Hydro has made.

The table below illustrates that after excluding required new expenditures (either directly or indirectly) to comply with third parties, for safety reasons, or based on customer preferences, London Hydro's OM&A has increased between 1.6 to 2.9% per year, with an average of 2.32%. Based on the latest IRM approvals, London Hydro should have annual increases of approximately 1.9% after reducing for the productivity factor deemed appropriate by PEG. London Hydro has experienced an average customer growth rate of approximately 1% per year over the past four years. Based on the findings from PEG, a 1% increase in customer growth should lead to a 0.44% increase in OM&A costs. These two increases equate to an expected increase of 2.34%. Therefore, excluding the incremental expenditures, London Hydro has

operated and will continue to operate below the "expected" OM&A increases between the 2013 and 2017 years.

The following table presents the opening budget for the year and indicates all of the incremental costs incurred as a result of the required or new services provided during the year. The remaining costs represent the cost of 'ongoing' operations.

**Table 1-2: Budget Reconciliation**

| | (in $000s) | | 2014 Budget | | 2015 Budget | | 2016 Budget | | 2017 Budget | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PY Budget | | Notes | 32,978 | | 33,556 | | 35,295 | | 37,011 | | | | | | | |
| Specific Items: | | | | | | | | | | | | | | | | |
| **Regulatory Requirement:** | | | | | | | | | | | | | | | | |
| DSP | | A | | | | | | | 60 | | | | | | | |
| Locates (net of labour offset) | | B | 50 | | 70 | | | | | | | | | | | |
| Microfit / Generation | | C | | | | | 200 | | | | | | | | | |
| Bill Print | | D | | | | | 153 | | | | | | | | | |
| Call Center (OESP) | | E | | | | | 70 | | | | | | | | | |
| OEB Fees | | F | | | | | | | 290 | | | | | | | |
| Metering (MIST meters) | | G | | | 100 | | | | 200 | | | | | | | |
| **Safety:** | | | | | | | | | | | | | | | | |
| Parking | | H | | | 100 | | | | | | | | | | | |
| **Customer Focus:** | | | | | | | | | | | | | | | | |
| Underground cable maintenance | | I | | | 100 | | | | | | | | | | | |
| Increased Customer Communication | | J | | | 50 | | 50 | | | | | | | | | |
| Environmental | | K | 50 | | | | | | | | | | | | | |
| Bad Debts / LEAP | | L | -100 | | | | 100 | | | | | | | | | |
| Root Cause Analysis | | R | | | 100 | | 50 | | | | | | | | | |
| **Operational Effectiveness** | | | | | | | | | | | | | | | | |
| HR system | | M | | | 80 | | 35 | | | | | | | | | |
| JDE | | O | | | | | | | 300 | | | | | | | |
| Cyber Security and Disaster Recovery | | P | | | 100 | | | | 100 | | | | | | | |
| Vehicle Depreciation | | Q | | | 100 | | | | | | | | | | | |
| **Other** | | | | | | | | | | | | | | | | |
| Insurance premiums (retirees) | | N | 35 | | 75 | | 20 | | 45 | | | | | | | |
| Ongoing Costs | | | 543 | 1.6% | 864 | 2.6% | 1,038 | 2.9% | 791 | 2.1% | | 2.32% | | | | |
| Final Budget | | | 33,556 | | 35,295 | | 37,011 | | 38,797 | | | 5,819 | 3,236 | | | |
| | | | | | | | | | | | | 2583 | | | | |

**See the discussions within Exhibit Four for details for each specific expenditure**

A - Costs associated with the new DSP requirements to complete the cost of service (note - only DSP costs included. No costs of the traditional Cost of Service application).
B - New regulatory requirements regarding the frequency of locates. Due to the revised requirements, it became more efficient to outsource. (Represents the incremental cost after reducing for the labour)
C - Costs due to increased generation customers.
D - The old Bill print system was unsupported and unable to be adapted to the mandated changes associated with the new bill formats.
E - Increased volumes for the call center after the removal of the OCEB and introduction of the OESP.
F - The OEB changed their fee allocation model and the result was increased fees.
G - Implementing the revised requirements for the new Mist Meters.
H - Due to space constraints for vehicles and employee safety a space has been rented for employee parking.
I - Move to underground cable vacuum excavation system which increases reliability for customers and increased safety for employees.
J - As part of the RRFE, there have been increased communication efforts provided to customers.
K - New environmental initiatives.
L - Due to increased energy costs, bad debt expenses have been rising. London Hydro has increased LEAP funding to help with low income families.
M - Due to an unsupported legacy HR system, an upgrade to newer system with increased functionality was completed.
N - Insurance premiums continue to increase at a significant rate relating to retirees life insurance.
O - The current JDE system is past end of life and no longer supported. Conversion to updated system.
P - Costs of providing for cyber security to protect customer data and ensuring system information is capable of recovering data in the event of a disaster
Q - Vehicle Depreciation back to normalized levels after the historical vehicle replacement "freeze"
R - London Hydro has become very proactive in examining outages to determine the root cause and when necessary initiate replacement programs when defective equipment is found.

### Shift to Cloud Platform

London Hydro has been moving many of its systems from an 'on-premise' model to a Cloud-based platform because of the significant savings to be realized related to having a lower total cost of ownership. Moving to the Cloud platform increases the cost of OM&A; however, it reduces the overall revenue requirement because the Cloud-based expenditure will be primarily OM&A while the premise-based system will include OM&A, amortization and a return on rate base component since this system is capital in nature.

## CONTEXT FOR THIS COST OF SERVICE APPLICATION

The context for this Cost of Service Rate Application is London Hydro's Business Plan for the next five years, which has been developed in accordance with the Ontario Energy Board's (OEB) Renewed Regulatory Framework for Electricity Distributors (RRFE). In particular, it adheres to the Board's belief that "emphasizing results rather than activities will better respond to customer preferences, enhance …productivity and promote innovation that drives efficiency."

London Hydro has a long history of responding to customer preferences. The two foremost preferences expressed by London Hydro customers are to keep the lights on and keep costs as low as possible. Over the past ten years, investments in London Hydro's infrastructure have resulted in a significant improvement in reliability: in the last 20 years, the number of interruptions per year per customer has been halved (from an average of approximately 3 to approximately 1.5). London Hydro seeks feedback from its customers in a number of ways: senior management goes out into the community by organizing events at local home shows, in libraries and in malls; we also hold focus groups and we conduct annual third-party surveys. Through these avenues and others, our customers have expressed satisfaction with this level of reliability, and they support London Hydro's efforts to continue to maintain the system.

During this same time period, London Hydro's costs have remained competitive and are now within the bottom quartile of all Ontario LDCs. This result has been achieved by investing in our people and fostering a culture of continuous improvement and innovation. The distribution assets are monitored and optimized to minimize total lifecycle cost while still maintaining acceptable reliability levels. New technology is evaluated, tested and adopted only after it has

been proven to provide a net benefit to customers. Projects are managed and executed by skilled professionals who receive ongoing training and development, including sharing best practices with other utilities in Ontario and across North America.

While reliability and low cost are important attributes of customer expectations, we also understand the need to incorporate advancements in technology into both the distribution network and customer interfaces. In the distribution area, for example, we have launched an Outage Management System (OMS) that provides enhanced safety and improved operability (reliability) as well as improved outage notification options, all aimed at enhancing the customer experience. With respect to customer services, we have strengthened our online service offering by increasing self-service options in response to customer requests. London Hydro has also been a leader in innovation with the development of online tools aimed at providing more comprehensive and more current information to customers, including the recent Green Button initiative. We capitalize on existing industry relationships and seek to build new ones in order to facilitate the adoption of the Green Button Standard at other utilities. We also seek opportunities to share our expertise with other utilities and encourage cooperative ventures such as providing Control Room monitoring services for some smaller LDCs, which gives their customers superior service at lower cost while offsetting the cost to our own customers.

In summary, London Hydro has prepared a Cost of Service Rate Application that aligns with the four Performance Outcomes identified by the OEB – Customer Focus, Operational Effectiveness, Public Policy Responsiveness and Financial Performance. Our team of over 300 high-performing employees will successfully execute this plan in the coming years with a focus on achieving those Performance Outcomes while exceeding our customers' expectations.

## LONDON HYDRO'S BUSINESS PLAN AND OBJECTIVES

London Hydro has fully incorporated the OEB's four performance outcomes identified in the RRFE into its Business Plan. These outcomes have shaped London Hydro's Strategic Plan and Mission, Vision and Values Statements as well as the Asset Management Objectives and Guiding Principles used to evaluate its Business Plan objectives and goals. As a result, the Capital and Maintenance Plans that form the basis for this rate application can be directly linked

to one or more of the Outcomes and London Hydro's Strategic Plan.

Concurrent with the previous OEB Rate Application in 2013, London Hydro developed a three-year Strategic Plan and the following Mission, Vision and Values Statements:

**Mission**

London Hydro is an electricity distributor dedicated to the pursuit of excellence in safety, reliability, customer service, and competitive rates.

**Vision**

Through the pursuit of innovation and growth, we will provide leadership in customer services and add value to the corporation and community.

**Values**

**Integrity** – *to exhibit trust in all relationships by acting openly and honestly in all matters and by treating people fairly and respectfully*.

**Innovation** – *to foster an exciting working environment that inspires employees to think creatively*.

**Accountability** – *to be truly accountable to our customers, our employees, our shareholder, and our community*.

**Social and Environmental Responsibility** – *to act as a positive influence on our employees, society, and environment*.

These corporate statements express the commitments that London Hydro has made to its customers, employees, shareholder and other stakeholders, and they inform the following Asset Management Objectives that London Hydro uses to make decisions for managing its assets while balancing the competing needs of its stakeholders.

## ASSET MANAGEMENT OBJECTIVES

**Safety** – ensuring that London Hydro's assets are maintained in a safe condition so they never cause injury to employees or the public;

**Regulatory** – ensuring that London Hydro complies with all legislative requirements

**Environmental** – ensuring that the assets are managed in an environmentally responsible manner by meeting and, where practical, exceeding all environmental regulatory requirements

**Capacity** – ensuring that the distribution system has sufficient capacity to supply both new and existing customer loads and, where appropriate, connect new generation facilities

**Reliability** – ensuring that London Hydro's reliability performance meets or exceeds OEB requirements and equals or is above the average of its LDC peer group

**Customer Focus** – ensuring that services are provided in a manner that responds to customer preferences when they are identified and practical

**Losses** – ensuring that the distribution system's technical losses are effectively minimized through the introduction of changes in system design or operating practices

**Costs** – ensuring that the lifecycle costs of London Hydro's assets are optimized while meeting the above objectives and ensuring that capital expenditures are paced to levelize the impact on customer bills

London Hydro seeks to foster a culture of innovation and continuous improvement in its approach to achieving the objectives above and is committed to developing performance measures to monitor its improvement. Currently, London Hydro measures, for any given year, the extent to which planned projects are completed and whether they are completed on budget. The percentage of projects completed is the metric selected for the OEB's Scorecard for measuring the progress of Distribution System Plan Implementation.

## Asset Management - Guiding Principles

Finally, the aforementioned Asset Management Objectives are shaped by three Guiding Principles identified in the Asset Management Plan (AMP Section 2). The Guiding Principles also reflect London Hydro's Mission, Vision and Values Statements.

- Provide for the City's Growing Needs – working with customers, developers and the City
- Provide Quality Service to the City Residents – maintaining a safe and reliable system
- Revitalize the City's Core – renewing downtown infrastructure

Table 1-1 below illustrates the alignment between London Hydro's strategic drivers and the OEB Performance Outcomes.

**Table 1-1: The Alignment of the OEB Performance Outcomes and London Hydro's Key Corporate Statements**

| | OEB PERFORMANCE OUTCOMES | | | |
|---|---|---|---|---|
| | **Customer Focus** | **Operational Effectiveness** | **Public Policy Responsiveness** | **Financial Performance** |
| **Objectives** | Customer Focus, Capacity, Reliability, Costs | Safety, Capacity, Reliability, Losses | Safety, Regulatory, Environmental | Capacity, Losses, Costs |
| **Principles** | Quality Services, Growth, Revitalize Core | Quality Services, Growth, Revitalize Core | Quality Services | Growth |
| **Mission** | Customer Service, Competitive Rates, Reliability, Safety | Safety, Reliability | Safety | Competitive Rates, Safety |
| **Vision** | Customer Service, Community Value, Growth | Innovation | Community Value | Corporate Value |
| **Values** | Accountability, Integrity | Innovation | Social & Environmental Responsibility | Innovation, Accountability |

The Distribution System Plan (DSP) provides a detailed explanation of how this alignment has been achieved and the plans in place to meet these objectives. As a result of these corporate influences, the Cost of Service Rate Application prepared by London Hydro seeks to demonstrate the ways in which it achieves the four Performance Outcomes identified by the Ontario Energy Board.

# REVENUE REQUIREMENT

**Table 1-3: Revenue Requirement**

| Description | 2017 | 2013 | Change | % Change | Annual % |
|---|---|---|---|---|---|
| OM&A | 38,797,000 | 32,978,000 | 5,819,000 | 17.6% | 4.4% |
| Amortization | 17,128,312 | 15,756,350 | 1,371,962 | 8.7% | 2.2% |
| Grossed up Pils | 1,377,498 | 808,078 | 569,420 | 70.5% | 17.6% |
| Return on Rate Base | 15,873,597 | 16,783,605 | - 910,008 | -5.4% | -1.4% |
| Revenue Offset | - 4,964,164 | - 3,650,567 | - 1,313,597 | 36.0% | 9.0% |
| Transformer Allowance | 791,884 | 803,004 | - 11,120 | -1.4% | -0.3% |
| Total | 69,004,127 | 63,478,470 | 5,525,657 | 8.7% | 2.2% |

The major factors of the revenue requirement (which has increased by 8.7% since the last rebasing) are as follows:

## OM&A

As detailed above, between 2013 and 2017 the OM&A increased by $5.82M. Of this amount, $2.59M represents funds required for new services provided to customers, while the remaining $3.23M (2.32% annually) represents the inflationary type of increases that are required for continuing operations.

## Amortization Expense

Amortization expense has increased by $1.37 M (8.7% or 2.1% annually). London Hydro continues to reinvest in capital assets to replace the current infrastructure as it reaches the end of its useful life. The cost of the new infrastructure is higher as a result of inflationary increases from the time the initial construction occurred. In addition, London Hydro invests in new infrastructure as the City of London continues to grow.

## Grossed up PILS

Taxes have increased by $0.6M between 2013 and 2017, representing a 70% increase. The two major factors that have an impact on increased taxes relate to higher anticipated net income levels (deemed return on equity) in 2017 combined with lower amortization expenses for CCA. The two factors leading to lower CCA taxable levels are:

- The amortization expenses for smart meters have normalized and are decreasing now that the meters have been fully implemented
- As a result of moving to the Cloud, the hardware and software purchases, which had historically been capitalized, are now being expensed; therefore, the amortization for CCA purposes has been reduced.

### Return on Rate Base

London Hydro's return on rate base has been reduced by $0.9M compared to 2013 as a result of two main factors:

- Firstly, although the total rate base has increased by $37.2M during the rebasing period, the working capital allowance has decreased by $4.0M as the working capital percentage has decreased from 11.42% to the 8.67% as determined in the lead lag study. Capital investments are outpacing the cash received from amortization, which, in turn, increases the rate base over time.
- Secondly, London Hydro has restructured its largest loan, which has reduced the long term deemed interested calculation from 4.58% to 2.71%.

These factors, when combined, result in a significant reduction in the revenue requirement.

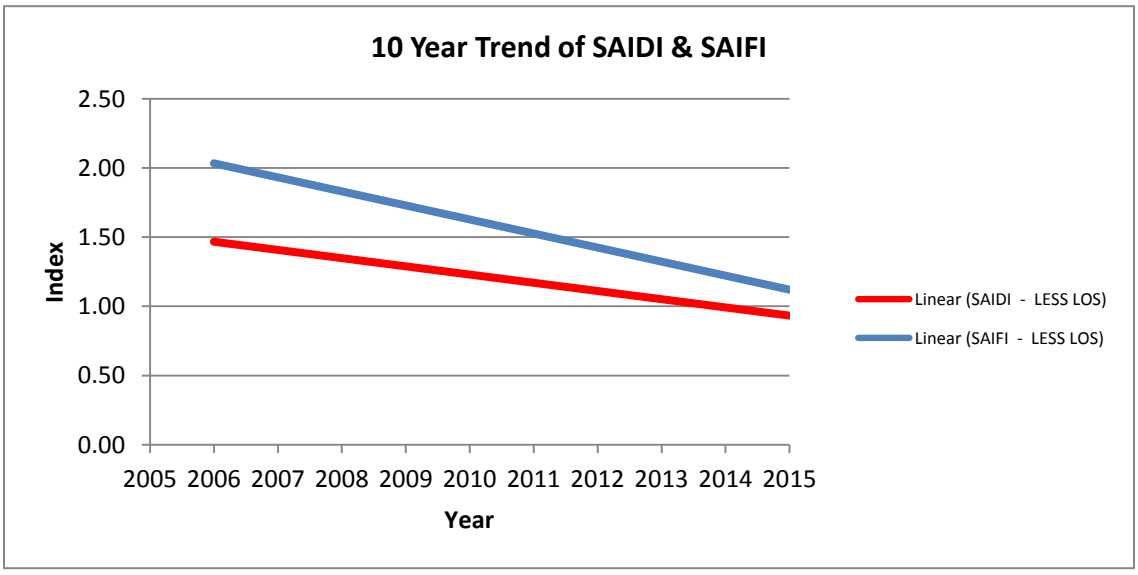
### Transformer Allowance and Revenue Offsets

The last two factors of the revenue requirement relate to the transformer allowance and revenue offsets. The transformer allowance has remained relatively stable while revenue offsets have increased by $1.3M since rebasing (26% or 6.6% annually).

# RELIABILITY

London Hydro's SAIDI and SAIFI results continued to improve in 2015 with values of 1.04 and 1.22, respectively. This trend of improvement can be directly attributed to investments made in distribution infrastructure and Reliability-Centred Maintenance (RCM) Programs over the past 15 years (See Figure 1-1 for 10 Year Trend). Not only are London Hydro's reliability indices strong, but the customer perception of reliability also far exceeds both the provincial and national averages.[1]

**Figure 1-1: London Hydro's 10 Year Trend of SAIDI and SAIFI**




## Root Cause Analysis

In order to continue to improve or at least maintain this level of reliability, London Hydro has increased the frequency with which root cause analyses are performed. Root cause analysis

[1] In 2015, 31% of London Hydro customers polled perceived that they "had a blackout or outage problem in the last 12 months" compared to 53% polled nationally and 53% polled provincially (UtilityPULSE Survey administered by SimulCorp).

examines the cause of an unplanned outage and attempts to determine if the cause is an isolated incident or a systemic problem.

London Hydro has seen success with performing this type of analysis. In 2015, a major outage occurred when a storm caused two overhead conductors to make contact: an overbuilt 27.6 kV conductor fell into the underbuilt 4.16kV conductor. Not only did this incident cause a major outage, but was also determined to be the cause of a voltage surge to many homes, which, in turn, caused damage to number of electronic devices belonging to customers and led to numerous claims.

Using root cause analysis, London Hydro initiated a program to identify which systems could face the same situation and used those results to make changes to the overhead lines in those areas. In July 2016, another incident occurred during which the overbuilt 27.6kV conductor hit the line of a 4.16kV system. Due to the changes performed on the system, only a minor outage affecting a small group of customers occurred, and no customer equipment was damaged.

### Line Losses

London Hydro has had great success in the past number of years reducing line losses. In fact, as Table 1-4 illustrates, the amount for line losses has been decreasing significantly over the last four applications as the five-year rolling average continues to drop.

**Table 1-4: Line Loss Reductions**

| Year | Loss Factor |
|---|---|
| Pre 2009 | 4.6% |
| 2009 | 4.09% |
| 2013 | 3.5% |
| 2017 | 3.15% |

In fewer than 10 years, the line losses have decreased by 31.5%. This decreasing trend demonstrates the success London Hydro is having by making prudent investments in its infrastructure. Not only is London Hydro replacing its equipment, but we are ensuring it is upgraded in such a way as to improve the quality of the electricity that moves across the

system. The investment, therefore, leads to a reduction in the total cost that customers pay for their electricity.

### Collaboration

Collaboration and regional planning with Hydro One were instrumental in the decision to replace and upgrade the Nelson transformer station. By collaborating with Hydro One, London Hydro optimized the costs and timing so that Hydro One was able to replace a near end-of-life station while London Hydro was able to improve reliability and capacity.

## STRATEGIC PLANNING MOVING FORWARD

London Hydro is currently operating under a three-year Strategic Plan (2014-2016), which was created in 2013, concurrent with the last Rate Application submitted in 2013. Throughout 2016, London Hydro is developing its new Strategic Plan, which differs from the previous plan in a number of significant ways. First of all, this new Strategic Plan (2017-2020) covers a four-year period to coincide with the budget planning process required as part of the OEB Rate Application. Secondly, the approach to the strategic planning process has changed significantly.

Strategic Plans are usually initiated at the top levels of an organization: executives and board members provide the vision and objectives and the employees at all levels work to realize that vision and meet those objectives. For London Hydro's new Strategic Plan, we decided to take a 'bottom up' approach as a means of not only involving employees in London Hydro's future – in their future – but also as a way of tapping into their experience and learning from their perspective. Behind this new approach is the understanding that front-line employees - those who work outside to deliver and restore the power, those who interact with customers on the phones or in the community and those who work to support those employees and the rest of the organization - are uniquely positioned to help set London Hydro's direction for the coming years – a direction that begins and ends with the customer.

This approach has not only already surpassed expectations in terms of generating ideas for London Hydro's future growth, but it has also been a valuable employee engagement exercise, contributing to a strong and innovative corporate culture. As with the current Strategic Plan, the

new Plan is being written to align with the OEB's performance outcomes: Customer Focus, Operational Effectiveness, Public Policy Responsiveness and Financial Performance.

## DSP EXECUTIVE SUMMARY

This Distribution System Plan (DSP) covers the Historical Period and Bridge Year: 2012 – 2016 and the Test Year and Forecast Period: 2017 – 2021. The projects and programs that have been selected for the Bridge Year and Test Year (and are expected to continue through to 2021) are the ones that London Hydro expects will provide the most value to our customers and respond to their stated preferences.

Customer engagement consistently identifies reliable supply and low cost as the most important aspects of what we provide to our community. With this in mind, our team continues to focus on identifying assets most at risk of failure and replacing or refurbishing them at the most appropriate time while balancing safety, reliability and cost. We also take a long term view of the future of the grid to ensure that the reliable supply will continue to be available when it is needed, and work that is done today will support what needs to be done tomorrow.

While a significant portion of this DSP is focused on the distribution assets, other projects have been included that provide value to our customers in terms of enhanced and expanded services and that allow London Hydro to work safely, efficiently and effectively.

To help our team understand how system reliability improvements provide real value to our customers, an external expert was retained to review industry best practices and recommend a methodology for estimating the savings to customers by preventing future outages. While this calculation has been referred to in some studies as the Customer Cost of Outages, or Value of Lost Load (VOLL), London Hydro prefers to consider it the Customer Value of Reliability Improvements (CVRI). The impact of an outage to a customer depends on several factors, including when the outage occurs, how long it lasts, and how the customer uses electricity. A brief outage to a typical residential customer will have little if any impact while the same outage to a manufacturing plant could cost it thousands of dollars. Historically, a residential customer and an industrial customer have been treated equally in the recording of outage statistics. As a result, reliability improvements have been focused on the ones that would save the most

customer minutes of outage and prevent outages to large groups of customers regardless of the impact of an outage on those customers. Yet intuitively and through feedback from customers, we know the impact is not equal for these different types of customer, so a different evaluation method was sought to try to account for differences in customers and set priorities based on the value delivered to customers through the various projects and programs.

Using CVRI as a tool to refine the selection of projects is a work in progress. For this DSP, London Hydro has performed a rough analysis of the projects and programs selected for 2016 and 2017, and the initial result is that the aggregate CVRI exceeds London Hydro's capital investment in distribution system assets for both years. In parallel with this Cost of Service Rate Application, London Hydro will continue to refine the analysis and validate the results with stakeholders. In applying CVRI, care will be taken to ensure that cross-subsidization among Customer Groups is minimized.

The focus of spending for the next five years will continue to be on System Renewal and System Access projects that address aging infrastructure, safety and reliability risks and provide capacity for future growth.

A significant portion of the capital spending will be directed to London's downtown. The downtown core of London is unique in a number of ways: it is supplied by a mix of different voltages[2] and distribution systems[3]; much of the infrastructure is over 50 years old; and City Planners and Developers are implementing a plan that will see further intensification of the load in the downtown, which will also have an impact on the supporting structures (vaults, duct banks) and locations for future feeders. The supply to the downtown has been under review by our team for over 20 years as the City evolved and the supply points (transformer stations) from Hydro One approached end of life. Originally, two transformer stations supplied the downtown 13.8 kV system – Nelson and Highbury.

[2] 13.8 kV and 27.6 kV
[3] 120/208 V network, 120/208 V and 347/600 V spot networks, 13.8 kV non-network, and standard 27.6 kV connections

In the early 1990s, Ontario Hydro advised London Hydro that when the Highbury TS reached end of life, it would be converted to 27.6 kV, which is the standard distribution voltage for most of London and the surrounding area. Along with the conversion of Highbury TS to 27.6 kV in 1999, London Hydro initiated a long range plan to eliminate 13.8 kV from the downtown when the Nelson TS would be converted to 27.6 kV. During the subsequent years, some load in the downtown was converted to 27.6 kV when opportunities such as a building redevelopment took place. Through regular consultations, Hydro One and London Hydro worked cooperatively on a plan that would ensure the transition from 13.8 kV to 27.6 kV would be completed in a way that minimized risk to customers and workers and would provide the best long-term solution with the lowest cost. With the conversion of Nelson TS expected to be completed in 2018, it has become necessary to accelerate the pace of work in the downtown, which is adding to the normal amount of capital work done by London Hydro over the next five years. When this major project is complete, the downtown core will be served by a more reliable supply and capacity will be available to meet anticipated load growth for many years to come.

## PAST PERFORMANCE ON PLANS

Both London Hydro's outgoing and incoming Strategic Plans outline the direction and programs that will help us meet the four outcomes of the RRFE (Customer Focus, Operational Effectiveness, Public Policy Responsiveness and Financial Performance). The Capital Programs for the next five years are detailed in Exhibit 2 of the Cost of Service Application ("Rate Base") and programs related to Operations and Maintenance Administration are detailed in Exhibit 4 (Operating Costs).

We believe that performance on past targets is a strong indicator of the likely performance on future objectives. Therefore, we are providing the following information, which summarizes London Hydro's performance on key targets for 2014 – 2016 and how each aligns with the objectives of the RRFE. The information is organized into the following broad categories under which targets were set:

- Customer Service
- Distribution Systems and Technology
- Smart Grid
- Human Resources
- Corporate Communications and Community Leadership
- Financial and Regulatory

## Customer Service

- ✓ **100% success on OEB Service Quality Indices**
- ✓ **Customer Satisfaction Survey Score level 'A'**
- ✓ **Recognition of one industry award and/or creative/innovation in achieving greater corporate performance**

✓ **100% success on OEB Service Quality Indices**
✓ **Customer Satisfaction Survey Score level 'A'**

In 2014 (the first year of the OEB Scorecard and the only year for which data is available), London Hydro exceeded all OEB industry targets for service quality and customer satisfaction. London Hydro is committed to maintaining exceptional customer care and to continuing to find ways to improve the customer experience. London Hydro's approach is to balance customer preferences with regulatory requirements, when necessary. For example, as a best practice, London Hydro's maintains the prescribed 65% metric for "Calls Answered on Time." While we could try to surpass that metric by hiring more Customer Service representatives, our customers have told us that it is more important to keep costs low; therefore, we focus on meeting this objective rather than surpassing it.

To ensure we understand what our customers need and expect, London Hydro solicits feedback from them in a number of ways. Management staff, including senior management, regularly goes out into the community by setting up booths at local home shows, at the Western Fair, at charitable events (e.g., golf tournaments) as well as in libraries and malls as an opportunity to educate the public about the services we offer and to listen to their concerns and requests. We hold focus groups as part of both the development stage of online services and during the

testing and pilot phases, and we conduct annual third-party surveys to gauge our customers' level of satisfaction.

In its third party administered Customer Satisfaction Survey, London Hydro has maintained overall 'A' rating for last five years, outperforming both national and provincial averages in a number of areas. Contributing factors to our success include the state-of-the-art website and MyLondonHydro customer portal, which were launched at the beginning of 2014 to give customers a wide variety of self-serve options, thus reducing some of the pressure experienced by Customer Service Representatives (CSRs).[4] The website was recognized nationally, with the Marketing Digital Media Campaign Award, and internationally, with the Creativity International Media and Interactive Silver Award (the awards are described more fully on page 23 of this section).

In 2015, London Hydro was recognized with both the EDA Customer Service Excellence Award and the CS Week Award for Innovation in Customer Service for introducing the Aeroplan Loyalty Travel Rewards program to incentivize customers to sign up for paperless billing (See details below). This program not only responds to customer preferences (i.e. Customer Focus metric) and benefits them in a number of ways, but it also contributes to Operational Effectiveness and Financial Performance by creating operational efficiencies and for saving the costs associated with mailing and processing paper bills.

### ✓ Recognition of one industry award and/or creative/innovation in achieving greater corporate performance

London Hydro has received numerous awards since the last rate application, many of which were focused on customer service (See also pages 40-45 of this section for a description of

[4] The customer portal, MyLondonHydro, gives customers the ability to access to their accounts, pay their bills, make payment arrangements, manage budget billing, delegate third parties, analyze their own energy usage patterns, view local outage information as well as a take advantage of a myriad of energy saving tips and resources across a variety of platforms.

other awards received). London Hydro's success in achieving the recognition represented by these awards aligns with the RRFE's Outcomes of Customer Focus and Operational Effectiveness.

### *Customer Service Awards - Customer Loyalty Program*




London Hydro's Aeroplan Rewards Program was recognized for contributing to enhanced customer service with two awards in 2015: the EDA Award for Excellence in Customer Service and the CS Week Award for Innovation in Customer Service.

London Hydro's innovative approach to incenting customers to sign up for paperless billing addresses an industry challenge in an exciting way that adds value for the customer while helping us meet our own goals of environmental sustainability, increased customer engagement and saving money. London Hydro already has a solid segment of the customer base that is inclined to use technology using the self-serve account options available online. The challenge is this: how do we motivate additional customers to manage their accounts online and, at the same time, switch to paperless billing while leveraging a loyalty program to deliver added value to our customers?

London Hydro met this challenge with the Aeroplan Rewards Program, and our investment in this program is already paying off. The program has not only helped us achieve our paperless billing target of 25%, but it has also surpassed our market penetration expectations. Just one year after the official launch, we have reached our target for paperless billing intake.

When researching loyalty programs, we found that Aeroplan was a leader among customer loyalty reward programs. With over five million active members, the Aeroplan program is one of Canada's most widely used and recognized customer loyalty rewards programs. Before London Hydro signed on, we made sure our customers were interested. On our 2014 Customer Satisfaction Survey, 45% of customers responded that they were interested in receiving Aeroplan Miles through London Hydro.

As a result of the program, savings began to accrue immediately. London Hydro realized an immediate savings of $0.83 per bill when customers signed up for paperless billing and a net benefit of at least $0.50 per bill when factoring in the cost of the Aeroplan Program. In terms of a cost-benefit analysis, the Aeroplan Program is essentially self-funded in that it has paid for itself within its first 12 months. Since then, the savings quickly began to accumulate, which helps reduce customer rates.

London Hydro's efforts are not going unnoticed by our customers. The 2015 Customers Satisfaction Survey noted that 74% of customers believe that London Hydro adapts well to change and customer expectations. An overall score of grade A for customer service is a testament to the success of programs such as the Aeroplan customer loyalty program in creating value and enhancing the customer experience.

By offering its customers Aeroplan Travel Rewards, London Hydro supports RRFE objectives for Customer Focus, Operational Efficiency and Financial Performance.

### *Marketing and Creativity Awards – London Hydro Website*

At the beginning of 2014, London Hydro launched a state-of-the-art website that allows customers to access to their accounts, pay their bills, make payment arrangements, manage budget billing, delegate third parties, analyze their own energy usage patterns, view local outage information as well as a take advantage of a myriad of energy saving tips and resources across a variety of platforms. London Hydro created this website to address the needs of today's and tomorrow's energy consumers, who are technologically sophisticated and environmentally responsible. The customer portal, MyLondonHydro, is designed using Google's App Engines and is portable across all devices from desktop computers to smartphones with the same look, feel and ease of use. London Hydro held focus groups with customers both in the design and testing phases of the online portal to ensure that it was meeting customer needs and expectations. The excellence of the website was recognized both nationally and internationally: nationally, the website was awarded the Marketing Digital Media Campaign Award, and internationally it was awarded with the Creativity International Media and Interactive Silver Award.

London Hydro's innovative website and the MyLondonHydro customer portal support the RRFE objectives for Customer Focus, Operational Efficiency and Financial Performance.

### *Community Recognition – Fire Marshal's Award*

In 2014, London Hydro was recognized for providing fire safety upgrades to Home Assistance Plan (HAP) customers with the 2014 Fire Marshal's Safety Award for its "outstanding contribution to fire protection and prevention in Ontario." London Hydro's involvement results in enhancements to both the Fire Department's Educational program as well as the HAP. As a result of this collaboration,



London Hydro's Lisa Charteris accepting the Fire Marshal's Safety Award for 2014 from Fire Chief John

- 202 customers received 275 smoke detectors,
- 816 customers received 2,129 batteries and
- 139 customers received both batteries and smoke detectors.

### *EDA Environmental Excellence Award - "Let's Get the Lead Out" Program*

*Elimination of Hazardous Lead Procedures*

At London Hydro, we recognize the potential harmful effects of working with lead. We also realize that it will be another decade or so before we can completely eliminate lead from our network. Consequently, over the past number of years, we have been working with manufacturers to develop safer methods for repairing lead cables. In 2015, we found success with two safer alternatives to using molten lead to repair lead cables.

*1. Solution for Lead Splicing – Compression Tool and Connector*

London Hydro worked with DMC Power for over a year to design a custom-made connector that works with a compression tool and does not require lead solder to be heated at all in the splicing process. This new tool eliminates the most dangerous lead work process, which generated lead fumes by heating lead to 1,000º F.





Left: Custom-designed connectors

Right: Compression tool

*2. Solution for Lead Wiping – Induction Heater ("The Ledder")*




The second new development involves using an induction heater in the cable chamber to heat the lead to 600-700º F (which is below the level for harmful fume generation) for wiping only, thereby eliminating the process of heating pots of lead on the street and lifting them down into the hole, which could lead to spills and burns.

*Leading Industry Collaboration – "Let's Get the Lead Out"*

To share these successes with the industry and to form a working group to help the industry move forward to a completely non-lead solution to cable repair, London Hydro sponsored an industry Forum, called "Let's Get the Lead Out," for other utilities and manufacturers who are involved in lead work.



A member of the DMC team demonstrates the new connector on Day 3 of the Lead Forum

## Distribution Systems and Technology

- ✓ **Forty-five km of underground cable refurbishment on budget**
- ✓ **Insurance against ice storm – develop a strategy for implementing an underground distribution option (for new and existing infrastructure)**
- ✓ **Evaluate and implement ducted underground distribution option in new subdivision**
- ✓ **Innovative service for our customers – Green Button**
- ✓ **Reduce outage duration by leveraging Operational Data Stores**
- ✓ **Social Media – tweet outage alerts**
- ✓ **Reliability indices for 2014 will be 1.4 or better for SAIDI (duration) and 1.8 outages or better for SAIFI (frequency)**

### ✓ Forty-five km of underground cable refurbishment on budget

One way in which London Hydro has been able to generate sustainable savings is through the life extension of residential underground primary conductors. Rather than replace this type of cable when it reaches end of life and starts to fail, London Hydro uses one of two options to defer the replacement. The first option is to install fault indicators on the padmount transformers connected by the aging underground primary cable. The second way is to use silicone injection to extend the life of the cable by up to several decades (More information about both of these options is available in Exhibit 2 of this Rate Application). Primary cable is replaced with new cable only when silicone injection is not an option or no longer effective.

In both 2014 and 2015, London Hydro met its goals for underground cable refurbishment on budget, although the goals themselves differed. In both years the target was met with a combination of silicone injection and replacement, where necessary. In 2014, we had a goal of fifty kilometres, which we met by injecting 43.582 km of cable and replacing 8.459 km (for a total of 52.041 km). In 2015, we surpassed our goal of 38 km with 34.218 km injected and 6.337 km replaced (for a total of 40.555 km).

London Hydro's efforts to refurbish underground cable when possible align with the RRFE Outcomes of Operational Effectiveness and Financial Performance.

### ✓ Insurance against ice storm – develop a strategy for implementing an underground distribution option (for new and existing infrastructure)

In 2013, London Hydro hired an engineering consulting firm, AESI, to prepare a technical risk assessment and feasibility study for implementing an underground distribution option for all new

and existing infrastructure – essentially moving to a fully underground distribution system. The case had been made that shifting to a completely underground system has societal benefits that exceed the direct costs. However, the study concluded that the financial burden of converting the overhead system to underground makes the project unfeasible.

Specifically, the report recommended that London Hydro not embark on a standard program of undergrounding main feeders and other high cost feeder projects due to their high expense relative to the societal benefit. Instead, the report suggested we consider undergrounding where the societal benefit is highest compared to the direct costs such as for residential streets (current standard practice for urban utilities), road widening, back lot replacements, areas of limited space (such as downtown), areas where overhead infrastructure would be a hazard, treed areas, heritage areas, tourist areas and City designated zones. London Hydro has been incorporating this recommendation in its decision-making process.

London Hydro's approach aligns with the results of our third party administered Customer Satisfaction Survey. While customers agreed that they would like to see overhead infrastructure be moved underground, they also felt strongly that this would not be a valued change if it were to lead to an increase in rates.

London Hydro's efforts to develop a strategy for implementing an underground distribution option align with the RRFE Outcomes of Customer Focus and Operational Effectiveness.

- ✓ **Evaluate and implement ducted underground distribution option in new subdivision**

In 2013, London Hydro engineers prepared a report on the feasibility of moving residential distribution to a fully ducted underground system. In 2014, London Hydro engineers prepared a "Review of Proposed Change to a fully Ducted Underground Residential System," which recommended that "London Hydro discontinue its practice of direct burying power cables and move forward with installation of fully ducted underground systems." It was further noted that this recommendation would result in "a reduction in future replacement costs of 75% , an overall reduction in total long term costs of ownership, higher system reliability and a reduction in disruption to the customers due to less intrusive replacement methods."

The recommendation was accepted and, in 2015, London Hydro engineers developed Construction Standards to complete this work going forward.

London Hydro's efforts to evaluate and implement a ducted underground distribution option align with the RRFE Outcomes of Operational Effectiveness and Customer Focus.

### ✓ Innovative service for our customers – Green Button

London Hydro became involved with the Green Button project when it was asked by the Ministry of Energy in late 2012 to participate in the pilot program. Green Button started in the United States after a White House call to action, which promoted the idea that energy data belongs to consumers and they should have access to more choices when managing their utility usage. This project also allows third parties to develop new and innovative applications to help customers monitor, reduce and conserve.

Through the industry adoption of the Green Button Standard, residential customers are able to track their data in a secure way to manage energy usage proactively on an hourly, daily and weekly basis before the monthly bill arrives. Additionally, commercial and industrial customers can access usage information across facilities that span utility boundaries for benchmarking purposes and overall energy management.

In February 2013, London Hydro was the first utility in Canada to provide Green Button Download My Data to its customers through its customer billing portal, MyLondonHydro. The Green Button Connect My Data Program gave London Hydro an opportunity to meet its strategic objective of providing leading edge technologies to its customers by expanding on the initial success of the Green Button Download My Data standard and working closely with the government to explore this emerging market.



In November 2015, London Hydro became the first and only utility to complete Green Button Download My Data certification tests with UL (Underwriters' Laboratories). London Hydro has also secured certification for water and natural gas data in

addition to electricity data. Receiving these certifications further cements London Hydro's position as an industry leader through innovation.

London Hydro is capitalizing on existing relationships and building new ones in order to facilitate the adoption of the Green Button standard at other utilities, including Whitby Hydro and Festival Hydro. This collaboration, in turn, results in more customers benefitting from the self-service options available through Green Button applications. See pages 35-36 in this section for Use Cases related to the application of Green Button and IDC for Western University and Thames Valley District School Board.

*"The knowledge we can gain from the data is enormous and having it online is a great asset for us."*

**Mary Quintana**,
Facilities Management, Western University

*"London Hydro's Interval Data Centre enables the Thames Valley District School Board to view the electricity usage data for over 150 schools across 7 LDCs [Local Distribution Company]. This service saves time and money by giving us access to all our critical electricity data in one spot."*

**Michael Colquhoun**,
Energy Management Coordinator, TVDSB

The Green Button initiative aligns with the RRFE Outcomes of Customer Focus and Public Policy Responsiveness.

### ✓ Reduce outage duration by leveraging Operational Data Stores (ODS)

London Hydro has been able to improve SAIDI results (measuring outage duration) by leveraging our ODS system. London Hydro's smart meters produce outage notifications (often referred to as "last gasps"), which are consolidated in our Sensus Regional Network Interface (RNI). The RNI then produces notifications that are filtered and sent to our Outage Management System (OMS). The filtering algorithm removes all momentary outage notifications (i.e., less than a five minutes) that do not require a response from London Hydro staff. Our OMS system uses these filtered notifications to predict where the problem exists on our distribution grid. The operators in the Control Room can then dispatch crews often before a customer has the opportunity to call in to report the outage. London Hydro has found that this ability to detect

outages on the grid in an automated manner has a very positive impact on reducing the number of outage minutes experienced by the customer.

London Hydro's efforts to improve outage duration using ODS align with the RRFE Outcomes of Operational Effectiveness and Customer Focus.

### ✓ Social Media – tweet outage alerts

On Nov 15, 2014, London Hydro implemented its automated Twitter notification for unplanned outages and now sends automated tweets for any unplanned outage that affects more than 50 customers.

London Hydro's efforts to communicate outage information to customers using Twitter align with the RRFE Outcome of Customer Focus.

### ✓ Reliability indices for 2014 will be 1.4 or better for SAIDI (duration) and 1.8 outages or better for SAIFI (frequency)

London Hydro continues to meet its targets for SAIDI and SAIFI, year after year. London Hydro's SAIDI and SAIFI results improved in 2014 with values of 1.11 and 1.58, respectively. London Hydro's SAIDI and SAIFI results continued to improve in 2015 with values of 1.06 and 1.37, respectively. This trend of improvement can be directly attributed to investments made in distribution infrastructure and Reliability-Centred Maintenance (RCM) Programs over the past 15 years (See Figure 1-1 for 10-Year Trend). Not only are London Hydro's reliability indices strong, but the customer perception of reliability also far exceeds both the provincial and national averages.[5]

[5] In 2015, 31% of London Hydro customers polled perceived that they "had a blackout or outage problem in the last 12 months" compared to 53% polled nationally and 53% polled provincially (UtilityPULSE Survey administered by SimulCorp).

London Hydro's efforts to improve both outage duration and frequency align with the RRFE Outcomes of Operational Effectiveness and Customer Focus.

## Smart Grid (Conservation)

- ✓ **Complete the four-year targeted energy savings**
- ✓ **Sell the saveONenergy HOME ASSISTANCE PROGRAM to 500 customers (low income customers)**
- ✓ **Introduce self-help power factor analysis tool**

### ✓ Complete the four-year targeted energy savings

### ✓ Sell the saveONenergy HOME ASSISTANCE PROGRAM to 500 customers (low income customers)

Over the 2011 - 2014 timeframe, London Hydro offered its customers the complete suite of provincial energy-efficiency incentive programs under the umbrella saveONenergy FOR HOME and saveONenergy FOR BUSINESS brands. By the end of the four-year program, London Hydro had achieved a net accumulated energy savings of 194.1 GWh, or 123.9%, of its assigned target. Results for 2015 are not yet available.

London Hydro takes a unique approach to the saveONenergy Home Assistance Program (HAP) by collaborating with other community organizations to deliver an enhanced,[6] customer-focused service to low-income residents. In 2014 and 2015, London Hydro's HAP helped 738 and 790 low-income customers, respectively.

To facilitate this process, London Hydro partnered with the Salvation Army, the London Food

[6] As a result of its partnerships with the City of London's Water Department and the London Fire Department, Energy Assessors perform a number of additional activities as part of the expanded HAP.

- check and repair faulty wiring
- replace broken and missing electrical plates
- replace broken light fixtures
- install energy efficient lighting
- replace furnace filters, leaving three filters for future use
- identify electrical code violations and arrange for more extensive repairs, if required
- check toilets and taps for leaks and fix them when required, replacing inefficient toilets in some cases
- install low-flow shower heads (non-electric heated water)
- assess sufficiency of fire safety measures, including ensuring detectors are installed and functioning properly and have up-to-date batteries.

Bank and a community resource centre to access eligible participants who are pre-qualified through emergency financial assistance programs, such as the Low-Income Energy Assistance Program (LEAP), which it set up in partnership with the Salvation Army.

London Hydro goes even further, by incorporating fire safety and water conservation into the HAP. The utility approached London's Fire Department to provide fire safety upgrades to HAP clients, and the City's Water Department also came on board, supplying toilet repair kits, low-flow shower heads and other water conservation tools. These program enhancements are now being considered by other utilities. London Hydro is one of the few LDCs in Ontario whose program is completely self-managed, which helps ensure that its service standard is never compromised and that it remains the most competitive in cost.

London Hydro's performance on both its internal and external Conservation and Demand Management Targets support the RRFE objectives of Customer Focus and Public Policy Responsiveness.

### ✓ Introduce self-help power factor analysis tool

In order to provide customers with tools that help them understand and manage their electricity costs and usage, London Hydro investigates new technology and opportunities to enhance the customers' experience in all areas of its operations. Some programs have been developed to solve a specific problem and then expanded to optimize the use of the program across our customer base. Where we can, we offer to assist other utilities to implement the same services for their customers.

Examples of Commercial and Industrial tools London Hydro has been involved in developing include the Event Assist App and the Interval Data Centre App (IDC), both of which supply self-help power factor analysis to customers. Both of these applications were developed in collaboration with customers and Western University faculty and students. Specifically, London Hydro held approximately 15 meetings with Western University and approximately six times with the Thames Valley School Board to adapt the IDC tool to their needs (see Use Cases, which follow). Event Assist is a program that allows large venues to be able to track and forecast the costs of running an event. Through the App, customer group can calculate the projected cost of

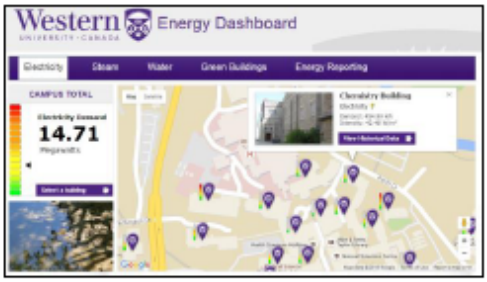
events using historical energy usage data and select the types of equipment that will be used at an event to control costs and identify areas of improvement for more efficient use of electricity.

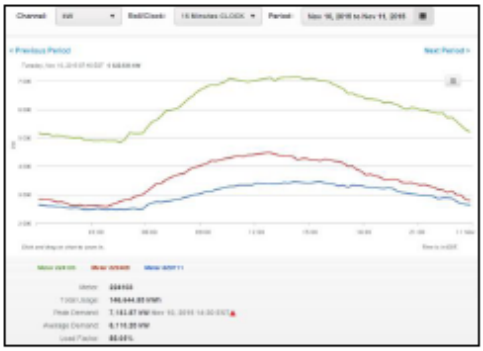
IDC is a web-based meter data analysis and presentment system that delivers energy reports, peaks, load factor, demand profile, temperature data and much more, helping business owners and energy managers understand their energy use and ultimately save money. IDC allows customers to look at real time data to analyze and manage their electricity usage through changes evolving from the information available at that specific time. Access to this information could lead to an immediate change in a production line or the shift of a specific task to another time when electricity is less expensive.

London Hydro's efforts to provide tools to its customers to help them monitor and manage their energy usage support the RRFE objectives of Customer Focus and Public Policy Responsiveness.

Use Case

# Western University maps campus-wide energy usage with Interval Data Centre



Western University is situated in the city of London, Ontario. The campus covers 455 hectares (1,120 acres), with the majority of the teaching and research facilities centred within the core approximately 169 hectares (418 acres). With such an expansive campus and the goal of reducing energy use intensity by 9% below 2012's level by 2019, Western's Facilities Management team developed an Energy Dashboard with real-time energy use as well as historical data.

## *Challenges*

- Isolating accurate energy data for each substation
- Validating the accuracy of billing
- Providing a self-service interface for the Facilities Management team
- Validating Western's Energy Dashboard

> *"The knowledge we can gain from the data is enormous and having it online is a great asset for us."*
> -Mary Quintana, Facilities Management, Western University

## *The Solution*

Western University is London Hydro's largest consumer of electricity. As such, ensuring accurate billing is imperative to both London Hydro and Western. Interval Data Centre (IDC) is London Hydro's solution to this challenge, providing validation of Western's substation consumption data using Measurement Canada approved metering. This secondary system also adds the ability to see the aggregate total campus consumption across the four substations and validates internal load transferring when servicing substations. This Green Button application has increased Western's ability to monitor and manage energy usage and will assist them in achieving their energy conservation goals of reducing energy use intensity on campus.

# Use Case

## Thames Valley District School Board harnesses Green Button capabilities to compare energy profiles of 165 schools, increasing efficiency and minimizing unnecessary costs

The Thames Valley District School Board (TVDSB) serves an area over 7000 square kilometres, spanning 3 counties. This territory includes the cities of London, St. Thomas and Woodstock, the towns of Ingersoll, Tillsonburg and Strathroy-Caradoc, as well as several smaller towns and villages. In covering such a large area, TVDSB's 165 schools are spread across seven Local Distribution Company (LDC) jurisdictions.




TVDSB employs an Energy Management Coordinator to coordinate effective and efficient energy management to maximize operating budgets and reduce unnecessary costs. This involves analyzing energy consumption and forecasting energy needs to facilitate forward purchasing strategies.

### *Challenges*

- Find a cost effective way to gather and analyze energy profiles
- Integrate data from multiple LDCs in a format that allows direct comparison
- Provide a self-service interface that can isolate specific buildings under a variety of time parameters
- Indicate when conservation actions are taken, such as LED light retrofitting, to see direct results

"London Hydro's Interval Data Centre enables the Thames Valley District School Board to view the electricity usage data for over 150 schools across 7 LDC's. This service saves time and money by giving us access to all our critical electricity data in one spot."

-Michael Colquhoun, Energy Management Coordinator, TVDSB

### *The Solution*

Interval Data Centre and Green Button enable TVDSB to receive interval meter data from all 162 schools. The functional interface allows comparisons between schools with similar or identical blueprints to determine which schools are performing better than others. IDC also allows the Energy Management Coordinator to add annotations indicating specific actions such as a change to the HVAC system and then measure and report on the success of these implemented projects.

Prior to integrating IDC and Green Button data, TVDSB had to commission data collection and analysis for schools through a third party for a fee. The resulting savings can now be invested in other energy saving opportunities.

## Human Resources

- ✓ **Culture Development and Employee Engagement**
- ✓ **Union Management Partnership**
- ✓ **Annual health and safety development and employee wellness program**
- ✓ **750,000 hours worked without a Lost Time Injury**

### ✓ Culture Development and Employee Engagement

#### *Creating a Culture for Success*

Customer care starts with employee care, and London Hydro demonstrates employee care in its continuous efforts to build a corporate culture in which employees are engaged and empowered. To measure our success, London Hydro uses a third party consultant to administer a Corporate Culture Survey. In 2011, London Hydro performed its first culture survey both to understand how we were doing as an organization and to provide a benchmark for future surveys. This survey provided feedback on both the corporation and departments. Training efforts over the three-year period focused primarily on corporate outcomes.

In 2014, London Hydro administered the Survey for a second time to measure changes in the engagement of our employees since the initial survey was administered in 2011 and to focus on engagement at the departmental level. Since 2011, significant progress has been made in improving the corporate culture, with increases of approximately 100% for all four Cultural Norms (Humanistic/ Encouraging, Affiliative, Achievement and Self-Actualization). Increased employee engagement affects overall employee health and has resulted in a dramatic decrease in absenteeism (decreased from 10.1 days/employee in 2010 to 7.3 days/employee in 2015, representing a decrease of 27%) and increased commitment, which leads to success in all areas of business.

#### *Annual Culture Survey: Taking the Pulse of Our Culture*

In the first months of 2015, we administered the first of our annual “Pulse” surveys to gauge the progress of our efforts to enhance our corporate culture. Almost 80% of employees responded to this survey and results indicate that we are succeeding in our efforts to improve the corporate culture at London Hydro. In fact, over 90% of employees who completed the survey agreed that

they have positive relationships with their coworkers. Over 80% agreed that they feel supported and listened to by their supervisors and that their coworkers are friendly, approachable and supportive and more than 85% of employees agreed with the statement, “My supervisor, my coworkers and I pursue a standard of excellence in our work.”

In March of 2016, we administered the second annual “Pulse” survey and the preliminary results are very promising. Results indicate that employees feel strongly that communication has improved and that they work in a positive work environment in which they have a chance to grow and develop. Specifically, 95.5% of respondents indicated that “people are friendly and approachable at London Hydro;” 94% of respondents agreed that they have a positive working relationship with co-workers and 94% of respondents agreed with the statement, “My supervisor, my coworkers and I pursue a standard of excellence in our work,” which represents a 9% increase from the previous year.

Employee engagement is the foundation upon which exceptional customer care can be delivered. London Hydro’s efforts towards building a strong corporate culture support the RRFE outcomes for Organizational Effectiveness and Customer Focus.

### ✓ Union/Management Partnership

In 2014, London Hydro formed a Joint Relations Committee, the purpose of which is to create an open forum for discussion on union/management issues brought forward by either party. The further purpose is to foster collaborative issue resolution and thereby resolve issues in-house before they escalate to the grievance procedure. The Committee is made up of four employees each from the union and management. The Committee meets quarterly and both parties can set agenda items.

This Committee’s achievement in helping to strengthen relations between the two groups contributed to the successful contract negotiations at the end of 2015. Feedback from both sides of the bargaining table suggested that the negotiation process was the most conciliatory and constructive in recent memory.

- ✓ **Annual health and safety development and employee wellness program**
- ✓ **750,000 hours worked without a Lost Time Injury**

In the last several years, London Hydro has proven itself to be a leader in health, safety and wellness. The Company has received numerous awards for the safety culture it is building through safety and wellness communication, safety and wellness programming and safety training. The Health and Safety Department works hard to build a safety culture that permeates every work activity. As a testament to the success of London Hydro's ability to "get the safety message out," the organization has been the recipient of IHSA President's Awards for more than 12 years in a row. These awards recognize the number of hours that the entire workforce has worked without a Lost Time Injury (LTI). In fact, in 2015 and 2016, it reached two new milestones – for 1 Million and 1.25 Million hours.

In the areas of both safety and wellness programming, since 2013, London Hydro has been awarded with the following recognition, some of which are described in more detail below:

*2013*

- ESA 2015 Ontario Electrical Safety Award for Powerline Safety
- Benefits Canada – Silver Award for Wellness Program
- (National award, across industries)
- President's Award (for 750,000 hours without an LTI)

*2014*

- Canada's Safest Employer – Gold Award (National Award for Utilities)
- Benefits Canada – Gold Award for Wellness Program (National award, across industries)
- President's Awards (for 250,000 and 500,000 hours)

*2015*

- President's Awards (750,000 and 1,000,000 hours without an LTI)
- ESA 2015 Ontario Electrical Safety Award for Worker Safety (provincial industry award)
- Canada's Safest Employer – Silver Award for Wellness (National award across all industries)
- Electrical Business Magazine – Safety Champion Award (National award for utilities)
- EDA Award for Environmental Excellence (for eliminating the need to create dangerous lead fumes when repairing lead cables)

*2016 (to date)*

- President's Award (1,250,000 hours without an LTI)
- Champion of Mental Health Award (Canadian Mental Health Association – Middlesex)
- Canada's Safest Employer – Sponsor

## Details about a selection of 2014 Health, Safety and Wellness Awards

**Canada's Safest Employer**




In 2014, London Hydro was recognized as Canada's Safest Employer in the utility industry. According to the *Canadian Occupational Safety* organization, this award recognizes "companies coast to coast that are making outstanding contributions to occupational health and safety."



London Hydro was recognized for the numerous and varied safety programs and initiatives it has developed to keep safety at the forefront of employees' minds when they come to work and when they go home. From safety documentation, such as the Safe Work Practices and Safety Bulletins, to initiatives that focus on the health and safety of each individual, including risk assessments for each position and ergonomics, we demonstrate that safety is our first priority. But safety programming is only as good as the level of

participation it receives, and this is where we truly shine: approximately 30% of employees are actively involved in safety, either through committee work or wellness activities. In fact, to meet the criteria to win this award, at least 20% of employees were required to go online to complete a workplace Health and Safety survey and more than that number made the effort. By getting actively involved in safety committees, safety communication and safety programs, London Hydro employees earned this award for demonstrating their commitment to working safely and promoting safety at every opportunity.

**Benefits Canada – Gold Award**



Benefits Canada Awards Night: Joanne Mercer, Katrina Reinhart, Jeff Harrison, Ken Walsh, Rob Burnett, Mardina Held, Mary Tsaltas

*Third time's a charm*. After winning Silver for two years in a row (2012-13), London Hydro was awarded Gold for Best Wellness Programming by *Benefits Canada* Magazine for organizations with fewer than 1,000 employees. The award recognizes organizations that have demonstrated leadership and innovation in wellness programming and, in so doing, have made a tangible difference in the benefits industry. For London Hydro, reducing absenteeism and improving productivity are happy by-products of our ever-growing range of wellness offerings, be they activities or information resources. Equally important are the increases in job satisfaction, engagement and morale experienced by employees who participate. Our success in this area is only possible because of the active involvement of London Hydro employees, both those who serve on the Wellness Committee and those who participate in the wellness initiatives offered.

## Details about a selection of 2015 and 2016 Health, Safety and Wellness Awards

**President's Award**




In 2015, London Hydro made corporate history as we were recognized with the IHSA President's Award for having no lost time injuries for **one million** consecutive hours. This momentous occasion was celebrated with the Board and staff at corporate breakfast on December 2, and it

reminds us that achieving these awards takes a sustained commitment to safety from every employee at every level of the organization. This award is presented to the management and employees of London Hydro signifying the understanding that we're all in this together as a collaborative team working for the health, safety and wellness of every worker.

**2015 Ontario Electrical Safety Award for Worker Safety**




Ken Walsh receiving the ESA Award from Brian Bentz, Chair, ESA Board of Directors and Angela Coke, Deputy Minister, Ministry of Government &

In September, London Hydro was honoured by the Electrical Safety Authority (ESA) with the 2015 Ontario Electrical Safety Award for Worker Safety. This award recognizes London Hydro for our commitment to keeping our workers and communities safe from electrical fatalities, serious injury, damage and loss and, in so doing, for building a safer Ontario. Specifically, London Hydro received this award for our dedication to worker safety through the development of three smart phone applications that provide access to safety information and reporting tools at our employees' fingertips:

### 1. Substation Access Tools: Log Presence App (and fob)

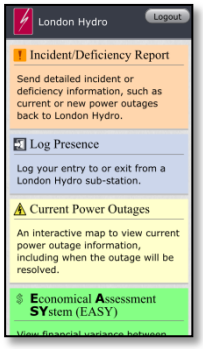
Substations contain high voltage electrical equipment; some of these substations also contain lunch and washroom facilities. Operational staff must use access fobs whenever they enter or exit substations to disengage and reengage the alarm system, respectively. Employees who enter substations use the Log Presence App on their smart phones to notify the Control Room (CR) of their presence without taking the Control Room Operator away from higher priority switching work.

When workers enter a substation to perform work, they use the Log Presence App in addition to the Operations radio channel to notify the Control Room of their presence. When workers enter the substation and start the app, the app starts counting down from a pre-set time during which the worker expects to complete the work. At the end of that time,

an alarm sounds. If the worker does not respond to the alarm within five minutes, the supervisor is notified, who will follow up on the worker's location and safety.

By using the Log Presence App to notify the CR Operators that they are in the facility, workers ensure their own safety and allow Operators to focus on higher priority tasks with fewer distractions. Additionally, if Operators suspect that someone (worker or public) has entered a substation (because the alarm has sounded but the app has not been used), they can take measures to ensure the safety of the entering party.

### 2. Incident/Deficiency Reporting App




This app enables employees to report incidents or equipment problems found in the field, so issues can be dealt with quickly. Using the app, employees can report the location and the urgency of the problem, providing both a description and pictures, and forward the information to the relevant departments so that action can be taken. Once forwarded, the information is immediately stored in the corporate Cloud database and an alert is emailed to the supervisors selected.

### 3. Zapple

Zapple is London Hydro's proprietary Wellness and Safety app that gives employees immediate access to a wide range of information including,

- emergency contact names and phone numbers;
- procedures for reporting accidents, injuries and near misses;
- procedures for using AED's, administering CPR and following the 911 protocol; and
- a broad range of resources concerning stress management, nutrition, fitness and ergonomics.

In addition employees can use the app to book an appointment with London Hydro's Wellness Consultant.

**Canada's Safest Employer – Silver Award for Wellness**

At the end of October, London Hydro was recognized as one of Canada's Safest Employers, for the second year in a row. This time we were recognized with a Silver Award for our Wellness Program, a laudable achievement given that this award was not industry specific. In fact, for this award we were competing across all industries and with organizations of all sizes.

London Hydro's commitment to not only the safety of its employees, but also their everyday health and well-being are exemplified through its active and far-reaching wellness Program, which includes components related to Mental Health Awareness, in addition to its ongoing emphasis on exercise, nutrition and managing stress. At London Hydro, participation in our Wellness Program is encouraged from the top down. Senior management participates regularly in wellness initiatives and communicates with staff the importance of their participation.

After receiving so much recognition for its Health and Safety Programming, London Hydro decided to take a new approach to championing occupational health and safety by moving to a sponsorship role, and in 2016 we will be a corporate sponsor of the Canada's Safest Employer Award.

Demonstrating that safety is London Hydro's first priority and receiving continued recognition from peers and regulators supports three RRFE outcomes, as safety is at the root of Customer Focus, Operational Effectiveness and Financial Performance.

**2016 Champion of Mental Health Award**

Early in 2016, London Hydro was recognized by the Canadian Mental Health Association (Middlesex Branch) for its Mental Health Awareness Program. With the help of a mental health consultant, London Hydro introduced this program in 2014 to demonstrate our commitment to open communication and trust and accommodating employees with mental health challenges. In 2015, London Hydro completed Mental Health Awareness training for all employees and formed a Mental Wellness Committee, the purpose of which is to

increase awareness of mental health issues, foster compassion towards employees who may be experiencing issues with mental wellbeing and to work together with employees to find the necessary resources.

In fostering a corporate culture in which mental wellness is both supported and championed, London Hydro hopes not only to reduce absenteeism and increase productivity but also to demonstrate our commitment to the health, safety and well-being of our employees.

## Corporate Communication and Community Leadership

- ✓ Enhance London Hydro brand
- ✓ Sponsorship of IEEE conference
- ✓ Children's Museum – London Hydro Interactive module

### ✓ Enhance London Hydro brand

Since the last rate application, London Hydro has enhanced its efforts to communicate to its customers and educate the public about the industry, electrical safety and energy conservation. For London Hydro, the activities listed and described below are not undertaken with the purpose of building our brand, but for the purpose of benefiting our customers and the community by performing outreach activities that educate, communicate or develop partnerships. Additionally, some of these activities focus on giving back to our community through donations of time and money to charitable causes. As a result of these activities, London Hydro has continued to build its brand in the community.

London Hydro has always been an active community partner, supporting many charitable events and organizations and participating in the community in many ways. In addition, we organize and sponsor events, such as conferences, to bring interested parties together to share industry-related information. A number of our senior management team also go out into the community to make presentations to community groups and at industry conferences. All of these activities combine with the active media program to build London Hydro's brand in the community and in the industry.

In alignment with the RRFE Outcome of Customer Focus, London Hydro continues to offer a number of ongoing customer engagement activities based on the comments, feedback and

needs of our customers, including, but not limited to, the following examples:

- Outreach Activities at Local Events
- Organization and Hosting of conferences and forums
- MyLondonHydro website and customer portal
- Annual Customer Satisfaction Surveys
- Participation in Home Shows
- Exhibits and presentations at Community events
- Electricity School Education Program
- Energy Conservation School Education Program
- Electricity Safety School Program
- Community support – LEAP financial support increase
- Exhibits at the London Regional Children's' Museum
- Environmental Awareness – Sustainability Program and Report to Londoners
- Loyalty Incentive Program for our customers
- Billing inserts
- Radio advertisements
- Media interviews
- Support of the Salvation Army Christmas Hamper Program
- Support of the London Food Bank's Christmas Food Drive
- Employee volunteering for community events
- Employee fundraising for charities

Through these activities and offerings, London Hydro has been successful in continuing to build its brand in the community. As a result, London Hydro continues to receive an overall 'A' rating in its annual Customer Satisfaction Survey, which is administered by a third party. These activities are discussed in detail in Exhibit 4 of this rate application and selected activities are detailed below.

## Outreach Activities



London Hydro's Communications Plan includes the use of many tactics to ensure that customers are receiving and understanding the information that is disseminated through billing inserts, radio advertisements, bus shelter signage, digital ads, website, newspaper, media interviews etc. In addition we have found that our presence within the community also gives customers an opportunity to seek answers to questions and concerns.

We participate in various Home Shows and community events, and we have set up kiosks in local malls and libraries. During these types of events we provide information on our Capital Investments and answer questions regarding their cost and impact on the customers' specific neighbourhoods as well as the overall cost to customers and the benefits of the work performed. At these events, we also encourage customers to determine if they qualify and to consider applying for the OESP program. We demonstrate the advantages of our online services, encourage them to register for secure access to their account information and register for paperless billing and the Aeroplan Miles Incentive Program.

Through these initiatives we have found that customers leave with a more positive understanding of the issues or projects and a positive perception of London Hydro and the services we provide.

## Volunteering, Donation, Community Support

London Hydro employees have built a strong tradition of generosity, giving both their time and money to support a number of local charities and charitable events. Employees at all levels, in all departments, enthusiastically participate in events throughout the year, every year. In 2014, employees raised over $32,000, and in 2015, employees donated over $28,000 through the Employee Community Charity Organization to over 35 charities, many of which are local. This program makes it easy for employees to donate through payroll deductions to the charity of their choice.

In 2015 we strengthened our commitment to the Housing Stability Bank by increasing our funding by 33% from $150,000 to $200,000 per year.




Environmental awareness is top of mind in daily operations. In fact, London Hydro has participated in the Global Reporting Initiative for the past two years, tracking and reducing our footprint wherever possible. Earth Day is a day for employees and their families to take part in cleaning up the environment along the river and in Thames and Carfrae Parks.

London Hydro's charitable voluntary activities align with the RRFE's Outcome of Customer Focus and Public Policy Responsiveness.

**School Programs**

For over 30 years, London Hydro has worked with the Thames Valley District School Board and the London District Catholic School Board to develop education programs and teaching guides to teach children in grades three through eight about energy, electricity safety and conservation. We recognize the need to inform children at a young age about electricity so that they can stay safe and help keep good conservation habits into adulthood.

There are three facets to the youth programming run by London Hydro: the Power of Electricity program, the You'll Make a World of Difference program and the Electrical Safety Program.

*The Power of Electricity*

The Power of Electricity program was developed to help students understand the value of electrical energy in our lives and the role it plays in our lifestyle and economy. Serving as a guide for teachers, the program covers understanding energy including important terms and definitions, discovering the power of electricity, reading smart meters and the concept of time-of-use metering and home energy audits to lower unnecessary energy use. The

teaching materials include educational videos, sample in-class experiments, student handouts and extra resources and websites to find more information. This material covers 20 out of 24 grade six electricity curriculum expectations and it is meant to provide teachers with as much information as possible when making lesson plans for teaching electricity.

*You'll Make the World of Difference*

The You'll Make a World of Difference program teaches energy conservation to grade five students in accordance with their Science and Technology curriculum for the year. The program focuses on three areas: (1) both renewable and non-renewable sources of energy in our lives, (2) that devices can store, transfer and transform energy to perform a specific function, and (3) the need to use energy wisely to lessen the huge demands that our modern society places on available sources of energy. The program contains background information, lesson plans, activity sheets, hands-on experiments and learning outcomes so that teachers can explore energy conservation with their students in an effective way. One activity is the Ice Cube Olympics, which is a challenge to create the most insulated container for an ice cube out of common household building materials such as Styrofoam and cardboard. Along with the program, students receive an energy conservation home kit to help them take the ideas they learn and apply those ideas to their own homes to reduce energy consumption.

*The Electrical School Safety Program*

The Electrical School Safety Program aims to teach children from grades three through eight about the dangers of electricity and what to do if an electrical accident occurs. For over 30 years, this program has been taught in schools across the city by



representatives from London Hydro. During the school year of 2014-2015, London Hydro presented the School Electrical Safety Awareness Program to over 8,000 students in 46 schools.

The safety program covers what electricity is, where electrical hazards exist around the home, how to prevent accidents around electrical equipment and what to do in an emergency. The presentation also addresses lightning and how to stay safe during thunderstorms. Examples of people who have been injured or killed because of accidents with electricity or lightning drive home the point that everyone needs to be careful when interacting with electricity.

All three of these programs have had great success with educating school children on electricity, energy conservation and electrical safety and will continue to play a part in educating students so that they know how to stay safe and make changes to their lifestyle to conserve energy. These educational programs align with the RRFE outcomes of Customer Focus and Public Policy Responsiveness.

### ✓ Sponsorship of IEEE conference

In 2015, London Hydro successfully met its target to sponsor an IEEE conference with a Platinum Sponsorship of the Electrical Power and Energy Conference. The conference provided "an opportunity for electric power and energy systems experts from industry, academia, and other interested organizations to discuss the latest developments in the field: academic and industrial research, industrial/business trends and challenges. This may include debate on the potential impact of these developments including discussions on regulatory and policy aspects. The conference provides an international forum for the presentation of peer-reviewed power and energy research and development" (IEEE Website). As a Platinum Sponsor, London Hydro provided not only funding, but administrative services, speakers and presenters as well as tours of local renewable energy sites.

London Hydro also hosts events and conferences to bring interested parties together to learn about advancements and opportunities offered by the utility industry. Two such events include "The Power of Collaboration" and "Let's Get the Lead Out," which are described below.

**The Power of Collaboration**

In 2014, London Hydro organized and hosted a symposium for community businesses, called The Power of Collaboration. The purpose of this symposium was provide a forum to educate local businesses about the programs, support and expertise London Hydro can offer them in terms of energy conservation and savings as well as to give them an opportunity to share ideas and strategies with each other for making the most of their energy dollars.

Specifically, London Hydro created this event to demonstrate its commitment to adding value to its relationships with customers and partners. In his opening remarks, London Hydro CEO Vinay Sharma stated, “Collaboration is about more than simple co-operation. Collaboration is a deep, collective determination to reach the same goal by sharing knowledge, learning from each other and building consensus.” Thus, this symposium was the first of many offered by London Hydro to help build relationships and share information with commercial customers to foster business in and for the community for the benefit of all.

Seminars presented included topics such as

- Is It Worth Fixing Your Power Factor Problem?
- Decoding Your London Hydro Bill?
- How Your Company Can Make Money From Demand Response.
- Compressed Air: Are You Leaking Money?
- Roof Top Units
- Energy Management 101
- LED Lighting: A Spotlight on Savings. Pumps, Motors and Drives.

In organizing this event, London Hydro sought to

- Attract 150 commercial accounts (decision makers / plant managers) to the event;
- Connect with London Hydro Commercial Account holders and provide an opportunity for them to become informed of all of London Hydro's services and benefits specific to energy management;
- Build a dynamic and ongoing relationship with users that would get value from London Hydro's multiple resources and expertise;
- Build a culture of key account management services and benefits for the customer; and
- Develop relationships with partners like LEDC to assist in the attraction and retention of customers in London, Ontario.

This event aligned with the RRFE Outcome of Customer Focus and Public Policy Responsiveness.

**Let's Get the Lead Out**

London Hydro is dedicated to the safety of its employees and the protection of the environment, and we have demonstrated this commitment by investing time and resources to develop methods to eliminate the harmful effects of lead on people and the planet. With the two advancements (described on pages 25-26), we are very close to our ultimate goal: a lead-free industry and, until all the lead cable can be removed, a lead-free solution to lead cable repairs.

To advance our quest, we organized a conference to share our solutions and invite other utilities and manufacturers to work with us to develop an ultimate solution, in which the use of lead in cable repair work is totally eliminated. The "Let's Get the Lead Out" event occurred over three days, with a meet and greet session held the first evening, the Forum day itself and a demonstration of the new tools and procedures on the third morning.

London Hydro began the Forum by delivering presentations on our journey to solve the problems inherent in working with lead. In addition, we arranged for an expert in environmental engineering, Dr. Peter Pityn, to deliver a presentation on the harmful effects of lead on the health of both people and the environment. Finally, a panel of representatives from London

Hydro's manufacturing partners and Kinectrics, the certification company that ensured the viability of our engineered connector, made presentations and fielded questions.

After lunch all attendees participated in round table discussions, first to share best practices and then to work together to fill the gap between where our new developments take us and a completely non-lead solution. Results of both round table discussions were recorded and distributed to all participants after the conference. The next morning, attendees participated in demonstrations at London Hydro to see the new methods in action.

The working forum was filled to capacity with approximately 50 people, representing both utilities and the manufacturing sector, from as far away as Edmonton (Epcor Utilities) in Canada and Pittsburgh, PA (Duquesne Light) in the United States.

This event aligned with the RRFE Outcome of Customer Focus and Operational Effectiveness.

### ✓ Children's Museum – London Hydro Interactive module

In 2014, London Hydro began working closely with the exhibit development team at the Ontario Science Centre to build the "You'll Make a World of Difference" exhibit, an interactive electricity education exhibit for the London Children's Museum. Launched in June of 2015, the exhibit gives children the hands-on opportunity to learn about the differences between incandescent light bulbs and the more efficient LED varieties. Children can pedal to create the energy required to light up rooms in a six-room model house. The children learn that the same amount of energy is required to light one room using an incandescent bulb as is required to light the whole house using the higher efficiency lighting.




Phase Two of the exhibit was launched in December of 2015, and it includes an interactive model that teaches visitors about the flow of electricity through circuits by allowing children to move various blocks with buzzers, lights and motors around the board and connect them to form a large circuit. If the circuit is correctly arranged and connected, the blocks will start to light up, move and make noise.

Phase Three, which will be launched in 2016, completes London Hydro's "You'll Make a World of Difference" exhibit and it educates children, parents, teachers and visitors about energy conservation.

London Hydro's Children's Museum exhibits align with the RRFE Outcome of Customer Focus.

### ✓ Support of London and area food bank

The London Food Bank and the Christmas Hamper Toy program are two of the programs that receive substantial donations from employees each year. Every year in December, London Hydro employees work together to collect toys for the Christmas Toy Drive and food for the London and Area Food Bank and in this way, they support the Customer Focus Outcome of the RRFE. In 2014, they collected over 180 toys and 1,041 lbs of food; in 2015 they collected 122 toys and 1,472 lbs of food for these worthy causes.

### ✓ Corporate Governance Report

In 2014, we also focused on improving corporate governance and financial oversight by publishing London Hydro's first "Statement of Corporate Governance Practices," which outlines the Board's activities and the role it plays in fostering the success of the corporation, as well as the qualifications required to serve on the Board. The governance document also outlines the Enterprise Risk Management framework developed by London Hydro to chronicle the corporation's risk management policies and practices as well as the ways we mitigate and/or manage significant risks.

The publication of the "Statement of Corporate Governance Practices" supports the RRFE outcomes for Public Policy Responsiveness and Financial Performance.

## Financial and Regulatory

- ✓ **Targeted Net Income of $9.5 million**
- ✓ **Maintain 'A' credit rating**
- ✓ **Enterprise Risk Management Improvements**
- ✓ **LH cost per customer among the lowest quartile of our neighbouring utilities and OEB-deemed peer group**
- ✓ **LH's base distribution rates for residential and General service <50kW customer classes to be better than industry average**
- ✓ **8.5% return on deemed equity**

### ✓ Targeted Net Income of $9.5 million
### ✓ Maintain 'A' credit rating

London Hydro continues its strong corporate governance with the Board continuing to participate actively in fostering the success of the corporation. As a result, we continue to achieve strong financial performance, even during Incentive Rate Making (IRM) years such as 2014 and 2015, which cause a regulatory lag in the recovery of costs. In both 2014 and 2015, London Hydro exceeded its targets with actual net incomes of $12.5M and $10.2M respectively. London Hydro's strong financial results support the RRFE objectives for both Operational Effectiveness and Financial Performance.

London Hydro has a strong Credit Rating[7] history, and has achieved an 'A / Stable' or better rating for the past nine years, supporting the RRFE objective for, not only Financial Performance, but also Public Policy Responsiveness and Financial Performance.

### ✓ Enterprise Risk Management Improvements

London Hydro faces a number of risks inherent in its role as an electricity distributor. Chief among these are risks to customer service, which are associated with aging infrastructure, and risks to the health and safety of its stakeholders, particularly its employees and the public.

[7] London Hydro obtains annual corporate credit ratings from Standard & Poor's.

The key objective of the Board of Directors of London Hydro is to ensure these risks are managed appropriately throughout the corporation. To this end, the London Hydro has developed an Enterprise Risk Management ("ERM") framework that details risk management policies and practices as well as ways to mitigate and/or manage significant risks faced by London Hydro. In particular, the Board's Corporate Governance and Risk Management Committee is mandated to oversee this ERM framework and all aspects of safety and risk management for London Hydro.

The ERM is reviewed annually, and, as part of this review, two or three risk areas are selected for more intensive scrutiny and mitigation. In the last few years, cyber-security has been one of these areas due to the rapid pace at which threats and mitigation tools are developed. Labour relations was one of the areas chosen for 2015, which led to a series of joint union-management meetings that were held to strengthen relations between the two groups in anticipation of the negotiations, which occurred towards the end of the year. The ERM was developed in 2013, with the intention that it undergo a complete re-working every five years; accordingly, this comprehensive review is planned for 2018.

With its emphasis on mitigating risks to customer service and to the safety of our employees and the public, London Hydro's ERM process strongly supports the RRFE objectives for Customer Focus. In addition, with its emphasis on maintaining a robust infrastructure and mitigating financial risks, the ERM also supports the Operational Effectiveness and Financial Performance objectives.

### ✓ Cost per Customer among the Lowest Quartile

For the past several years, London Hydro has been ranked in the bottom quartile of all LDCs for OM&A cost per customer and Annual Distribution Revenue (residential customers). London Hydro has been assessed as being within Group 2 by PEG (Pacific Economics Group) since the inception of this ranking method in 2012.

**Table 1-5: London Hydro's Cost Achievement Rankings 2011-2015**

| Cost Metric | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Controllable Cost per Customer[8] | 19th lowest of 75 LDCs | 7th lowest of 73 LDCs | 5th lowest of 73 LDCs | 6th lowest of 72 LDCs | 11th lowest of 71 LDCs |
| PEG Efficiency Assessment | n/a | Group 2 | Group 2 | Group 2 | Group 2 |
| Annual Distribution Revenue (Residential)[9] | 25th lowest of 75 LDCs | 22nd lowest of 73 LDCs | 19th lowest of 73 LDCs | 16th lowest of 72 LDCs | 16th lowest of 71 LDCs |

London Hydro's achievement as one of the lowest ranked LDC's in the province in terms both Controllable Cost per Customer and Annual Distribution Revenue supports both the RRFE objectives for Customer Focus and Financial Performance.

- ✓ **Base Distribution Rates for Residential and General Service <50kw Customer Classes to be Better than Industry Average**
- ✓ **8.5% return on deemed equity**

London Hydro has been successful in meeting its target to keep base distribution rates for residential and general service <50kW customer classes better than the industry average. In 2014, London Hydro's distribution rate for the residential rate class was $25.095 while the industry average was $27.02. This amount represents a monthly base rate plus the distribution volumetric rate for 750kW hours consumed. For the general service <50kW rate class (in the 2000kW category), London Hydro was also successful with a rate of $51.38 compared to an industry average of $54.69.

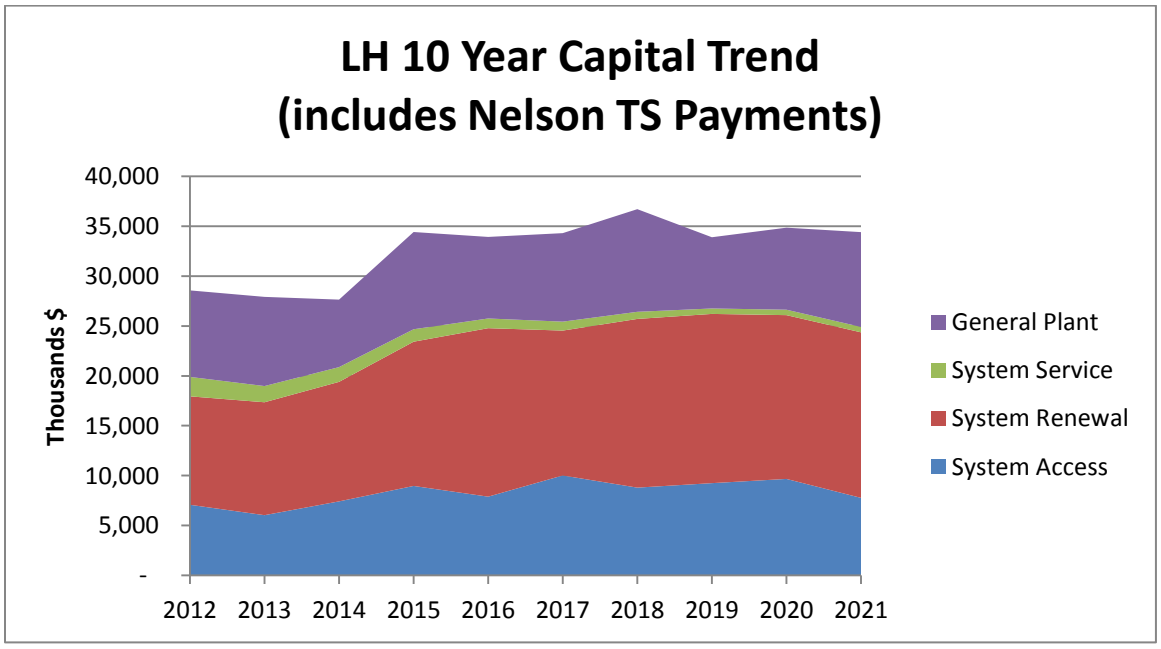
In 2014, London Hydro provided strong returns with a return on deemed equity of 9.02%, surpassing its target. The achievement of these targets supports the RRFE objective of Financial Performance.

[8] Ranking based on data published in OEB Yearbooks
[9] Ranking based on data published in OEB Yearbooks

# COMPANY'S GOALS AND PLANS TO MEET THEM

## Capital Program Highlights

As illustrated in the chart below, the overall trend in Capital spending for the 2012 to 2021 period is an increase from $27.8M in 2012 to $33.8M in 2021, which is an increase of about 21% (2.1% annualized growth). Part of the overall increase relates to the series of Capital Contribution payments made to Hydro One for the conversion of Nelson Transformer Station from 13.8 kV to 27.6 kV, made between 2016 and 2021[10]. Excluding the Nelson TS payments, the budget for 2021 is $32.0M or an increase of 15% over 2012 (about 1.5% per year).




[10] Scheduled Payments to Hydro One for Nelson TS are 2015 $1.6M, 2016 $1.8M, 2017 $1.8M, 2018 $1.8M, 2021 $1.5M (Total of $8.5M)

System Access spending is relatively stable accounting for approximately 24% of total spending (excluding Nelson TS payments), with some fluctuations year over year due to the changing volume of work associated with relocations to accommodate City of London initiated projects.

System Service spending is expected to be minor at approximately 2% of total spending (excluding Nelson TS payments), driven by the need to make incremental investments in distribution automation to keep technology current.

General Plant spending will typically be around 27% of total spending (excluding Nelson TS payments), with much of this focused on IT investments to address customer preferences, accommodate regulatory requirements, and make workflow more effective and efficient.

System Renewal is the area with the largest planned increase, going from 39% in 2012 to 48% in 2021 (including Nelson TS payments). This change is a reflection of the increasing the volume of work that needs to be done each year to address aging infrastructure, system voltage conversion and maintain system reliability.

**Key Elements**

This Distribution System Plan (DSP) has been shaped by the following prospective business conditions, including

- the preferences expressed by customers,
- public and worker safety,
- challenges associated with aging infrastructure,
- a long-term approach to ensuring a reliable supply of electricity is available for present and future customers, and
- the use of technology and innovation to provide new and better service to customers and equip workers with the tools they need to effectively manage assets for optimal performance and cost.

The Cost metrics have shown favourable and stable trends. For the past several years, London Hydro has been ranked in the bottom quartile of all LDCs for OM&A cost per customer and

Annual Distribution Revenue (residential customers). London Hydro has been assessed as being within Group 2 by PEG since inception of this ranking method in 2012.

# APPENDIX A – 2014 SCORECARD MANAGEMENT DISCUSSION AND ANALYSIS ("2014 SCORECARD MD&A")

## Scorecard MD&A - General Overview

In the utility industry, success is measured by metrics such as those presented in the accompanying Scorecard. These levels of performance represent the standard for our industry: the lights stay on at a reasonable cost. What distinguishes London Hydro are the ways in which we exceed these industry standards and our customers' expectations.

In 2014, London Hydro exceeded all OEB industry targets for service quality and customer satisfaction. London Hydro is committed to maintaining exceptional customer care and to continuing to find ways to improve the customer experience. In 2014's third party administered Customer Satisfaction Survey, London Hydro maintained its overall 'A' rating, outperforming both national and provincial averages in most areas, including "demonstrating credibility and trust" as well as both the helpfulness and courtesy of staff. Contributing factors to our success include the state-of-the-art website and MyLondonHydro customer portal that were launched at the beginning of 2014 to give customers a wide variety of self-serve options, thus reducing some of the pressure experienced by Customer Service Representatives (CSRs). The website was recognized nationally, with the Marketing Digital Media Campaign Award, and internationally, with the Creativity International Media and Interactive Silver Award.

The customer portal, MyLondonHydro, gives customers the ability to access their accounts. Examples of the features offered are listed are below[11].

**Make Payment or Payment Arrangements or Notify Us of a Recent Payment Already Made**

This feature enables customers to have real time access to account status and allows for instantaneous account updating.

[11] MyLondonHydro also gives customers the ability to analyze their own energy usage patterns and take advantage of a myriad of energy saving tips and resources across a variety of platforms.

**Delegate Access**

Customers may assign secure access to their billing and energy usage information to a delegated contact. This can be used to help aging parents or businesses to manage their accounts.

**Outage Notifications & Estimated Restoration Times**

This feature enables customers to choose whether they want to be notified of an outage by phone, text or email. A live outage map is also displayed giving instant updates.

**Budget Billing**

Setting up a Budget Billing Plan for equal monthly installments is easy and allows customers to manage their plan and make adjustments when necessary.

Customer care starts with employee care. In 2014, Benefits Canada recognized the health and wellness of London Hydro's employees, and London Hydro enhanced employee safety with the "Safety Starts with ME" campaign. With no lost time injuries in 2014, London Hydro employees live their strong safety culture every day. In 2014, London Hydro was recognized for its safety programming by winning the Canada's Safest Employer award for the utility industry. In addition, building on the recognition we received in 2013 from the ESA for Powerline Safety, we have recently been notified that we are recipients of the 2015 Ontario Electrical Safety award in the category of Worker Safety. This most recent award recognizes London Hydro's achievement in safety innovation for creating three apps, which can be used on both smartphones and tablets:

**Substation Access Tool: Log Presence app (and fob)**

Employees who enter substations for non-electrical reasons use the Log Presence App on their smart phones to notify the Control Room (CR) of their presence without taking the Control Room Operator away from higher priority switching work.

**Incident/Deficiency Reporting App**

Using the app, employees can report the location and the urgency of a problem found in the field, providing both a description and pictures, and forward the information to the relevant departments so that action can be taken.

**Zapple**

Zapple is London Hydro's proprietary Wellness and Safety app that gives employees immediate access to a wide range of information including, emergency contact names and phone numbers; procedures for reporting accidents, injuries and near misses; procedures for using AED's, administering CPR and following the 911 protocol; and a broad range of resources concerning stress management, nutrition, fitness and ergonomics.

Regarding reliability, London Hydro continues its trend of improvement, which can be attributed to investments made in distribution infrastructure and Reliability-Centred Maintenance (RCM)

Programs over the past 15 years. One example of an RCM program is our use of the SPOORE Analysis tool, which was developed in house to set priorities for cable and transformer rehabilitation in subdivisions.

London Hydro is known as a technology innovation leader, being one of the first utilities in North America to implement Green Button "Connect My Data" in the Cloud. In addition, London Hydro is a founding member of the Green Button Alliance, an international association with a mandate to "support education, development and wide-spread use of green button standards-based application." As a founding member, London Hydro continues its commitment to increase adoption of Green Button across Ontario-based and Canadian utilities, enabling residential customers to shift high-peak usage, and commercial customers, such as school boards, to manage energy consumption across multiple facilities and utilities.

As a result of requests from and collaboration with customers, London Hydro has launched its Interval Data Centre 2 web-based data analysis and display system, which was designed for commercial and industrial customers and includes such features as a simple dashboard, consumption reports, meter grouping, annotations, facility comparisons and power factor analysis. The functions of this system were made possible through the advancements that London Hydro has made with Green Button technology.

London Hydro implemented a new cloud-based solution that allows London Hydro to surpass the number of concurrent calls that our current phone system and customer service representatives can normally support. This advancement provides the needed capacity during large outage events without having to invest in additional labour and equipment to handle high volume events. This service allows our interactive voice response system to sort the incoming call by either confirming that an outage event is occurring, based on the incoming phone number, by allowing customers to notify London Hydro of the outage event or by connecting the customer to a London Hydro Representative.

London Hydro continues to be a province leader in the area of Conservation and Demand Management. In 2014, we surpassed our success of previous years by achieving 123.9% of our target for Net Cumulative Energy Savings. In addition, London Hydro partners with other community organizations to enhance Home Assistance Plan for our customers, and, in 2014, we were recognized with the Fire Marshal's Safety Award for working with the London Fire Department and the Salvation Army to add fire protection and electrical safety awareness to its conservation programs.

In terms of connection to renewable generation, London Hydro continues to meet or exceed all of its time targets for both the completion of Connection Impact Assessments and connecting new micro-embedded generation facilities.

Early in 2014, London Hydro published a "Statement of Corporate Governance Practices," which outlines the Board's activities and the role it plays in fostering the success of the corporation and explains the Enterprise Risk Management framework developed by London Hydro to chronicle the corporation's risk management policies and practices as well as the ways we mitigate and/or manage significant risks. These seminal changes to corporate governance and oversight have led to the achievement of the best financial performance ever, in spite of the fact that 2014 was an Incentive Rate Making year, which causes a regulatory lag in the recovery of costs.

London Hydro has continued to maintain a solid financial position year over year and in doing so it has achieved a credit rating of 'A / Stable' or better from Standard & Poor's over the past seven years.

We strive to be a company of which our community and rate payers can be proud. The success of 2014 is a manifestation of our mission to provide safe and reliable service to our customers, while fostering a corporate culture where employees are engaged and innovation is encouraged. In 2015, we plan to continue building on our strengths and by so doing, to continue improving our performance in all facets of our business.

## Service Quality

- **New Residential/Small Business Services Connected on Time**

In 2014, London Hydro connected 100% of its 1,324 eligible low-voltage residential and small business customers (those utilizing connections under 750 volts) to its system within the five-day timeline prescribed by the Ontario Energy Board (OEB). This perfect score exceeds the OEB-mandated threshold of 90%. London Hydro is consistently able to achieve high levels of compliance in this area due to the existing workflow processes and computer systems that are used to monitor the status of each job. London Hydro also previously implemented an evening shift service truck, which has resulted in improved flexibility for connecting new customers.

- **Scheduled Appointments Met On Time**

London Hydro scheduled 1,474 appointments with its customers in 2014 to complete work requested by customers or the customer's representative. Consistent with the last five years, the utility met more than 99% of these appointments on time, which significantly exceeds the industry target of 90%. London Hydro's success in this area is attributed to the efforts of London Hydro staff, who are both aware of these obligations and committed to meeting them.

- **Telephone Calls Answered On Time**

In 2014, London Hydro Customer Service Representatives handled 182,280 calls, which represents an average of 760 calls a day. We continue to meet the required percentage of calls answered in 30 seconds or less.

In 2014, London Hydro engaged a call over-flow company to assist in call handling management post-implementation of our new self-service functionality on the MyLondonHydro customer web portal. London Hydro notes that the drivers to enhance our self-serve web portal were the escalating increase of email correspondence (2012 -14,311 emails, 2013 -16,640 emails and 2014 -20,699 emails) and customer requests for additional online tools to manage interactions 24 hours a day, seven days a week. London Hydro anticipates that telephone call volumes will decline with more customer acceptance of this tool.

## Customer Satisfaction

- **First Contact Resolution**

London Hydro strives to serve customers in a friendly and professional manner within the first call. London Hydro has an intensive training program for new hires and has a dedicated resource for gap training and process management. We use call monitoring tools to record and archive every call to allow us to evaluate our staff's call handling. Each month we review one call selected randomly with each CSR. Any anomalies or customer escalations are reviewed when warranted. All customer interactions are logged in our CIS System, including any escalations.

The results of our annual Customer Satisfaction Survey give us the opportunity to see what is working and what areas require improvement.

- **Billing Accuracy**

In 2014, London Hydro distributed an average of 152,232 invoices per month. To supplement our validating, estimating and editing process, our CIS system uses audits and controls to ensure the accuracy of bill calculations. Any billing irregularities are investigated, analyzed and evaluated for impacts. All changes are verified and tested by our Subject Matter Experts. This dedicated team also monitors and manages bill print exceptions. As an additional check, we audit the value of the bill, and by setting a "threshold" amount for each billing class of customers, we ensure no excessive/irregular invoice leaves without validation.

- **Customer Satisfaction Survey Results**

For the past 17 years, London Hydro Inc. has engaged a third party to conduct a Customer Satisfaction Survey. The purpose of London Hydro's involvement in these surveys is to determine a benchmark for measuring the level of satisfaction our customers experience with all areas of service and, equally important, to identify any areas for improvement. The survey asks a core set of questions that provide benchmarks year-to-year, such as overall satisfaction with London Hydro, reliability of service, outages, billing issues and corporate image. Additionally, London Hydro provides a second set of questions regarding specific current issues to identify and respond to new needs or expectations of the customers. The information gathered from the survey is then carefully considered and included in the development or enhancement of both London Hydro's Strategic Plan and Corporate Communications Plan.

In 2014, London Hydro's Customer Satisfaction results were equal to or better than Provincial and National counterparts, and, on most measures, London Hydro demonstrated improvement over the previous year's score. Customers' overall satisfaction rating for London Hydro was 87%.

In 2015, questions regarding Operational and Capital Expenses were included to determine the customers' perspective on capital expenditures. For example, when asked whether they would support paying increased rates for converting overhead service to underground, 67% of London Hydro customers surveyed said 'no." Again, this survey is a valuable tool for gauging customers' awareness of changes in the industry, their level of satisfaction with the services London Hydro

provides, their insights into capital programs, and for identifying any areas of improvement to services. London Hydro's goal is to provide service excellence in all we do, and we plan to continue surveying our customers to benchmark our service levels and help us continue to develop service enhancements.

## Safety

- **Public Safety**
  - **Component A – Public Awareness of Electrical Safety**

In 2014, London Hydro undertook major safety awareness efforts, which include

- the School Electricity Safety Program, which is presented to over 10,000 students annually;
- the Power of Electricity, a curriculum-based program that involves training teachers to present the program to grades 5 and 6 each year;
- media coverage for electrical safety-related issues and incidents in the community;
- pole top rescue training (attended by media);
- support and presentations at the Safety Village; and
- other community event presentations.

In 2015, London Hydro will launch a new public awareness survey among a representative sample of its customers. The survey will gauge the public's awareness of fundamental safety precautions related to electricity. The survey will also provide a benchmark and identify gaps where additional education and awareness efforts may be required.

London Hydro will continue to support and provide education and training to our community through these initiatives.

  - **Component B – Compliance with Ontario Regulation 22/04**

Over the past three years, London Hydro has been found to be compliant with Ontario Regulation 22/04 (Electrical Distribution Safety). This success was achieved by our strong commitment to safety and adherence to company policies, procedures and Safe Work Practices. Ontario Regulation 22/04 - Electrical Distribution Safety establishes objectives based electrical safety requirements for the design, construction, and maintenance of electrical distribution systems owned by licensed distributors. Specifically, the regulation requires the approval of equipment, plans, specifications and inspection of construction before they are put into service.

The Electrical Safety Authority (ESA) performs Due Diligence Inspections (DDI) throughout the year to ensure utilities remain compliant with the objectives set out in Ontario Regulation 22/04. London Hydro has a process in place for responding to DDI's and for reporting back to the ESA on the action plans taken within the specified time period. In 2014, eleven DDI's were performed on London Hydro equipment and infrastructure and we received no statements of non-compliance.

- **Component C – Serious Electrical Incident Index**

London Hydro experienced no reportable incidents in three of the last five years (2010, 2011 and 2014). None of the electrical incidents that occurred in 2012 and 2013 resulted in injury, either to a worker or to a member of the public. In order to maintain the safety and reliability of the distribution grid, London Hydro conducts an investigation of all incidents of this nature.

Through analysis and review of these incidents, London Hydro has implemented modifications to engineering designs and/or targeted replacement programs where appropriate to ensure continued safe and reliable distribution of electricity to our customers.

## System Reliability

- **Average Number of Hours that Power to a Customer is Interrupted**

In 2014, London Hydro surpassed its performance target for the average number of hours that power to a customer was interrupted. London Hydro's System Average Interruption Duration Index (SAIDI), without Loss of Supply, was 0.98 hours, which is at the lower end of London Hydro's target range of 0.85 – 1.67.

A large percentage of London Hydro's SAIDI result is related to scheduled outages, which are necessary to complete infrastructure improvement projects and to maintain the system. This work ensures that the system will continue to be reliable in the future. Use of advanced operational and Smart Grid technologies has resulted in improved outage restoration times and outage management capabilities.

- **Average Number of Times that Power to a Customer is Interrupted**

In 2014, London Hydro met its performance target for the average number of times that power to a customer was interrupted. London Hydro's System Average Interruption Frequency Index (SAIFI), without Loss of Supply, was 1.21, which is within the 1.0 - 2.14 target range. In addition, this was the lowest SAIFI value in the last three consecutive years. Defective Equipment was the primary contributor to outage frequency, which is an indication that London Hydro needs to continue its capital investment in order to sustain its infrastructure.

London Hydro's excellent SAIDI and SAIFI performance is a clear indicator of our commitment to ensuring reliability of service to our customers. In order to achieve this performance, London Hydro's engineers analyze our reliability data and produce comprehensive reports with root cause outage analysis and feeder by feeder performance analysis. These analyses result in action items in areas that need improvement. Maintaining our assets and investing in infrastructure also ensures that our system is robust enough to maintain a high level of performance during inclement weather.

## Asset Management

- **Distribution System Plan Implementation Progress**

Historically, London Hydro has fostered an engineering culture in which detailed system analysis generates the planning of strategic electrical and information technology for projects that can span variable time-frames, from months to several years for completion. Annual capital spend plans are harmonized with the annual financial plans with significant executive and Board of Director oversight. Detailed financial reviews of budgeted to actual spending accompany post-project debriefs to ensure London Hydro captures any and all opportunity for capitalizing on future efficiencies that can used in future planning. In addition, monthly reports are generated and reviewed by the executive that indicate actual spending to date compared to that budgeted for each capital project. Significant variances are investigated and addressed. London Hydro maintains a large catalogue of engineering instructions that encapsulates the best practices for project development with safety, security and efficiency given the highest priority. It is London Hydro's view that the Distribution System Plan (DSP) required by the OEB is a natural formal extension of London Hydro's Asset Sustainment and Asset Management Planning processes, which are already in place.

London Hydro plans to file an application with the OEB for a full review of its rates effective May 1, 2017. Accordingly, as of August 2015, London Hydro is nearing completion in the preparation of its 2017 DSP.

## Cost Control

- **Efficiency Assessment**

The total costs for Ontario local electricity distribution companies are evaluated by the Pacific Economics Group LLC on behalf of the OEB to produce a single efficiency ranking. The electricity distributors are divided into five groups based on the magnitude of the difference between their respective individual actual and predicted costs. London Hydro's 2014 results place us in Group 2 for the third year in a row. Group 2 distributors are defined as having actual costs that are 10% to 25% below predicted costs. Group 2 distributors are considered to have "better than average efficiency" – in other words, London Hydro's costs are better than the average cost range for distributors in the Province of Ontario. In reviewing the provincial electricity distributors' 2014 results, 47% (34 distributors) of Ontario distributors were ranked as "average efficiency"; 28% (20 distributors) were ranked as "more efficient"; 25% (18 distributors) were ranked as "least efficient." London Hydro's goal is always to advance in the ranking to the "more efficient" group, and management's expectation is that efficiency performance will not decline.

- **Total Cost per Customer**

Total cost per customer is calculated as the sum of London Hydro's capital and operating costs divided by the total number of customers that London Hydro serves. The cost performance result for 2014 is $477 / customer, which represents a 2.4% increase over 2013.

London Hydro's Total Cost per Customer has increased on average by 1.8% per annum

between 2010 and 2014. Similar to most distributors in the province, London Hydro has experienced increases in the total cost required to deliver safe and reliable services to customers. Province wide programs, such as smart meters required for Time-of-Use pricing, growth in wage and benefits costs for our employees, investments in new information systems technology and the renewal and growth of the distribution system, have all contributed to increased operating and capital costs.

London Hydro will continue to replace distribution assets proactively along a carefully managed timeframe in a manner that balances system risks and customer rate impacts as will be demonstrated in our 2017 Cost of Service rate application. London Hydro will also continue to implement productivity and improvement initiatives to help offset some of the costs associated with future system improvement and enhancements. Customer engagement initiatives will continue in order to ensure customers have an opportunity to share their viewpoint on London Hydro's capital spending plans.

- **Total Cost per Km of Line**

This measure uses the same total cost that is used in the Cost per Customer calculation above. The total cost is divided by the kilometers of line that London Hydro operates to serve its customers. London Hydro's 2014 rate is $24,946 per Km of line, a 2.1% increase over 2013. London Hydro experienced a moderate level of growth in its total kilometers of lines complemented by a moderate annual customer growth rate. This continued modest growth rate provides London Hydro with the ability to fund capital renewal and mitigates some of the increased operating costs realized through customer growth. As a result, Cost per Km of line has increased year over year with the increase in capital and operating costs. See the above cost per customer section for a commentary on cost drivers. London Hydro continues to seek innovative solutions to help ensure cost/km of line remains competitive and within acceptable limits to our customers.

## Conservation & Demand Management

- **Net Accumulated Energy Savings**

Over the 2011 - 2014 timeframe, London Hydro offered its customers the complete suite of provincial energy-efficiency incentive programs under the umbrella saveONenergy FOR HOME and saveONenergy FOR BUSINESS brands. As noted in its various Annual CDM Reports (all posted on the OEB website), some provincial programs were more successful in the marketplace than others. Nonetheless, London Hydro achieved a net accumulated energy savings of 194.1 GWh, or 123.9 % of its assigned target.

- **Net Annual Peak Demand Savings**

Over the 2011 - 2014 timeframe, London Hydro achieved only 19.3 MW of peak demand savings, or 46.6% of its assigned CDM target. The Smart Metering / time-of-use electricity pricing initiative contributed 1.7 MW of this net peak demand savings.

This outcome is perhaps not surprising since (as noted in London Hydro's various Annual CDM Reports, posted on the OEB website) once southwestern Ontario was declared a "discount

area" for demand response (in the Fall of 2011) and the 200-hour per year participation option was suspended, participation interest by customers in the saveONenergy DEMAND RESPONSE program completely dried up.

## Connection of Renewable Generation

- **Renewable Generation Connection Impact Assessments (CIA) Completed on Time**

In 2014, London Hydro completed all 21 CIA's within the prescribed time limit of 60 days.

- **New Micro-embedded Generation Facilities Connected On Time**

In 2014, London Hydro connected 29 new micro-embedded generation facilities (<10 weeks). London Hydro quite often installs the meter the same day that the ESA authorization to connect is received.

## Financial Ratios

- **Liquidity: Current Ratio (Current Assets/Current Liabilities)**

Current assets represent cash and other assets that are expected to become cash within the next year. Conversely, current liabilities are financial obligations that are anticipated to be paid within a year. A ratio that is greater than 1 may be an indicator that a company is able to meet its financial obligations coming due within the next year. A higher ratio of current assets to current liabilities provides a greater comfort zone since it indicates that current liabilities can be paid, while leaving excess funds for ongoing operations. A ratio of less than 1 could be a signal that a company may not be able to keep up with its upcoming payments, indicating insufficient cash flows from profits or the need for financing.

London Hydro's current ratio is affected by items such as accounts receivable and liabilities for electricity, which can fluctuate significantly, depending on factors including changes in customer consumption and the price of electricity acquired on behalf of customers. Additionally, the timing and extent of capital investments in the London Hydro distribution system can have a significant impact on cash balances. Accordingly, a fluctuation in London Hydro's ratio is not an indicator of stability or financial performance but more a matter of timing and leveling with long-term debt.

The Company's ratio as of December 2014 was 1.23, which is up from 1.13 for 2013 and at the same level as 2012.

- **Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio**

London Hydro has a capital mix of 39% debt and 61% equity (debt to equity ratio of .64) for 2014. The OEB uses a deemed capital structure of 60% debt and 40% equity (debt to equity ratio of 1.5) when establishing rates.

A debt to equity ratio higher than 1.5 may indicate that the Company will have difficulty obtaining any required debt to finance capital investments and meet working capital requirements. A debt to equity ratio less than 1.5 may be a signal that the Shareholder is not achieving an optimum rate of return, as a portion of their investment is providing a lower yield.

London Hydro's capital mix equips the Company with unused debt capacity making funds readily available. This, in turn, keeps London Hydro in a strong financial position as displayed by the recent Standard & Poor's Rating Services rating of A/Stable.

- **Profitability: Regulatory Return on Equity – Deemed (included in rates)**

London Hydro's current distribution rates were approved by the OEB and include an expected (deemed) regulatory return on equity of 8.98%. The OEB allows a distributor to earn within +/- 3% of the expected return on equity. When a distributor performs outside of this range, the actual performance may trigger a regulatory review of the distributor's revenues and costs structure by the OEB.

- **Profitability: Regulatory Return on Equity – Achieved**

In 2014, London Hydro's regulatory return on equity (ROE) was 9.10%, which is well within the +/-3% range allowed by the OEB. In 2013 our reported ROE was 11.42%.

London Hydro experienced higher distribution revenue in 2014 than was forecasted in our 2013 Cost of Service application (COS). This discrepancy was due primarily to shifts in weather patterns; a colder than normal winter in 2014 resulted in increased energy consumption by customers. Other revenues are also higher in 2014, primarily in the area of late payment charges. OM&A costs are moderately below the COS forecast due, in part, to productivity improvements. The higher distribution revenues are offset by a significant reduction in the 2014 ROE results stemming from the fact that London Hydro annually invests more in capital spending than is covered by the depreciation provided in our COS. Our 2014 calculated depreciation was $2.0 M higher that projected in our COS, resulting in lower measured net income.

London Hydro's 2014 formulaic rate base is $8.6 M greater than the rate base as approved in the 2013 COS; $3.8 M is due to escalating customer consumption and electricity costs, which London Hydro is required to cover in working capital. The remaining $4.8 M represents the change in Average Net Fixed Assets. With the assumption that this trend will continue, London Hydro projects that future reported ROE balances will continue to decline.

File Number: EB-2016-0091

Date Filed: August 26, 2016

# Exhibit 1

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# Tab 3 of 10

# Administration

# LEGAL APPLICATION

**IN THE MATTER OF** the Ontario Energy Board Act, 1998, 5.0. 1998, c.15, 3 Schedule B, as amended ("the OEB Act");

**AND IN THE MATTER OF** an Application by London Hydro Inc. under Section 78 of the OEB Act to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2017.

Applicant's Name: London Hydro Inc. (the "Applicant" or “London Hydro")

## Background

1. The Applicant is a corporation incorporated pursuant to the Business Corporations Act (Ontario) with its head office at 111 Horton Street, London, Ontario. The Applicant carries on the business of distributing electricity within the City of London.

2. The Application has been prepared pursuant to the OEB's Renewed Regulatory Framework for Electricity Distributors as detailed in the Report of the Board dated October 18, 2013 ("the RRFE”).

3. The Applicant followed Chapter 2 of the OEB's Filing Requirements for Electricity Distribution Rate Applications last revised on July 14, 2016 (the "Filing Requirements") in preparing the Application. There are no deviations from the Filing Requirements in this Application.

4. The Applicant has prepared a Consolidated Distribution System Plan ("DSP”) in accordance with Chapter 5 of the OEB's Filing Requirements for Electricity Transmission and Distribution Applications.

5. The Applicant acknowledges that the OEB will publish an update to the cost of capital parameters and that these matters will affect the Revenue Requirement that the Applicant has requested in this Application.

August 26, 2016



Vinay Sharma
CEO



David Arnold
Chief Financial Officer; Vice-President of Finance; Corporate Secretary

# CERTIFICATION OF EVIDENCE

As part of the Minimum Filing Requirements July 14, 2016, an application filed with the OEB must include a certification by a senior officer of the applicant that the evidence filed is accurate, consistent and complete to the best of his or her knowledge.

I, Vinay Sharma, CEO of London Hydro Inc. certify that the evidence filed is accurate, consistent and complete to the best of my knowledge.

August 26, 2016



Vinay Sharma
CEO

# APPLICATION CONTACT INFORMATION

## THE APPLICANT'S ADDRESS FOR SERVICE:

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N6A 4H6

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## CONTACTS:

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***Chief Financial Officer; Vice-President of Finance; Corporate Secretary***

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***Primary Application Contact***
***Director of Regulatory Affairs***

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# LEGAL REPRESENTATION

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E-mail: ataylor@energyboutique.ca

# APPLICANTS INTERNET ACCESS SOCIAL MEDIA ACCOUNTS

The Application and related materials will be posted on the London Hydro website, and will be available for viewing at the following internet address:

***https://www.londonhydro.com/site/#!/about_us/content?page=regulatory-documents***

The Application will further be communicated to customers and media via Facebook and Twitter.

London Hydro social media channel addresses are as follows:

***www.facebook.com/londonhydro***
***www.twitter.com/londonhydro***
***www.youtube.com/londonhydro***

The Application will also be available on the Board's website at ***www.ontarioenergyboard.ca***, under Board File Number EB-2015-0061.

# STATEMENT AS TO WHO IS AFFECTED BY APPLICATION AND PUBLICATION

Ratepayers within the City of London, to whom London Hydro distributes electricity, are primarily affected by this Application. In addition the application may affect principal and third party interest in microFIT, FIT and other forms of IESO generation contracts.

If directed by the OEB, London Hydro is proposing that the notices related to the Application in English appear in the London Free Press newspaper. The newspaper is published daily with a daily circulation on average of 115,000, the highest paid circulation in our territory.

Additionally, if directed by the OEB, London Hydro is proposing that the notices related to the Application in French be published, in one issue of the French language newspaper L'Action, the highest paid circulation, according to the best information available, in London Hydro Inc.'s service area.

# BILL IMPACTS FOR PUBLIC NOTICE OF APPLICATION

London Hydro herein proposes the bill impacts that result only from distribution cost changes as per sub-total A of Tariff Schedule and Bill Impacts spreadsheet model to be used for the notice of application for a typical residential customer using 750 kWh per month and for a General Service < 50kW customer using 2000 kWh per month.

## RESIDENTIAL USING 750 KWH PER MONTH : $1.13, 4.45%

| | | |
|---|---|---|
| **Customer Class:** | RESIDENTIAL SERVICE CLASSIFICATION | |
| **RPP / Non-RPP:** | RPP | |
| **Consumption** | 750 | kWh |
| **Demand** | - | kW |
| **Current Loss Factor** | 1.0350 | |
| **Proposed/Approved Loss Factor** | 1.0315 | |

| | Current OEB-Approved | | | Proposed | | | Impact | |
|---|---|---|---|---|---|---|---|---|
| | Rate ($) | Volume | Charge ($) | Rate ($) | Volume | Charge ($) | $ Change | % Change |
| Monthly Service Charge | $ 16.42 | 1 | $ 16.42 | $ 20.11 | 1 | $ 20.11 | $ 3.69 | 22.47% |
| Distribution Volumetric Rate | $ 0.0121 | 750 | $ 9.08 | $ 0.0082 | 750 | $ 6.15 | $ (2.93) | -32.23% |
| Fixed Rate Riders | $ 0.01 | 1 | $ 0.01 | $ 0.38 | 1 | $ 0.38 | $ 0.37 | 3700.00% |
| Volumetric Rate Riders | $ - | 750 | $ - | $ - | 750 | $ - | $ - | |
| **Sub-Total A (excluding pass through)** | | | $ 25.51 | | | $ 26.64 | **$ 1.13** | **4.45%** |
| Line Losses on Cost of Power | $ 0.1114 | 26 | $ 2.92 | $ 0.1114 | 24 | $ 2.63 | $ (0.29) | -10.00% |
| Total Deferral/Variance Account Rate Riders | -$ 0.0013 | 750 | $ (0.98) | -$ 0.0024 | 750 | $ (1.80) | $ (0.83) | 84.62% |
| GA Rate Riders | | | | $ - | 750 | $ - | $ - | |
| Low Voltage Service Charge | $ - | 750 | $ - | | 750 | $ - | $ - | |
| Smart Meter Entity Charge (if applicable) | $ 0.7900 | 1 | $ 0.79 | $ 0.7900 | 1 | $ 0.79 | $ - | 0.00% |
| **Sub-Total B - Distribution (includes Sub-Total A)** | | | **$ 28.24** | | | **$ 28.26** | **$ 0.02** | **0.06%** |
| RTSR - Network | $ 0.0069 | 776 | $ 5.36 | $ 0.0064 | 774 | $ 4.95 | $ (0.40) | -7.56% |
| RTSR - Connection and/or Line and Transformation Connection | $ 0.0058 | 776 | $ 4.50 | $ 0.0058 | 774 | $ 4.49 | $ (0.02) | -0.34% |
| **Sub-Total C - Delivery (including Sub-Total B)** | | | **$ 38.10** | | | **$ 37.70** | **$ (0.40)** | **-1.06%** |
| Wholesale Market Service Charge (WMSC) | $ 0.0036 | 776 | $ 2.79 | $ 0.0036 | 774 | $ 2.79 | $ (0.01) | -0.34% |
| Rural and Remote Rate Protection (RRRP) | $ 0.0013 | 776 | $ 1.01 | $ 0.0013 | 774 | $ 1.01 | $ (0.00) | -0.34% |
| Standard Supply Service Charge | $ 0.2500 | 1 | $ 0.25 | $ 0.2500 | 1 | $ 0.25 | $ - | 0.00% |
| Debt Retirement Charge (DRC) | | | | | | | | |
| Ontario Electricity Support Program (OESP) | $ 0.0011 | 774 | $ 0.85 | $ 0.0011 | 774 | $ 0.85 | $ - | 0.00% |
| TOU - Off Peak | $ 0.0870 | 488 | $ 42.41 | $ 0.0870 | 488 | $ 42.41 | $ - | 0.00% |
| TOU - Mid Peak | $ 0.1320 | 128 | $ 16.83 | $ 0.1320 | 128 | $ 16.83 | $ - | 0.00% |
| TOU - On Peak | $ 0.1800 | 135 | $ 24.30 | $ 0.1800 | 135 | $ 24.30 | $ - | 0.00% |
| | | | | | | | | |
| **Total Bill on TOU (before Taxes)** | | | **$ 126.55** | | | **$ 126.13** | **$ (0.42)** | **-0.33%** |
| HST | 13% | | $ 16.45 | 13% | | $ 16.40 | $ (0.05) | -0.33% |
| **Total Bill on TOU** | | | **$ 143.00** | | | **$ 142.53** | **$ (0.47)** | **-0.33%** |

# GENERAL SERVICE < 50KW CUSTOMER USING 2000 KWH PER MONTH: $2.40, 4.52%

| | | |
|---|---|---|
| **Customer Class:** | GENERAL SERVICE LESS THAN 50 kW SERVICE CLASSIFICATION | |
| **RPP / Non-RPP:** | RPP | |
| **Consumption** | 2,000 | kWh |
| **Demand** | - | kW |
| **Current Loss Factor** | 1.0350 | |
| **Proposed/Approved Loss Factor** | 1.0315 | |

| | Current OEB-Approved | | | Proposed | | | Impact | |
|---|---|---|---|---|---|---|---|---|
| | Rate ($) | Volume | Charge ($) | Rate ($) | Volume | Charge ($) | $ Change | % Change |
| Monthly Service Charge | $ 32.25 | 1 | $ 32.25 | $ 33.52 | 1 | $ 33.52 | $ 1.27 | 3.94% |
| Distribution Volumetric Rate | $ 0.0104 | 2000 | $ 20.80 | $ 0.0108 | 2000 | $ 21.60 | $ 0.80 | 3.85% |
| Fixed Rate Riders | $ - | 1 | $ - | $ 0.33 | 1 | $ 0.33 | $ 0.33 | |
| Volumetric Rate Riders | $ - | 2000 | $ - | $ - | 2000 | $ - | $ - | |
| **Sub-Total A (excluding pass through)** | | | $ 53.05 | | | $ 55.45 | **$ 2.40** | **4.52%** |
| Line Losses on Cost of Power | $ 0.1114 | 70 | $ 7.80 | $ 0.1114 | 63 | $ 7.02 | $ (0.78) | -10.00% |
| Total Deferral/Variance Account Rate Riders | -$ 0.0014 | 2,000 | $ (2.80) | -$ 0.0017 | 2,000 | $ (3.40) | $ (0.60) | 21.43% |
| GA Rate Riders | | | | $ - | 2,000 | $ - | $ - | |
| Low Voltage Service Charge | $ - | 2,000 | $ - | | 2,000 | $ - | $ - | |
| Smart Meter Entity Charge (if applicable) | $ 0.7900 | 1 | $ 0.79 | $ 0.7900 | 1 | $ 0.79 | $ - | 0.00% |
| **Sub-Total B - Distribution (includes Sub-Total A)** | | | **$ 58.84** | | | **$ 59.86** | **$ 1.02** | **1.73%** |
| RTSR - Network | $ 0.0065 | 2,070 | $ 13.46 | $ 0.0061 | 2,063 | $ 12.58 | $ (0.87) | -6.47% |
| RTSR - Connection and/or Line and Transformation Connection | $ 0.0051 | 2,070 | $ 10.56 | $ 0.0051 | 2,063 | $ 10.52 | $ (0.04) | -0.34% |
| **Sub-Total C - Delivery (including Sub-Total B)** | | | **$ 82.85** | | | **$ 82.96** | **$ 0.11** | **0.14%** |
| Wholesale Market Service Charge (WMSC) | $ 0.0036 | 2,070 | $ 7.45 | $ 0.0036 | 2,063 | $ 7.43 | $ (0.03) | -0.34% |
| Rural and Remote Rate Protection (RRRP) | $ 0.0013 | 2,070 | $ 2.69 | $ 0.0013 | 2,063 | $ 2.68 | $ (0.01) | -0.34% |
| Standard Supply Service Charge | $ 0.2500 | 1 | $ 0.25 | $ 0.2500 | 1 | $ 0.25 | $ - | 0.00% |
| Debt Retirement Charge (DRC) | $ 0.0070 | 2,000 | $ 14.00 | $ 0.0070 | 2,000 | $ 14.00 | $ - | 0.00% |
| Ontario Electricity Support Program (OESP) | $ 0.0011 | 2,063 | $ 2.27 | $ 0.0011 | 2,063 | $ 2.27 | $ - | 0.00% |
| TOU - Off Peak | $ 0.0870 | 1,300 | $ 113.10 | $ 0.0870 | 1,300 | $ 113.10 | $ - | 0.00% |
| TOU - Mid Peak | $ 0.1320 | 340 | $ 44.88 | $ 0.1320 | 340 | $ 44.88 | $ - | 0.00% |
| TOU - On Peak | $ 0.1800 | 360 | $ 64.80 | $ 0.1800 | 360 | $ 64.80 | $ - | 0.00% |
| | | | | | | | | |
| **Total Bill on TOU (before Taxes)** | | | **$ 332.29** | | | **$ 332.37** | **$ 0.08** | **0.02%** |
| HST | 13% | | $ 43.20 | 13% | | $ 43.21 | $ 0.01 | 0.02% |
| **Total Bill on TOU** | | | **$ 375.49** | | | **$ 375.58** | **$ 0.09** | **0.02%** |

# STATEMENT OF REQUESTED HEARING FORM

The majority of bill impacts resulting from this Application are less than 10%, as shown in the notice bill impacts in Exhibit 1 Tab 3 Schedule 7 above. Accordingly, London Hydro requests that this Application be disposed of by way of a written hearing in order to expedite the proceeding.

# RATE ORDER REQUIREMENT FOR IMPLEMENTATION

London Hydro requests that the Board make its Rate Order effective May 1, 2017 in accordance with the Filing Requirements.

In the event that the Board is unable to provide a Decision and Order in this application for implementation by the Applicant as of May 1, 2017, the Applicant requests that the Board declare its current rates interim, effective May 1, 2017, pending the implementation of the Board's Rate Order for the 2017 rate year.

# STATEMENT OF DEVIATIONS FROM THE FILING REQUIREMENTS

London Hydro has not, to the best of its knowledge, deviated from the final Board's Filing Requirements for Electricity Distribution Rate Applications.

# STATEMENT OF CHANGES TO METHODOLOGIES USED

The pro-forma projections for the 2017 Test Year have been prepared in accordance with London Hydro's usual process (including the use of MIFRS accounting), with the following exceptions:

- Exclusion of non-regulated activities;
- Rates for distribution and sales of electricity are assumed to be constant for the entire 2017 Test Year; and,
- Regulatory costs and DSP costs have been normalized over the five year application period.

# STATEMENT CONFIRMING MONTHLY BILLING

Per the July 14, 2016 Minimum Filing Requirements the OEB requires a statement confirming that the distributor will have implemented monthly billing for all customers by December 31, 2016 pursuant to the OEB's April 15, 2015 DSC amendment.

London Hydro herein confirms that it began billing customers monthly in the year 2000, well before the implementation of the OEB's April 15, 2015 DSC amendment.

# BOARD DIRECTION FROM PREVIOUS EDR DECISIONS

London Hydro has not received any other utility-specific directions from the Board since submitting its last Cost of Service application (EB-2012-0146) for May 1, 2013 distribution rates and no such directions are outstanding presently.

# CONDITIONS OF SERVICE

The current version of London Hydro's Conditions of Service is available on London Hydro's website at ***https://www.londonhydro.com/site/#!/commercial/content?page=conditions-of-service.***

Rates and charges which are the subject of this rate Application are not contained in the Conditions of Service.

The changes that have taken place since the last COS are outlined below.

## CHANGES MADE IN 2014

- **Appendix A** - EI-7-R19 "Commercial Charges for Electric Servicing",
- **Appendix D** - EI-4-R5 "Design and Interconnection Requirements for Customer-Owned Electric Power Substations",
- **Appendix E** - EI-22-R4 "Guidelines for Supplying Customer-Related Interval-Style Revenue Metering Systems", and
- **Appendix F** - "Approved Retail Rates"

The changes in Appendix A reflect changes in current labour and material rates. The changes in Appendices D and E are outlined in the Revision Indices for those Appendices. The changes in Appendix F reflect the Approved Retail Rates.

## CHANGES MADE IN 2015

- **Appendix A** - EI-7-R20 "Commercial Charges for Electric Servicing",
- **Appendix C** - EI-29-R11 "Electric Metering Requirements",
- **Appendix E** - EI-22-R6 "Guidelines for Supplying Customer-Related Interval-Style Revenue Metering Systems", and
- **Appendix F** - "Approved Retail Rates"

The changes in Appendix A reflect changes in current labour and material rates. The changes in Appendices C and E are outlined in the Revision Indices for those Appendices. The changes in Appendix F reflect the Approved Retail Rates.

## CHANGES MADE IN 2016

- **Appendix A** - EI-7-R21 “Commercial Charges for Electric Servicing”,
- **Appendix C** - EI-29-R12 “Electric Metering Requirements”,
- **Appendix D** - EI-4- R6 "Design and Interconnection Requirements for Customer-Owned Electric Power Substations",
- **Appendix E** - EI-22-R7 “Guidelines for Supplying Interval-Style Revenue Metering Systems”, and
- **Appendix F** - “Approved Retail Rates”

The changes in Appendix A reflect changes in current labour and material rates. The changes in Appendices C, D and E are outlined in the Revision Indices for those Appendices. The changes in Appendix F reflect the Approved Retail Rates. Also, general changes were made to specify that all customers with demand greater than 50 kW will be equipped with interval metering on a go forward basis.

## PROPOSED CHANGES TO BE MADE IN 2017 (SUBJECT TO OEB ACCEPTANCE)

The following sections of London Hydro’s Conditions of Service are expected to be changed as a result of this application.

- **Appendix F** - “Approved Retail Rates”

The changes in Appendix F reflect the Approved Retail Rates.

# CONFIRMATION OF RATES AND CHARGES

As part of the Minimum Filing Requirements July 14, 2016 London Hydro herein confirms that there are no rates or charges listed in the Conditions of Service that are not on the distributor's Tariff of Rates and Charges.

August 26, 2016



David Arnold
Chief Financial Officer; Vice-President of Finance; Corporate Secretary



William Milroy
Vice President Engineering and Operations

# CORPORATE AND UTILITY ORGANIZATIONAL STRUCTURE

## CORPORATE AND UTILITY ORGANIZATIONAL STRUCTURE

London Hydro Inc. was incorporated on April 26, 2000, and in July, 2000 (through By-Law A-5686-103), the Municipal Council of The Corporation of the City of London transferred all of the employees, assets, liabilities, rights and obligations of what was then the electrical distribution business of the London Hydro Electric Commission to the new corporation.

London Hydro Inc. became a for-profit, taxable corporation when it was established as a wholly-owned subsidiary of The Corporation of the City of London under Ontario's Electricity Act (1998). On April 1, 1999, the Ontario Energy Board (OEB) granted London Hydro a licence (# ED-1999-0275) to provide electrical distribution services to the City of London.

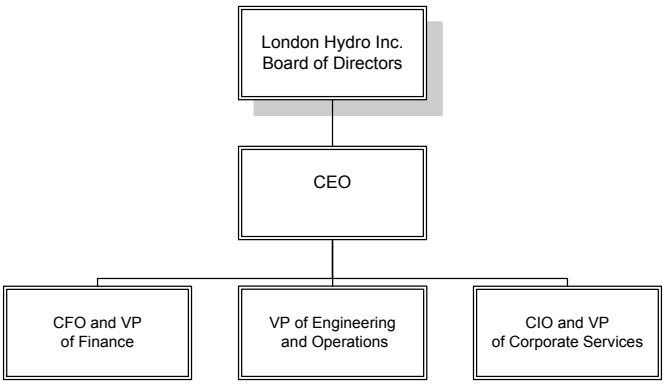
London Hydro is governed by a seven-member Board of Directors that is appointed by City Council. Directors have diverse backgrounds in law, finance and governance, and include one representative from City Council. Each Director is responsible to act honestly, in good faith and in the best interests of the corporation and, in doing so, support the corporation in fulfilling its mission and discharging its accountabilities.

London Hydro is not planning any changes to the corporate or organizational structure at this time.

## CORPORATE ENTITIES RELATIONSHIP CHART

London Hydro is a single corporation with a sole Shareholder, The Corporation of the City of London; therefore, a corporate entities chart is not applicable.

# HIGH LEVEL ORGANIZATIONAL CHART




# BOARD OF DIRECTORS AND INDEPENDENCE

London Hydro is governed by a seven-member Board of Directors that is appointed by City Council. London Hydro's Board has a unitary structure and its members include six independent community leaders who are appointed by City Council and one representative of City Council who sits on the Board as long as he or she is a duly elected Council Member.

The Board is responsible for overseeing the governance and operation of the business and has a specific mandate to

- ensure that distribution rates are fair and competitive with rates charged in the industry,
- enhance the quality and reliability of electrical supply,
- maintain the value of the distribution assets, and
- operate the business in a way that fosters innovation and encourages employee satisfaction and retention.

London Hydro defines 'independent' as meaning a member who is appointed by City Council to sit on the Board and is not an employee of the Corporation and is not a member of City Council.

The Board recognizes the importance of remaining independent of management in order to maintain the highest standards of integrity and to be effective in undertaking its numerous responsibilities on behalf of the corporation. Therefore, to ensure the independence of all Board

members, the Board has created a Directors' Disclosure of Interest (Section XV of the Governance Manual) to ensure any and all conflicts of interest are addressed.

## BOARD MANDATE

The Board's mandate is included in the Board of Directors' Corporate Governance Manual (See Exhibit 1 Tab 3 Schedule 16 Attachment 1.1) and is summarized below.

The Board is responsible for the overall governance of the affairs of the corporation. In performing its role, the Board delegates to management the authority and responsibility for day-to-day operations and reviews management's performance and effectiveness in undertaking those responsibilities. Specifically, the Board actively oversees the following areas:

- strategic planning and strategic direction
- quality and performance measurement and monitoring
- policy and procedure management
- financial oversight
- risk identification and oversight
- oversight of management including selection, supervision and succession planning
- stakeholder communication and accountability
- governance
- legal compliance

The Board is instrumental in setting the strategic direction for the corporation. To meet its responsibilities for ***Strategic Planning and Strategic Direction***, the Board

- participates in formulating and adopting the Corporation's Mission, Vision and Values;
- participates in the development of and approves a strategic plan that is consistent with the corporation's Mission and Values and that enables the Corporation to realize its Vision;
- ensures the Corporation's operations are consistent with the strategic plan;
- reviews regular progress reports on the implementation of strategic direction and initiatives;

- ensures its decisions are consistent with the strategic plan and the Corporations' Mission, Vision and Values; and
- conducts an annual review of the strategic plan as part of the regular annual planning cycle.

The Board is responsible for ensuring that performance evaluation occurs regularly at all levels of the organization and that the results are acted upon. To meet its responsibilities for ***Quality and Performance Measurement and Monitoring***, the Board

- establishes a process and a schedule for monitoring and assessing performance in areas of Board responsibility including
- fulfilment of the strategic directions in a manner consistent with the mission, vision and values
- oversight of management performance
- quality of services to our customers as per OEB metrics
- financial performance
- external relations
- Board's own effectiveness
- ensures that management has identified appropriate measures of performance;
- ensures that management has plans in place to address variances from performance standards, and
- directs and oversees implementation of remediation plans.

The Board is responsible for ensuring that the operation is run consistently following policies and procedures that are safe, sound and of the highest ethical standards. To meet its responsibilities for ***Policy and Procedure Management*****,** the Board reviews and approves

- policies relevant to the corporation and its operations;
- corporate procedures; and
- collective bargaining parameters.
- The Board is responsible for stewardship of financial resources including ensuring availability of, and overseeing allocation of, financial resources. To meet its responsibilities for ***Financial Oversight***, the Board

- reviews and approves annual operating and capital budgets;
- oversees allocation of financial resources as per budget and monitors financial performance against the budget;
- approves policies for financial planning in accordance with generally accepted accounting standards;
- monitors London Hydro's financial performance against the budget;
- reviews and approves quarterly financial statements and management's discussion and analysis;
- approves year-end audited financial statements;
- declares the dividend to the shareholder, should financial position permit;
- approves expenditures not in operating and capital budgets;
- approves the year-end audit planning report; and
- approves investment policies and monitors compliance.

The Board is responsible to be knowledgeable about risks inherent in corporation operations and ensures that appropriate risk analysis is performed as part of Board decision-making. To meet its responsibilities for ***Risk Identification and Oversight***, the Board

- ensures that appropriate programs and processes are in place to protect against risk;
- identifies unusual risks to the corporation and ensures plans are in place to prevent and manage such risks;
- ensures accuracy of financial information through oversight of management and approval of annual audited financial statements;
- ensures management has put measures in place to ensure the integrity of internal controls;
- oversees the corporation's risk management strategies and program;
- reviews and approves the corporation's enterprise risk management report;
- reviews and approves environmental policies; and
- reviews and approves cyber security management policies.

The Board is responsible for overseeing the continuity of the corporation's executive leadership. To meet its responsibilities for ***Oversight of Management Including Selection, Supervision and Succession Planning***, the Board

- reviews and approves succession planning report for the CEO and Executive Management;
- reviews and approves the CEO job description and selection process;
- undertakes recruitment and selection process for the CEO;
- establishes the CEO's annual performance goals;
- reviews and approves the CEO's performance, compensation and incentive;
- conducts annual review of the CEO's performance, including the CEO's supervision of senior management; and
- reviews the Executive performance incentive.

The Board is responsible for identifying the Corporation's stakeholders and understanding stakeholder accountability. To meet its responsibilities for ***Stakeholder Communication and Accountability***, the Board

- contributes to and maintains positive stakeholder relationships;
- acts and communicates with stakeholders in a manner consistent with the vision, mission, and values of the corporation;
- reviews the Corporation's communications strategy; and
- provides quarterly and annual financial reports and the governance report to the shareholder.

The Board is responsible for the quality of its own governance and for establishing governance structures to facilitate the performance of the Board's role and enhance individual Director performance. To meet its responsibilities for ***Governance***, the Board

- reviews and approves annual Board and committee evaluation survey results;
- makes recommendations to the shareholder regarding Board nominations based on skill and Board requirements;
- reviews and appoints membership of Board Committees and Committee Chairs;
- appoints officers;

- reviews and approves Committees' Terms of Reference and Committees' Work plans;
- reviews and approves the annual Board work plan;
- reviews and approves Board education practices;
- reviews and approves changes to corporate by-laws;
- attends the Annual General Meeting of the Corporation;
- reviews the Shareholder Declaration; and
- reviews and recommends Board remuneration to the shareholder.

The Board ensures that appropriate processes are in place to ensure compliance with legal requirements. To meet its responsibilities for ***Legal Compliance***, the Board

- ensures the Corporation is compliant with regulatory and legal requirements;
- reviews the health and safety policy report;
- reviews the Accessibility for Ontarians with Disabilities Act; and
- ensures the corporation is compliant with the Municipal Freedom of Information and Protection of Privacy Act (MFIPPA).

## BOARD'S RESPONSIBILITY TO MEET DISCLOSURE REQUIREMENTS

In addition to the responsibilities listed above, the Board is responsible for issuing the following documentation, which is also made available to the public:

- Quarterly Financial Statement & Management's Discussion and Analysis
- Quarterly Debt Covenant Declaration (to various debt holders - banks)
- Annual Financial projections to S&P for credit evaluation
- Annual Audited Financial Statements
- Regulatory Reporting requirements as per the OEB
- Health and Safety compliance report as per ESA
- Green Energy Act Plan (GEA Plan)
- Distribution System Plan – Filing (Deemed Conditions of Service)
- Reporting and Record-keeping Requirements (RRR)
- Customer Service Quality Standard
- Condition of Service

# BOARD'S RESPONSIBILITY TO MEET COMPLIANCE REQUIREMENTS

The Board is required to be compliant with the following:

- Distribution System Code
- Conservation Demand Management Code
- Affiliate Relationship Code
- Retail Settlement Code
- Standard Supply Services Code
- Electricity Distribution Rate Handbook
- Accounting Procedures Handbook (APH)
- OEB Rules of Practice and Procedure
- Standards of Business Practice and Conduct
- Regulator Price Plan
- Retailer System Code

# SCHEDULE OF MEETINGS

## 2015 London Hydro Board & Committee Meeting Schedule

| Board | Dates | Time |
|---|---|---|
| LH Board of Directors | Tuesday January 27 | 9:00 AM |
| | Tuesday February 24 | 9:00 AM |
| | Tuesday March 31 | 9:00 AM |
| | Tuesday April 21 | 9:00 AM |
| | Tuesday May 26 | 9:00 AM |
| | Tuesday June 23 | 9:00 AM |
| | Tuesday September 29 | 9:00 AM |
| | Tuesday October 27 | 9:00 AM |
| | Tuesday November 24 | 9:00 AM |
| | Thursday December 17 | 9:00 AM |

| Committee | Dates | Time |
|---|---|---|
| LH Audit | Monday March 30 | 9:00 AM |
| | Monday April 20 | 9:00 AM |
| | Tuesday August 25 | 9:00 AM |
| | Monday October 26 | 9:00 AM |
| | Monday November 23 | 9:00 AM |

| Committee | Dates | Time |
|---|---|---|
| LH Human Resources Policy & Procedures | Monday January 26 | 9:00 AM |
| | Tuesday April 21 (prior to Board meeting) | 8:00 AM |
| | Tuesday August 25 | 8:00 AM |
| | Tuesday October 27 (prior to Board meeting) | 8:00 AM |
| | Thursday December 17 (prior to Board meeting) | 8:00 AM |

| Committee | Dates | Time |
|---|---|---|
| LH Corporate Governance & Risk Management | Tuesday March 31 (prior to Board meeting) | 8:00 AM |
| | Tuesday May 26 (prior to Board meeting) | 8:00 AM |
| | Tuesday November 24 (prior to Board meeting) | 8:00 AM |

| Committee | Dates |
|---|---|
| LH Special | As Required |

# CONTINUING EDUCATION

## Training & Development for Members of London Hydro's Board

London Hydro pays for Board Members to be formally trained either through the Directors' College Program offered through the DeGroot School of Business at McMaster University (in conjunction with the Conference Board of Canada) or through the Institute of Corporate Directors (ICD) in conjunction with the Rotman School of Management at the University of Toronto. Board members are expected to participate in orientation sessions, board retreats and board education sessions; as well they should attend additional appropriate educational conferences in accordance with board approved policies.

The following education training and development guidelines have been developed to ensure London Hydro's Board members have current knowledge of the industry and are knowledgeable in governance principles as well as in corporate legislation and regulation.

1. All Board members are eligible to attend and participate in industry conferences and corporate governance seminars. Expenses, including registration fees, will be reimbursed to the Board member. Members wishing to attend such conferences and seminars shall do so in consultation with London Hydro's CEO.

2. Board members can avail themselves to any and all of London Hydro's in-house employee training and seminars.

3. There are several formal corporate director training programs such as the Charter Director, Institute of Corporate Directors, etc. For Board members seeking to achieve the C. Dir or the ICD.D designation, London Hydro will provide a one-time maximum educational grant up to $25,000[1] towards these programs, with the requirement of successfully passing the exam and achieving the designation.

[1] The same one-time maximum for reimbursement for educational programs applies to London Hydro employees as well.

4. In addition, the Corporate Directors Colleges also offer specialty training programs such as the Audit Committee certification, Human Resources certification and Compensation Committee certification. No additional education grant will be provided for these extra certifications. However, if these certifications are within the maximum one-time grant (given in #3 above), then the Board member may determine if they wish to undertake these certifications. In all cases, successful passing of the exams and achieving certification/designation is required.

5. If a Board member, who avails oneself of the above noted formal Directors' programs and certification (i.e. #3 above), resigns before the end of their first term on the Board or does not successfully pass the exams for the certification/designation, then that Board member will be required to repay the grant to London Hydro.

6. For attending any training and development, there shall be no meeting remuneration paid to the Board member.

7. There shall be no reimbursement for any formal or informal degree/diploma, other courses and/or programs at a university or college.

## CODE OF CONDUCT

In 2014, London Hydro published a Statement of Corporate Governance Practices, which outlines the Board's activities with respect to London Hydro's governance policies and practices and the role the Board plays in fostering the success of the Corporation for all stakeholders. As part of its due diligence obligations, the Board measures and monitors its performance by completing both an annual Board Evaluation and a Self-Evaluation across multiple parameters, including adherence to the Code of Conduct, and these evaluations are documented in the Board's Annual Work Plan. Additionally, Board Members are required to adhere to a Disclosure of Interest to report any potential conflicts of interest. A copy of this Statement is included in Exhibit 1 Tab 3 Schedule 16 Attachment 3.1.

In addition to the Statement, London Hydro's Board of Directors has a written code of conduct, called the Board of Directors' Corporate Governance Manual. This 275-page document includes the following sections:

I. Corporate Governance Overview
II. Corporate Profile
III. Roles and Responsibilities of the Board
IV. Roles and Responsibilities of Board Chair & Vice Chair
V. Roles and Responsibilities of Directors
VI. Board Evaluation
VII. Board Skill Matrix - Self Evaluation
VIII. Contact Information - Board and Management
IX. Remuneration/Lifetime Perks
X. Shareholder Declaration
XI. Directors' and Officers' Liabilities
XII. Directors' and Officers' Insurance
XIII. Board Meetings
XIV. Board Committees
XV. Directors' Disclosure of Interest
XVI. Confidential Information
XVII. Information Management
XVIII. Role of the Shareholder
XIX. Articles of Incorporation
XX. Articles of Amendment
XXI. By Laws
XXII. Glossary of Industry Terms

A copy of this document is included in Exhibit 1 Tab 3 Schedule 16 Attachment 1.1.

Board Members also comply with London Hydro's Corporate Code of Conduct, which is included in Exhibit 1 Tab 3 Schedule 16 Attachment 3.1.

## SELECTION OF NEW BOARD MEMBERS

City Council appoints Board members for a period of three years, and this term is renewable. New appointments are made and existing appointments are confirmed at every Annual General Meeting (AGM). The member of City Council, who sits on the Board as a representative of that Council, may only serve on the Board so long as he or she remains a duly elected member of Council, and those terms are for a duration of four years.

To ensure Board continuity and, therefore, Board effectiveness, Director appointments are staggered through the implementation of a four class system. Under this system, each of the first three classes consists of two Directors and the fourth consists of the one Director, who is the representative of City Council. Only one class comes up for renewal in any one year, which not only protects the continuity of the Board, but also ensures that new members are brought in gradually. The number of terms a Director may serve on the Board is not regulated, so members may remain on the Board until they decide to retire from it.

The Board of Directors is the highest governing body of London Hydro. Although there is no documented process to select members to guide the organization's strategy based explicitly on social or environmental concerns, members are expected to have broad business experience and expertise. The board has a mix of competencies and representational backgrounds that include financial and legal knowledge, accounting and tax matters, utility industry knowledge, strategic planning including human resource planning, corporate stewardship and risk management, regulatory knowledge and experience in a competitive business environment.

### Selection Process

The process undertaken to select a new Board Member is as follows:

1. When vacancies become available, the City invites the public to submit applications for the position of London Hydro Board Member.

2. Applications are reviewed and ranked by City Councillors to determine a preliminary long list (of approximately 12).

3. From the long list, Councillors select their top six candidates and rank them using a point system.

4. Rankings submitted by Councillors are collated to determine a short list, and these candidates are interviewed by Council.

5. Once the interviews are complete, Councillors vote to select the new Board Member.

The Statement of Corporate Governance Practices (Appendix XX) outlines specifically the qualifications required to serve on the Board of Directors as well as those qualifications required to hold the positions of Chair and Vice-Chair. These qualifications are supplemented with the Board's "Self-Evaluation – Board Skill and Knowledge Matrix," which is completed annually to identify gaps of expertise within the Board that may result from Director turnover. For example, if a Board Member is the only accountant serving on the Board and he or she leaves, accountancy will be noted as a skills gap that needs to be addressed in Board representation.

## BOARD COMMITTEES

In addition to the responsibilities carried out by the Board of Directors, Board members are also expected to participate on the following three standing Committees:

- Audit Committee
- Corporate Governance & Risk Management Committee
- Human Resources Policy & Procedures Committee

Committees consist of at least three Board members plus the Chair who are independent of company management. Like the Board as a whole, each of these committees is responsible for a variety of activities, which are captured in their annual Work Plans, as well as for performing an annual evaluation that measures the success of the committee's activities and achievements.

## Audit Committee

The Audit Committee is responsible for the co-ordination and oversight of the London Hydro's management, internal audit and external audit to ensure the effective development and maintenance of adequate financial controls and reporting. The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities. The Audit Committee reviews the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations and its own code of business conduct. In performing its duties, the Audit Committee maintains effective working relationships with the Board, management, and the external auditors. To perform his or her role effectively, each Audit Committee member obtains an understanding of the detailed responsibilities of committee membership as well as the London Hydro's business, operations, and risks.

In accordance with the Corporate Governance Manual, all Audit Committee members are required to be financially literate or to become financially literate within a reasonable time, and have broad business experience. The Committee Chair is required to have accounting or related financial expertise, or past experience as a member of an Audit Committee of a significant business.

### Audit Committee - Terms of Reference

The Audit Committee ("Committee") is responsible for the co-ordination and oversight of the Company's management, internal audit and external audit to ensure the effective development and maintenance of adequate financial controls and reporting.

The Committee will assist the Board of Directors ("Board") in fulfilling its oversight responsibilities. The Committee will review the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations and its own code of business conduct. In performing its duties, the Committee will maintain effective working relationships with the Board, management, and the external auditors. To perform his or her role effectively,

each Committee member will obtain an understanding of the detailed responsibilities of Committee membership as well as the Company's business, operations, and risks.

## *Organization*

### a) *Committee Composition*

All Board Committees will be established each year by the Board, with the Committee Chair to be selected by the Board.

The Committee will consist of three Board members plus the Chair who are independent of company management. Committee members will have had no business transactions outside of the normal course of business (i.e. the purchase of power), relationships or financial interests with the company or its management.

### b) *Membership Qualifications*

All Committee members will be required to be financially literate or to become financially literate within a reasonable time, and have broad business experience. The Chair of the Committee will be required to have accounting or related financial expertise, or past experience as a member of an Audit Committee of a significant business.

### c) *Frequency of Meetings*

The Committee will meet as many times as is necessary to carry out its responsibilities and report to the Board. As a minimum requirement, the Committee will be required to meet no less than four times per fiscal year to discharge the external audit responsibilities prescribed by this mandate. Special meetings can be called at the request of any Committee member, the external auditors or internal auditors, if applicable.

### d) *Attendance at Meetings*

The Committee may invite such other persons (e.g. the CEO, CFO, external and internal auditors) to its meetings, as it deems necessary.

e) ***Committee Process***

The time at which and the place where the meetings of the Committee shall be held, the calling of meetings and the procedures in all respects of such meetings shall be determined by the Committee, unless otherwise provided for in the bylaws of the Corporation or otherwise determined by resolution of the Board of Directors. Every attempt should be made for the Committee to meet in person when possible, rather than through teleconference facilities.

No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee. A majority of the members of the Committee shall constitute a quorum, provided that if the number of members of the Committee is an even number one half of the number of members plus one shall constitute a quorum.

Any members of the Committee may be removed or replaced at any time by the Board of Directors and shall cease to be a member of the Committee as soon as such member ceases to be a Director.

The Chairman will appoint a secretary who will keep minutes of all meetings (the "Secretary"). The Secretary does not have to be a member of the Committee or a Director and can be changed by simple notice of the Chairman.

## *Reporting Responsibilities*

The responsibility and authority of the Committee is prescribed by the Board and accordingly, the Committee will provide full reporting of each Committee meeting to the Board. The proceedings of all meetings will be minuted.

## *Specific Responsibilities*

a) ***External Audit Responsibilities***

Following the Board's recommendation, London Hydro's sole shareholder, the City of London, appoints an external auditor to perform an annual audit of London Hydro. The Committee is

required to meet with the external auditor prior to the commencement of the annual audit and perform the following:

- Review management's evaluation of the external auditor's independence.
- Review the external auditor's proposed audit planning summary, materiality, risk assessment, audit scope and approach to ensure that areas of risk are adequately addressed.
- Review the external auditors' prior years' actual fees and approve the current year's budgeted fees (it is recognized that our shareholder establishes the audit fees).
- Review with the auditor those matters the Committee expects to be informed of in the course of the audit (see attached Appendix BB at the end of this Appendix).

The Committee is required to meet with the external auditor prior to the issuance of the final annual audit report and perform the following:

- Conduct a post-audit review of the annual financial statements and audit findings.
- Enquire of management and auditors about any differences of opinion including a review of the auditor's schedule of unadjusted differences.
- Meet in-camera with the auditors to discuss any issues arising from the audit.
- Review any accounting policy or accounting principle changes.
- Review the sufficiency and appropriateness of any significant estimates, management judgements and accounting provisions included in the determination of the financial statements and MD & A.
- Review the external auditor's recommendations for improvements to internal control and management's responses to those suggestions.
- Review the performance of the external auditors.
- Review the annual report for consistency with the annual financial statements and management's discussion and analysis.

b) ***Financial Reporting Responsibilities***

- Review and approve interim quarterly financial statements, as required to be presented to the Board for their approval.

- Review from company's counsel their legal response on any legal matters that could have a significant impact on the Company's financial statements.
- The Committee will determine to the extent that they consider necessary, the appropriate level of review and involvement in the following areas:

1) Internal Control Responsibilities

- Assess management's programs regarding the adequacy and effectiveness of internal controls and the identification of areas of risk, to ensure that procedures and controls have been implemented to monitor and manage these areas effectively.
- Gain an understanding of the current areas of greatest financial risk and how management is managing these effectively.
- Review the activities, organizational structure and qualifications of the internal audit function.

2) Other Compliance Responsibilities

- Review management's monitoring of compliance and its compliance with the Company's code of corporate conduct. Enquire of external auditors and management about any possible breaches. Request that management annually report to the Company that it is in compliance with such code.
- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance.
- Obtain regular updates from management and the Company's legal counsel regarding compliance matters.
- Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.
- Review the findings of any examinations by regulatory agencies.
- Review the policies and procedures in effect for the review of officers' expenses and perquisites.
- Review the annual report of Senior Managers' expenses.

- Review and approve the annual report of the CEO's expenses.
- If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist.
- Perform other oversight functions as requested by the Board.

### *Remuneration*

The members of the Committee shall be entitled to receive the same remuneration for acting as members of the Committee as that provided for other committees of the Board, the amount of which the Board of Directors may from time to time determine.

## Corporate Governance & Risk Management Committee

The purpose of this committee is to assist the Board of Directors in ensuring that London Hydro operates within a sound corporate governance framework through the development of a recommended appropriate governance structure, including policies, processes and procedures that satisfy legal, health and safety and regulatory requirements in this regard, which also reflects best practices in the industry. The Corporate Governance & Risk Management Committee also acts in an advisory capacity to the Board in assessing the effectiveness of London Hydro's system of corporate governance.

### Corporate Governance & Risk Management Committee - Terms of Reference

### *Purpose*

To assist the Board of Directors in ensuring that the corporation operates within a sound corporate governance framework through the development of a recommended appropriate governance structure, including policies, processes and procedures that satisfy legal, health and safety and regulatory requirements in this regard, and reflect best practice in the industry. The Corporate Governance Committee (the "Committee") shall also act in an advisory capacity to the Board in assessing the effectiveness of the corporation's system of corporate governance.

## *Organization*

### a) *Committee Composition*

All Board Committees will be established each year by the Board, with the Committee chair to be selected by the Board.

The Committee will consist of three Board members plus the chair who are independent of company management. Committee members will have had no business transactions outside of the normal course of business (i.e. the purchase of power), relationships or financial interests with the company or its management.

### b) *Membership Qualifications*

Each Committee member will be required to have broad business experience and expertise.

### c) *Frequency of Meetings*

The Committee will meet as many times as is necessary to carry out its responsibilities and report to the Board. Meetings may be called by the chairman of the Committee or any two of its members.

### d) *Attendance at Meetings*

The Committee may invite such other persons (e.g. the CEO, Vice Presidents) to its meetings, as it deems necessary.

### e) *Committee Process*

The time at which and the place where the meetings of the Committee shall be held, the calling of meetings and the procedures in all respects of such meetings shall be determined by the Committee, unless otherwise provided for in the bylaws of the corporation or otherwise determined by resolution of the Board of Directors. Every attempt should be made for the Committee to meet in person when possible, rather than through teleconference facilities.

It is understood that in order to properly carry out its responsibilities with respect to corporate governance recommendation and advice to the Board, the Committee may retain outside consultants at the expense of the corporation and on the approval of the Board of Directors, if it considers it to be necessary.

No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee.

A majority of the members of the Committee shall constitute a quorum, provided that if the number of members of the Committee is an even number one half of the number of members plus one shall constitute a quorum.

Any members of the Committee may be removed or replaced at any time by the Board of Directors and shall cease to be a member of the Committee as soon as such member ceases to be a Director.

The Chair will appoint a Secretary who will keep minutes of all meetings (the "Secretary"). The Secretary does not have to be a member of the Committee or a Director and can be changed by simple notice of the Chair.

The Committee shall have access in normal circumstances to the corporation's auditors, legal counsel, and with the exception of confidential personnel records and files, to such information respecting the corporation as it considers necessary or advisable in order to perform its Committee duties and responsibilities.

### *Reporting Responsibilities*

The responsibility and authority of the Committee is prescribed by the Board and accordingly, the Committee will provide full reporting of each Committee meeting to the Board. The proceedings of all meetings will be minuted.

### *Specific Responsibilities*

- To act as nomination committee for new Board members, and for Board Chair and Vice Chair positions.
- To recommend appropriate processes for approval and implementation by the Board of Directors to fulfill its responsibility for: (i) oversight of strategic direction and development and review of ongoing results of operations; (ii) oversight of the corporation's shareholder relations and public relations activities and ensuring that procedures are in place for the effective reporting to the shareholder, receipt of shareholder feedback and response to shareholder concerns.
- To recommend a proper delineation of the role, duties and responsibilities of management, the Board of Directors and its Committees, and delegation of authority by the Board of Directors to Committees of the Board and to management.
- To recommend procedures for meetings of the Board of Directors and to otherwise assist in establishing processes, procedures and structures to ensure that the Board of Directors functions independently of management and without conflicts of interest.
- To recommend to the Board improvements to enhance an effective and appropriate working relationship between management and the Board of Directors.
- To review, consider and advise the Board on the composition of the Board of Directors in relation to the needs of the corporation and the commitment required of individual Directors.
- To review, consider, and advise the Board on appropriate scope and levels of Directors' and officers' liability insurance and indemnification arrangements.

### *Board and Committee Structure and Membership*

- To review the mandates of the Board of Directors' Committees and recommend appropriate changes.
- To recommend allocation of Directors of the corporation to the various Committees of the Board of Directors.

### *Directors*

- To develop for Board approval, implement and maintain an orientation and educational program for new appointments to the Board of Directors in order to familiarize new Directors with the business of the corporation, its management and professional advisors and its facilities, as well as their role and responsibilities as Directors.

### *Establishment of Operational Governance Policies*

- To recommend the development and implementation of appropriate corporate governance policies, including, but not limited to Confidentiality Policies, Corporate Codes of Conduct, Conflict of Interest and other relevant policies associated with ensuring an effective system of corporate governance.

### *Legal Affairs*

- To act in an advisory role to the Board of Directors with respect to legal matters, including the retention of legal counsel, the review and approval of any extraordinary legal expenditures and the status of any litigation or other legal matters and to make recommendations to the Board of Directors with respect thereto.
- Review insurance agreements and provide recommendations on exposure and strategic ways to reduce the risk to an acceptable level.

### *Related Party Transactions*

- To review related party transactions for reflection of market practice and being in the best interests of the corporation and advise the Board thereof.

### *Committee Evaluation*

- To assess and provide recommendations to the Board of Directors on the effectiveness of Committees and Committee Chairs.

### *Remuneration*

The members of the Committee shall be entitled to receive the same remuneration for acting as members of the Committee as that provided for other Committees of the Board, the amount of which the Board of Directors may from time to time determine.

## Human Resources Policy & Procedures Committee

The Human Resources Policy & Procedures Committee is responsible for acting as an advisor to the London Hydro Board with respect to Human Resource's policies and practices.

### Human Resources Policy & Procedures Committee - Terms of Reference

### *Purpose*

The Human Resources Policy & Procedures Committee is responsible for acting as an advisory to the London Hydro Board with respect to Human Resource's policies and practices.

### *Organization*

a) ***Committee Composition***

All Board Committees will be established each year by the Board, with the Committee Chair to be selected by the Board.

The Committee will consist of three Board members plus the Chair who are independent of company management. Committee members will have had no business transactions outside of the normal course of business (i.e. the purchase of power), relationships or financial interests with the company or its management.

b) ***Membership Qualifications***

Each Committee member will be required to have broad business experience and expertise.

c) ***Frequency of Meetings***

The Committee will meet at least quarterly, or as many times as is necessary to carry out its responsibilities and report to the Board. Meetings may be called by the Chairman of the Committee or any two of its members.

d) ***Attendance at Meetings***

The Committee may invite such other persons (e.g. the CEO, Vice President responsible for Human Resources Policy and Procedures) to its meetings, as it deems necessary.

e) ***Committee Process***

The time at which and the place where the meetings of the Committee shall be held, the calling of meetings and the procedures in all respects of such meetings shall be determined by the Committee, unless otherwise provided for in the bylaws of the Corporation or otherwise determined by resolution of the Board of Directors. Every attempt should be made for the Committee to meet in person when possible, rather than through teleconference facilities.

No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee. A majority of the members of the Committee shall constitute a quorum, provided that if the number of members of the Committee is an even number one half of the number of members plus one shall constitute a quorum.

Any members of the Committee may be removed or replaced at any time by the Board of Directors and shall cease to be a member of the Committee as soon as such member ceases to be a Director.

The Chairman will appoint a secretary who will keep minutes of all meetings (the “Secretary”). The Secretary does not have to be a member of the Committee or a Director and can be changed by simple notice of the Chairman

## *Reporting Responsibilities*

The responsibility and authority of the Committee is prescribed by the Board and accordingly, the Committee will provide full reporting of each Committee meeting to the Board. The proceedings of all meetings will be minuted.

## *Specific Responsibilities*

- Act as a resource group to review management's development of Human Resources policies and procedures, including Employee Policy Manuals, Employee Handbooks and Collective Agreements.
- Recommend to Board parameters for negotiations for collective agreement, and review Management's negotiation of Collective Agreement with bargaining agent(s), and advise management and Board with respect to negotiations.
- Review, consider, and recommend to the Board the appropriate compensation for the CEO, and the parameters for non-union employees. Review from time to time the compensation of the Board of Directors. Review in consultation with the CEO his recommendation for Senior Management compensation.
- Review the Corporation's compliance programs, policies, standards, procedures and reports with respect to regulatory, health, safety and environmental matters and make recommendations to the Board of Directors with respect thereto.
- Adopt a succession plan for CEO; review succession plan for senior management.
- Establish a work plan and evaluation of committee performance.
- Monitor and evaluate corporate goals during and for the year.
- Review any Human Resources related issues identified by the Enterprise Risk Assessment.
- Review culture and employee development programs and organizational structure.

## *Remuneration*

The members of the Committee shall be entitled to receive the same remuneration for acting as members of the Committee as that provided for other committees of the Board, the amount of which the Board of Directors may from time to time determine.

File Number:EB-2016-0091

Exhibit: 1
Tab: 3
Schedule: 16

Date Filed:August 26, 2016

# ATTACHMENT 1 OF 3
# LONDON HYDRO'S BOARD OF DIRECTORS' CORPORATE GOVERNANCE MANUAL




# Board of Directors' Corporate Governance Manual

Published January 2002
Revised: 2007,2008,2010,
2011, 2012, 2013, 2014

# Table of Contents


I. Corporate Governance Overview
II. Corporate Profile
III. Roles and Responsibilities of the Board
IV. Roles and Responsibilities of Board Chair & Vice Chair
V. Roles and Responsibilities of Directors
VI. Board Evaluation
VII. Board Skill Matrix - Self Evaluation
VIII. Contact Information - Board and Management
IX. Remuneration/Lifetime Perks
X. Shareholder Declaration
XI. Directors' and Officers' Liabilities
XII. Directors' and Officers' Insurance
XIII. Board Meetings
XIV. Board Committees
XV. Directors' Disclosure of Interest
XVI. Confidential Information
XVII. Information Management
XVIII. Role of the Shareholder
XIX. Articles of Incorporation
XX. Articles of Amendment
XXI. By Laws
XXII. Glossary of Industry Terms




# Board of Directors' Corporate Governance Manual

# Corporate Governance

Good corporate governance is integral to directors discharging their responsibilities. In a general sense, "corporate governance" refers to the process and procedures used to manage the business and affairs of a corporation. It relates to internal matters such as the operation of the board as well as external matters such as the corporation's relationship and dealings with shareholders.




# Board of Directors' Corporate Governance Manual

# Corporate Profile

London Hydro celebrated its 100th anniversary in 2010 and has enjoyed a history charged with challenges and opportunities. With a mandate to provide safe, affordable electricity to the general public, we began to power homes and businesses in November of 1910 and have continued to improve the way people live and work ever since.

Even in the early days, our forward-thinking approach brought new technology to London homes first. That trend continues today as London Hydro has been acclaimed the Energy Star® Utility of the Year for both 2007 and 2009 in recognition of the success of our energy conservation programs.

Our infrastructure is among the best in the province with our teams continuously investigating and implementing new technology when it's clear that it will improve the integrity of our infrastructure and enhance the reliability of supply to our customers.

London Hydro has been a cornerstone of the London community and continues to support and develop new and existing partnerships, from energy projects to education programs and local charitable organizations, London Hydro is an integral part of our community.

Both our fleet and electric meter departments have earned ISO 9001 registration, the most accepted quality management standards in the world. These accomplishments assure our customers of our commitment to providing a level of service in keeping with global standards.

We have grown with the city, continually refining our system, making it possible today to provide a peak load of 719 Megawatts through 2,609 kilometres of distribution lines spanning an area of 410 square kilometres of service territory. London Hydro Inc. employs 305 full-time employees, providing service to approximately 149,747 customers including the school, institutional, industrial, consumer and corporate sectors, and a population base of approximately 367,000.

In our continuing efforts to serve our customers, we have concentrated not only on power lines, but our phone lines and the front line, providing customer service staff with the latest software technology to find solutions for our residential and business customers quickly and efficiently.

# Roles and Responsibilities of the Board

**Purpose**
To ensure that the board has a shared understanding of its governance role, the board has adopted this list of Roles and Responsibilities of the Board.

**Responsibility of the Board**
The board is responsible for the overall governance of the affairs of the corporation.

Each director is responsible to act honestly, in good faith and in the best interests of the corporation and in so doing, to support the corporation in fulfilling its mission and discharging its accountabilities.

**Strategic Planning and Mission, Vision and Values**

- The board participates in the formulation and adoption of the corporation's mission, vision and values.

- The board ensures that the corporation develops and adopts a strategic plan that is consistent with the corporation's mission and values and that enables the corporation to realize its vision. The board participates in the development of the strategic plan and approves it.

- The board oversees the corporation's operations for consistency with the strategic plan and strategic directions.

- The board receives regular briefings or progress reports on implementation of strategic directions and initiatives.

- The board ensures that its decisions are consistent with the strategic plan and the corporation's mission, vision and values.

- The board annually conducts a review of the strategic plan as part of a regular annual planning cycle.

**Quality and Performance Measurement and Monitoring**

- The board is responsible for establishing a process and a schedule for monitoring and assessing performance in areas of board responsibility including:

    - Fulfillment of the strategic directions in a manner consistent with the mission, vision and values
    - Oversight of management performance
    - Quality of services to our customers as per OEB metrics
    - Financial performance
    - External relations
    - Board's own effectiveness

- The board ensures that management has identified appropriate measures of performance.

- The board monitors corporation and board performance against board-approved performance standards and indicators.

- The board ensures that management has plans in place to address variances from performance standards indicators, and the board directs and oversees implementation of remediation plans.

**Financial Oversight**

- The board is responsible for stewardship of financial resources including ensuring availability of, and overseeing allocation of, financial resources.

- The board approves policies for financial planning and approves the annual operating and capital budget.

- The board monitors financial performance against budget.

- The board approves investment policies and monitors compliance.

- The board oversees management's risk management program.

**Risk Identification and Oversight**

- The board is responsible to be knowledgeable about risks inherent in corporation operations and ensures that appropriate risk analysis is performed as part of board decision-making.

- The board oversees management's risk management program.

- The board ensures the accuracy of financial information through oversight of management and approval of annual audited financial statements.

- The board ensures management has put measures in place to ensure the integrity of internal controls.

**Oversight of Management Including Selection, Supervision and Succession Planning**

- The board recruits and supervises the CEO by:
    - Developing and approving the CEO job description
    - Undertaking a recruitment and selection process for the CEO
    - Reviewing and approving the CEO's annual performance goals
    - Reviewing CEO performance and determining CEO compensation

- The board ensures succession planning is in place for the CEO and senior management.

- The board exercises oversight of the CEO's supervision of senior management as part of the CEO's annual review.

- The board ensures that appropriate programs and processes are in place to protect against risk.

- The board is responsible for identifying unusual risks to the corporation and for ensuring that there are plans in place to prevent and manage such risks.

**Stakeholder Communication and Accountability**

- The board identifies corporation stakeholder and understands stakeholder accountability.

- The board ensures the corporation appropriately communicates with stakeholder in a manner consistent with accountability to stakeholder.

- The board contributes to the maintenance of strong stakeholder relationships.

- The board advocates on behalf of the corporation in support of the mission, vision and values and strategic directions of the corporation.

**Governance**

- The board is responsible for the quality of its own governance.

- The board establishes governance structures to facilitate the performance of the board's role and enhance individual director performance.

- The board ensures ongoing board training and education.

- The board periodically assesses and reviews its governance through evaluating board processes and structures, number of committees and their Terms of References, appointment of committee chairs, appointment of board officers and other governance processes and structures.

- The board will advocate for skilled, experienced and qualified members.

**Legal Compliance**

- The board ensures that appropriate processes are in place to ensure compliance with legal requirements.

**Board Succession Plan - (adopted at Board Meeting of May 29, 2012)**

- At the first meeting of the Board of Directors after each AGM, the Board may elect the Chair and Vice-Chair of the Board.

- The Corporate Governance and Risk Management Committee will recommend the various Committee members and Chair to the Board of Directors for approval.

# Roles and Responsibilities of Board Chair

The board chair is responsible for:

- Ensuring the integrity and effectiveness of the board's governance role and processes.
- Presiding at meetings of the board and its directors
- Representing the board within the corporation and the corporation in the community.
- Maintaining effective relationships with directors, management and stakeholders.

## Board Governance

The board chair ensures the board meets its obligations and fulfills its governance responsibilities. The board chair oversees the quality of the board's governance processes by:

- Ensuring that the board performs a governance role that respects and understands the role of management.
- Ensuring that the board adopts an annual work plan that is consistent with the corporation's strategic direction, mission, vision and values.

- Ensuring that the work of the board committees is aligned with the board's role and annual work plan and that the board respects and understands the role of its committees and does not redo committee work at the board level.

- Ensuring board succession by ensuring that there are processes in place to recruit, select and train directors with the skills, experience, background and personal qualities required for effective board governance.

- Ensuring that the board and individual directors have access to appropriate education.

- Overseeing the board's evaluation processes and providing constructive feedback to individual committee chairs and board directors as required.

- Ensuring that the board's governance structure and processes are reviewed, evaluated, and revised from time to time.

**Presiding Officer**

The board chair is the presiding officer at board meetings and is responsible for:

- Setting agendas for board meetings and ensuring matters dealt with at board meetings appropriately reflect the board's role and annual work plan.

- Ensuring that meetings are conducted according to applicable legislation, corporate by-laws, and the corporation's governance policies and Rules of Order.

- Facilitating and forwarding the business of the board, including preserving order at board meetings.

- Encouraging input and ensuring that the board hears both sides of a debate or discussion.

- Encouraging all directors to participate in the meeting.

- Facilitating the board in reaching consensus.

- Ensuring relevant information is made available to the board in a timely manner and that external advisors are available to assist the board as required.

- Ruling on procedural matters during meetings.

**Representation**

- The board chair is the official spokesperson for the board.

- The board chair represents the corporation in the community and its stakeholder according to policy.

- The board chair reports on behalf of the board to members at each annual general meeting.

- The board chair represents the board within the corporation attending and participating in events as required.

- The board chair represents the board in dealings with government and regulatory authorities.

**Relationships**

The board chair facilitates relationships with, and communication among, directors and between directors and senior management.

The board chair establishes a relationship with individual directors, meeting with each director at least once a year to ensure that each director contributes his or her special skill and expertise effectively.

The board chair provides assistance and advice to committee chairs to ensure they understand board expectations and have the resources that are required for performance of functions within their Terms of Reference.

The board chair maintains a constructive working relationship with the CEO and provides advice and counsel as required:

- The board chair works with the CEO to ensure he understands board expectations.

- The board chair ensures that the CEO's annual performance objectives are established and that an annual evaluation of the CEO is performed.

**Other Duties**

The board chair performs such other duties as the board determines from time to time.

**Skills and Qualifications**

The board chair will possess the following personal qualities, skills, and experience:

- All of the personal qualifications required of a board director

- Proven leadership skills

- Good strategic and facilitation skills, ability to influence and achieve consensus

- Act impartially and without bias

- Tact and diplomacy
- Powerful communication skills
- Political acuity
- Leadership skills to build a strong relationship between the corporation and its stakeholders.
- Ability to establish trusted advisor relationship with CEO and other board directors
- Governance and board level experience in the public utilities sector
- Outstanding record of achievement in one or several areas of skills and experience used to select board directors
- Minimum of two (2) years of board service at corporation, with a minimum of one (1) year as either a committee chair or one (1) year as a vice chair

## Additional Requirements of Vice Chair

**Duties**

- Assist the chair in ensuring that the agreed tasks and functions of the Board are carried out.

- The vice chair, as the chair's deputy, performs the same roles and responsibilities that are delegated to the chair, when the chair is not present, and the roles and responsibilities may include but are not limited to:

    - Presiding at all meetings;
    - Calling the board to order at the hour appointed;
    - Cause the business of the meeting to proceed in an expedient manner;
    - Represent London Hydro in the community and promote its aims and ideals;
    - Establish and maintain harmonious relationships with Board members and the senior leadership team;
    - Encourage effective communication between the organization and the community; and,
    - Ensure the Board maintains its emphasis on policy matters and that the authority delegated to any standing committee or staff is properly observed.

**Skills and Qualifications**

- Skills and qualifications of vice chair shall be the same as the chair's; with one exception, the requirement of service will be a minimum of two (2) years of board service at the corporation, with a minimum of one (1) year as a committee chair

# Roles and Responsibilities of Directors

## Preamble

This role description applies to all elected and ex-officio directors and is provided to directors before they are recruited for appointment to the board. A director who wishes to serve on the board must confirm in writing that he or she will abide by the responsibilities outlined below.

## Role and Responsibilities of a Director

As a director, and in contributing to the collective achievement of the role of the board, the individual director is responsible for the following:

### *Fiduciary Duties*

- Each director is responsible to act honestly, in good faith and in the best interest of the corporation and in so doing, to support the corporation in fulfilling its mission and discharging its accountabilities.

- A director shall apply the level of skill and judgment that may responsibly be expected of a person with his or her knowledge and experience. Directors with special skills and knowledge are expected to apply those skills and knowledge to matters that come before the board.

***Accountability***

- A director's fiduciary duties are owed to the corporation. The director is not solely accountable to any special group or interest and shall act and make decisions that are in the best interest of the corporation, as a whole. A director shall be knowledgeable of the stakeholder to whom the corporation is accountable and shall appropriately take into account the interests of such stakeholder when making decisions, but shall not prefer the interests of any one group if to do so would not be in the best interests of the corporation.

**Education**

- A director shall be knowledgeable about:

  - The operations of the corporation;
  - The needs of the community served;
  - The electrical distribution industry generally;
  - The duties and expectations of a director;
  - The board's governance role;
  - Board's governance structure and processes;
  - Board adopted governance policies; and,
  - Corporate policies applicable to board members.

- A director will participate in a board orientation session, orientation to committees, board retreats and board education sessions. A director should attend additional appropriate educational conferences in accordance with board approved policies.

**Board Policies and Corporate Policies**

- A director shall be knowledgeable of and comply with the board and corporate policies that are applicable to the board.

**Teamwork**

- A director shall develop and maintain sound relations and work cooperatively and respectfully with the board chair, board directors, and senior management.

**Community Representation and Support**

- A director shall represent the board and the corporation in the community when asked to do so by the board chair.

**Time and Commitment**

- A director is expected to commit the time required to perform board and committee duties.

- The board meets approximately 10 times a year and a director is expected to adhere to the board's attendance policy that requires attending at least 75 percent of board meetings.

- A director is expected to serve on at least one standing committee.

**Contribution to Governance**

- Directors are expected to make a contribution to the governance role of the board by:

  - Reading materials in advance of meetings and coming prepared to contribute to discussions;
  - Offering constructive contributions to board and committee discussions;
  - Contributing his or her special expertise and skill;
  - Respecting the views of other board directors;
  - Voicing conflicting opinions during board and committee meetings but respecting the decision of the majority even when the director does not agree with it;
  - Respecting the role of the chair;
  - Respecting the role and Terms of Reference of board committees; and,
  - Participating in board evaluations and annual performance reviews.

**Continuous Improvement**

- A director shall commit to be responsible for continuous self-improvement. A director shall receive and act upon the results of board evaluations in a positive and constructive manner.

# Board Evaluation

| LONDON HYDRO INC.<br>*BOARD EVALUATION* | | | |
|---|---|---|---|
| **QUESTION** | **AGREE** | **NEEDS IMPROVEMENT** | **NO COMMENT** |
| ***ROLES & RESPONSIBILITIES*** | | | |
| 1. The Board understands its role in the following area: | | | |
| • Strategic Planning | | | |
| • Financial Oversight | | | |
| • Quality (SAIDI, SAIFI, CAIDI) | | | |
| • Regulatory | | | |
| • Risk Management | | | |
| 2. The Board effectively performs in each of the following areas: | | | |
| • Strategic Planning | | | |
| • Financial Oversight | | | |
| • Quality | | | |
| • Risk Management | | | |
| 3. The Board develops an annual workplan with reference to the Corporation's strategic directions and the Board's role. | | | |
| 4. The Board follows its annual workplan. | | | |
| 5. The workplan helps the Board understand and perform its role. | | | |
| 6. The Board understands and performs its governance role and does not become involved in management issues. | | | |
| 7. The Board understands and considers the Corporation's accountabilities. | | | |
| 8. The Board makes decisions that are consistent with the Corporation's mission, vision and values. | | | |
| 9. The Board ensures the strategic plan is being implemented and makes decisions that are consistent with the strategic plan. | | | |
| 10. The Board is well informed about: | | | |
| • The Corporation | | | |
| • Current trends and issues in the public utilities sector | | | |
| • The Board's governance role | | | |

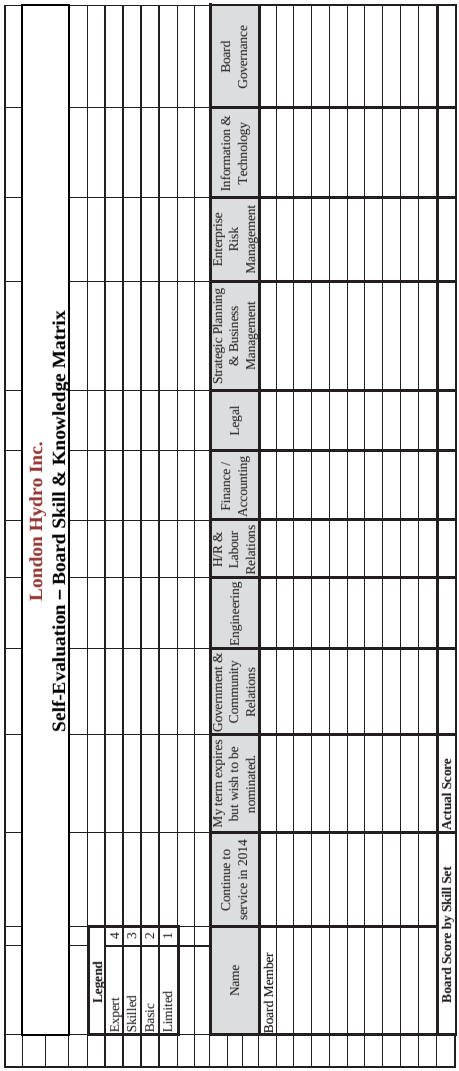
| LONDON HYDRO INC.<br>*BOARD EVALUATION* | | | |
|---|---|---|---|
| **QUESTION** | **AGREE** | **NEEDS IMPROVEMENT** | **NO COMMENT** |
| ***COMPOSITION & QUALITY*** | | | |
| 1. The Board is the right size for effective Board discussions; all Board members have an opportunity to contribute. | | | |
| 2. The Board identifies the skills and qualities that are required to perform the Board's role. | | | |
| 3. The Board advocates for new members to be recruited on the basis of skills, knowledge, experience and required abilities. | | | |
| 4. Board terms allow for Board turnover to appropriately balance Board continuity and new contributions. | | | |
| 5. Board members receive orientation that prepares them to contribute effectively to the Board. | | | |
| 6. Board members understand their fiduciary obligations and will: | | | |
| • Act in the best interest of the Corporation | | | |
| • Avoid conflicts | | | |
| • Speak with one voice | | | |
| • Follow Board governance policies | | | |
| 7. Board members work well together. | | | |
| 8. Board members have an opportunity to participate in ongoing education programs. | | | |
| ***STRUCTURE & PROCESSES*** | | | |
| **Committees:** | | | |
| 1. The Board has the right committees. | | | |
| **Board Meetings:** | | | |
| 1. Meeting materials are received sufficiently in advance to be thoroughly reviewed by Board members. | | | |
| 2. Materials are appropriate and prepare Directors to make decisions. | | | |
| 3. Meetings are structured so there is sufficient time for discussion of decision items. | | | |
| 4. The Board deals with in-camera business appropriately. | | | |
| 5. Board agendas focus on items that are within the Board's role. | | | |

| LONDON HYDRO INC.<br>*BOARD EVALUATION* | | | |
|---|---|---|---|
| **QUESTION** | **AGREE** | **NEEDS IMPROVEMENT** | **NO COMMENT** |
| 6. Minutes accurately reflect Board discussions and processes. | | | |
| 7. The Board meets the right number of times. | | | |
| 8. The Board meets at the right time of day. | | | |
| **Board Chair:** | | | |
| 1. The Board Chair conducts meetings in a way that moves the business of the Board forward. | | | |
| 2. The Chair allows adequate time for debate. | | | |
| 3. The Chair ensures all sides of an issue are heard. | | | |
| 4. The Chair ensures the Board has the necessary information or advice to make decisions. | | | |
| 5. The Chair invests time in building relationships with the following: | | | |
| • The CEO | | | |
| • The Directors | | | |
| • The Committee Chairs | | | |
| 6. The Chair and the Board understand the Chair's role as the spokesperson for the Board. | | | |
| 7. The Chair represents the Board and Corporation in the community and helps to build strong relationships with key stakeholders. | | | |
| **Efficiency & Performance:** | | | |
| 1. Board members contribute their skill and experience. | | | |
| 2. Board members respect and value the views of all members of the Board. | | | |
| 3. Board members come prepared. | | | |
| 4. Board members treat each other with courtesy and respect. | | | |
| 5. Board members respect the confidentiality of Board discussions. | | | |
| 6. Board members declare conflicts of interest as required. | | | |
| 7. Board members are aware of and adhere to the Board Code of Conduct. | | | |
| ***SELF ASSESSMENT*** | | | |
| **Knowledge:** | | | |
| 1. I have a good understanding of the Corporation's operations. | | | |
| 2. I understand the mission, vision, and values. | | | |

| LONDON HYDRO INC.<br>*BOARD EVALUATION* | | | |
|---|---|---|---|
| **QUESTION** | **AGREE** | **NEEDS IMPROVEMENT** | **QUESTION** |
| 3. I am familiar with the strategic plan and take it into account on Board decisions. | | | |
| 4. I understand the difference between the governance role of the Board and the role of the managers. | | | |
| 5. I understand the Board's role and annual work plan. | | | |
| 6. I understand and respect the roles of the committees. | | | |
| **Contributions:** | | | |
| 1. I apply my skill and experience. | | | |
| 2. I listen and consider the views of others. | | | |
| 3. I prepare for meetings. | | | |
| 4. I ask questions that will help me make a decision. | | | |
| 5. I express my views even when I may be in the minority. | | | |
| 6. I respect the decision of the majority. | | | |
| 7. I meet or exceed the attendance requirements. | | | |
| 8. I support corporate events. | | | |
| 9. I contribute to the committees on which I serve. | | | |

| *COMMENTS ON ANY OR ALL OF THIS EVALUATION:* |
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# Board Skill & Knowledge Matrix - Self Evaluation



London Hydro Inc.

Self-Evaluation – Board Skill & Knowledge Matrix

| Legend | |
|---|---|
| Expert | 4 |
| Skilled | 3 |
| Basic | 2 |
| Limited | 1 |

| Name | Continue to service in 2014 | My term expires but wish to be nominated. | Government & Community Relations | Engineering | H/R & Labour Relations | Finance / Accounting | Legal | Strategic Planning & Business Management | Enterprise Risk Management | Information & Technology | Board Governance |
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| Board Member | | | | | | | | | | | |
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| Board Score by Skill Set | | Actual Score | | | | | | | | | |

# Contact Information
# Board of Directors and Management


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# Board of Directors' Corporate Governance Manual

# Remuneration/Lifetime Perks

As per article 4.6 of the Shareholder Declaration, the Shareholder shall establish compensation for directors of the Corporation, the Chair and any other officers who are directors of the Corporation in amounts sufficient, in the opinion of the Shareholder acting reasonably, to attract candidates with necessary qualifications and consistent with industry norms and standards for comparable Ontario electricity distribution utilities. A director that is a member of Council shall receive no additional compensation for acting as a director.

The current compensation as follows was established by Council resolution of May 15, 2000:

- Chair's compensation of $10,000 per year plus $600 per meeting attended

- Directors' compensation of $6,000 per year plus $600 per meeting attended

As per board resolution of June 12, 2001, directors receive $100 for meetings conducted via conference call.

In accordance with the London Hydro Employee Policy Manual, the following revised policy applies to all members of the board:

## 1-A-3 LIFETIME PERKS

The purpose of the Policy governing the restriction on the Lifetime Perks is to ensure that the public trust of Directors, Officers, Managers, and Employees of London Hydro is maintained.

No Director, Officer, Manager or Employee of London Hydro is to receive or solicit any benefit, gratuity or good will gesture, the benefit of which will extend the tenure of the individual at London Hydro, as a result of being or having been engaged in any capacity by London Hydro.

December 19, 2002
EP 1-11

# Shareholder Declaration

(As amended by Municipal Council - August 18, 2008)

## Article 1
## Interpretation

1.1 Defined Terms. For the purpose of this Declaration, unless the context otherwise requires, the following terms shall have the respective meaning set out below and grammatical variations of such terms shall have corresponding meanings:

**"Affiliate"** has the meaning ascribed thereto in the OBCA;

**"Board"** means the board of directors of the corporation;

**"CEO"** means the chief executive officer of the corporation;

**"Chair"** means the chair of the board;

**"Corporation"** means London Hydro Inc.;

**"Council"** means the municipal council of the shareholder;

**"Electricity Act"** means the *Electricity Act*, 1998 (Ontario) as amended by the *Electricity Restructuring Act*, 2004 (Ontario) and as otherwise amended from time to time;

**"IESO"** means the Independent Electricity System Operator;

**"Laws"** means laws, regulations, codes, rules and applicable decisions of courts and regulatory, administrative or other governmental or public agencies, boards, tribunals and other bodies;

**"Municipal Act"** means the *Municipal Act* (Ontario);

**"OBCA"** means the *Business Corporations Act* (Ontario);

**"OEB"** means the Ontario Energy Board;

**"OEB Act"** means the *Ontario Energy Board Act*, 1998 (Ontario) as amended by the *Electricity Restructuring Act*, 2004 (Ontario) and as otherwise amended from time to time;

**"Shareholder"** means the Corporation of the City of London;

**"Shareholder Declaration"** means this shareholder declaration;

**"Shareholder Representative"** shall have the meaning set out in Section 6:1; and

**"Subsidiary"** has the meaning ascribed thereto in the OBCA.

1.2 Purpose. This Shareholder Declaration outlines the expectations of the Shareholder relating to the principles of governance and other fundamental principles and policies of the Corporation and any Subsidiaries. Except as and to the extent provided in Section 5.4 and Article 8, this Shareholder Declaration is not intended to constitute a unanimous shareholder agreement under the OBCA or to formally restrict the exercise of the powers of the Board.

## Article 2
## Permitted Business Activities

2.1 General Authority. Subject to the restrictions in Article 8 of this Shareholder Declaration, the Corporation and the Subsidiaries may engage in the business activities which are permitted by any law applicable to the corporation and its Subsidiaries from time to time, including without limitation the Electricity Act and the OEB Act, as the Board or the respective board of directors of a Subsidiary may authorize, including without limitation the business activities referred to in Section 2.2 as applicable to the Corporation and any Subsidiaries. In so doing, the Corporation and its Subsidiaries shall conform to Laws and, in particular, to all requirements of the OEB, the IESO and all other relevant regulatory or governmental authorities.

2.2 Enumerated Activities. The corporation or one or more Subsidiaries may engage in any one or more of the following business activities and such other business activities as may be permitted by law and authorized by the Board or the respective Board of Directors of a Subsidiary from time to time;

(a) transmitting or distributing electricity;

(b) retailing electricity;

(c) business activities that enhance or develop the ability of the Corporation or its Subsidiaries to carry on any of the activities described in paragraphs (a) or (b) above;

(d) business activities the principal purpose of which is to use more effectively the assets of the Corporation or any Subsidiary;

(e) the provision of telecommunication services and the development, ownership, expansion, operation and maintenance of a telecommunications network, whether fi wireless or otherwise, and the provision of services that make use of such network, including without limitation wireless connectivity, dark and lit fi services, sale, lease or other disposal of telecommunications fibre, and related business activities, in support of the corporation's regulated electricity distribution and transmission business;

(f) renting, selling or maintaining equipment and appliances such as water heaters;

(g) managing or operating, on behalf of the Shareholder, a public utility as defined in Section 1 of the Public Utilities Act or providing sewage services;

(h) providing services related to improving energy efficiency including, without limitation, conservation and demand management measures;

(i) providing meter reading, installation and repair services to other utilities and hydro customers; and

(j) entering into joint ventures, whether through investments in corporations or otherwise, partnerships, contracts or other arrangements to provide services to other utilities or the public sector in London, including, without limitation the municipality, universities, schools and hospitals;

2.3 Statutory Limitation. It is acknowledged that certain activities contemplated in Section 2.2 may be required to be carried on by one or more Subsidiaries or other Affiliates of the Corporation to be incorporated from time to time in order to comply with applicable Laws, including the OEB Act, the Affiliate Relationships

Code for Electricity Distributors and Transmitters, and the Corporation's electricity distribution license.

## Article 3
## Standards of Governance

3.1 General Standard. As required by the OBCA, the Board shall supervise the management of the business and affairs of the Corporation and, in doing so, shall act honestly and in good faith with a view to the best interests of the Corporation and shall exercise the same degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

## Article 4
## Board of Directors

4.1 Number of Directors. The corporation shall be governed by the Board which shall consist of seven (7) directors.

4.2 Composition of the Board. The Board shall be composed of one member of Council and six other "at-large" members.

4.3 Qualification of Directors. In addition to qualifications and requirements for directors as set out in the OBCA and the bylaws of the Corporation, and while it is not necessary that each director possess each of the following qualifications, the Board, as a whole, should possess most or all of the following:

(a) Financial and legal knowledge;

(b) A reasonable understanding of accounting and tax matters;

(c) Comprehensive understanding of the core business and objectives of the corporation;

(d) Utility industry knowledge;

(e) Strategic planning, including human resource planning;

(f) Corporate stewardship and risk management;

(g) Regulatory knowledge;

(h) Experience in a competitive business environment;

(i) Awareness of the needs of electric utility customers;

(j) Awareness of municipal government and local issues;

(k) Leadership and integrity;

(l) Experience and knowledge of London industry; and

(m) Experience and expertise in economic development initiatives.

4.4 Election and Term. The Board shall be divided into four classes, each of the first three of which shall consist of two directors and the fourth of which shall consist of one director. The term of office for members of the first class shall expire at the annual meeting of shareholders every third year, commencing at the annual meeting to be held during 2007; the term for members of the second class shall expire at the annual meeting of shareholders every third year, commencing at the annual meeting to be held during 2007; the term for members of the second class shall expire at the annual meeting of shareholders every third year commencing at the annual meeting to be held during 2008; the term for members of the third class shall expire every third year, commencing at the annual meeting to be held during 2009; and the term for the member of the fourth class shall also expire every third year commencing at the annual meeting to be held during 2007. At the expiration of each

succeeding term of each class, the directors of each class shall, subject to the re-election of any such director, be elected to serve for a three year term, provided that any member of the fourth class shall be entitled to serve as a director only so long as he or she remains a duly elected member of Council. A director shall hold office until the annual meeting of shareholders for the year in which his or her term expires and until his or her successor is elected and qualified.

"Notwithstanding the foregoing, a director may be elected for a term of less than three years." The election of directors shall be by resolution and shall take place at each annual meeting of shareholders and any directors who retire at such meeting shall, if qualified, be eligible for re-election. If an election of directors is not held at the proper time, the incumbent directors shall continue in office until their successors are elected.

4.5 Board Committees. The Board may establish committees of the Board in the Board's discretion. Such committees may include the following:

(a) Audit Committee: The Audit Committee reports to the Board and is responsible for the coordination and oversight of the corporation's management and external audit to ensure the effective development and maintenance of adequate financial controls and reporting. The committee will review the financial reporting process, the system of internal control and management of financial risks, the audit process, and the

corporation's process for monitoring compliance with laws and regulations and its own code of business conduct.

(b) Corporate Governance Committee: The Corporate Governance Committee will assist the Board in ensuring that the corporation operates within a sound corporate governance framework through the development of an appropriate governance structure, including policies, processes and procedures that satisfy legal, health and safety and regulatory requirements in this regard, and reflect best practice in the industry. The Corporate Governance Committee shall also monitor the effectiveness of the Corporation's system of corporate governance.

(c) Human Resources and Public Policy Committee: The Human Resources and Public Policy Committee is responsible for providing advice to the Board with respect to Human Resources policies and practices including the review of the Employee Policy Manuals, Employee Handbooks, and Collective Agreements.

4.6 Directors' Compensation. The Shareholder shall establish compensation for directors of the Corporation, the Chair and any other officers who are directors of the Corporation in amounts sufficient, in the opinion of the

Shareholder acting reasonably, to attract candidates with necessary qualifications and consistent with industry norms and standards for comparable Ontario electricity distribution utilities. A director that is a member of Council shall receive no additional compensation for acting as a director.

4.7 Compensation of Officers of the Corporation. The Board shall set the compensation for the officers of the Corporation, other than the Chair and any other officers that are directors.

4.8 Vacancies. The Board shall promptly provide notice to the Shareholder of a vacancy among the directors, other than a vacancy arising due to expiry of a term of a director. Subject to Section 4.4, the Shareholder shall appoint a director to fill such vacancy.

4.9 Place of Meetings. Meetings of the Board may be held at the registered office of the Corporation or at any other place within the City of London, Ontario.

4.10 Calling of Meetings. Meetings of the Board shall be held from time to time at such place, on such day and at such time as the Board, the Chair, the CEO, the secretary or any two directors may determine.

4.11 Notice of Meetings. Notice of the time and place of each meeting of the Board shall be given to each director not less than 48 hours before the time when the meeting is to be held and need not be in writing.

4.12 First Meeting of the New Board. Provided a quorum of directors is present, each newly elected Board may without notice hold its first meeting following the annual shareholder meeting at which such Board is elected.

4.13 Adjourned Meeting. Notice of an adjourned meeting of the directors is not required if the time and place of the adjourned meeting is announced at the original meeting.

4.14 Regular Meetings. The Board may appoint a day or days in any month or months for regular meetings at a place and hour to be named. A copy of any resolution by the Board fixing the time and place of regular meetings of the Board shall be sent to each director forthwith after being passed, but no other notice shall be required for any such regular meeting.

4.15 Votes to Govern. Any question at a meeting of the Board shall be decided by a show of hands unless a ballot is required or demanded.

4.16 Chairman and Secretary. The Chair or, in the absence of the Chair, the Vice Chair, or in the absence of both the Chair and the Vice Chair, the CEO if a director or, in the absence of the CEO, a vice-president who is a director, shall be chairman of any meeting of the Board. If none of the said officers is present, the directors present shall choose one of their number to be chairman. The secretary of the Corporation shall act as secretary at any meeting of the Board and, if the secretary of the

Corporation is absent, the chairman of the meeting shall appoint a person who need not be a director to act as secretary of the meeting.

## Article 5
## Financial Policies, Risk Management and Strategic Planning

5.1 Capital Structure. The Board shall develop and maintain a prudent financial and capitalization structure for the Corporation consistent with industry norms and sound financial principles and established on the basis that the Corporation is intended to be self-financing.

5.2 Distribution Rates. The Board shall establish just and reasonable rates for the regulated distribution business of the Corporation which are:

(a) consistent with similar utilities in comparable growth areas and as may be permitted by the OEB and applicable Laws;

(b) intended to enhance the value of the corporation;

(c) consistent with the encouragement of economic development activity within the City of London, it being noted that under applicable Laws, classes of customers may not be subsidized through rates; and

(d) based on such other factors which the Board shall determine to be reasonable and not inconsistent with the foregoing considerations.

5.3 Returns. The Board shall provide the Shareholder with a competitive rate of return relative to other similar utilities.

5.4 Dividend Policy. The Board shall use its best efforts to declare and pay a regular dividend to the Shareholder. The payment of any dividend shall be subject to the following:

(a) As a target, annual dividend payment are expected to comprise 40% of annual net earnings of the Corporation;

(b) Where annual net earnings of the corporation exceed normal net earnings, the Board shall consider declaring a special payment in an amount equal to such excess net earnings; and

(c) No payment is to be declared where to do so would, in the Board's reasonable opinion, impair the Corporation's ability to carry out necessary or appropriate improvements and maintenance of existing infrastructure.

5.5 Payment of Regular Dividend. A dividend, if any, will be declared by the Board at its meeting to approve the annual financial statements for the preceding year. Equal payments of the dividend will be made on a quarterly basis to the Shareholder.

5.6 Return to Shareholder. Any special payment may be declared by the Board after the review of the annual audited statements of the Corporation. The special payment, if any, will be made by April 30 of the year following the year in which it applies.

5.7 Unregulated Business. The Board shall seek to maximize profits and the return to the Shareholder on any unregulated, competitive business.

5.8 Risk Management. The Board shall manage all risks related to the business conducted by the Corporation and its Subsidiaries, through the adoption of appropriate risk management strategies and internal controls consistent with industry norms.

5.9 Strategic Plan. The Board shall develop a long range strategic plan for the Corporation and its Subsidiaries which is consistent with the maintenance of a viable, competitive business and preserves the value of the business for the Shareholder.

## Article 6
## Shareholder Approvals and Communications

6.1 Communications. Approvals or decisions of the Shareholder required pursuant to this Shareholder Declaration or the OBCA shall require a by-law of the Shareholder passed at a meeting of Council and, in the case of the resolutions under Section 104 of the OBCA, shall be communicated in writing and executed by the Shareholder.

6.2 Reports to Council re Mandatory Initiatives. The Board shall advise the Shareholder in the form of a written report containing appropriate details with respect to expenditures relating to smart meters or other government or regulatory mandated initiative where any such initiative could reasonably be expected to result in capital expenditures in any fiscal year in excess of $2,000,000 (two million dollars).

6.3 Right to Inspect. Upon an authorizing resolution of the Shareholder (but not otherwise), the auditors of the Shareholder shall have the right, on reasonable notice and during regular business hours, to inspect the accounts, books, records and documents of the Corporation, but such inspection shall not extend to procurements (e.g. RFPs, RFQs and RFIs) of any kind that are underway but not yet completed at the time of inspection.

## Article 7
## Annual Resolution and Meetings

7.1 Annual Report to Shareholder. The Board shall, not less often than annually and within six months following the end of the fiscal year of the Corporation, report to the Shareholder on matters to be addressed at an annual general meeting of the Corporation as provided in subsection 154(1) of the OBCA.

7.2 Annual Meeting or Resolution in Lieu. Within six months after the end of each fiscal year of the corporation the Shareholder shall, as appropriate pursuant to this Shareholder Declaration, the bylaws of the corporation and the OBCA, at an annual meeting or by resolution in lieu of such annual meeting:

(a) elect or re-elect directors of the Corporation to fill any vacancy;

(b) appoint auditors of the Corporation;

(c) receive the audited statements of the corporation for the last completed fiscal year; and

(d) complete such other business as would normally be completed at an annual meeting of shareholders under the OBCA.

## Article 8
## Matters Requiring Shareholder Approval

Without Shareholder approval given in accordance with Sections 6.1 and 6.2 of the Shareholder Declaration, the Corporation or any Subsidiary respectively shall not:

Statutory Approval Rights.

8.1 change the name of the Corporation or a Subsidiary; add, change or remove any restriction on the business of the Corporation or a Subsidiary; create new classes of shares; or in any other manner amend its articles of incorporation or make, amend or repeal any by-law;

8.2 amalgamate with any other corporation(s) other than amalgamations which may, under the OBCA, be approved by a resolution of directors;

8.3 take or institute proceedings for any winding up, arrangement, or dissolution of the Corporation or its Subsidiaries;

8.4 apply to continue the Corporation or any Subsidiary under the Laws of another jurisdiction;

Additional Approval Rights.

8.5 issue or enter into any agreement to issue, any shares of any class, or any securities convertible into any shares of any class, of the Corporation or any Subsidiaries respectively;

8.6 redeem or purchase any of the Corporation's or its Subsidiaries' outstanding shares;

8.7 enter into any joint venture, partnership, strategic alliance or other venture, including without limitation ventures in respect of the generation or co-generation of electricity. In assessing such opportunity, the Shareholder shall follow the Corporate Combination and Disposition Guidelines set out in Schedule "A";

8.8 change, alter or amend compensation of any member of the Board;

8.9 borrow money or give security on the assets of the Corporation other than in the ordinary course of business, or in connection with the purchase of assets;

8.10 enter into any agreement, transaction or other arrangement which would cause the municipality to be liable to pay transfer tax under section 94 of the Electricity Act, 1998;

8.11 sell any distribution assets other than in the ordinary course of business;

8.12 incur any expenditure in respect of an unregulated, competitive business, whether within the regulated distribution company or otherwise, in excess of $2,000,000 (two million dollars) and any Shareholder approval in respect thereof would follow receipt by

the Shareholder of a business plan in respect of such expenditure;

8.13 assume any financial obligation that would increase the ratio of debt to equity of the Corporation, on a consolidated basis, above 70:30;

8.14 make any decision or take any action that would reasonably be expected to materially and adversely affect the regulatory or tax status of the Corporation; and

8.15 enter into any agreement or arrangement to dispose of, by way of sale, transfer, exchange or lease, any real property, except in the ordinary course of business.

## Article 9
## Revisions to this Declaration

9.1 Required Consultation. The Shareholder acknowledges that this Shareholder Declaration may be revised from time to time as circumstances may require and that the Shareholder will consult with the Board and the CEO prior to completing any revisions and will promptly provide the Board and the CEO with copies of such revisions.

## Article 10
## Confidentiality

10.1 Dealing with Information. Subject to applicable Laws, including without limitation the Municipal Freedom of Information and Protection of Privacy Act (Ontario) and the

Municipal Act, the Shareholder shall keep confidential all confidential and/or proprietary information obtained by it relating to the business and affairs of the Corporation.

## Article 11
## Notices

11.1 Delivery. Any notice, designation, communication, request, demand or other document, required or permitted to be given or sent or delivered to the Shareholder shall be in writing and shall be sufficiently given or sent or delivered if it is

(a) delivered personally,

(b) sent to the party entitled to receive it by registered mail, postage prepaid, mailed in Canada, or

(c) sent by telecopy machine.

Notices shall be sent to the following address or telecopy numbers:

(i) in the case of the Corporation or Board,

c/o London Hydro Inc.
111 Horton Street
London, Ontario
N6A 4H6

Attention: Chief Executive Officer

Facsimile: (519) 661-5052

(ii) in the case of the Shareholder,

The Corporation of the City of London
300 Dufferin Avenue
London, Ontario
N6A 4L9

Attention: City Clerk

Facsimile: (519) 661-4892

or to such other address or telecopier number as the party entitled to or receiving such notice, designation, communication, request, demand or other document shall, by a notice given in accordance with this section, have communicated to the party giving or sending or delivering such notice, designation, communication, request, demand or other document.

Any notice, designation, communication, request, demand or other document given or sent or delivered as aforesaid shall

(a) if delivered as aforesaid, be deemed to have been given, sent, delivered and received on the date of the delivery;

(b) if sent by mail as aforesaid, be deemed to have been given, sent, delivered and received (but not actually received) on the fourth Business Day following the date of mailing, unless at any time between the date of mailing and the fourth Business Day thereafter there is a discontinuance or interruption of regular postal service, whether to strike or lockout or work slowdown, affecting postal service at the point of dispatch or delivery or any intermediate point, in which case the same shall be deemed to have been given, sent, delivered and received in the ordinary course of the mails, allowing for such discontinuance or interruption of regular postal service; and

(c) if sent by telecopy machine, be deemed to have been given, sent, delivered and received on the date the sender receives the telecopy answer back confirming receipt by the recipient.

# Schedule "A"

to Shareholder Declaration of London Hydro Inc.

## Corporate Combination and Dispositions Guidelines

The City of London has acknowledged that the Ontario Energy Board policies and approvals are encouraging a reduction in the number of electricity utilities in Ontario through mergers, acquisition or sale. It is recognized that London Hydro Inc. may have to combine with another utility based on the current policy and regulation environment.

The City of London is mindful of the significance of these matters and the amount of work and effort that is necessary to meet the requirements defined by these guidelines. In order to encourage the Board and management of London Hydro Inc. to seek out appropriate opportunities and to ensure a full and proper consideration of such proposals by all parties including the City of London, as sole shareholder, any opportunities submitted in accordance with these guidelines will be presented to the full City Council.

The following guidelines should be considered in the evaluation of any corporate combination such as a proposal for merger, sale or acquisition.

1) In the case of a merger:

(a) The newly combined entity should provide an opportunity for increased investment value to the City of London and/or lower electricity costs for Londoners;

(b) The newly combined entity should have a strong local presence and preferably be headquartered or have a regional office in London;

(c) The City of London should not be unduly constrained from disposing of its investment in the new entity, in a reasonable timeframe and manner;

(d) The newly combined entity should have a governance structure that is commensurate with the City of London's investment in the new entity;

(e) The proposed combination presents the best strategic objective to the City of London given the existing and expected future policy and regulation environment in Ontario over the next ten to fifteen years;

(f) There should be established appropriate and fair arrangements to address London Hydro employees in the proposed merger arrangements;

2) In the case of an acquisition:

(a) Any proposed acquisition will not require additional financing from the City of London;

(b) The proposed acquisition presents the best strategic objective to the City of London given the existing and expected future policy and regulatory environment in Ontario over the next ten to fifteen years;

(c) There should be established appropriate and fair arrangements to address London Hydro employees in the proposed acquisition arrangements.

3) In the case of any contemplated corporate disposition, including a transaction that results in the dilution of the City of London's wholly-owned investment in London Hydro Inc., or disposes or leases substantially all of the corporate assets other than in the normal course of business:

(a) The disposition should demonstrate that the new entity would lead to lower electricity costs to Londoners than otherwise would exist, with degradation of existing capital infrastructure or service levels;

(b) It should be demonstrated that the return on investment of reinvested disposition proceeds is greater than the return expected to be provided under the current investment in London Hydro Inc., or than contemplated under other proposed business combinations or alternatives;

(c) After disposition, the new entity would maintain a strong regional presence in London and ideally London would serve as a regional centre for the new entity;

(d) There should be established appropriate and fair arrangements to address London Hydro employees in the proposed disposition arrangements;

(e) The sale should not be subject to any transfer tax by the Ontario Government;

(f) The disposition presents the best strategic objective to the City of London given the existing and expected future policy and regulation environment in Ontario over the next ten to fifteen years.

**Due Diligence Checklist**

In addition to the consideration of the foregoing guidelines, the Navigant Due Diligence Checklist attached provides a summary of what the City will require London Hydro to evaluate as part of any due diligence relating to any proposal to merge, acquire or sell London Hydro.

**IN WITNESS WHEREOF** the undersigned has executed this declaration this 26 day of March, 2007.

THE CORPORATION OF THE CITY OF LONDON

By: AM DeCicco Best

Name: Anne Marie DeCicco-Best, Mayor
Title:

Kevin Bain, City Clerk

ACKNOWLEDGED this 6th day of December, 2007.

LONDON HYDRO INC.

By:

Name: Bernard T. Watts
Title: Chief Executive Officer

| Issue | Issues Requiring Review | Observation |
|---|---|---|
| **Governance** | **Shareholder agreement**<br>How were ownership levels determined?<br>Are the voting rights strictly by ownership position or do some issues require a super majority?<br>Will founding members receive certain rights that future partners may not be eligible for? (e.g. minimum voting rights or board representation)<br>Does the agreement make allowances for one partner to sell their interest in a reasonable and timely manner?<br>o Right of First Refusal (ROFR) for remaining partner(s) to acquire the shares of the partner seeking to divest. Transaction price is typically established one of three methods: 1) by valuation(s) performed by at least one independent third party at the time of transaction, (2) a predetermined price per share that is updated annually, (3) a predetermined formula to be used at the time of transaction.<br>o Ò Shotgun ClauseÓ If the partnership is not working effectively, one partner can offer to buy the interest of the other. The other partner must accept the buyout or acquire the offering partnerÕ s interest at the same price.<br>**Composition of proposed board of directors**<br>Proposed composition of Board (independent versus political or municipal appointees).<br># of Representatives appointed by London | |
| **Financial** | **Financial Forecast** | |

| Issue | Issues Requiring Review | Observation |
|---|---|---|
| Financial | Has a status quo and a Mergeco scenario been created?<br><br>What are the annual projected savings by source? e.g. staff reductions, avoided capex<br><br>**Capital structure of the merged utility**<br><br>If the merged utility exceeds $250 million in ratebase, it can increase leverage to 60% (65% at $1 billion). What are the assumptions for timing, amount of money flowing to the shareholder, and when customer rates will be adjusted downward to reflect this difference? Any delay in adjusting rates could overstate the financial benefit to the shareholder.<br><br>What are the assumptions for financing the utility? Debt financing costs could be lower for a larger entity if there are no restrictions on refinancing the existing debt. When will customer rates be adjusted downward to reflect this difference?<br><br>**Treatment of employees**<br><br>For an acquisition, will there be an employment guarantee and if so what is the duration of the guarantee? (Note: employees must still be subject to meeting minimum performance standards) Employee treatment typically ranges from:<br><br>o No employment guarantee and layoffs commence at transaction close<br><br>o Employment guarantee of 2-3 years including severance period<br><br>o Commitment to no layoffs and all efficiencies will be realized through normal attrition (usually limited to | |

| Issue | Issues Requiring Review | Observation |
|---|---|---|
| Financial | high growth utilities).<br><br>How will redundant employees be treated? - Contract staff reductions, severance packages for permanent employees, attrition or a combination of these approaches. Voluntary severance packages often result in high performing staff leaving the utility since they are confident that they will find employment elsewhere. Attrition assumptions need to be very conservative since employees that would normally leave the utility (early retirement, etc) often extend their service in the hope that they will be offered a financial incentive to retire.<br><br>**Harmonized union wages**<br><br>It is usually best to use the conservative assumption that all union wages will migrate towards the highest wage rate per job classification.<br><br>**Post-retirement benefits**<br><br>Important to quantify the existing liability for post-retirement benefits (should be in annual report) and the projected liability if these benefits are extended to all qualifying employees post merger.<br><br>**Transaction and other integration costs**<br><br>Costs include the legal and other advisory fees associated with the analysis, negotiation and closing of the transaction and must be properly reflected in the financial analysis to accurately estimate the overall benefit to the shareholder.<br><br>Beyond staff related costs, there will likely be other integration costs associated with software licensing, data conversion, expansion of system monitoring, re-branding, | |

| Issue | Issues Requiring Review | Observation |
|---|---|---|
| Financial | customer information sessions, etc.<br><br>Outsourced services that are under long-term contract will need to be honored or termination penalties will need to be reflected in the analysis.<br><br>**Treatment of existing assets**<br><br>Are there any redundant properties and/or offices that can be sold? What was used to determine the market value of these properties?<br><br>Combining utilities should also allow for an opportunity to reduce assets in inventory and vehicles in the fleet depending on proximity of service territories. An assumption that the cost of acquiring assets in the future will decrease, while possible, is more aggressive and difficult to quantify accurately.<br><br>**Environmental issues**<br><br>With the exception of those utilities with former coal gasification sites, the greatest environmental issues faced by LDCs is the testing of transformers for PCBs (must not exceed 50ppm), and the removal, storage destruction of contaminated equipment. Most utilities will have tested all equipment and are in the process of replacing and destroying those pieces that are contaminated. If PCBs have not been properly addressed, the cost will need to be reflected in the transaction and any associated risks will need to be allocated appropriately in the transaction agreement.<br><br>**Other potential liabilities**<br><br>Does the financial analysis properly capture the future | |

| Issue | Issues Requiring Review | Observation |
|---|---|---|
| | liabilities of the other utility? E.g.<br>o PILS tax position ÐMany utilities have been over-collecting in revenue<br>o Development charges ÐEnsure that the utility has been properly compensating developers based on the economic model method. | |
| **Operations & Administration** | **Appropriate staffing levels**<br>An organization chart of the combined utility must be completed. Redundant employees should be identified with an explanation of how their employment situation will be resolved.<br>Note: in certain situations, system growth and relocation of staff may make it possible to avoid reducing staff and still realize the financial benefits from combining utilities. | |
| **Operations & Administration** | **Centralizing Administration**<br>Will back-office functions be centralized and if so where?<br>Can the main office accommodate increased staffing levels?<br>What are the costs associated with relocation and centralizing functions?<br>**Customer Service**<br>Where will the customer service centre(s) be located and which information system will be used? How easily can the systems be integrated?<br>Will there be a need to identify customers from different utilities (or area codes) and can the system handle this?<br>What was the ratio of customers to customer service reps | |

| Issue | Issues Requiring Review | Observation |
|---|---|---|
| | prior to the transaction and what will it be after the transaction? | |
| **Corporate Culture** | **Relationship with union**<br>Number of incidents of strikes, job actions or grievances that could be indicative of an acrimonious relationship between the union and management?<br>**Union collective agreements**<br>Ability to outsource? The restrictions on outsourcing will vary between collective agreements.<br>What is policy on vacation and sick days? Will costs increase relative to London HydroÕ s policies? | |
| **Physical Assets** | **Distribution and Transformers**<br>How do the SAIDI, SAIFI and CAIDI statistics (measures of frequency and duration of service interruption) compare to the OEB standards and London Hydro. If performance is substandard, how will this be addressed and what will the cost be?<br>What is the ratio of overhead versus underground wire and rural versus urban in the distribution system and how does this compare to London Hydro?<br>What is the average age of the distribution assets (wires and transformers) and how does this compare to London Hydro?<br>What percentage of the system is under 12kv? Is there a plan to upgrade this system and has it been reflected in the financial forecasts? | |

| Issue | Issues Requiring Review | Observation |
|---|---|---|
| Ratepayers | **Impact on Customer Rates**<br>How will ratepayers benefit from the proposed transaction? This should be presented as an estimate (in percentage form) of how much lower rates could be when compared to the status quo.<br><br>This should reflect the benefit from reduced operating expenses and lower capital financing costs. | |
| Ratepayers | **Impact on System Reliability**<br>Will the distribution systems be integrated?<br><br>Will system monitoring be extended to the partner utility?<br><br>Will the OEB performance measures (SAIDI, SAIFI, etc) be monitored separately or on a consolidated basis? System reliability in smaller legacy utilities may be undetected if reporting is done on a consolidated basis. | |

# Directors' and Officers' Liabilities

There are a broad array of statutes which either charge corporate directors with additional responsibilities or make them directly liable for the actions or inactions of the corporation.

In addition to the full range of statutory liabilities, it is possible for the directors to be held liable for certain common law breaches arising from the actions of the corporation. Directors may only be liable if they acted in such a deliberate and reckless way that they made the wrongful acts their own as distinct from the company's.

From a policy perspective, imposing personal liability on directors is intended to create an incentive for those individuals responsible for managing the corporation's business to ensure that the corporation fulfills its legal obligations. Liability is imposed on the directors in recognition of the fact they have the ability to significantly influence the corporation's conduct.

In broad terms, statutes impose liability on directors in one of three ways. For some offences, liability is imposed whether or not the director intended to commit the offence and, indeed, whether or not the director even knew the offence was being committed. This is the least common type of directors' liability and is often referred to as "absolute liability", meaning that a director may be liable under a statutory provision simply because the offence in question occurred.

The fact that a director was not aware that the offence was being committed or even that the director had taken all available action to prevent the offence from being committed may not be a defence. Liability for employee wages and vacation pay, under certain provincial employment standards legislation, is one example of this type of liability.

The second type of offence imposes liability on directors unless they were diligent. This type of liability is typically imposed for regulatory or public welfare offences. The "due diligence defence" allows directors to avoid liability if they have followed appropriate steps or adopted adequate procedures, such as making the appropriate inquiries, reviewing the documentation provided to them, ensuring appropriate controls or procedures are in place, consulting experts where necessary, and giving thoughtful consideration to the issue. The due diligence defence is available for a broad range of offences, including prospectus liability under provincial securities laws and certain environmental offences.

The third type of offence imposes liability on directors who "authorized, permitted or acquiesced" in the commission of an offence by the corporation. This wording implies knowledge that the action constituting the offence was being committed and appears in many statutes. These offences are quite similar in their operation to the offences which specifically provide a due diligence defence.

A defence is available to directors who can prove they took all reasonable care to comply with their obligations and that they had an honest and reasonable belief that they had done so, even if this belief was mistaken.

Certain of the statutes under which directors are most commonly exposed to liability are discussed below. Directors should look to their legal advisors to outline their particular exposure to liability under these and other statutes in the context of the corporation's business and the business of its subsidiaries. Directors should also ensure appropriate procedures are put in place to promote compliance with statutory requirements and that these procedures are periodically reviewed to confirm compliance.

# Protection of Directors and Officers

## Indemnity of Directors and Officers

The corporation shall indemnify a director or officer of the corporation, a former director or officer of the corporation or a person who acts or acted at the corporation's request as a director or officer of a body corporate of which the corporation is or was a shareholder or creditor, and the heirs and legal representatives of any such person, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by such person in respect of any civil, criminal or administrative action or proceeding to which the person is made a party by reason of being or having been a director or officer of such corporation or body corporate, if

(a) the person acted honestly and in good faith with a view to the best interests of the corporation; and

(b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the person had reasonable grounds for believing that the relevant conduct was lawful.

The corporation may, with the approval of the court, indemnify a person referred to above in respect of an action by or on behalf of the corporation or body corporate to procure a judgment in its favour, to which the person is made a party by reason of being or having been a director or an officer of the corporation or body corporate, against all costs, charges and expenses reasonably incurred by that person in connection with such action if the person fulfills the conditions set out in (a) and (b) above.

Notwithstanding anything in this section, a person referred to above is entitled to indemnity from the corporation in respect of all costs, charges and expenses reasonably incurred by that person in connection with the defence of any civil, criminal or administrative action or proceeding to which the person is made a party by reason of being or having been a director or officer of the corporation or body corporate, if the person seeking indemnity,

(a) was substantially successful on the merits in that person's defence of the action or proceeding; and

(b) fulfills the conditions set out in (a) and (b) above.

**Insurance**

Subject to the Act, the corporation may purchase and maintain insurance for the benefit of any person referred to above against any liability incurred by that person,

(a) in the capacity as a director or officer of the corporation, except where the liability relates to that person's failure to act honestly and in good faith with a view to the best interests of the corporation; or

(b) in the capacity as a director or officer of another body corporate where said person acts or acted in that capacity at the corporation's request, except where the liability relates to that person's failure to act honestly and in good faith with a view to the best interests of the body corporate.

TRAVELERS

Travelers Insurance Company of Canada
Suite 200, P.O. Box #5
20 Queen St. West
Toronto, Ontario
M5H 3R3

# Invoice

19 December 2013

**Aon Reed Stenhouse Inc.** **6000105**

**20 Bay Street, # 2100**
**Reed Stenhouse Tower**
**Toronto, ON**
**M5J 2N9**
**Attention: Regan Dockerty**

For purposes of the *Insurance Companies Act* (Canada), this document was issued in the course of Travelers Insurance Company Of Canada's insurance business in Canada.

The net premium amount shown below for the described transaction is due and payable within 60 days of the transaction effective date. All amounts shown in this invoice are expressed in Canadian currency.
Thank you - we appreciate your business.

| | |
|---|---|
| Client: | London Hydro Inc.<br>111 Horton Street<br>London, ON<br>N6A 4H6 |
| Policy No: | 10281493 |
| Transaction Effective Date: | January 01, 2014 |
| Transaction Type: | Renewal |
| Purpose: | |
| Gross Premium: | $ 37,000.00 |

| Line of Business |
|---|
| WRAP+ |

Your satisfaction is important to us. If you have any comments regarding our services, please contact your relationship manager or E-mail us via our website at http://www.travelerscanada.ca/. We value your feedback.

**Insured Copy**

| ITEM 5 | **COVERAGE FEATURES:**<br>Only those coverage features marked "☒ Applicable" are included in this policy. |
|---|---|

**Private Company Directors and Officers Liability**

| | | |
|---|---|---|
| **Limit of Liability:** | $20,000,000 for all **Claims** | |
| **Supplemental Personal Indemnification Coverage:** | ☒ Applicable | ☐ Not Applicable |
| **Supplemental Personal Indemnification Limit of Liability:** | $1,000,000 for all **Claims** | |
| **Additional Defense Coverage:** | ☐ Applicable | ☒ Not Applicable |
| **Additional Defense Limit of Liability:** | Not Covered for all **Claims** | |
| **Investigation Expense Limit of Liability:** | $250,000 for all **Claims** | |

**Retention:**

| | |
|---|---|
| $0 | for each **Claim** under Insuring Agreement A. |
| $50,000 | for each **Claim** under Insuring Agreement B. |
| $50,000 | for each **Claim** under Insuring Agreement C. |

**Prior and Pending Proceeding Date:** May 21, 2002

**Continuity Date:** May 21, 2002

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**Employment Practices Liability**

| | | |
|---|---|---|
| **Limit of Liability:** | $20,000,000 for all **Claims** | |
| **Third Party Wrongful Act Coverage:** | ☒ Applicable | ☐ Not Applicable |
| **Additional Defence Coverage:** | ☐ Applicable | ☒ Not Applicable |
| **Additional Defence Limit of Liability:** | Not Covered for all **Claims** | |

**Retention:**

| | |
|---|---|
| $50,000 | for each **Claim** under Insuring Agreement A. |
| $50,000 | for each **Claim** under Insuring Agreement B., if applicable. |

**Prior and Pending Proceeding Date**

**Claims** for **Wrongful Employment Practices:** May 21, 2002

**Claims** for **Third Party Wrongful Acts:** May 21, 2002

**Continuity Date:**

**Claims** for **Wrongful Employment Practices:** May 21, 2002

**Claims** for **Third Party Wrongful Acts:** May 21, 2002

| | |
|---|---|
| ITEM 5 (continued) | **COVERAGE FEATURES (Continued):**<br>Only those coverage features marked "☒ Applicable" are included in this policy.<br><br>**Fiduciary Liability**<br>**Limit of Liability:** $0 for all **Claims**<br><br>**Additional Defence Coverage:** ☐ Applicable ☒ Not Applicable<br><br>**Additional Defence Limit of Liability:** Not Covered for all **Claims**<br><br>**Retention:** $0 for each **Claim**<br>*(Not Applicable for Additional Defence Limit of Liability)*<br><br>**Prior and Pending Proceeding Date:**<br><br>**Continuity Date:**<br><br>**Miscellaneous Professional Liability**<br>**Limits of Liability:** $0 for each **Claim**; not to exceed<br>$0 for all **Claims**<br><br>**Additional Defence Coverage:** ☐ Applicable ☒ Not Applicable<br><br>**Additional Defence Limit of Liability:** $0 for all **Claims**<br><br>**Retention:** $0 for each **Claim**<br>*(Not Applicable for Additional Defence Limit of Liability)*<br><br>**Prior and Pending Proceeding Date:**<br><br>**Retroactive Date:**<br><br>**Professional Services:** |

| ITEM 5 (continued) | COVERAGE FEATURES (Continued): | | |
|---|---|---|---|
| | | Crime | |
| | Insuring Agreement | Single Loss Limit of Insurance | Single Loss Retention |
| | **A. Fidelity** | | |
| | 1. Employee Theft | $1,000,000 | $25,000 |
| | 2. Employee Benefit Plan Coverage | $1,000,000 | Nil |
| | 3. Employee Theft of Client Property | $1,000,000 | $25,000 |
| | **B. On Premises** | $1,000,000 | $25,000 |
| | **C. In Transit** | $1,000,000 | $25,000 |
| | **D. Money Orders and Counterfeit Money** | $1,000,000 | $25,000 |
| | **E. Forgery or Alteration** | $1,000,000 | $25,000 |
| | **F. Computer Crime** | | |
| | 1. Computer Fraud | $1,000,000 | $25,000 |
| | 2. Computer Program and Electronic Data Restoration Expense | $50,000 | $10,000 |
| | **G. Funds Transfer Fraud** | $1,000,000 | $25,000 |
| | **H. Claim Expense** | $100,000 | Nil |

If *"Not Covered"* is inserted above opposite any specified Insuring Agreement, or if no amount is included in the Limit of Insurance, such Insuring Agreement and any other reference thereto is deemed to be deleted from this **Crime Policy**.

**Cancellation of Prior Insurance:**
By acceptance of this **Crime Policy**, you give us notice canceling prior policies or bonds issued by us that are designated by policy or bond numbers 10244363, such cancellation to be effective at the time this **Crime Policy** becomes effective.

ITEM 5 (continued)

**COVERAGE FEATURES (Continued):**

**Kidnap and Ransom**

| Insuring Agreement | Limit of Insurance | Retention |
|---|---|---|
| **A. Kidnap and Ransom** | Not Covered for each **Insured Event** | Not Covered for each **Insured Event** |
| **B. Extortion for Ransom** | Not Covered for each **Insured Event** | Not Covered for each **Insured Event** |
| **C. Detention and Hijack** | Not Covered for each **Insured Event** | Not Covered for each **Insured Event** |
| **D. In Transit/Delivery** | Not Covered for each **Insured Event** | Not Covered for each **Insured Event** |
| **E. Rest and Rehabilitation Expenses** | Not Covered for each **Insured Event** | Not Covered for each **Insured Event** |
| **F. Personal Accident** | Not Covered per **Insured Person**, subject to the BENEFIT SCHEDULE found in Section III. DEFINITIONS W., not to exceed $0 in the aggregate for the **Policy Period** | Not Covered for each **Insured Event** |
| **G. Additional Expenses** | Not Covered for each **Insured Event** | Not Covered for each **Insured Event** |
| **H. Legal Liability** | Not Covered for each **Insured Event** | Not Covered for each **Insured Event** |

If "*Not Covered*" is inserted above opposite any specified Insuring Agreement, or if no amount is included in the Limit of Insurance, such Insuring Agreement and any other reference thereto is deemed to be deleted from this **Kidnap and Ransom Policy**.

**Policy Aggregate Limit of Insurance:** ☐ Applicable ☒ Not Applicable

If a Policy Aggregate Limit of Insurance is applicable, then the Policy Aggregate Limit of Insurance for each **Policy Period** is: $0. If a Policy Aggregate Limit of Insurance is not included, then this **Kidnap and Ransom Policy** is not subject to a Policy Aggregate Limit of Insurance as set forth in Section V. CONDITIONS C. LIMIT OF INSURANCE 1. Policy Aggregate Limit of Insurance.

**Crisis Response Firm:**

**Olive Group**
**US Tel: 713 918 6401**
**UK Tel: 44 (0) 207 240 3237**
info@olivegroupresponse.com

**Cancellation of Prior Insurance:**
By acceptance of this **Kidnap and Ransom Policy**, the **Named Insured** gives the Insurer notice canceling prior policies or bonds issued by the Insurer that are designated by policy or bond numbers N/A, such cancellation to be effective at the time this **Kidnap and Ransom Policy** becomes effective.

| | |
|---|---|
| ITEM 5 (continued) | **COVERAGE FEATURES (Continued):**<br>**Identity Fraud Expense Reimbursement**<br>**Limit of Insurance:** $0 per **Insured Person** for each **Identity Fraud**<br>**Retention:** $0 per **Insured Person** for each **Identity Fraud** |
| ITEM 6 | **PREMIUM FOR THE POLICY:**<br>$37,000.00 Total Premium<br>$0.00 Annual Installment Premium if ITEM 10 below is applicable |
| ITEM 7 | **TYPE OF LIABILITY COVERAGE:**<br>☐ Reimbursement<br>☒ Duty-to-Defend<br>Only the type of liability coverage marked "☒" is included in this policy. |
| ITEM 8 | **LIABILITY COVERAGE EXTENDED REPORTING PERIOD:**<br>Additional Premium Percentage: 100.00%<br>Additional Months: 12<br>(If exercised in accordance with Section III. CONDITIONS O. EXTENDED REPORTING PERIOD of the Liability Coverage Terms and Conditions) |
| ITEM 9 | **LIABILITY COVERAGE RUN-OFF EXTENDED REPORTING PERIOD:**<br>Additional Premium Percentage: 225.00%<br>Additional Months: 72<br>(If exercised in accordance with Section III. CONDITIONS K. CHANGE OF CONTROL of the Liability Coverage Terms and Conditions) |
| ITEM 10 | **ANNUAL REINSTATEMENT OF THE LIABILITY COVERAGE LIMIT OF LIABILITY:**<br>☐ Applicable<br>☒ Not Applicable<br>Only those coverage features marked "☒ Applicable" are included in this policy. |

| | |
|---|---|
| ITEM 11 | **FORMS AND ENDORSEMENTS ATTACHED AT ISSUANCE:**<br>CPDO – 2008 Private Company D&O Wording<br>CEPL – 2008 Employment Practices Liability Wording<br>CCRI – 2008 Crime Wording<br>CLIA – 2008 Liability Coverage Terms and Conditions<br><br>CMEL0868 - Extradition Coverage<br>CMEL0869 - Amended Settlement Section (No Hammer Clause)<br>CMEL1048 - Amended Definition Of Insured Person To Include De Facto Directors And Officers<br>CMEL1134 - Amended Bodily Injury Exclusion With Carveback For S.217 Claims (Bill C-45)<br>CMEL1258 - Amended Representations Section<br>CMEL1332 - Personal Conduct With Non Appealable Wrap D&O<br>CMEL0555 - Split Pollution Exclusion<br>CMEL1224 - Amended Cancellation Endorsement – Pro Rata<br>CMEL1639 - Workplace Violence Coverage<br>CPDO.38 - Aon Amended Sections Endorsement For Wrap+ Private Directors And Officers Liability, Employment Practices Liability Coverages |
| ITEM 12 | **LIABILITY COVERAGE SHARED LIMIT OF LIABILITY:**<br><br>$20,000,000 for all **Claims** under the following **Liability Coverages**:<br>Directors and Officers Liability<br>Employment Practices Liability |
| ITEM 13 | **WRAP+ AGGREGATE LIMIT OF LIABILITY:**<br><br>$0<br><br>☐ Applicable ☒ Not Applicable<br><br>If marked "☒ Applicable" above, the Insurer's maximum limit of liability in a single **Policy Period** for all **Claims** under each purchased Liability Coverage and all loss under each purchased Crime Coverage, as set forth in ITEM 4 of these Declarations, shall not exceed the WRAP+ AGGREGATE LIMIT OF LIABILITY set forth above. |

The Declarations, the Application, the Liability Coverage Terms and Conditions, each purchased Liability Coverage, each purchased Crime Coverage, and each purchased Other Coverage, as set forth in ITEM 4 of the Declarations, and any endorsements attached thereto, constitute the entire agreement between the Insurer, the entity named in ITEM 1 of the Declarations, and any **Insured**.

IN WITNESS WHEREOF, the Insurer has caused this Policy to be signed by its authorized Officer.

TRAVELERS INSURANCE COMPANY OF CANADA

President and Chief Executive Officer

CWFP-2008 (02-08) Page 7 of 7

For the complete Travelers Insurance documentation please contact Andrea Graansma at gransmaa@londonhydro.com.

# Board Meetings

## Frequency

As per the board's resolution of October 30, 2007, regular meetings of the Board of Directors shall be held on the last Tuesday of each month at 9 a.m.

## Telephone Meetings & Location

In accordance with clauses 5.1 and 5.6 of By-law No. 2, if all the directors present at or participating in the meeting consent, a meeting of the board or of a committee may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and a director participating in such a meeting by such means is deemed to be present in person at that meeting for the purpose of the Act and this by-law.

Meetings of the board and of any committee may be held at any place within or outside Ontario. In any financial year of the corporation, a majority of the meetings of the board and a majority of meetings of any committee need not be held within Canada.

## Quorum

In accordance with article 5.8 of By-law No. 2,

(a) Subject to the articles, by-laws, and sub section 5.8 (b) of this by-law, a majority of the number of directors or minimum number of directors required by the articles constitutes a quorum at any meeting of the board, but in no case shall a quorum be less than two fifths of the number of directors, as the case may be.

(b) Where the corporation has fewer than three directors, the director or both directors, as the case may be, must be present at any meeting of the board to constitute a quorum.

(c) Subject to subsection 5.8 (d) hereof, directors, other than directors of a non-resident corporation, shall not transact business at a meeting of directors unless a quorum of the board is present and a majority of the directors present are resident Canadians.

(d) Directors may transact business at a meeting of directors where a majority of resident Canadian directors is not present if,

(i) a resident Canadian director who is unable to be present approves in writing or by telephone or other communications facilities the business transacted at the meeting, and

(ii) a majority of resident Canadian directors would have been present had that director been present at the meeting.

**Voting**

In accordance with article 5.9 of By-Law No. 2, all questions arising at any meeting of the board shall be decided by a majority of votes. In case of an equality of votes, the chairman of the meeting shall not have, in addition to his original vote, a second or casting vote.

**Disclosure of Interest**

In accordance with article 8.1 of By-Law No. 2, a director or officer who,

(i) is a party to a material contract or transaction or proposed material contract or transaction with the corporation; or

(ii) is a director or an officer of, or has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the corporation,

shall disclose in writing to the corporation or request to have entered in the minutes of meetings of directors the nature and extent of his interest.

**Minutes of the Meeting**

In accordance with Section 139 and 140 of the OBCA, minutes shall be kept for all meetings.

The chief executive officer shall sign the minutes immediately to substantiate their authenticity until they are signed by the chair following approval by the board.

At each duly constituted regular meeting of the board, the minutes of the preceding regular meeting, and any special

meeting, shall unless otherwise decided by the board, be submitted for adoption and, after they have received approval by the majority of the members present, shall be signed by the chair.

# Board Committees

## Committees of the Board

The Board, for the purpose of providing the appropriate tools to prudently exercise its authority has established the following Committees with members as noted appointed thereto, and approved that appointees be compensated in accordance with the fee schedule as outlined below.

As the Board does not have an Executive Committee, all Committees are an extension of the Board and require the approval of the Board.

## From confidential Board meeting of May 27, 2014

It was moved and seconded that the Board update its Committee membership as follows:

### Audit Committee

Members: G. Valente, Chair
M. Mathur
B. Borschke
P. Johnson

### Human Resources Policy & Procedures Committee

Members: C. Graham, Chair
M. Mathur
P. Johnson
M. Sinclair

## Corporate Governance & Risk Management Committee

Members: M. Sinclair, Chair
C. Graham
B. Borschke
G. Valente

## Special Committee

Members: M. Mathur, Chair
B. Borschke
G. Valente
P. Johnson

## Fee Schedule For Committee Members

| | |
|---|---|
| London Hydro Empoyees | Zero |
| City of London Employees | Zero |
| City Councillors | Zero |
| All Others | $600 per meeting. |

# London Hydro Audit Committee
# Terms Of Reference

## PURPOSE

The Audit Committee (the "Committee") is responsible for the co-ordination and oversight of London Hydro Inc.'s (the "Corporation") management, internal audit and external audit to ensure the effective development and maintenance of adequate financial controls and reporting.

The Committee will assist the Board of Directors (the "Board") in fulfilling its oversight responsibilities. The Committee will review the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Corporation's process for monitoring compliance with laws and regulations and its own code of business conduct. In performing its duties, the Committee will maintain effective working relationships with the Board, management, and the external auditors. To perform his or her role effectively, each Committee member will obtain an understanding of the detailed responsibilities of Committee membership as well as the Corporation's business, operations, and risks.

## ORGANIZATION

### a) Committee Composition

All Board Committees will be established each year by the Board, with the Chair of the Committee (the "Committee Chair") to be selected by the Board.

The Committee will consist of three Board members plus the Board Chair, who are independent of the Corporation's management. Committee members will have had no business transactions outside of the normal course of business (i.e. the purchase of power), relationships or financial interests with the Corporation or its management.

**b) Membership Qualifications**

All Committee members will be required to be financially literate or to become financially literate within a reasonable time, and have broad business experience. The Committee Chair will be required to have accounting or related financial expertise, or past experience as a member of an Audit Committee of a significant business.

**c) Frequency of Meetings**

The Committee will meet as many times as is necessary to carry out its responsibilities and report to the Board. As a minimum requirement, the Committee will be required to meet no less than four times per fiscal year to discharge the external audit responsibilities prescribed by this mandate. Special meetings can be called at the request of any Committee member, the external auditors or internal auditors, if applicable.

**d) Attendance at Meetings**

The Committee may invite such other persons (i.e. the CEO, CFO, external and internal auditors) to its meetings, as it deems necessary.

**e) Committee Process**

The time at which and the place where the meetings of the Committee shall be held, the calling of meetings and the procedures in all respects of such meetings shall be determined by the Committee, unless otherwise provided for in the by-laws of the Corporation or otherwise determined by resolution of the Board. Every attempt should be made for the Committee to meet in person when possible, rather than through teleconference facilities.

No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee. A majority of the members of the Committee shall constitute a quorum provided that, if the number of members of the Committee is an even number, then one half of the number of members plus one shall constitute a quorum.

Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a Director.

The Committee Chair will appoint a Secretary (the "Secretary") who will keep minutes of all meetings. The Secretary does not have to be a member of the Committee or a Director and can be changed by simple notice of the Committee Chair.

## REPORTING RESPONSIBILITIES

The responsibility and authority of the Committee is prescribed by the Board and accordingly, the Committee will provide full reporting of each Committee meeting to the Board. The proceedings of all meetings will be minuted.

## SPECIFIC RESPONSIBILITIES

**a) External Audit Responsibilities**

The Committee is required to meet with the external auditor prior to the commencement of the annual audit and perform the following:

- Review management's evaluation of the external auditor's independence.

- Review the external auditor's proposed audit planning summary, materiality, risk assessment, audit scope and approach to ensure that areas of risk are adequately addressed.

- Review the external auditors' prior years' actual fees and approve the current year's budgeted fees (it is recognized that the Corporation's shareholder establishes the audit fees).

- Review with the auditor those matters the Committee expects to be informed of in the course of the audit (see attached Appendix I).

The Committee is required to meet with the external auditor prior to the issuance of the final annual audit report and perform the following:

- Conduct a post-audit review of the annual financial statements and audit findings.
- Enquire of management and auditors about any differences of opinion including a review of the auditor's schedule of unadjusted differences.
- Meet in-camera with the auditors to discuss any issues arising from the audit.
- Review any accounting policy or accounting principle changes.
- Review the sufficiency and appropriateness of any significant estimates, management judgements and accounting provisions included in the determination of the financial statements and management's discussion and analysis ("MD&A").
- Review the external auditor's recommendations for improvements to internal control and management's responses to those suggestions.

- Review the performance of the external auditors.

- Review the annual report for consistency with the annual financial statements and MD&A.

**b) Financial Reporting Responsibilities**

- Review and approve interim quarterly financial statements and MD&A, as required to be presented to the Board for their approval.

- Review from the Corporation's counsel their legal response on any legal matters that could have a significant impact on the Corporation's financial statements.

- The Committee will determine to the extent that they consider necessary, the appropriate level of review and involvement in the following areas:

1. **Internal Control Responsibilities**

- Assess management's programs regarding the adequacy and effectiveness of internal controls and the identification of areas of risk, to ensure that procedures and controls have been implemented to monitor and manage these areas effectively.

- Gain an understanding of the current areas of greatest financial risk and how management is managing these effectively.

- Review the activities, organizational structure and qualifications of the internal audit function.

2. **Other Compliance Responsibilities**
   - Review management's monitoring of compliance and its compliance with the Corporation's code of corporate conduct. Enquire of external auditors and management about any possible breaches.

   - Request that management annually report to the Corporation that it is in compliance with such code.

   - Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance.

   - Obtain regular updates from management and the Corporation's legal counsel regarding compliance matters.

   - Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.

   - Review the findings of any examinations by regulatory agencies.

- Review the policies and procedures in effect for the review of officers' expenses and perquisites.
- Review the annual report of Executives' expenses.
- Review and approve the annual report of the CEO's expenses.
- If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist.
- Perform other oversight functions as requested by the Board.

**REMUNERATION**

The members of the Committee shall be entitled to receive the same remuneration for acting as members of the Committee as that provided for other committees of the Board, the amount of which the Board may from time to time determine.

# Appendix I

During the normal course of their audit, the auditors are to inform the Committee of the following:

- significant weaknesses in controls;
- illegal acts;
- significant misstatements including fraud;
- any issues relating to the industry selection of accounting policies and changes therein;
- the methods used to account for significant unusual transactions;
- the effect of accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;
- issues relating to various judgments made by management, including particularly sensitive estimates and disclosures;
- information in the annual report that is inconsistent with the financial statements;
- disagreements with management about matters that affect the financial statements or auditors' report;

- the auditor's views concerning any matters that were the subject of consultation by management with other accountants;
- major issues discussed with management in connection with the initial or recurring audit appointment;
- serious difficulties during the audit, including unreasonable delays in management providing information required by the auditors;
- significant transactions that appear to be inconsistent with the ordinary course of business;
- unusual actions that increase the risk of loss; and
- actions that, if they become public, might cause embarrassment to the Corporation.

# London Hydro Corporate Governance & Risk Management Committee

## Terms of Reference

### Purpose

The Corporate Governance & Risk Management Committee (the "Committee") is responsible for assisting the Board of Directors (the "Board") in ensuring that London Hydro Inc. (the "Corporation") operates within a sound corporate governance framework through the development of a recommended appropriate governance structure, including policies, processes and procedures that satisfy legal, health and safety and regulatory requirements in this regard, and reflect best practices in the industry. The Committee shall also act in an advisory capacity to the Board in assessing the effectiveness of the Corporation's system of corporate governance.

### Organization

**a) Committee Composition**

All Board Committees will be established each year by the Board, with the Chair of the Committee (the "Committee Chair") to be selected by the Board, and be independent of the Corporation's management. Committee members will have had no business transactions outside of the normal course of business (i.e. the purchase of power), relationships or financial interests with the Corporation or its management.

**b) Membership Qualifications**

Each Committee member will be required to have broad business experience and expertise.

**c) Frequency of Meetings**

The Committee will meet as many times as is necessary to carry out its responsibilities and report to the Board. Meetings may be called by the Committee Chair or by any two of its members.

**d) Attendance at Meetings**

The Committee may invite such other persons (i.e. the CEO, Vice Presidents) to its meetings, as it deems necessary.

**e) Committee Process**

The time at which and the place where the meetings of the Committee shall be held, the calling of meetings and the procedures in all respects of such meetings shall be determined by the Committee, unless otherwise provided for in the by-laws of the Corporation or otherwise determined by resolution of the Board. Every attempt should be made for the Committee to meet in person when possible, rather than through teleconference facilities.

It is understood that in order to properly carry out its responsibilities with respect to corporate governance recommendation and advice to the Board, the Committee may retain outside consultants at the expense of the Corporation and on the approval of the Board, if it considers it to be necessary.

No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee. A majority of the members of the Committee shall constitute a quorum provided that, if the number of members of the Committee is an even number, then one half of the number of members plus one shall constitute a quorum.

Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a Director.

The Committee Chair will appoint a Secretary (the "Secretary") who will keep minutes of all meetings. The Secretary does not have to be a member of the Committee or a Director and can be changed by simple notice of the Committee Chair.

The Committee shall have access in normal circumstances to the Corporation's auditors, legal counsel, and with the exception of confidential personnel records and files, to such information respecting the Corporation as it considers necessary or advisable in order to perform its duties and responsibilities.

**Reporting Responsibilities**

The responsibility and authority of the Committee is prescribed by the Board and accordingly, the Committee will provide full reporting of each Committee meeting to the Board. The proceedings of all meetings will be minuted.

**Specific Responsibilities**

**Committee Role:**

- Act as a nomination committee for new Board members and for the Board Chair and Vice Chair positions.
- Recommend appropriate processes for approval and implementation by the Board to fulfill its responsibility for: (i) oversight of strategic direction and development and review of ongoing results of operations; (ii) oversight of the Corporation's shareholder relations and public relations activities and ensuring that procedures are in place for the effective reporting to the shareholder, receipt of shareholder feedback and response to shareholder concerns.

- Recommend a proper delineation of the role, duties and responsibilities of management, the Board and its committees, and delegation of authority by the Board to its committees and management.

- Recommend procedures for meetings of the Board and to otherwise assist in establishing processes, procedures and structures to ensure that the Board functions independently of management and without conflicts of interest.

- Recommend to the Board improvements to enhance an effective and appropriate working relationship between management and the Board.

- Review, consider and advise the Board on the composition of the Board in relation to the needs of the Corporation and the commitment required of individual Directors.

- Review, consider, and advise the Board on appropriate scope and levels of Directors' and Officers' liability insurance and indemnification arrangements.

- Review the Enterprise Risk Management Report and allocate responsibilities to the appropriate Board committee (i.e. banking issues – Audit Committee).

**Board and Committee Structure and Membership:**

- Review the mandates of the Board's committees and recommend appropriate changes.

- Recommend allocation of Directors of the Corporation to the various committees of the Board.

**Directors:**

- Develop for Board approval, implement and maintain an orientation and educational program for new appointments to the Board in order to familiarize new Directors with the business of the Corporation, its management and professional advisors and its facilities, as well as their role and responsibilities as Directors.

**Establishment of Operational Governance Policies:**

- Recommend the development and implementation of appropriate corporate governance policies including, but not limited to, Confidentiality Policies, Corporate Codes of Conduct, Conflict of Interest and other relevant policies associated with ensuring an effective system of corporate governance.

- Policies to be reviewed at least every three years.

**Legal Affairs:**

- Act in an advisory role to the Board with respect to

legal matters, including the retention of legal counsel, the review and approval of any extraordinary legal expenditures and the status of any litigation or other legal matters and to make recommendations to the Board with respect thereto.

- Review insurance agreements and provide recommendations on exposure and strategic ways to reduce the risk to an acceptable level.

**Related Party Transactions:**

- Review related party transactions for reflection of market practice and being in the best interests of the Corporation and advise the Board thereof.

**Committee Evaluation:**

- Assess and provide recommendations to the Board on the effectiveness of its Committees and Committee Chairs.

**Remuneration**

The members of the Committee shall be entitled to receive the same remuneration for acting as members of the Committee as that provided for other committees of the Board, the amount of which the Board may from time to time determine.

# London Hydro Human Resources Policy & Procedures Committee

## Terms of Reference

### Purpose

The Human Resources Policy & Procedures Committee (the "Committee") is responsible for acting as an advisory to the Board of Directors (the "Board") for London Hydro Inc. (the "Corporation") with respect to Human Resource's policies and practices.

### Organization

**a) Committee Composition**

All Board Committees will be established each year by the Board, with the Chair of the Committee (the "Committee Chair") to be selected by the Board.

The Committee will consist of three Board members plus the Board Chair, who are independent of the Corporation's management. Committee members will have had no business transactions outside of the normal course of business (i.e. the purchase of power), relationships or financial interests with the Corporation or its management.

**b) Membership Qualifications**

Each Committee member will be required to have broad business experience and expertise.

**c) Frequency of Meetings**

The Committee will meet at least quarterly, or as many times as necessary, to carry out its responsibilities and report to the Board. Meetings may be called by the Committee Chair or by any two of its members.

**d) Attendance at Meetings**

The Committee may invite such other persons (i.e. the CEO, Senior Director of Human Resources) to its meetings as it deems necessary.

**e) Committee Process**

The time at which and the place where the meetings of the Committee shall be held, the calling of meetings and the procedures in all respects of such meetings shall be determined by the Committee, unless otherwise provided for in the by-laws of the Corporation or otherwise determined by resolution of the Board. Every attempt should be made for the Committee to meet in person when possible, rather than through teleconference facilities.

No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee. A majority of the members of the Committee shall constitute a quorum provided that, if the number of members of the Committee is an even

number, then one half of the number of members plus one shall constitute a quorum.

Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a Director.

The Committee Chair will appoint a Secretary (the "Secretary") who will keep minutes of all meetings. The Secretary does not have to be a member of the Committee or a Director and can be changed by simple notice of the Committee Chair.

**Reporting Responsibilities**

The responsibility and authority of the Committee is prescribed by the Board and accordingly, the Committee will provide full reporting of each Committee meeting to the Board. The proceedings of all meetings will be minuted.

**Specific Responsibilities**

**Committee Role**

- Act as a resource group to review management's development of Human Resources policies and practices including Employee Policy Manuals, Employee Handbooks and Collective Agreements.

- Recommend to the Board the parameters for negotiations for collective agreement, and review

management's negotiation of Collective Agreement with bargaining agent(s) and advise management and Board with respect to negotiations.

- Review, consider, and recommend to the Board the appropriate compensation for the CEO, and the parameters for non-union employees.

- Review from time to time the compensation of the Board.

- Review in consultation with the CEO their recommendation for Executive compensation.

- Review the Corporation's compliance programs, policies, standards, procedures and reports with respect to regulatory, health, safety and environmental matters and make recommendations to the Board with respect thereto.

- Adopt a succession plan for the CEO and review the succession plan for Executives and Directors.

- Establish a work plan and evaluation of committee performance.

- Monitor and evaluate corporate goals during and for the year.

- Review any Human Resources related issues identified by the Enterprise Risk Management report.

- Review culture and employee development programs and organizational structure.

**Remuneration**

The members of the Committee shall be entitled to receive the same remuneration for acting as members of the Committee as that provided for other committees of the Board, the amount of which the Board of Directors may from time to time determine.

# Directors' Disclosure of Interest

In accordance with clause 8.1 of By-Law No. 2, a director or officer who,

(i) is a party to a material contract or transaction or proposed material contract or transaction with the corporation; or

(ii) is a director or an officer of, or has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the corporation,

shall disclose in writing to the corporation or request to have entered in the minutes of meetings of directors the nature and extent of his interest.

# Confidential Information

Directors are fiduciaries of the corporation. This long-standing common law principle governs all aspects of the directors' relationship to the corporation. It is codified in the corporate statutes by the requirement that directors act honestly and in good faith with a view to the best interests of the corporation in exercising their power and discharging their duties.

**Corporate Opportunity**

Directors must avoid even a perception that they have appropriated an opportunity that belonged to the corporation. If directors take advantage of an opportunity of which they become aware by virtue of their position as directors, and that opportunity is one in which the corporation might conceivably have had an interest, the directors have acted counter to their fiduciary duty to the corporation.

**Duty of Confidence**

Directors have a duty of confidence towards the corporation. They must not misuse information obtained from the corporation by virtue of their position on the board. Information that is confidential in nature and communicated in confidence shall remain confidential.

Employees of London Hydro are required to sign a confidentiality agreement upon joining employment at London Hydro Inc.

**EMPLOYEE CONFIDENTIALITY AGREEMENT**

I have read and accepted the above conditions of employment.

I understand and agree that during the continuance of employment at London Hydro, or at any time thereafter, I shall not disclose any information relating to the private or confidential affairs of London Hydro and shall not for my own purposes or for any purposes other than those of London Hydro, use any such information that I may acquire in relation to the business of London Hydro.

I understand that upon termination of employment, I shall deliver all property belonging to London Hydro that is in my possession, charge, control or custody.

_____ _____

Employee Signature/Date London Hydro Witness

# Information Management

Directors are entitled to have access to information belonging to the corporation and the flow of that information is critical to enable directors to perform their duties. It is however, equally important that the directors are not inundated with information that they are required to sift through to determine what is relevant.

The CEO, together with the board chair will be responsible for determining what information is provided to the board and ensure that the directors receive information in sufficient time to allow time for proper review. The complexity of the issues will determine the amount of time required for review.

## Timely Disclosure

As approved at the May 8, 2007 Directors' Meeting, the CFO and Vice-President of the finance department will submit external quarterly statements and MD&A for board approval after review by the audit committee; standard monthly reporting will be discontinued, however, the board will receive monthly "key performance indicators" reports.

# Role of the Shareholder

## ANNUAL RESOLUTION AND MEETINGS

### Annual Report to Shareholder

As per article 7.1 of the Shareholder Declaration, the board shall, not less than annually and within six months following the end of the fiscal year of the corporation, report to the shareholder on matters to be addressed at an annual general meeting of the corporation as provided in subsection 154(1) of the OBCA.

### Annual Meeting or Resolution in Lieu

As per article 7.2 of the Shareholder Declaration, within six months after the end of each fiscal year of the corporation the shareholder shall, as appropriate pursuant to this Shareholder Declaration, the bylaws of the corporation and the OBCA, at an annual meeting or by resolution in lieu of such annual meeting:

(a) elect or re-elect directors of the corporation to fill any vacancy

(b) appoint auditors of the corporation;

(c) receive the audited financial statements of the corporation for the last completed fiscal year; and

(d) complete such other business as would normally be completed at an annual meeting of shareholders under the OBCA.

**Place of Meetings**

As per article 10.4 of By-law No. 2, subject to the articles and any shareholder agreement, a meeting of shareholders shall be held at such place in or outside Ontario as the directors determine or, in the absence of such a determination, at the place where the registered office of the corporation is located.

**Notice of Meetings**

As per article 10.5 of By-law No. 2, notice of the time and place of each meeting of shareholders shall be given in the manner provided in section 15.1 in this by-law, in the case of an offering corporation, not less than twenty-one (21) days, and in the case of any other corporation, not less than ten (10) days, but, in either case, not more than fifty (50) days, before the date of the meeting to each director, to the auditor and to each shareholder entitled to vote at such meeting. A notice of a meeting is not required to be sent to shareholders who were not registered on the records of the corporation or its transfer agent on the record date determined under subsection 10.9(a) of this by-law but failure to receive a notice does not deprive a shareholder of the right to vote at the meeting.

**Record Date For Notice**

In accordance with article 10.9 of By-law No. 2,

(a) The directors may by resolution fix in advance a time and date as the record date for the determination of the shareholders entitled to receive notice of a meeting of the shareholders, which record date shall not precede by more than fifty (50) days or by less than twenty-one (21) days on the date on which the meeting is to be held. Where no such record date for the determination of the share-holders entitled to notice of a meeting of the shareholders is fixed by the directors as aforesaid, such record date shall be,

(i) at the close of business on the day immediately preceding the day on which notice of such meeting is given, or

(ii) if no notice is given, the day on which the meeting is held;

(b) If a record date is fixed pursuant to subsection (a) of this section, unless notice of the record date is waived in writing by every holder of a share of the class or series affected whose name is set out in the securities register at the close of business on the day the directors fix the record date, notice thereof shall be

given, not less than seven days before the date so fixed, in accordance with section 13.3 hereof.

**Persons Entitled To Be Present**

In accordance with article 10.13 of By-law No. 2, the only persons entitled to attend a meeting of shareholders shall be those entitled to vote thereat and the president, secretary, the directors, the scrutineer or scrutineers and the auditor and others who, although not entitled to vote, are entitled or required under any provision of the Act or the articles or the by-laws to be present at the meeting. Any other person may be admitted only on the invitation of the chairman of the meeting or with the consent of the meeting.

**Quorum**

In accordance with article 10.25 of By-law No. 2, At any meeting of shareholders, two (2) individuals present in person, each of whom is either a shareholder entitled to attend and vote at such meeting or the proxyholder of such a shareholder appointed by means of a valid proxy, shall be a quorum for the choice of a chairman (if required) and for the adjournment of the meeting. For all other purposes a quorum for any meeting of shareholders (unless a greater number of shareholders and/or a greater number of shares are required by the Act or by the articles or the by-laws) shall be two (2) individuals present in person, each of whom is either a shareholder entitled to attend and vote at such meeting or the proxyholder

of such a shareholder appointed by means of a valid proxy, holding or representing by proxy not less than 51% of the total number of issued shares of the corporation for the time being enjoying voting rights at such meeting. No business shall be transacted at any meeting of shareholders while the requisite quorum is not present.

**Right to Vote**

In accordance with article 10.12 of By-law No. 2,

(a) Where the corporation fixes a record date under subsection 10.9(a) of this by-law, a person named in the list prepared under section 10.11 of this by-law is entitled to vote the shares shown opposite his name at the meeting to which the list relates, except to the extent that,

(i) the person has transferred any of his shares after the record date; and

(ii) the transferee of those shares,

(A) produces properly endorsed share certificates, or

(B) otherwise establishes that he owns the shares,

and demands, not later than ten days before the meeting, or such shorter period before the meeting as the by-laws of the corporation may provide, that his name be included in the list

before the meeting, in which case the transferee is entitled to vote such shares at the meeting.

(b) Where the corporation does not fix a record date under subsection 10.9(a) of this by-law a person named in the list prepared under section 10.11 entitled to vote the shares shown opposite his name at the meeting to which the list relates, except to the extent that,

(i) The person has transferred any of his shares after the date on which the list referred to in section 10.11 of this by-law is prepared; and

(ii) the transferee of those shares,

(A) produces properly endorsed share certificates, or

(B) otherwise establishes that he owns the shares, and demands not later than ten days before the meeting, or such shorter period before the meeting as the by-laws of the corporation may provide, that his name be included in the list before the meeting, in which case the transferee is entitled to vote such shares at the meeting.

**Proxies and Representatives**

In accordance with article 10.14 of By-law No. 2,

(a) Every shareholder entitled to vote at a meeting of shareholders may by means of a proxy appoint a proxyholder, or one or more alternate proxyholders, who need not be shareholders, as his nominee to attend and act at the meeting in the manner, to the extent and with the authority conferred by proxy.

(b) A proxy shall be executed by shareholder or his attorney authorized in writing or, if the shareholder is a body corporate, by an officer or attorney thereof duly authorized and shall conform with the requirements of the Act.

**Revocation of Proxies**

In accordance with article 10.15 of By-law No. 2, a shareholder may revoke a proxy

(i) by depositing an instrument in writing executed by him or by his attorney authorized in writing,

(A) at the registered office of the corporation at any time up to and including the last business day preceeding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or

(B) with the chairman of the meeting on the day of the meeting or an adjournment thereof; or

(ii) in any other manner permitted by law.

**Deposit of Proxies**

In accordance with article 10.16 of By-law No. 2, the directors may by resolution fix a time not exceeding forty-eight (48) hours, excluding Saturdays and holidays, preceding any meeting or adjourned meetings of shareholders before which time proxies to be used at that meeting must be deposited with the corporation or an agent thereof, and any period of time so fixed shall be specified in the notice calling the meeting.

**Joint Shareholders**

In accordance with article 10.17 of By-law No. 2, where two (2) or more persons hold shares jointly, one of those holders present at a meeting of shareholders may in the absence of the others vote the shares, but if two (2) or more of those persons are present, in person or by proxy, they shall vote as one of the shares jointly held by them.

**Votes to Govern**

In accordance with article 10.20 of By-law No. 2, at all meetings of shareholders every question shall, unless otherwise required by law, the articles, the by-laws, or a shareholder agreement, be determined by the majority of the votes duly cast on the question. In case of an equality of votes, the chairman presiding at the meeting shall not have a second or casting vote in addition to the vote or votes to which he may be entitled as a shareholder.

**Show of Hands**

In accordance with article 10.21 of By-law No. 2, at all meetings of shareholders, every question submitted to the meeting shall be decided by a show of hands unless a ballot thereon is required by the chairman or is demanded by a shareholder or proxyholder present and entitled to vote. Upon a show of hands every person present who is either a shareholder entitled to vote or the duly appointed proxyholder of such a shareholder shall have one vote. Before or after a vote by a show of hands has been taken upon any question, the chairman may require, or any shareholder or proxyholder present and entitled to vote may demand, a ballot thereon. Unless a ballot is demanded, an entry in the minutes of a meeting of shareholders to the effect that the chairman declared a motion to be carried is admissible in evidence as prima facie proof of the fact without proof of the number of proportion of the votes recorded in favour of or against the motion.

**Ballots**

In accordance with article 10.22 of By-law No. 2, if a ballot is required by the chairman of the meeting or is duly demanded by any shareholder or proxyholder and the demand is not withdrawn, a ballot upon the question shall be taken in such manner and at such time as the chairman of the meeting shall direct.

**Adjournment**

In accordance with article 10.24 of By-law No. 2, the chairman presiding at a meeting of shareholders may, with the consent of the meeting and subject to such conditions as the meeting decides, adjourn the meeting from time to time and from place to place and, subject to the provisions of the Act and subsection 10.8(b) of this by-law no notice of such adjournment or of the adjourned meeting need to be given to the shareholders. Subject to the provisions of the Act, any business may be brought before or dealt with at any adjourned meeting which might have been brought before or dealt with at the original meeting in accordance with the notice calling such meeting.

**One Shareholder**

In accordance with article 10.26 of By-law No.2, where the corporation has only one shareholder, or only one holder of any class or series of shares, that shareholder present in person or by proxy constitutes a meeting.

# Shareholder Ability to Change the Board

**Article 108, OBCA**

1. A written agreement between two or more shareholders may provide that in exercising voting rights the shares held by them shall be voted as therein provided.

2. A written agreement among all the shareholders of a corporation or among all the shareholders and one or more persons who are not shareholders may restrict in whole or in part the powers of the directors to manage or supervise the management of the business and affairs of the corporation.

3. Where a person who is the beneficial owner of all the issued shares of a corporation makes a written declaration that restricts in whole or in part the powers of the directors to manage or supervise the management of the business and affairs of a corporation, the declaration shall be deemed to be a unanimous shareholder agreement.

4. Subject to subsection 56 (3), a transferee of shares subject to a unanimous shareholder agreement shall be deemed to be a party to the agreement.

5. A shareholder who is a party to a unanimous shareholder agreement has all the rights, powers, duties and liabilities of a director of the corporation, whether arising under this Act or otherwise, to which the agreement relates to the extent that the agreement restricts the discretion or powers of the directors to manage or supervise the management of the business and affairs of the corporation and the directors are thereby relieved of their duties and liabilities, including any liabilities under section 131, to the same extent.

6. A unanimous shareholder agreement may, without restricting the generality of subsection (2), provide that,

    (a) any amendment of the unanimous shareholder agreement may be effected in the manner specified therein; and

    (b) in the event that shareholders who are parties to the unanimous shareholder agreement are unable to agree on or resolve any matter pertaining to the agreement, the matter may be referred to arbitration under such procedures and conditions as are specified in the unanimous shareholder agreement R.S.O. 1990, c. B.16, s.108.

Under section 108, subsection (5) of the Ontario Business Corporations Act, a shareholder who is a party to a unanimous shareholder agreement has all the rights, powers, duties and liabilities of a director of the corporation, whether arising under this Act or otherwise, to which the agreement relates to the extent that the agreement restricts the discretion or power of the directors to manage or supervise the management of the business and affairs of the corporation and the directors are thereby relieved of their duties and liabilities, including any liabilities under section 131, to the same extent.

# Articles of Incorporation

**Effective April 26, 2000** **Ontario Corporation Number 1415543**

1.0 The name of the corporation is:

**London Hydro Utilities Services Inc.**

2.0 The address of the registered office is:

**111 Horton Street, London, Ontario, N6A 4H6**

3.0 The number (or minimum and maximum number) of directors is:

**A minimum of one (1) and a maximum of ten (10).**

4.0 The first director(s) is/are:

| | |
|---|---|
| **Linda Hope Reed** | **26-587 Cranbrook Rd. London, ON N6K 2Y4** |
| **Robert Allan Blackwell** | **721 Chiddington Ave. London, ON N6C 2X1** |

5.0 Restrictions, if any, on business the corporation may carry on or on powers the corporation may exercise:

**NONE**

6.0 The classes and any maximum number of shares that the corporation is authorized to issue:

**An unlimited number of common shares**

7.0 Rights, privileges, restrictions and conditions (if any) attaching to each class of shares and directors' authority with respect to any class of shares which may be issued in series:

**Not Applicable**

8.0 The issue, transfer of ownership of shares is/is not restricted and the restrictions (if any) are as follows:

**The shares of the corporation shall not be transferred without the approval of the Board of Directors of the corporation to be evidenced by a resolution of the board.**

9.0 Other provisions (if any) are:

1. **The number of shareholders of the corporation exclusive of persons who are in its employment and exclusive of persons who, having been formerly in the employment of a corporation, were, while in that employment, and have continued after termination of that employment to be, shareholders of the corporation, is limited to not more than fifty, two or more persons who are the joint registered owners of one or more shares being counted as one shareholder.**

2. No invitation shall be made to the public to subscribe for any securities of the corporation.

10.0 First name, initials and surname or corporate name:

| | |
|---|---|
| **Linda Hope Reed** | **26-587 Cranbrook Rd.<br>London, ON N6K 2Y4** |
| **Robert Allen Blackwell** | **721 Chiddington Avenue<br>London ON N6C 2X1** |

# ARTICLES OF AMENDMENT

**SCHEDULE A**

**Common Shares**

**1. Voting Rights**

Each shareholder of Common Shares shall be entitled to receive notice of and to attend all meeting of shareholders of the corporation and to vote thereat, except meetings at which only holders of a specified series of shares are entitled to vote. At all meetings of which notice must be given to the holders of the Common Shares, each holder of Common Shares shall be entitled to one vote in respect of each Common Share held by such holder.

**2. Dividends**

The holders of the Common Shares shall be entitled, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the corporation, to receive any dividend declared by the corporation.

**3. Liquidation, Dissolution or Winding Up**

The holders of the Common Shares shall be entitled, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the corporation, to receive the remaining property of the corporation on a liquidation, dissolution or winding-up of the corporation, whether voluntary or involuntary.

**Preference Shares**

**1. Definitions**

With respect to the Preference Shares, the following terms shall have the meanings ascribed to them below:

(i) "Redemption Amount" in respect of each Preference Share means the amount paid up thereon.

(ii) "Redemption Price" in respect of each Preference Share means the Redemption Amount together with all dividends declared thereon and unpaid up to the date of liquidation, dissolution or winding up or the date of redemption, as the case may be.

**2. Dividends**

The holders of the Preference Shares shall be entitled to receive and the corporation shall pay thereon, as and when declared by the board of directors out of the moneys of the corporation properly applicable to the payment of dividends, preferential non-cumulative dividends in such amount or in such form at such rate as the directors may from time to time determine and, except with the consent in writing of the holders of all the Preference Shares outstanding, no dividend may be paid in any year to the holders of the Common Shares or any other class of shares of the corporation ranking junior to the Preference Shares unless in such year the full amount of the preferential dividend

herein provided for shall have been paid to the holders of the Preference Shares prior thereto or simultaneously therewith.

**3. No Voting Rights**

Except as otherwise provided in the Business Corporations Act (Ontario) (the "Act"), the holders of the Preference Shares shall not be entitled to receive notice of, or to attend or to vote at any meeting of the shareholders of the corporation.

**4. Liquidation, Dissolution or Winding Up**

In the event of the liquidation, dissolution or winding up of the corporation, whether voluntary or involuntary, the holders of the Preference Shares shall be entitled to receive in respect of each such share, before any distribution of any part of the assets of the corporation among the holders of the Common Shares and any other class of shares of the corporation ranking junior to the Preference Shares, an amount equal to the Redemption Price of the Preference Shares. After payment to the holders of the Preference Shares of the amount so payable to such holders as herein provided, the holders shall not be entitled to share in any further distribution of the property or assets of the corporation.

**5. Redemption at the Option of the Corporation**

(a) Subject to the Act, the corporation shall, at its option, be entitled to redeem at any time or times

all or any part of the Preference Shares registered in the name of an holder of any such Preference Shares on the books of the corporation with or without the consent of such holder by giving notice in writing to such holder specifying:

i) that the corporation desires to redeem all or any part of the Preference Shares registered in the name of such holder;

ii) if part only of the Preference Shares registered in the name of such holder is to be redeemed, the number thereof to be so redeemed;

iii) the business day (in this paragraph referred to as the "Redemption Date") on which the corporation desires to redeem such Preference Shares. Such notice shall specify a Redemption Date which shall not be less than 30 days after the date on which the notice is given by the corporation or such shorter period of time as the corporation and the holder of any such Preference Shares may agree; and

iv) the place of redemption.

(b) The corporation shall, on the Redemption Date, redeem such Preference Shares by paying to such holder an amount equal to the Redemption Price on presentation and surrender of the

certificate(s) for the Preference Shares so called for redemption at such place as may be specified in such notice. The certificate(s) for such Preference Shares shall thereupon be cancelled and the Preference Shares represented thereby shall there upon be redeemed. Such payment shall be made by delivery to such holder of a cheque payable in the amount of, at the option of the corporation, a demand note with a principal amount equal to the aggregate Redemption Price for the Preference Shares to be redeemed. From and after the Redemption Date, the holder thereof shall not be entitled to exercise any of the rights of holders of Preference Shares in respect thereof unless payment of the Redemption Price is not made on the Redemption Date, or on presentation and surrender of the certificate(s) for the Preference Shares so called for redemption, whichever is later in which case the rights of the holder of the Preference Shares shall remain unaffected until payment in full of the Redemption Price.

(c) Where at any time some, but not all of such Preference Shares are to be redeemed, the Preference Shares to be redeemed shall be selected by lot in such manner as the Board of Directors determines, or as nearly as may be in proportion to the number of Preference Shares registered in the name of each holder, or in such other manner as the Board of Directors determines.

**6. Redemption at the Option of the Holder**

(a) Subject to the Act, a holder of any Preference Shares shall be entitled to require the corporation to redeem at any time or times any Preference Shares registered in the name of such holder on the books of the corporation by tendering to the corporation at its registered office a share certificate representing the Preference Shares which the holder desires to have the corporation redeem together with a request in writing (in this paragraph referred to as a "Redemption Demand") specifying:

(i) that the holder desires to have the Preference Share represented by such certificate redeemed by the corporation;

(ii) if part only of the Preference Shares registered in the name of such holder is to be redeemed, the number thereof to be so redeemed, and

(iii) the business day (in this paragraph referred to as the "Redemption Date") on which the holder desires to have the corporation redeem such Preference Shares. The Redemption Demand shall specify a Redemption Date which shall not be less than 120 days after the due date on which the Redemption Demand is tendered to the corporation or such other date as the holder and the corporation may agree.

(b) The corporation shall, on such Redemption date, subject to paragraph 7 below, redeem all Preference Shares required to be redeemed by paying to such holder an amount equal to the aggregate Redemption Price therefor on presentation and surrender the certificate(s) for the Preference Shares to be so redeemed at the registered office of the corporation. The certificate(s) for such Preference Shares shall thereupon be cancelled and the Preference Shares represented thereby shall thereupon be redeemed. Such payment shall be made by delivery to such holder of a cheque in the amount of, or at the option of the corporation, a demand note with a principal amount equal to the aggregate Redemption Price for such Preference Shares to be redeemed. From and after the Redemption Date, such Preference Shares shall cease to be entitled to dividends and the holder thereof shall not be entitled to exercise any of the rights of the holders of Preference Shares in respect thereof unless payment of the said Redemption Date, in which case the rights of the holder of the Preference Shares shall remain unaffected until payment in full of the Redemption Price.

**7. Partial Repayment**

If less than all Preference Shares represented by a certificate are redeemed, the holder shall be entitled to receive, at the expense of the corporation, a new

certificate representing the Preference Shares which have not been redeemed.

The amendment has been duly authorized as required by Sections 168 and 170 (as applicable) of the Business Corporations Act.

The resolution authorizing the amendment was approved by the shareholders/directors (as applicable) of the corporation on

September 14, 2000

These articles are in duplicate.

London Hydro Utilities Services Inc.

# Articles of Amendment

## NAME CHANGE

**Ontario Corporation Number 1415543** **Effective on May 15, 2001**

1. The name of the corporation is:

   **London Hydro Utilities Services Inc.**

2. The name of the corporation is changed to (if applicable):

   **London Hydro Inc.**

3. Date of incorporation/amalgamation:

   **26-April-2000**

4. The articles of the corporation are amended as follows:
   **The name of the corporation is changed to "London Hydro Inc."**

## COMMON SHARES

### 1. Voting Rights

Each holder of Common Shares shall be entitled to receive notice of and attend all meetings of shareholders of the corporation and to vote thereat, except meetings at which only holders of a specified class of shares (other than Common Shares) or specified series of shares are entitled to vote. At all meetings of which notice must be given to the holders of the Common Shares, each holder of Common Shares shall be entitled to one vote in respect of each Common Share held by such holder.

### 2. Dividends

The holders of the Common Shares shall be entitled, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the corporation, to receive any dividend declared by the corporation.

### 3. Liquidation, Dissolution or Winding-Up

The holders of the Common Shares shall be entitled, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the corporation on a liquidation, dissolution or winding-up of the corporation, whether voluntary or involuntary.

## PREFERENCE SHARES

### 1. Definitions

With respect to the Preference Shares, the following terms shall have the meanings ascribed to them below:

(i) "Redemption Amount" in respect of each Preference Share means the amount paid up thereon.

(ii) "Redemption Price" in respect of each Preference Share means the Redemption Amount together with all dividends declared thereon and unpaid up to the date of liquidation, dissolution or winding-up or the date of redemption, as the case may be.

## 2. Dividends

The holders of the Preference Shares shall be entitled to receive and the corporation shall pay thereon, as and when declared by the board of directors out of the moneys of the corporation properly applicable to the payment of dividends, preferential non-cumulative dividends in such amount or in such form at such rate as the directors may from time to time determine and, except with the consent in writing of the holders of the Common Shares or any other class of shares of the corporation ranking junior to the Preference Shares unless in such year the full amount of the preferential dividend herein provided for shall have been paid to the holders of the Preference Shares prior thereto or simultaneously therewith.

## 3. No Voting Rights

Except as otherwise provided in the Business corporations Act (Ontario) (the "Act"), the holders of the Preference Shares shall not be entitled to receive notice of, or to attend or to vote at any meeting of the shareholders of the corporation.

## 4. Liquidation, Dissolution or Winding-Up

In the event of the liquidation, dissolution or winding-up of the corporation, whether voluntary or involuntary, the holders of the Preference Shares shall be entitled to receive in respect of each such share, before any distribution of any part of the assets of the corporation among the holders of the Common Shares and any other class of shares of the corporation ranking junior to the Preference Shares, an amount equal to the Redemption Price of the Preference Shares. After payment to the holders of the Preference Shares of the amount so payable to such holders as herein provided, the holders shall not be entitled to share in any further distribution of the property or assets of the corporation.

## 5. Redemption at the Option of the Corporation

(a) Subject to the Act, the corporation shall, at its option, be entitled to redeem at any time or times all or any part of the Preference Shares registered in the name of any holder of any such Preference Shares on the books of the corporation with or without the consent of such holder by giving notice in writing to such holder specifying:

(i) that the corporation desires to redeem all or any part of the Preference Shares registered in the name of such holder;

(ii) if part only of the Preference Shares registered in the name of such holder is to be redeemed, the number thereof to be so redeemed;

(iii) the business day (in this paragraph referred to as the "Redemption Date") on which the corporation desires to redeem such Preference Shares. Such notice shall specify a Redemption Date which shall not be less than 30 days after the date on which the notice is given by the corporation or such shorter period of time as the corporation and the holder of any such Preference Shares may agree; and

(iv) the place of redemption.

(b) The corporation shall, on the Redemption Date, redeem such Preference Shares by paying to such holder an amount equal to the Redemption Price on presentation and surrender of the certificate(s) for the Preference Shares so called for redemption at such place as may be specified it shall thereupon be cancelled and the Preference Shares represented thereby shall thereupon be redeemed. Such payment shall be made by delivery to such holder of a cheque payable in the amount of, or at the option of the corporation a demand note with a principal amount equal to the aggregate Redemption Price for the Preference Shares to be redeemed. From and after the Redemption any of the rights of holders of Preference Shares in respect thereof unless payment of the Redemption Price is not made on the Redemption Date, or on presentation and surrender of the certificate(s) for the Preference Shares so called for redemption, whichever is later in which case the rights of the holder of the Preference Shares shall remain unaffected until payment in full of the Redemption Price.

(c) Where at any time some but not all of such Preference Shares are to be redeemed, the Preference Shares to be redeemed shall be selected by lot in such manner as the board of directors determines, or nearly as may be in proportion to the number of Preference Shares registered in the

name of each holder, or in such other manner as the board of directors determines.

**6. Redemption at the Option of the Holder**

(a) Subject to the Act, a holder of any Preference Shares shall be entitled to require the corporation to redeem at any time or times any Preference Shares registered in the name of such holder on the books of the corporation by tendering to the corporation at its registered office a share certificate representing the Preference Shares which the holder desires to have the corporation redeem together with a request in writing (in this paragraph referred to as a "Redemption Demand") specifying:

(i) that the holder desires to have the Preference Share represented by such certificate redeemed by the corporation;

(ii) if part only of the Preference Shares registered in the name of such holder is to be redeemed, the number thereof to be so redeemed; and

(iii) the business day (in this paragraph referred to as the "Redemption Date") on which the holder desires to have the corporation redeem such Preference Shares. The Redemption Demand shall specify a Redemption Date which shall not be less than 30 days after the date on which the Redemption Demand is tendered to the corporation or such other date as the holder and the corporation may agree.

(b) The corporation shall, on such Redemption Date, subject to paragraph 7 below, redeem all Preference Shares required to be redeemed by paying to such holder an amount equal to the aggregate Redemption Price therefore on presentation and surrender of the certificate(s) for the Preference Shares to be so redeemed at the registered office of the corporation. The certificate(s) for such Preference Shares shall thereupon be cancelled and the Preference Shares represented thereby shall thereupon be redeemed. Such payment shall be made by delivery to such holder of a cheque in the amount of, or at the option of the corporation, a demand note with a principal amount equal to the aggregate redemption price for the Preference Shares to be redeemed. From and after the Redemption Date, such Preference Shares shall cease to be entitled to dividends and

the holder thereof shall not be entitled to exercise any of the rights of holders of Preference Shares in respect thereof unless payment of the said Redemption Price is not made on the Redemption Date, in which case the rights of the holder of the Preference Shares shall remain unaffected until payment in full of the Redemption Price.

## 7. Partial Repayment

If less than all Preference Shares represented by a certificate are redeemed, the holder shall be entitled to receive, at the expense of the corporation, a new certificate representing the Preference Shares which have not been redeemed.

# By-Law No. 2

A by-law relating generally to the
transaction of the business and affairs of
**LONDON HYDRO INC.**
(herein called the "Corporation")

BE IT PASSED AND MADE as a by-law of the Corporation as follows:

## ARTICLE I - DEFINITIONS AND INTERPRETATION

### 1.1 Definitions

In this by-law, unless there is something in the subject matter or context inconsistent therewith,

(i) "Act" means the Business Corporations Act of Ontario, as amended or re-enacted from time to time, and includes the regulations made pursuant thereto;

(ii) "affiliate" has the meaning ascribed thereto in the Act;

(iii) “articles” means the original or restated articles of incorporation, articles of amendment, articles of amalgamation, articles of arrangement, articles of continuance, articles of dissolution, articles of reorganization, articles of revival, letters patent, supplementary letters patent, a special Act and any other instrument by which the Corporation is incorporated;

(iv) “auditor” means the auditor of the Corporation;

(v) “board” means the board of directors of the Corporation;

(vi) “by-law” means a by-law of the Corporation;

(vii) “Chairman of the Board”, “President”, “Vice-President”, “Secretary” “Treasurer”, Managing Director”, “General Manager”, “Assistant Secretary”, “Assistant Treasurer”' or any other officer means such officer of the Corporation;

(viii) "committee” means a committee appointed pursuant to section 4.1 of this by-law;

(ix) “director” means a director of the Corporation;

(x) “day” means a clear day and a period of days shall be deemed to commence the day following the event that began the period and shall be deemed to terminate at midnight of the last day of the period except that if the last day of the period falls on a Sunday or holiday the period shall terminate at midnight of the day next following that is not a Sunday or holiday;

(xi) “employee” means an employee of the Corporation;

(xii) “number of directors” means the number of directors set out in the articles or, where a minimum and maximum number of directors is set out in the articles, the number of directors as shall be determined from time to time by special resolution or, if the special resolution empowers the directors to determine the number, by resolution of the board;

(xiii) “officer” means an officer of the Corporation;

(xiv) "person" includes an individual, sole proprietorship, partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, and a natural person in his capacity as trustee, executor, administrator or other legal representative;

(xv) "resident Canadian" means an individual who is,

(A) a Canadian citizen ordinarily resident in Canada,

(B) a Canadian citizen not ordinarily resident in Canada who is a member of a class of persons prescribed by the Act for the purposes of the definition of "resident Canadian", or

(C) a permanent resident within the meaning of the Immigration Act of Canada and ordinarily resident in Canada, except a permanent resident who has been ordinarily resident in Canada for more than one year after the time of which he first became eligible to apply for Canadian citizenship;

(xvi) “shareholder” means a shareholder of the Corporation;

(xvii) “shareholder agreement” means

(A) a written agreement among all the shareholders or among all the shareholders and one or more persons who are not shareholders that restricts in whole or in part the powers of the directors to manage or supervise the management of the business and affairs of the Corporation or provides for governance or other fundamental principles or policies of the Corporation, or

(B) a written declaration made by a person who is the beneficial owner of all the issued shares of a Corporation that restricts in whole or in part the powers of the directors to manage or supervise the management of the business and affairs of the Corporation or provides for governance or other fundamental principles or policies of the Corporation;

subject to the foregoing, the word and expression herein contained shall have the same meaning as corresponding words and expressions in the Act.

(xviii) "special resolution" means a resolution that is

(a) submitted to a special meeting of the shareholders of the Corporation duly called for the purpose of considering the resolution and passed, with or without amendment, at such meeting by at least two-thirds of the votes cast, or

(b) consented to in writing by each shareholder of the Corporation entitled to vote at such a meeting or his attorney authorized in writing;

(xix) "subsidiary" means in relation to another body corporate, a body corporate which

(A) is controlled by

(1) that other, or

(2) that other and one or more bodies corporate each of which is controlled by that other, or

(3) two or more bodies corporate each of which is controlled by that other; or

(B) is a subsidiary of a body corporate that is that other's subsidiary;

## 1.2 Interpretation

In each by-law and resolution, unless there is something in the subject matter or context inconsistent therewith, the singular shall include the plural and the plural shall include the singular and the masculine shall include the feminine. Wherever reference is made in this or any other by-law or in any special resolution to any statue or section thereof, such reference shall be deemed to extend and refer to any amendment to or re-enactment of such statute or section, as the case may be.

## 1.3 Headings and Table of Contents

The headings and table of contents in this by-law are inserted for convenience of reference only and shall not affect the construction or interpretation of the provisions of this by-law.

### 1.4 Conflict with Shareholder Declaration or Agreement

In any case where a provision of this by-law conflicts with a provision of any shareholder declaration of a sole shareholder or unanimous shareholder agreement of the Corporation, the provisions of the shareholder declaration or unanimous shareholder agreement, as the case may be, shall prevail.

## Article 2 – General

### 2.1 Registered Office

The Corporation may by resolution of the board change the location of its registered office within the municipality or geographic township specified in the articles.

### 2.2 Corporate Seal

The Corporation may have a corporate seal which shall be adopted and may be changed by resolution of the board.

## 2.3 Financial Year

The board may by resolution fix the financial year end of the Corporation and the board may from time to time by resolution change the financial year end of the Corporation.

## 2.4 Execution of Documents

(a) Instruments in writing requiring execution by the Corporation may be signed on behalf of the Corporation by

(i) the Chairman of the Board,

(ii) the President,

(iii) any two persons, one of whom holds the office of Managing Director, Vice-President or director, and the other of whom holds one of the said offices or the office of Secretary, Assistant Secretary, Treasurer, or

(iv) any two directors,

and all instruments in writing so signed shall be binding upon the Corporation without any further authorization or formality. The board may from time

to time by resolution appoint any officer or officers or any other person or persons on behalf of the Corporation either to sign instruments in writing generally or to sign specific instruments in writing.

(b) The corporate seal of the Corporation (if any) may be affixed to instruments in writing signed as aforesaid by any person authorized to sign the same or at the direction of any such person.

(c) The term “instruments in writing” as used herein shall include deeds, contracts, mortgages, hypothecs, charges, conveyances, transfers and assignments of property real or personal, immovable or movable, agreements, releases, receipts and discharges for the payment of money or other obligations, cheques, promissory notes, drafts, acceptances, bills of exchange and orders for the payment of money, conveyances, transfers and assignments of shares, instruments of proxy, powers of attorney, stocks, bonds, debentures or other securities or any paper writings.

(d) Subject to the provisions of section 11.4 hereof, the signature or signatures of an officer or director, person or persons appointed as aforesaid by resolution of the board, may, if specifically authorized by resolution of the board, be printed, engraved, lithographed or otherwise mechanically

reproduced upon all instruments in writing executed or issued by or on behalf of the Corporation and all instruments in writing on which the signature or signatures of any of the foregoing officers, directors or persons shall be so reproduced,by authorization by resolution of the board, shall be deemed to have been manually signed by such officers or persons whose signature or signatures is or are so reproduced and shall be as valid as if they had been signed manually and notwithstanding that the officers, directors or persons whose signature or signatures is or are so reproduced may have ceased to hold office at the date of the delivery or issue of such instruments in writing.

## 2.5 Resolution in Writing

(a) A resolution in writing, signed by all the directors entitled to vote on that resolution at a meeting of directors or a committee of directors, is as valid as if it had been passed at a meeting of directors or such committee of directors.

(b) A resolution in writing signed by all the shareholders entitled to vote on that resolution at a meeting of shareholders is as valid as if it had been passed at a meeting of the shareholders unless a written statement with respect to the subject matter of the resolution is submitted by a director or representations in writing

are submitted by the auditor in accordance with the Act.

(c) Where the Corporation has only one shareholder, or only one holder of any class or series of shares, the shareholder present in person or by proxy constitutes a meeting.

## 2.6 Divisions

The board may cause the business and operations of the Corporation or any part thereof to be divided into one or more divisions upon such basis, including without limitation, types of business or operations, geographical territories, product lines or goods or services, as the board may consider appropriate in each case. From time to time the board or any person authorized by the board may authorize, upon such basis as may be considered appropriate in each case:

(i) the further division of the business and operations of any such division into sub-units and the consolidation of the business and operations of an such divisions or sub-units;

(ii) the designation of any such division or sub-unit by, and the carrying of the business and operations of any such division or sub-unit under, a name other than the name of the Corporation; and

(iii) the appointment of officers for any such division or sub-unit, the determination of their powers and duties, and the removal of any such officer so appointed with out prejudice to such officer's rights under any employment contract or law, provided that any such officer shall not, as such, be an officer of the Corporation.

# Article 3 – Directors

## 3.1 General

Subject to any shareholder agreement, the board shall manage or supervise the management of the business and affairs of the Corporation.

## 3.2 Qualification

(a) The following persons are disqualified from being a director:

(i) a person who is less than eighteen (18) years of age,

(ii) a person who is of unsound mind and has been so found by a court in Canada or elsewhere,

(iii) a person who is not an individual, and

(iv) a person who has the status of bankrupt.

(b) Unless the articles otherwise provide, a director is not required to hold shares issued by the Corporation.

(c) Unless the Corporation is a non-resident corporation, a majority of the directors shall be resident Canadians but where the Corporation has only one or two directors, that director or one of the two directors, as the case may be, shall be a resident Canadian.

### 3.3 Election

Subject to the provisions of the Act the directors shall be elected at the first meeting of shareholders and at each succeeding manual meeting of the shareholders.

### 3.4 Fixing Number of Directors

If the articles provide for a minimum and maximum number of directors, the number of directors of the Corporation and the number of directors to be elected at the annual meeting of the shareholders shall be such number as shall be determined from time to time by special resolution or, if the special resolution empowers the board to determine the number, by resolution of the board.

## 3.5 Terms of Office

Subject to the provisions of the articles, the term of office of a director not elected for an expressly stated term shall commence at the close of the meeting of shareholders at which he is elected and shall terminate at the close of the first annual meeting of shareholders following his election. If an election of directors is not held at the proper time the incumbent directors continue in office until their successors are elected.

## 3.6 Ceasing to Hold Office

A director ceases to hold office when

(i) he dies or, subject to section 3.7 of this by law, he resigns;

(ii) he is removed from office in accordance with the provisions of the Act or the by-laws; or

(iii) he becomes disqualified from being a director under the Act or by-laws.

## 3.7 Resignation of a Director

A director may resign his office as a director by giving to the Corporation his written resignation, which resignation shall become effective at the later of

(i) the time at which such resignation is received by the Corporation, or

(ii) the time specified in the resignation.

### 3.8 Removal

Subject to the provisions of the Act, the shareholders may by resolution at an annual or special meeting of shareholders remove any director or directors from office and may by resolution at such meeting elect any person to fill the vacancy created by the removal of such director, failing which the vacancy created by the removal of such director may be filled by the board.

### 3.9 Vacancies

(a) Subject to the provisions of the Act, a shareholder declaration of a sole shareholder or a unanimous shareholder agreement of the Corporation, a quorum of directors may fill a vacancy among the directors, except a vacancy resulting from

(i) an increase in the number of directors or in the maximum number of directors, as the case may be, or

(ii) a failure to elect the number of directors required to be elected at any meeting of shareholders.

(b) A director appointed or elected to fill a vacancy holds office for the unexpired term of his predecessor.

(c) If there is not a quorum of directors, or if there has been a failure to elect the number of directors required by the articles or by section 3.4 hereof, the directors then in office shall forthwith call a special meeting of shareholders to fill the vacancy and, if they fail to call a meeting or there are no directors then in office, the meeting may be called by any shareholder.

(d) Subject to the article or by-laws, where there is a vacancy or vacancies on the board, the remaining directors may exercise all the powers of the board so long as a quorum of the board remains in office.

### 3.10 Remuneration

Subject to the articles, the by-laws and any shareholder agreement, the directors may fix the remuneration of the directors, officers and employees of the Corporation.

### 3.11 Power to Borrow

Unless the articles or by-laws or a shareholder agreement otherwise provide, the directors may without authorization of the shareholders from time to time

(i) borrow money upon the credit of the Corporation;

(ii) issue, reissue, sell or pledge debt obligations of the Corporation;

(iii) subject to the Act, give a guarantee on behalf of the Corporation to secure performance of an obligation of any person; and

(iv) mortgage, hypothecate, pledge or otherwise create a security interest in all or any property of the Corporation owned or subsequently acquired, to secure any obligation of the Corporation.

### 3.12 Delegation of Power to Borrow

Unless the articles or by-laws or a shareholder agreement otherwise provide, the directors may by resolution delegate any or all of the powers referred to in section 3.11 of this by-law to a director, a committee or an officer.

# Article 4 – Committees

## 4.1 Appointment

Subject to the Act, the articles or by-laws, the directors may appoint from their number one or more committees and may by resolution delegate to any such committee any of the powers of directors.

## 4.2 Canadian Membership

Except as allowed by the Act, a majority of the members of any committee appointed by the directors shall be resident Canadians.

## 4.3 Provisions Applicable

The following provisions shall apply to any committee appointed by the directors:

(i) unless otherwise provided by resolution of the directors, each member of a committee shall continue to be a member thereof until the expiration of his term of office as a director;

(ii) the directors may from time to time by resolution specify which member of a

committee shall be the chairman thereof and, subject to the provisions of the section 4.1 of this by-law, may by resolution modify, dissolve or reconstitute a committee and make such regulations with respect to and impose such restrictions upon the exercise of the powers of a committee as the directors think expedient;

(iii) the meeting and proceedings of a committee shall be governed by the provisions of the by-laws of the Corporation for regulating the meetings and proceedings of the board so far as the same are applicable thereto and are not superseded by any regulations or restrictions made or imposed by the directors pursuant to the foregoing provisions hereof;

(iv) subject to subsection (v) hereof, no business shall be transacted at any meeting of a committee unless a majority of the members of such committee present are resident Canadians;

(v) business may be transacted at any meeting of a committee where a majority of resident Canadian directors is not present if,

(A) a resident Canadian director who is unable to be present approves in writing or by telephone or other

communications facilities the business transacted at the meeting; and

(B) a majority of resident Canadian directors would have been present had that director been present at the meeting;

(vi) the members of a committee as such shall be entitled to such remuneration for their services as members of a committee as may be fixed by resolution of the directors, who are hereby authorized to fix such remuneration;

(vii) unless otherwise provided by resolution of the board, the Secretary of the Corporation shall be the secretary of any committee;

(viii) subject to the provisions of section 4.2 of this by-law, the directors shall fill vacancies in a committee by appointment from among their number; and

(ix) unless otherwise provided by resolution of the board, meetings of a committee may be convened by the direction of any member thereof;

# Article 5 – Meetings of Directors

## 5.1 Place of Meetings

Meetings of the board and of any committee may be held at any place within or outside Ontario. In any financial year of the Corporation, a majority of meetings of the board and a majority of the meetings of any committee need not be held within Canada.

## 5.2 Calling of Meetings

A meeting of the board may be called at any time by the Chairman of the Board, the President (if he is a director), a Vice-President (if he is a director) or any two of the directors and the Secretary shall cause notice of a meeting of directors to be given when so directed by any such person or persons.

## 5.3 Notice of Meetings

(a) Notice of any meeting of the board specifying the time and, except where the meeting is to be held as provided for in section 5.6 of this by-law, the place for the holding of such meeting shall be given in accordance with the terms of section 15.1 hereof to every director not less than 48 hours before the date of the meeting.

(b) Notice of an adjourned meeting of the board is not required to be given if the time and place of the adjourned meeting is announced at the original meeting.

(c) Meetings of the board may be held at any time without formal notice if all the directors are present or if all the directors who are not present, in writing or by cable, telegram or any form of transmitted or recorded communication, waive notice or signify their consent to the meeting being held without formal notice. Notice of any meeting or any irregularity in any meeting or in the notice thereof may be waived by any director either before or after such meeting. Attendance of a director at a meeting of the board is a waiver of notice of the meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

## 5.4 Regular Meetings

The board may by resolution fix a day or days in a month or months for the holding of regular meetings at a time and place specified in such resolution. A copy of any resolution of the board specifying the time and place for the holding of regular meetings of the board shall be sent to each

director at least two days before the first of such regular meetings and no other notice shall be required for any such regular meetings.

### 5.5 First Meeting of the New Board

For the first meeting of the board to be held immediately following the election of directors at an annual or other meeting of the shareholders or for a meeting of the board at which a director is appointed to fill a vacancy in the board, no notice need to be given to the newly elected or appointed director or directors.

### 5.6 Participation by Telephone

If all the directors present at or participating in the meeting consent, a meeting of the board or of a committee may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and a director participating in such a meeting by such means is deemed to be present in person at that meeting for the purposes of the Act and this by-law.

### 5.7 Chairman

The chairman of any meeting of the board shall be the first mentioned of such of the following officers as have been appointed and who is a director and

who is present at the meeting: Chairman of the Board, Managing Director, President or a Vice-President. If no such officer is present, the directors present shall choose one of their number to be chairman.

**5.8 Quorum**

(a) Subject to the articles, the by-laws, and subsection 5.8(b) of this by-law, a majority of the number of directors or minimum number of directors required by the articles constitutes a quorum at any meeting of the board, but in no case shall a quorum be less than two-fifths of the number of directors or minimum number of directors, as the case may be.

(b) Where the Corporation has fewer than three directors, the director or both directors, as the case may be, must be present at any meeting of the board to constitute a quorum.

(c) Subject to subsection 5.8 (d) hereof, directors, other than directors of a non-resident corporation, shall not transact business at a meeting of directors unless a quorum of the board is present and a majority of the directors present are resident Canadians.

(d) Directors may transact business at a meeting of directors where a majority of resident Canadian directors is not present if,

(i) a resident Canadian director who is unable to be present approves in writing or by telephone or other communication facilities the business transacted at the meeting, and

(ii) a majority of resident Canadian directors would have been present had that director been present at the meeting.

## 5.9 Voting

All questions arising at any meeting of the board shall be decided by a majority of votes. In case of an equality of votes, the chairman of the meeting shall not have, in addition to his original vote, a second or casting vote.

## 5.10 Auditor

The auditor shall be entitled to attend at the expense of the Corporation and be heard at meetings of the board on matters relating to his duties as auditor.

# Article 6 – Standard of Care of Directors and Officers

## 6.1 Standard of Care

Every director and officer in exercising his powers and discharging his duties shall,

(i) act honestly and in good faith with a view to the best interests of the Corporation; and

(ii) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

## 6.2 Liability for Acts of Others

Subject to the provisions of section 6.1 of this by-law, no director or officer shall be liable for the acts, receipts, neglects or defaults of any other director or officer or employee or for joining in any receipts or acts for conformity or for any loss, damage, or expense happening to the Corporation through the insufficiency or deficiency of title to any property acquired by order of the board for or on behalf of the Corporation or for the insufficiency or deficiency of any security in or upon which any of the moneys of or belonging to the Corporation shall be placed out or invested or for any loss or damage arising from the bankruptcy, insolvency, or

tortious act of any person, firm or corporation with whom or which any moneys, securities or effects of the Corporation shall be lodged or deposited or for any loss occasioned by any error of judgment or oversight on his part, or for any other loss, damage or misfortune whatsoever which may happen in the execution of the duties of his respective office or trust or in relation thereto, unless the same are occasioned by his own willful neglect or default; provided that nothing herein shall relieve any director or officer from the duty to act in accordance with the Act and the regulations thereunder or from liability for any breach thereof.

# Article 7 – For the Protection of Directors and Officers

## 7.1 Indemnification by Corporation

(a) The Corporation shall indemnify a director or officer, a former director or officer or a person who acts or acted at the Corporation's request as a director or officer of a body corporate of which the Corporation is or was a shareholder or creditor, and his heirs and legal representatives, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him in respect of any civil, criminal or administrative action or

proceeding to which he is made a party by reason of being or having been a director or officer of the Corporation or such body corporate, if

(i) he acted honestly and in good faith with a view to the best interests of the Corporation; and

(ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, he had reasonable grounds for believing that his conduct was lawful.

The Corporation may from time to time enter into agreements pursuant to which the Corporation agrees to indemnify one or more persons in accordance with the provisions of this section.

(b) The Corporation shall, subject to the approval of the Ontario Superior Court of Justice, indemnify a person referred to in subsection 7.1(a) of this by-law in respect of an action by or on behalf of the Corporation or body corporate to procure a judgment in its favour, to which he is made a part by reason of being or having been a director or an officer of the Corporation or body corporate, against all costs, charges and expenses reasonably incurred by him

in connection with such action if he fulfils the conditions set out in clauses 7.1(a)(i) and 7.1(a)(ii) of this by-law.

(c) Notwithstanding anything in this Article, a person referred to in subsection 7.1(a) of this by-law is entitled to indemnity from the Corporation in respect of all costs, charges and expenses reasonably incurred by him in connection with the defence of any civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been a director or officer of the Corporation or body corporate, if the person seeking indemnity

(i) was substantially successful on the merits in his defence of the action or proceeding, and

(ii) fulfils the conditions set out in clauses 7.1(a)(i) and 7.1(a)(ii) of this by-law.

**7.2 Insurance**

The Corporation may purchase and maintain insurance for the benefit of any person referred to in subsection 7.1(a) of this by-law against any liability incurred by him

(i) in his capacity as a director or officer, except where the liability relates to his failure to act honestly and in good faith with a view to the best interests of the Corporation, or

(ii) in his capacity as a director or officer of another body corporate where he acts or acted in that capacity at the Corporation's request, except where the liability relates to his failure to act honestly and in good faith with a view to the best interests of the body corporate.

**7.3 Directors' Expenses**

The directors shall be reimbursed for their out-of-pocket expenses incurred in attending board, committee or shareholders' meetings or otherwise in respect of the performance by them of their duties and no confirmation by the shareholders of any such reimbursement shall be required.

**7.4 Performance of Services for Corporation**

Subject to Article 8 of this by-law, if any director or officer shall be employed by or shall perform services for the Corporation otherwise than as a director or officer or shall be a member of a firm

or a shareholder, director or officer of a body corporate which is employed by or performs services for the Corporation, the fact of his being director or officer shall not disentitle such director or officer or such firm or company, as the case may be, from receiving proper remuneration for such services.

# Article 8 – Interest of Directors and Officers in Contracts

## 8.1 Disclosure of Interest

A director or officer who,

(i) is a party to a material contract or transaction or proposed material contract or transaction with the Corporation; or

(ii) is a director or an officer of, or has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the Corporation,

shall disclose in writing to the Corporation or request to have entered in the minutes of meetings of directors the nature and extent of his interest.

## 8.2 Time of Disclosure by Director

The disclosure required by section 8.1 of this by-law shall be made, in the case of a director,

(i) at the meeting at which a proposed contract or transaction is first considered;

(ii) if the director was not then interested in a proposed contract or transaction, at the first meeting after he becomes so interested;

(iii) if the director becomes interested after a contract is made or a transaction is entered into, at the first meeting after he becomes so interested; or

(iv) if a person who is interested in a contract or transaction later becomes a director, at the first meeting after be becomes a director.

## 8.3 Time of Disclosure by Officer

The disclosure required by section 8.1 of this by-law shall be made, in the case of an officer who is not a director,

(i) forthwith after he becomes aware that the contract or transaction or proposed contract or transaction is to be considered or has been considered at a meeting of directors;

(ii) if the officer becomes interested after a contract is made or a transaction is entered into, forthwith after he becomes so interested; or

(iii) if a person who is interested in a contract or transaction later becomes an officer, forth-with after he becomes an officer.

## 8.4 Time of Disclosure in Extraordinary Cases

Notwithstanding sections 8.2 and 8.3 of this by-law, where section 8.1 of this by-law applies to a director or officer in respect of a material contract or transaction or proposed material contract or transaction that, in the ordinary course of the Corporation's business, would not require approval by the directors or shareholders, the director or officer shall disclose in writing to the Corporation or request to have entered in the minutes or

meetings of directors the nature and extent of his interest forthwith after the director or officer becomes aware of the contract or transaction or proposed contract or transaction.

### 8.5 Voting by Interested Director

A director referred to in section 8.1 of this by-law shall not vote on any resolution to approve the contract or transaction unless the contract or transaction is,

(i) an arrangement by way of security for money lent to or obligations undertaken by him for the benefit of the Corporation or an affiliate;

(ii) one relating primarily to his remuneration as a director, officer, employee or agent of the Corporation or an affiliate;

(iii) one for indemnity or insurance pursuant to the provisions of the Act; or

(iv) one with an affiliate.

### 8.6 Nature of Disclosure

For the purposes of this Article, a general notice to the directors by a director or officer disclosing that he is a director or officer of or has a material

interest in a person and is to be regarded as interested in any contract made or any transaction entered into with that person, is a sufficient disclosure of interest in relation to any contract so made or transaction entered into.

**8.7 Effect of Disclosure**

Where a material contract is made or a material transaction is entered into between the Corporation and a director or officer of the Corporation, or between the Corporation and another person of which a director or officer of the Corporation is a director or officer or in which he has a material interest,

(i) the director or officer is not accountable to the Corporation or its shareholders for any profit or gain realized from the contract or transaction; and

(ii) the contract or transaction is neither void nor voidable, by reason only of that relationship or by reason only that the director is present at or is counted to determine the presence of a quorum at the meeting of directors that authorized the contract or transaction, if the director or officer disclosed his interest in accordance with sections 8.2, 8.3, 8.4 or 8.6 of this by-law, as the case may be, and the contract or transaction was reasonable and fair to the Corporation at the time it was so approved.

## 8.8 Confirmation by Shareholders

Notwithstanding anything in this Article, a director or officer, acting honestly and in good faith, is not accountable to the Corporation or to its shareholders for any profit or gain realized from any such contract or transaction by reason only of his holding the office of director or officer, and the contract or transaction, if it was reasonable and fair to the Corporation at the time it was approved, is not by reason only of the director's or officer's interest therein void or voidable, where,

(i) the contract or transaction is confirmed or approved by special resolution at a meeting of the shareholders duly called for that purpose; and

(ii) the nature and extent of the director's or officer's interest in the contract or transaction are disclosed in reasonable detail in the notice calling the meeting or in the information circular required pursuant to the provisions of the Act.

# Article 9 – Officers

## 9.1 Officers

Subject to the articles, by-laws and any share-holder agreement, the board may, annually or as often as may be required, by resolution appoint a President or Chairman of the Board and a Secretary. In addition, the board may from time to time by resolution appoint such other officers as the board determines to be necessary or advisable in the interests of the Corporation, which officers shall, subject to the Act, have such authority and perform such duties as may from time to time be prescribed by resolution of the board. None of the said officers, other than the Chairman of the Board, need to be a member of the board. Any two or more offices of the Corporation may be held by the same person, except those of President and Vice-President. If the same person holds both the office of the Secretary and the office of Treasurer, he may be known as Secretary-Treasurer.

## 9.2 Appointment of President or Chairman of the Board and Secretary

At the first meeting of the board after each annual meeting of shareholders, the board may appoint a President or Chairman of the Board and a Secretary.

## 9.3 Remuneration and Removal of Officers

The remuneration of all officers shall be determined from time to time by the board. The fact that any officer is a director or shareholder shall not disqualify him from receiving such remuneration as may be so determined. All officers shall be subject to removal by resolution of the board at any time.

## 9.4 Duties of Officers may be Delegated

In case of the absence or inability to act of the Chairman of the Board or the President, or any other officer of the Corporation, or for any other reason that the board may deem sufficient, the board may delegate the powers of such officer to any other officer or to any director for the time being.

## 9.5 Chairman of the Board

The Chairman of the Board shall, if present, preside at all meetings of directors and shareholders. He shall sign all instruments which require his signature and shall perform all duties incident to his office, and shall have such other powers and perform such other duties as may from time to time be prescribed by resolution of the board.

## 9.6 President

The President shall sign all instruments which require his signature and shall perform all duties incident to his office, and shall have such other powers and perform such other duties as may from time to time be prescribed by resolution of the board.

## 9.7 Managing Director

Subject to the Act, articles and by-laws, the directors may appoint from their number a Managing Director who is a resident Canadian, and may delegate to such Managing Director any of the powers of the directors. The Managing Director shall have such other powers and perform such other duties as may from time to time be prescribed by resolution of the board.

## 9.8 General Manager

The General Manager shall have such authority to manage the business of the Corporation and perform such duties as may from time to time be prescribed by resolution of the board.

## 9.9 Vice President

During the President's absence or inability or refusal to act, the President's duties may be performed and his powers may be exercised

by the Vice-President, or if there are more than one, by the Vice Presidents in order of seniority or designation (as determined by the board), except that no Vice-President shall preside at a meeting of the board unless he is a director. A Vice-President shall also have such other authority and perform such other duties as may from time to time be prescribed by resolution of the board.

## 9.10 Secretary

The Secretary shall give, or cause to be given, all notices required to be given to shareholders, directors, auditors and members of any committee. He shall enter or cause to be entered in the books kept for that purpose minutes of all proceedings at meetings of directors and of shareholders. He shall be the custodian of the seal (if any) of the Corporation and of all books, papers, records, documents and other instruments belonging to the Corporation. The Secretary shall have such other authority and perform such other duties as may from time to time be prescribed by resolution of the board.

## 9.11 Treasurer

The Treasurer shall have the care and custody of all the funds and securities of the Corporation and shall deposit the same in the name of the Corporation in such bank or banks or with such depositary or depositaries as the board may by resolution direct. He shall at all reasonable times exhibit his books and accounts to any director upon application at the office

of the Corporation during business hours. He shall sign or countersign such instruments as require his signature and shall perform all duties incident to his office or that are properly required of him by resolution of the board. He may be required to give such bond for the faithful performance of his duties as the board in its uncontrolled discretion may require but no director shall be liable for failure to require any bond or for the insufficiency of any bond or for any loss by reason of the failure of the Corporation to receive any indemnity thereby provided. The Treasurer shall also have such other authority and perform such other duties as may from time to time be prescribed by resolution of the board.

### 9.12 Assistant Secretary and Assistant Treasurer

(a) During the Secretary's absence or inability or refusal to act, the Assistant Secretary shall perform all the duties of the Secretary. The Assistant Secretary shall also have such other authority and perform such other duties as may from time to time be prescribed by resolution of the board.

(b) During the Treasurer's absence or inability or refusal to act, the Assistant Treasurer shall perform all the duties of the Treasurer. The Assistant Treasurer shall also have such other authority and perform such other duties as may from time to time be prescribed by resolution of the board.

## 9.13 Delegation of Board Powers

In accordance with the by-laws and subject to the provisions of the Act, the board may from time to time by resolution delegate to any officer or officers power to manage the business and affairs of the Corporation.

## 9.14 Vacancies

If any office of the Corporation shall for any reason be or become vacant, the directors by resolution may appoint a person to fill such vacancy.

## 9.15 Variation of Powers and Duties

Notwithstanding the foregoing, the board may from time to time and subject to the provisions of the Act, add to or limit the powers and duties of an office or of an officer occupying any office.

## 9.16 Chief Executive Officer

(a) The board may by resolution designate any one of the officers (including the Chairman of the Board, if any) as the Chief Executive Officer of the Corporation and may from time to time by resolution rescind any such designation and designate another officer as the Chief Executive Officer of the Corporation.

(b) The officer designated as the Chief Executive Officer of the Corporation pursuant to subsection (a) of this section shall exercise general supervision over the affairs of the Corporation.

# Article 10 – Meetings of Shareholders

## 10.1 Calling of Meetings

A meeting of shareholders may be called at any time by resolution of the board or by the Chairman of the Board or by the President, and the Secretary shall cause notice of a meeting of shareholders to be given when directed so to do by resolution of the board or by the Chairman of the Board or by the President.

## 10. 2 Annual Meeting

Subject to the provisions of the Act, the Corporation shall hold an annual meeting of shareholders not later than eighteen (18) months after the Corporation comes into existence and subsequently not later than fifteen (15) months after holding the last preceding annual meeting for the purpose of considering the financial statements and the auditor's report, electing directors and appointing auditors.

## 10.3 Special Meeting

Subject to the provisions of the Act, a special meeting of shareholders may be called at any time and may be held in conjunction with an annual meeting of shareholders.

## 10.4 Place of Meetings

Subject to the articles and any shareholder agreement, a meeting of shareholders shall be held at such place in or outside Ontario as the directors determine or, in the absence of such a determination, at the place where the registered office of the Corporation is located.

## 10.5 Notice

Notice of the time and place of each meeting of shareholders shall be given in the manner provided in section 15.1 in this by-law, in the case of an offering Corporation, not less than twenty-one (21) days, and in the case of any other corporation, not less than ten (10) days, but, in either case, not more than fifty (50) days, before the date of the meeting to each director, to the auditor and to each shareholder entitled to vote at such meeting. A notice of a meeting is not required to be sent to shareholders who were not registered on

the records of the Corporation or its transfer agent on the record date determined under subsection 10.9(a) of this by-law but failure to receive a notice does not deprive a shareholder of the right to vote at the meeting.

**10.6 Contents of Notice**

The notice of a meeting of shareholders shall state the day, hour and place of the meeting, and shall state or be accompanied by a statement of

(i) the nature of any special business to be transacted at the meeting in sufficient detail to permit a shareholder to form a reasoned judgment thereon, and

(ii) the text of any special resolution or by-law to be submitted to the meeting.

For the purposes of this section "special business" includes all business transacted at a special meeting of shareholders and all business transacted at an annual meeting of shareholders, except consideration of the minutes of an earlier meeting, the financial statements and auditor's report, election of directors and reappointment of the incumbent auditor.

**10.7 Waiver of Notice**

A shareholder and any other person entitled to attend a meeting of shareholders may in any

manner and at any time waive notice of a meeting of shareholders, and attendance of any such person at a meeting of shareholders is a waiver of notice of the meeting, except where he attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

**10.8 Notice of Adjourned Meetings**

(a) If a meeting of shareholders is adjourned for less than thirty (30) days, it is not necessary to give notice of the adjourned meeting other than by announcement at the earliest meeting that is adjourned.

(b) If a meeting of shareholders is adjourned by one or more adjournments for an aggregate of thirty (30) days or more, notice of the adjourned meeting shall be given as for an original meeting.

**10.9 Record Date for Notice**

(a) The directors may by resolution fix in advance a time and date as the record date for the determination of the shareholders entitled to receive notice of a meeting of the shareholders, which record date shall not precede by more than fifty (50) days or

by less than twenty-one (21) days on the date on which the meeting is to be held. Where no such record date for the determination of the shareholders entitled to notice of a meeting of the shareholders is fixed by the directors as aforesaid, such record date shall be,

(i) at the close of business on the day immediately preceding the day on which notice of such meeting is given, or

(ii) if no notice is given, the day on which the meeting is held;

(b) If a record date is fixed pursuant to subsection (a) of this section, unless notice of the record date is waived in writing by every holder of a share of the class or series affected whose name is set out in the securities register at the close of business on the day the directors fix the record date, notice thereof shall be given, not less than seven days before the date so fixed, in accordance with section 13.3 hereof.

**10.10 Omission of Notice**

Subject to the provisions of the Act, the accidental omission to give notice of any meeting of share-holders to any person entitled thereto or the non-

receipt of any notice by any such person shall invalidate any resolution passed or any proceedings taken at any meeting of shareholders.

**10.11 List of Shareholders**

(a) The Corporation shall prepare a list of shareholders entitled to receive notice of a meeting, arranged in alphabetical order and showing the number of shares held by each shareholder, which list shall be prepared,

(i) if a record date is fixed under subsection 10.9(a) of this by-law not later than ten days after such record date; or

(ii) if no record date is fixed,

(A) a the close of business on the day immediately preceding the day on which notice is given, or

(B) where no notice is given, on the day on which the meeting is held.

(b) A shareholder may examine the list of shareholders,

(i) during unusual business hours at the registered office of the

Corporation or at the place where its central securities register is maintained, and

(ii) at the meeting of shareholders for which the list was prepared.

**10.12 Shareholders Entitled to Vote**

(a) Where the Corporation fixes a record date under subsection 10.9(a) of this by-law, a person named in the list prepared under section 10.11 of this by-law is entitled to vote the shares shown opposite his name at the meeting to which the list relates, except to the extent that,

(i) the person has transferred any of his shares after the record date; and

(ii) the transferee of those shares,

(A) produces properly endorsed share certificates, or

(B) otherwise establishes that he owns the shares,

and demands, not later than ten days before the meeting, or such shorter period before the meeting as the by-laws of the Corporation may provide, that his name be

included in the list before the meeting, in which case the transferee is entitled to vote such shares at the meeting.

(b) Where the Corporation does not fix a record date under subsection 10.9(a) of this by-law a person named in the list prepared under section 10.11 entitled to vote the shares shown opposite his name at the meeting to which the list relates, except to the extent that,

(i) The person has transferred any of his shares after the date on which the list referred to in section 10.11 of this by-law is prepared; and

(ii) the transferee of those shares,

(A) produces properly endorsed share certificates, or

(B) otherwise establishes that he owns the shares,

and demands not later than ten days before the meeting, or such shorter period before the meeting as the by-laws of the Corporation may provide, that his name be included in the list before the meeting, in which case the transferee is entitled to vote such shares at the meeting.

## 10.13 Persons Entitled to be Present

The only persons entitled to attend a meeting of shareholders shall be those entitled to vote there-at and the President, Secretary, the directors, the scrutineer or scrutineers and the auditor and others who, although not entitled to vote, are entitled or required under any provision of the Act or the articles or the by-laws to be present at the meeting. Any other person may be admitted only on the invitation of the chairman of the meeting or with the consent of the meeting.

## 10.14 Proxies

(a) Every shareholder entitled to vote at a meeting of shareholders may by means of a proxy appoint a proxyholder, or one or more alternate proxyholders, who need not be shareholders, as his nominee to attend and act at the meeting in the manner, to the extent and with the authority conferred by proxy.

(b) A proxy shall be executed by the share-holder or his attorney authorized in writing or, if the shareholder is a body corporate, by an officer or attorney thereof duly authorized and shall conform with the requirements of the Act.

## 10.15 Revocation of Proxies

A shareholder may revoke a proxy

(i) by depositing an instrument in writing executed by him or by his attorney authorized in writing,

(A) at the registered office of the Corporation at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or

(B) with the chairman of the meeting on the day of the meeting or an adjournment thereof; or

(ii) in any other manner permitted by law.

## 10.16 Deposit of Proxies

The directors may by resolution fix a time not exceeding forty-eight (48) hours, excluding Saturdays and holidays, preceding any meeting

or adjourned meetings of shareholders before which time proxies to be used at that meeting must be deposited with the Corporation or an agent thereof, and any period of time so fixed shall be specified in the notice calling the meeting.

**10.17 Joint Shareholders**

Where two (2) or more persons hold shares jointly, one of those holders present at a meeting of shareholders may in the absence of the others vote the shares, but if two (2) or more of those persons are present, in person or by proxy, they shall vote as one of the shares jointly held by them.

**10.18 Chairman and Secretary**

(a) The chairman of any meeting of shareholders shall be the first mentioned of such of the following officers as have been appointed and who is present at the meeting: Chairman of the Board, President, Managing Director or, in the absence of the aforesaid officers, a Vice-President who is a director. If there is no such officer or if at a meeting none of them is present within fifteen (15) minutes after the time appointed for the holding of the meeting the shareholders present shall choose a person from their number to be the chairman.

(b) The Secretary shall be the secretary of any meeting of shareholders, but if the Secretary is absent, the chairman shall appoint some person who need not be a shareholder to act as secretary of the meeting.

**10.19 Scrutineers**

The chairman of any meeting of shareholders may appoint one or more persons to act as scrutineers at such meeting and in the capacity to report to the chairman such information as to attendance, representation, voting and other matters at the meeting as the chairman shall direct.

**10.20 Votes to Govern**

At all meetings of shareholders every question shall, unless otherwise required by law, the articles, the by-laws, or a shareholder agreement, be determined by the majority of the votes duly cast on the question. In case of an equality of votes, the chairman presiding at the meeting shall not have a second or casting vote in addition to the vote or votes to which he may be entitled as a shareholder.

## 10.21 Show of Hands

At all meetings of shareholders, every question submitted to the meeting shall be decided by a show of hands unless a ballot thereon is required by the chairman or is demanded by a shareholder or proxyholder present and entitled to vote. Upon a show of hands every person present who is either a shareholder entitled to vote or the duly appointed proxyholder of such a shareholder shall have one vote. Before or after a vote by a show of hands has been taken upon any question, the chairman may require, or any shareholder or proxyholder present and entitled to vote may demand, a ballot thereon. Unless a ballot is demanded, an entry in the minutes of a meeting of shareholders to the effect that the chairman declared a motion to be carried is admissible in evidence as prima facie proof of the fact without proof of the number of proportion of the votes recorded in favour of or against the motion.

## 10.22 Ballots

If a ballot is required by the chairman of the meeting or is duly demanded by any shareholder or proxyholder and the demand is not withdrawn, a ballot upon the question shall be taken in such manner and at such time as the chairman of the meeting shall direct.

### 10.23 Votes on Ballots

Unless the articles otherwise provide, upon a ballot each shareholder who is present in person or represented by proxy shall be entitled to one vote for each share in respect of which he is entitled to vote at the meeting and the result of the ballot shall be the decision of the meeting.

### 10.24 Adjournment

The chairman presiding at a meeting of shareholders may, with the consent of the meeting and subject to such conditions as the meeting decides, adjourn the meeting from time to time and from place to place and, subject to the provisions of the Act and subsection 10.8(b) of this by-law no notice of such adjournment or of the adjourned meeting need to be given to the shareholders. Subject to the provisions of the Act, any business may be brought before or dealt with at any adjourned meeting which might have been brought before or dealt with at the original meeting in accordance with the notice calling such meeting.

### 10.25 Quorum

At any meeting of shareholders, two (2) individuals present in person, each of whom is either a shareholder entitled to attend and vote at such meeting or the proxyholder of such a shareholder appointed by means of a valid proxy, shall be a quorum for

the choice of a chairman (if required) and for the adjournment of the meeting. For all other purposes a quorum for any meeting of shareholders (unless a greater number of shareholders and/or a greater number of shares are required by the Act or by the articles or the by-laws) shall be two (2) individuals present in person, each of whom is either a shareholder entitled to attend and vote at such meeting or the proxyholder of such a share-holder appointed by means of a valid proxy, holding or representing by proxy not less than 51% of the total number of issued shares of the Corporation for the time being enjoying voting rights at such meeting. No business shall be transacted at any meeting of shareholders while the requisite quorum is not present.

### 10.26 Only One Shareholder

Where the Corporation has only one shareholder, or only one holder of any class or series of shares, that shareholder present in person or by proxy constitutes a meeting.

## Article 11 – Shares and Transfers

### 11.1 Issuance

Subject to the provisions of the Act, the articles and any shareholder agreement, shares of the Corporation may be issued at such time and to such persons and

for such consideration as the directors may by resolution determine, but no share shall be issued until it is fully paid in money or in property or past service that is not less in value than the fair equivalent of the money that the Corporation would have received if the share had been issued for money.

## 11.2 Commissions

The directors may from time to time authorize the Corporation to pay a reasonable commission to any persons in consideration of his purchasing or agreeing to purchase shares of the Corporation from the Corporation or from any other person, or procuring or agreeing to procure purchasers for any such shares.

## 11.3 Lien on Shares

Subject to the provisions of the Act, the Corporation has a lien on a share registered in the name of a shareholder or his legal representative for a debt of that shareholder to the Corporation. Such lien may be enforced by the Corporation in any manner permitted by law.

## 11.4 Share Certificates

(a) Every shareholder is entitled at his option to a share certificate or to a non-transferable written acknowledgement of his right to obtain a share certificate or to a non-transferable written acknowledgement of his right to obtain a share certificate from the Corporation, stating the number and class of shares and the designation of any series of shares held by him.

(b) Share certificates and acknowledgements of a shareholder's right to a share certificate, respectively, shall (subject to compliance with the provisions of the Act) be in such form as the directors may from time to time by resolution approve and, unless otherwise provided by resolution of the board, such certificates and acknowledgements may be signed by

(i) the Chairman of the Board, the President or Vice-President, and

(ii) the Secretary or an Assistant Secretary holding office at the time of signing,

and notwithstanding any change in the persons holding such offices between the time of actual signing and the issuance of any certificate or acknowledgement and notwithstanding that the Chairman of the Board, the President, Vice-President, Secretary or Assistant Secretary signing may not have held office at the date of issuance of such certificate or acknowledgement, any such certificate or acknowledgement so signed shall be valid and binding upon the Corporation.

(c) Notwithstanding the provisions of section 2.4 of this by-law, the signature of the Chairman of the Board, the President or a Vice-President may be printed, engraved, lithographed or otherwise mechanically reproduced upon certificates and acknowledgements for shares of the Corporation, and certificates and acknowledgements so signed shall be deemed to have been manually signed by the Chairman of the Board, the President or a Vice-President whose signature is so printed, engraved, lithographed or otherwise mechanically reproduced thereon and shall be as valid as if they had been signed manually. Where the Corporation has appointed a transfer agent pursuant to subsection 11.5(a) of this by-law the signature of the Secretary or Assistant Secretary may also be printed, engraved,

lithographed or otherwise mechanically reproduced, and when countersigned by or on behalf of a transfer agent, share certificates and acknowledgements so signed shall be as valid as if they had been signed manually.

## 11.5 Transfer Agent

(a) For each class of securities and warrants issued by it, the Corporation may, from time to time, appoint or remove

(i) a trustee, transfer agent or other agent to keep the securities register and the register or transfers and one or more persons or agents to keep branch registers; and

(ii) a registrar, trustee or agent to maintain a record of issued security certificates and warrants;

## 11.6 Transfer of Shares

Subject to the restrictions on transfer set forth in the articles, shares of the Corporation shall be transferable on the books of the Corporation in accordance with the applicable provisions of the Act.

## 11.7 Defaced, Destroyed, Stolen or Lost Certificates

Where the owner of a share or shares of the Corporation claims that the certificate for such share or shares has been lost, apparently destroyed or wrongfully taken, the Corporation shall issue a new share certificate in place of the original share certificate if such owner

(i) so requests before the Corporation has notice that shares represented by the original certificate have been acquired by a bona fide purchaser;

(ii) files with the Corporation an indemnity bond sufficient in the Corporation's opinion to protect the Corporation and any transfer agent from any loss that it or any of them may suffer by complying with the request to issue a new share certificate; and

(iii) satisfies any other reasonable requirements imposed by the Corporation.

## 11.8 Joint Shareholders

If two (2) or more persons are registered as joint holders of any share or shares, the Corporation is not bound to issue more than one share certificate in respect thereof and delivery of a share certificate to one of such persons is sufficient delivery to all of them.

## 11.9 Deceased Shareholders

In the event of the death of a holder, or of one of the joint holders, of any share, the Corporation shall not be required to make any entry in the securities register or register of transfers in respect thereof or to make payment of any dividends thereon except upon production of all such documents as may be required by law and upon compliance with the reasonable requirements of the Corporation or any of its transfer agents.

# Article 12 – Dividends

## 12.1 Declaration of Dividends

Subject to the provisions of the Act and the articles, the board may from time to time declare and the Corporation may pay dividends to the shareholders according to their respective rights and interests in the Corporation. Dividends may be paid in money or property or by issuing fully paid shares of the Corporation or options or rights to acquire fully paid shares of the Corporation.

## 12.2 Joint Shareholders

(a) In case several persons are registered as joint holders of any share or shares of the Corporation, the cheque for any dividend payable to such joint holders shall, unless such joint holders otherwise direct, be made payable to the order of all such joint holders and if more than one address appears on the books of the Corporation in respect of such joint holding the cheque shall be mailed to the first address so appearing.

(b) In case several persons are registered as the joint holders of any share or shares of the Corporation, any one of such persons may give effectual receipts for all dividends and payments on account of dividends on such shares and/or payments in respect of the redemption of such shares.

# Article 13 – Record Dates

## 13.1 Fixing Record Dates

For the purpose of determining shareholders

(i) entitled to receive payment of a dividend;

(ii) entitled to participate in a liquidation or distribution; or

(iii) for any other purpose except the right to receive notice of or to vote at a meeting,

the directors may fix in advance a date as the record date for such determination of shareholders, but such record date shall not precede by more than fifty (50) days the particular action to be taken.

## 13.2 No Record Date Fixed

If no record date is fixed pursuant to section 13.1 hereof, the record date for the determination of shareholders for any purpose other than to establish a shareholder's right to receive notice of a meeting or to vote shall be at the close of business on the day on which the directors pass the resolution relating thereto.

## 13.3 Notice of Record Date

If a record date is fixed, unless notice of the record date is waived in writing by every holder of a share of the class or series affected whose name is set out in the securities register at the close of business on the day the directors fix the record date, notice thereof shall be given, not less than seven days before the date so fixed,

(i) By advertisement in a newspaper published or distributed in the place where the Corporation has its registered office and in each place in Canada where it has a transfer agent or where a transfer of its shares may be recorded; and

(ii) By written notice to each stock exchange in Canada on which the shares of the Corporation are listed for trading.

## 13.4 Effect of Record Date

In every case where a record date is fixed pursuant to section 13.1 hereof in respect of the payment of a dividend, the making of a liquidation distribution or the issue or warrants or other rights to subscribe for shares or other securities, only shareholders of record at the record date shall be entitled to receive such dividend, liquidation distribution, warrants or other rights.

# Article 14 – Corporate Records and Information

## 14.1 Keeping of Corporate Records

(a) The Corporation shall prepare and maintain, at its registered office or at such other place in Ontario designated by the directors:

(i) the articles and by-laws and all amendments thereto, and a copy of any shareholder agreement known to the directors,

(ii) minutes of meetings and resolutions of shareholders;

(iii) a register of directors in which are set out the names and residence addresses, while directors, including the street and number, if any, of all persons who are or have been directors with several dates on which each became or ceased to be a director;

(iv) a securities register in which are recorded the securities issued by the Corporation in registered form,

showing with respect to each class or series of securities

(A) the names, alphabetically arranged, of persons who,

(1) are or have been within six years registered as shareholders and the address including the street and number, if any, of every such person while a holder, and the number and class of shares registered in the name of such holder,

(2) are or have been within six years registered as holders of debt obligations of the Corporation and the address including the street and number, if any, of every such person while a holder, and the class or series and principal amount of the debt obligations registered in the name of such holder, or

(3) are or have been within six years registered as holders of warrants of the Corporation, other than warrants exercisable within one year from the date of issue and the address including the street and number, if any, of every such person while a registered holder, and the class or series and number of warrants registered in the name of such holder, and

(B) the date and particulars of the issue of each security and warrant.

(b) In addition to the records described in subsection (a) of this section, the Corporation shall prepare and maintain adequate accounting records and records containing minutes of meetings and resolutions of the directors and any committee. The records described in this subsection shall be kept at the registered office of the Corporation or at such other place in Ontario as designated by the directors and shall be open to examination by any director during normal business hours of the Corporation.

(c) The Corporation shall also cause to be kept a register of transfers in which all transfers of securities issued by the Corporation in registered form and the date and other particulars of each transfer shall be set out.

**14.2 Access to Corporate Records**

Shareholders and creditors of the Corporation and their agents and legal representatives may examine the records referred to in subsection 14.1(a) of this by-law during the usual business hours of the Corporation and may take extracts

therefrom, free of charge. If the Corporation is an offering corporation, any other person may examine such records during the usual business hours of the Corporation and may take extracts therefrom upon payment of a reasonable fee.

## 14.3 Copies of Certain Corporate Records

A shareholder is entitled upon request and without charge to one copy of the articles and by-laws and of any shareholder agreement.

## 14.4 Report to Shareholders

A copy of the financial statements of the Corporation, a copy of the auditor's report, if any, to the shareholders and a copy of any further information respecting the financial position of the Corporation and the results of its operations required by the articles, the by-laws or any shareholder agreement which are to be placed before an annual meeting of shareholders pursuant to the Act shall be sent to each shareholder not less than ten (10) days before such annual meeting of shareholders (or, if the Corporation is an offering Corporation, not less than twenty-one (21) days) or before the signing of a resolution in accordance with the Act in lieu of such annual meeting, except to a shareholder who has informed the Corporation in writing that he does not wish to receive a copy of those documents.

### 14.5 Conditions for Inspection

The board may from time to time by resolution determine whether and to what extent and at what times and place and under what conditions or regulations the accounts and books of the Corporation or any of them shall be open to the inspection of shareholders, and no shareholder shall have any right to inspect any account or book or document of the Corporation, except as specifically provided for in this Article or as otherwise provided for by statute or as authorized by resolution of the board.

## Article 15 – Notices

### 15.1 Method of Giving

Any notice, communication or other document to be sent or given by the Corporation to a shareholder, director, officer, or auditor of the Corporation under any provision of the Act, the articles or by-laws shall be sufficiently sent and given if delivered personally to the person to whom it is to be given or if delivered to his last address as shown in the records of the Corporation or its transfer agent or if mailed by prepaid ordinary mail or air mail in a sealed envelope addressed to him at his last address as shown on the records of the Corporation or its transfer agent or if sent by any means of

wire or wireless or any other form of transmitted or recorded communication. The Secretary may change the address on the records of the Corporation of any shareholder in accordance with any information believed by him to be reliable. A notice, communication or document so delivered shall be deemed to have been sent and given when it is delivered personally or delivered at the address aforesaid. A notice, communication or document so mailed shall be deemed to have been sent and given on the day it is deposited in a post office or public letter box and shall be deemed to be received by the addressee on the fifth day after such mailing. A notice sent by any means of wire or wireless or any other form of transmitted or recorded communication shall be deemed to have been given when delivered to the appropriate communication corporation or agency or its representative for dispatch.

## 15.2 Shares Registered in More Than One Name

All notices or other documents with respect to any shares of the Corporation registered in the names of two or more persons as joint shareholders shall be addressed to all of such persons and sent to the address or addresses for such persons as shown in the records of the Corporation or its transfer agent but notice to one of such persons shall be sufficient notice to all of them.

### 15.3 Persons Becoming Entitled by Operation of Law

Subject to the provisions of the Act, every person who by operation of law, transfer or by any other means whatsoever shall become entitled to any share or shares of the Corporation shall be bound by every notice or other document in respect of such shares or shares which previous to his name and address being entered on the records of the Corporation shall be duly given to the person or persons from whom he derives his title to such share or shares.

### 15.4 Deceased Shareholder

Any notice or document delivered or sent by mail or left at the address of any shareholder as such address appears on the records of the Corporation shall, notwithstanding that such shareholder is then deceased and whether or not the Corporation has notice of his death, be deemed to have been duly given or served in respect of the shares whether held solely or jointly with other persons by such shareholder until some other person is entered in his stead on the records of the Corporation as the holder or one of the joint holders thereof and such service of such notice shall for all purposes be deemed a sufficient service of such notice or document on his heirs, executors or administrators and on all persons, if any, interested with him in such shares.

## 15.5 Signature to Notice

The signature, if any, to any notice to be given by the Corporation may be written, stamped, typewritten, printed or otherwise mechanically reproduced in whole or in part.

# Article 16 – Repeal of Former By-Laws

## 16.1 Repeal of By-law No. 1

By-law No. 1 of the Corporation, dated September 14, 2000, as amended on May 2, 2005 and on November 14, 2006, is repealed as of the coming into force of this By-law. The repeal shall not affect the previous operation of any by-law so repealed or affect the validity of any act done or right, privilege, obligation or liability acquired or incurred under, or the validity of any contract or agreement made pursuant to, or the validity of any articles (as defined in the Act) or predecessor charter documents of the Corporation obtained pursuant to, any such by-law before its repeal. All officers and persons acting under any by-law so repealed shall continue to act as if appointed under the provisions of this by-law and all resolutions of the shareholders or the board or a committee of the board with continuing effect passed under any repealed by-law shall continue to be good and valid except to the extent inconsistent with this by-law and until amended or repealed.

PASSED AND MADE this 19th day of December, 2007.

Anne Marie DeCicco-Best, Mayor

Kevin Bain, City Clerk

# Acronyms

**AMI** - Advanced Meter Infrastructure

**AMR** - Automated Meter Reading

**AMS** - Application Maintenance Support

**CAE** - Capacity Allocation Exempt

**CAIDI** - Customer Average Interruption Duration Index

**CCRA** - Connection and Cost Recovery Agreement

**CDM** - Conservation and Demand Management

**E & O** - Engineering and Operations

**ERIP** - Electricity Retrofit Incentive Program

**ERM** - Enterprise Risk Management

**ESA** - Electrical Safety Authority

**ETR** - Estimated Time of Restoration

**FMV** - Fair Market Value

**GAAP -** Generally Accepted Accounting Principles

**GIS** - Geographic Information System

**IESO** - Independent Electricity System Operator

**IFRS** - International Financial Reporting Standards

**IHSA** - Infrastructure Health and Safety Association

**ITS** - Information Technology Services

**LEAP** - Low-income Energy Assistance Program

**LOI** - Letter of Intent

**MC** - Measurement Canada

**MDUS** - Meter Data Unification and Synchronization

**MDM/R** - Meter Data Management and Repository

**OEB** - Ontario Energy Board

**OCEB** - Ontario Clean Energy Benefit

**OM&A** - Operation, Maintenance & Administration

**OMS** - Outage Mapping System

**ODS** - Operational Data Storage

**OPA** - Ontario Power Authority

**PILC** - Paper Insulated Lead Cable

**PSB** - Power Savings Blitz

**RNI** - Regional Network Interface

**RIS** - Read Interval Success

**RPP** - Regulated Price Plan

**SAIDI** - System Average Interruption Duration Index

**SAIFI** - System Average Interruption Frequency Index

**SSSC** - Standard Supply Service Code

**SME** - Smart Metering Entity

**TGB** - Tower Gateway Base

**ToU** - Time-of-Use


London
Hydro

# Glossary of Industry Terms

**Actuals** - The actual commodities or physical cash commodities, as opposed to futures contracts or derivatives. Also called spot commodities or cash commodities.

**Adequate Regulating Margin** - The minimum on-line capacity of a system that can be adjusted instantly to handle changes in electricity use.

**Advanced Metering** – Meters and communications hardware capable of recording energy or water usage either in real-time or other time-measured increments, such as every 15 minutes, and able to transmit data two-way on demand or in predefined schedules. Advanced Metering can refer to solid-state meters pre-equipped with a two-way AMR device or older meters with an advanced metering device retrofitted on them, thus providing the same two-way capabilities.

**Advanced Metering Infrastructure (AMI)** – This is a term that emerged out of California when the state began its ongoing metering initiatives several years ago and has since spread throughout the industry. AMI includes the communications hardware and software, advanced meters and all data management systems necessary to store, validate and transmit the vast amount of data that will be collected via a true advanced metering system.

**Affiliate Transactions** - Selling and trading between companies, one of which owns a controlling or influential share of the other(s) or all of which are being controlled by the same parent company.

**Affiliated Power Marketing Companies** - Power marketers that are more than 5 to 10 percent owned by an electric utility or independent power producer.

**Aggregator** - See Marketer

**Alternating Current (AC)** - Electric current that reverses direction at regularly recurring intervals of time (such as 50 cycles per second), known as the frequency. AC can easily be converted to higher or lower voltages. (See also Direct Current.)

**Ampere (amp)** - A unit of measure that tells how much electricity flows through a conductor. Amps = watts divided by volts. On a 120-volt system, 12, 100-watt bulbs draw 10 amps of electric current.

**Ancillary Services** - Also known as Interconnected Operations Services, these are the services necessary for the transfer of electricity between purchasing and selling parties.

**Available Margin** - The difference between the demand for electricity and the electricity a utility has available. Expressed as a percent, it's the capacity available to cover demand in the case of random events, such as forced outages, demand forecast errors, weather extremes and slippage in capacity service schedules. Also known as Capacity Margin.

**Avoided Cost** - Money a utility saves by purchasing power from another company instead of producing the power itself. Such costs include reduced capacity requirements, fuel costs, lower line costs, etc.

**Base Load** - The minimum amount of electric power delivered or required over a given period, at a constant rate.

**Base Load Plant** - A plant operated to take all or part of the minimum continuous load of a system and which produces electricity at an essentially constant rate. These plants are operated to maximize system mechanical and thermal efficiency and minimize operating costs. For accounting types only; these plants typically have high fixed costs and low unit operating costs.

**Best Efforts Service** - A service level offered to customers that includes the possibility that service might be interrupted on short notice, particularly during peak load periods.

**Billing Demand** - What a customer pays to reserve capacity or facilities used, regardless of the customer's actual consumption. Billing demand may vary from actual demand during a given billing period since it can be based on a contract maximum, minimum or previous peak demand. It is also known as Ratchet or Ratcheted Demand Charge.

**Blackstart Capability** - The ability of a generating unit to start up without assistance from an outside electric system.

**Brownout** - A reduction in the voltage of power supplied to customers resulting from insufficient supply of power to match demand.

**Bulk Power Transmission** - The transport of a large amount of electricity at high voltages, usually from one utility to another, through high-voltage lines (generally 100 kV and above).

**Bundling** - Billing for a group of services, such as generation, transmission and distribution of electricity in a single fee.

**Bundled Resales** - A package deal for wholesale natural gas or electricity that includes all transportation and storage costs, as well as the first-sale price of the commodity. Sometimes called Bundled Sales Service.

**Bypass** - Direct sales by producers, pipelines or marketers to end-users, thus eliminating services and costs associated with utilities or local distribution companies (LDCs).

**Capacity Charge** - see Demand Charge

**Capacity Margin** - Excess electric generating capacity, beyond planned peak system demand. Reserve Capacity Margin is reserved for emergencies and generally specified by NERC standards.

**Captive Customer** - A customer, generally a residential or small business customer, who can purchase natural gas or electricity from only one supplier.

**Cogeneration** - Using heat (steam) that is produced in a natural gas-fired power plant, to produce even more electricity or heating. In essence, cogeneration produces energy (electricity or heat) from two sources. While electric production may be somewhat less, more energy from the fuel reaches users (as steam or electricity) than is the case with a boiler or turbine designed to produce only electricity.

**Combined Cycle** - a process in a power plant that produces steam from otherwise lost heat. This heat is routed to a conventional boiler or heat-recovery system generator for use by a steam turbine to produce additional electricity.

**Combined Pumped-Storage Plant** - a generating plant that uses a combination of stream-flow and pumped water to generate electricity.

**Conservation** - Reducing the amount of energy consumed by a customer for a specific end-use. Behaviour changes, such as thermostat set back, are included in this definition. Changing the timing of energy use, switching to other fuel sources and increasing off-peak usage are not included in this definition, even though these actions may make more efficient use of generation or distribution facilities.

**Contingency Reserve** - Operating reserve that allows a generating facility to reduce control area error to zero within 10 minutes after the loss of generating capacity. A control area is an IMO controlled service territory.

**Continuous Rating** - The amount of electricity that a system, facility or element can support or withstand indefinitely without "burning up".

**Contract Demand** - The maximum amount of service that a party agrees to furnish over a given time (daily, monthly or annually) and for which a buyer agrees to pay a set charge.

**Control Area** - An IMO controlled service area.

**Core Market** - A group of customers who have no choice but to buy electricity or natural gas or both from a local supplier. Also called regulated Market because prices are set by regulators, not by competition.

**Cross-Subsidization** - The practice of charging higher rates to one class of customer in order to lower the rates of another class. Also, transferring assets or services from a regulated business to the business of a company's unregulated affiliate. As used most commonly in the media, a cross subsidy means the ratepayers are paying for a non-regulated activity.

**Curtailability** - In a curtailable interruptible electric service program, the customer agrees to pledge a minimum amount of electricity that can be curtailed (interrupted or withheld) by the utility during emergencies, generally in exchange for a lower rate, known as an interruptible rate.

**Decommissioning Sinking Fund** - Money set aside to fund the permanent shutdown of a nuclear power plant.

**Demand Charge** - A charge designed to recover costs associated with a given level of electric demand. It is paid even if no service is taken by the customer. The demand charge generally includes all costs associated with operating and maintaining a utility's generation, transmission and distribution systems.

**Demand-Side Management** - Any effort aimed at getting customers to use less electricity during peak demand periods. It includes conservation efforts such as high-efficiency lighting, home insulation and lighting design, and incentives for replacing inefficient heating and cooling systems. Load control may include incentives to use less electricity as well as enabling the utility to turn a customer's heating and cooling units off or on by remote control.

**Derating** - Running a generator below the manufacturer's rating, which means you could damage or destroy the unit.

**Deregulation** - To halt or reduce government regulations.

**Direct Current (DC)** - Electric current that flows in one direction, remaining as close to constant "magnitude", or a certain flow, as possible.

**Dispatching** - Assigning generating and transmission of electricity through a system to assure coordinated operation. Also, sequencing the order in which generating resources are called upon to generate power to serve fluctuating loads at the most effective cost.

**Distributed Generation** - Any technology that provides electricity closer to an end-user's site. It may involve a small on-site generating plant or fuel cell technology.

**Distribution** - The systems that ultimately bring energy to the end user. Electric distribution refers to the system of power lines, transformers, and switches.

**Electric System Losses** - The total electric energy losses in an electric system between supply sources and delivery points. Loss occurs in transmission and distribution, primarily in the form of heat.

**Electrical and Utilities Safety Association (E&USA)** -A health and safety association, E&USA training programs help workers in the energy industry to recognize hazards as well as implement safe work practices. They have been researched and developed by industry professionals and are conducted by professional training consultants.

**Electrical Safety Authority (ESA)** - The Electrical Safety Authority (ESA) is a stand-alone, financially self-sustaining not-for-profit corporation operating as an Administrative Authority under the Electricity Act 1998 and an Administrative Agreement with the Ministry of Government Services. ESA is responsible for public electrical safety in Ontario as designated by Ontario Regulation 89/99.

**Embedded Costs** - The cost of all the facilities in an electric supply system. Also called sunken costs, because the money cannot be recovered.

**Emergency Rating** - The rating, defined by the equipment owner, that specifies the level of electrical leading that a system, facility or element can support or withstand for a finite period. It assumes acceptable loss of equipment life or other physical or safety limitations for the equipment involved.

**Emergency Voltage Limits** - The operating voltage range on interconnected systems that is acceptable for a limited time while system adjustments are being made following a facility outage or system disturbance.

**Enabling Agreement** - The agreement that details the general terms and conditions for the purchase or sale of electricity, but does not include the specific details or obligations of either the seller or the buyer.

**End User** - The homeowner, a business, plant or other type of consumer of electricity.

**Equilibrium Price** - The price that prevails in a particular market when supply and demand are equal.

**Equity Financing** - Raising money by issuing shares of stock.

**Exchange** - an organized trading arena where commodities or securities are bought and sold.

**Exempt Wholesale Generators (EWGs)** - Independent power plants that generate electricity for sale on a wholesale basis vs. a more exempt generator that generates electricity for assigned or "regulated" customers. They can be owned by utilities, utility holding companies, or developers not affiliated with an electric utility.

**Exit Fee**- The fee charged to a customer to leave a utility system. It is intended to compensate the utility for its stranded or fixed costs.

**Firm Customer** - A customer considered a high priority end-user, such as a residential customer, for whom contract demand is reserved and to whom the supplier is obligated to provide service. The customer receives Firm Service, service that anticipates no interruption, except for "Force Majuere" (causes beyond the control of the supplier, such as extreme acts of Nature).

**Fixed Price** - A price that is agreed upon by two parties and cannot change, regardless of subsequent fluctuations in market price.

**Floor**- a guaranteed minimum price that a seller will pay in a supply contract.

**Forecast Uncertainty** - the probable deviations from the expected values of factors considered in a forecast for energy demand or supply.

**Forced Outage** - The unplanned shutdown of a generating unit, transmission line or other facility.

**Forced Outage Reserve** - The capacity needed to meet peak loads during forced outages.

**FT - Firm Transportation** - capacity contracted for a power transmission system that cannot be cancelled by the operator of the system.

**Functional Unbundling** - Pricing each aspect of a service separately, such as the generation, transmission and distribution of electricity.

**Futures Contract** - a contract to buy or sell a specific commodity at a specified price for delivery at a specified time, in the future. Futures contracts are traded on regulated exchanges.

**GENCO** - short for generating company; a generating company that does not own a transmission or distribution system.

**Green Power** - Electricity produced using wind, sun or steam escaping from the earth.

**Grid** - The network of high-voltage transmission lines through which power moves.

**Gross Available Capacity (GAC)** - The capacity at which a unit can operate with a reduction imposed by a derating.

**Gross Dependable Capacity (GDC)** - The gross maximum capacity (GMC) modified for seasonal limitation over a specific period.

**Gross Maximum Capacity (GMC)** - The maximum capacity of a unit sustainable over a period of time, unmodified by seasonal or other deratings.

**Heat (or Heating) Rate** - The measure of efficiency of converting fuel into electricity, expressed as BTU's of fuel per kilowatt-hour. The lower the heat rate, the more efficient the plant.

**Hourly Peak** - The peak demand for energy from a transmission or distribution system during a one-hour period.

**Imbalance (electric)** - The condition that occurs when the generation and interchange schedules do not match demand.

**Independent Market Operator (IMO)** - An entity that controls and administers access to electric transmission in a region or across several systems, on a non-discriminatory basis for a number of independent utilities.

**Independent Power Marketer** - A company, other than a utility, that sells wholesale electricity.

**Independent Power Producer (IPP)** - A producer of electricity not affiliated with the local utility company selling the power. See also Exempt Wholesale Generator (EWG).

**Input/Output Test** - A test of generating units used to determine their efficiency (heat rate) at various loads and operating outputs.

**Instantaneous Demand** - The rate of energy used right now.

**Interchange (or Transfer)** - The net exchange of power across or between control areas.

**Interchange Energy Agreement** - An arrangement that assures all parties an equal ability to serve their firm loads. Parties unable to meet their loads in a given month may request interchange energy from someone else who has extra.

**Interconnected System** - Two or more power systems with connecting tie lines that are normally synchronized in their operation, so that in many ways, they operate as a single entity.

**Intermediate Load** - The range between base load and peak load.

**Interruptible Demand** - a way to get power at less than a premium rate. When there is a short supply of power,

such as on a hot summer day when everyone is using air conditioning, you have to shut something off because you will receive less power or no power at all. Customers signing up for interruptible demand pricing deals are generally industrial or commercial firms.

**Inverted Block Rate (Graduated Rate)** - A rate structure by which successive blocks of power are priced at increasingly higher rates.

**IOU** - An investor-owned utility (a utility that has stockholders).

**Joint Use Facility** - A facility jointly used by two or more power generating units.

**Lambda** - The measure of the rate at which fuel is consumed relative to electric output, expressed in BTU's per kWh. It is often referred to as the incremental cost of power.

**LDC** - A local distribution company, which is a utility that obtains the major part of its income from a retail distribution system for the delivery of electricity to the end-users.

**Life-Line Rates** - A rate for a block of electricity sufficient for basic use of residential customers. Usage beyond that block is priced at a higher rate.

**Load Curve** - A graphic representation showing power supplied, plotted against time, to illustrate the varying magnitude of the load during the period covered.

**Load Duration Curve** - Used to show the period of time that load was above a certain magnitude. These curves profile system demand and can be drawn on a daily, monthly or yearly basis.

**Load Factor** - In electric systems, the ratio average output to peak output during a specified period of time, expressed as a per cent. The load factor capability is a measure of the degree to which physical facilities are being utilized. It is an indicator of efficiency.

**Load Following** - an electric system's ability to regulate generation according to instantaneous changes in demand.

**Load Management** - Shifting of electric load patterns to use a system's facilities more efficiently. Load management generally tries to shift usage from peak times to off-peak periods of a day or year. This is different from conservation measures, which attempt to reduce total usage for a given period of time.

**Load Shape** - The pattern of the magnitude of power load over a given period of time.

**Load Shedding** - Deliberately removing pre-selected demand from a power system to keep the system working and minimize outages during periods of abnormal conditions.

**Load Shifting** - see Load Management

**Loss of Load Probability** - A measure of the expectation that system demand will exceed system capacity during a given period; usually expressed as a number of days per year or longer period.

**Loss Supply** - Supplemental power provided by another utility, called a wheeling utility, to compensate for losses incurred during transmission.

**Main** - A distribution line for electricity that services as a common source of supply for more than one service line.

**Marginal Cost** - Incremental of differential cost. For electric utilities, it is the cost of providing the next, or marginal, kilowatt-hour of electricity, irrespective of fixed costs.

**Marketing Affiliate** - An electricity marketing company owned or substantially controlled by a distributor or by an electric utility.

**Marketer** - A company that specializes in bringing together sellers and buyers of energy, usually on a spot-market basis. A marketer negotiates a price and arranges transportation and delivery.

**MDM/R -** Meter Data Management/Repository

**Minimum Generation** - The lowest level to run a generator so you can meet peak power needs.

**Monopsony** - The opposite of monopoly; a monopsony is a market in which there is only one buyer for multiple sellers.

**Muni-Lite** - A municipal utility that does not own generation or significant transmission or distribution facilities. It owns only home and business meters and purchases power from a wholesale market for resale to homeowners and businesses.

**Must-Run Units** - A generating unit that must be online or on the grid to ensure the stability of the system, even if it costs more to run than other units that may be available on the system or in the power pool.

**Native Load** - The total requirements of a wholesale utility's franchised retail market.

**Net Actual Generation** - The actual electrical energy a unit generates during a given period, less any generation used by the unit itself or by its auxiliaries. Also known as the net generating station capability. The amount is not a constant; it can vary depending on the season and other factors.

**Net Capacity** - The maximum capacity a power plant can sustain over a period of time, less the capacity used to supply its own needs for things such as motors and other equipment essential to its operation. This capacity may be modified to account for seasonal or ambient limitations.

**Net Generating Station Capability** - The total capacity of a generating facility to produce power, less the amount it needs for its own uses.

**Non-Coincident Demand (NCD)** - A customer's maximum electric demand during a given period. Sometimes called a customer's monthly Non-Coincident Peak Load.

**Non-Depletable Energy Sources** - Energy obtained from sources such as the sun or falling water that are not depleted by use.

**Non-firm Energy** - Electricity that is not required to be delivered or taken under the terms of an electric purchase contract.

**Non-Spinning Reserve** - Generating units that are not connected to a system, but that may be placed online sometime.

**Non-Utility Generator (NUG)** - A generator not owned by a utility. A NUG may be a qualifying facility, an independent power producer or an exempt wholesale generator.

**Off-Peak** - A period of low demand.

**Ohm** - A unit of electrical resistance. One volt can produce a current of one ampere through a resistance of one ohm.

**One-way metering** - This term refers to mobile technologies and some more primitive forms of power

line carrier and telephony applications. A one-way system allows the utility only to collect data in an inbound capacity from the meter.

**Open Access** - Access on a non-discriminatory basis to the transportation or transmission services of an electric utility.

**Peak Demand** - The maximum electric load, including losses experienced by a system, in a given period. It is the actual demand by all system customers plus losses.

**Peak Load Plant or Peaker Unit** - A plant used during maximum load periods. A peaker generally has a quick start up time and high energy costs, but often has low capital costs. Generally, it is used during peak demand periods.

**Peak Shaving** - reduction of peak demand for electricity.

**Performance Based Rates (or Regulation)** - An alternative to cost-of-service rates (or regulation). In this method, rates are adjusted to reflect a utility's record of exceeding targets for efficiency, cost-savings or customer satisfaction. Essentially, the utility and its customers share the rewards of excellent performance.

**Photovoltaic Conversion** - Direct conversion of the sun's energy into electricity using photovoltaic cells.

**Planned Derating** - The planned reduction in a power plant's capacity in order to carry out repairs or maintenance of system components.

**Plant-Use Electricity or Plant Auxiliary Load** - The electric energy used to operate an electric generating facility.

**Point of Delivery (POD)** - The point where a power supplier delivers electricity. It could include an interconnection with another system or substation.

**Power Broker** - An individual or firm that arranges bulk power transactions. Power brokers bring together a seller and buyer, without taking title to the power. Thus power brokers, unlike marketers, assume no risk.

**Power Factor** - The part of the power actually used by a customer's electrical equipment, expressed as a percentage of the total power supplied. Power factors only apply to AC circuits.

**Power Swipes** - when one utility takes power off the grid without telling anyone they did it.

**Power Workers' Union (PWU)** - Its roots began in 1944, with the formation of the Employees' Association at Ontario Hydro. In 1955, the Association became the Ontario Hydro Employees' Union and joined the National Union of Public Service Employees, which merged with the National Union of Public Employees in 1963 to form the Canadian Union of Public Employees (CUPE), Canada's largest union. Its present name - the Power Workers' Union was adopted in 1993.

**Preferred Schedule** - The schedule produced by a scheduling coordinator, representing the preferred mix of generation to meet demand. Included in the schedule are the quantity of output (generators) and consumption (loads), details about any adjustment bids, and location of each generator and load. The schedule details the quantities and location of trades among scheduling coordinators and is balanced with respect to generation, transmission losses, load and trades.

**Provider of Last Resort** - an entity, traditionally a utility, obligated by law to provide service to a customer whose business is not wanted by competing utilities.

**Pumped Storage Hydroelectric Plant** - A plant that generates electricity during periods of high power demand by releasing water that had been pumped into a reservoir during periods of low demand. It is an efficient means of using low-demand energy to meet high demand needs, since pumped storage returns about two-thirds or three-fourths of the electricity put into it. Plants that use both pumped water and natural stream flow are called Combined Pumped Storage Hydroelectric Plants.

**Ratchet or Ratcheted Demand Charge** - see Billing Demand

**Rate Base** - The value of property on which a utility is allowed to earn a specified rate of return. There are many ways to calculate the rate base, including fair value, prudent investment, reproduction costs and original cost. It may

also cover items such as working capital and prepayments, and can be adjusted for items such as depreciation, deferred taxes and accumulated deferred investment tax credits.

**Rate Structure** - The schedule of charges that an energy company or utility uses to bill customers for energy, including;

**Block Rate** A rate that prices various blocks or demand consumption using different unit charges.

**Flat** A rate that does not vary with the quantity used or the contract demand

**Lifeline** A residential rate for a specific block of energy that is priced below the allocated cost of service.

**Mileage Based** A rate determined by the length of the haul.

**One-Part** - A per-unit commodity charge without components for reservation, demand etc.

**Postage-Stamp** Transportation rate applicable to a given zone or area, as opposed to a mileage-based rate.

**Seasonal** - A rate that changes with the seasons.

**Step** - A tiered price structure that depends on the step within which the last consumed unit falls.

**Straightline** - A constant per-unit charge that does not vary with an increase or decrease in the units used.

**Three-Part** - A rate consisting of a customer charge, a demand charge and a commodity charge.

**Two Part** - A rate consisting of a demand charge and a commodity charge.

**Volumetric** - A rate or charge based on the amount of volume actually received by the customer.

**Zone** - A rate based on a zone through which the energy moves.

**Real-Time Pricing** - Pricing of electricity that reflects the actual time of day when the power was used. Customers with real-time pricing receive frequent signals throughout the day on the price of electricity at that moment.

**Reliability** - For an electric system, reliability means the ability to supply the electrical demand and energy requirements of its customers at all times, taking into account, scheduled and unscheduled outages as well as the ability of the system to withstand sudden disturbances, such as electric shorts or unanticipated loss of facilities.

**Reliability Must-Run Generation** - Generation that an independent service operator (ISO) determines is necessary to meet the system's reliability, satisfy demand in constrained areas, or provide voltage or security support of the ISO or local area.

**Reliability Must-Run Unit** - A unit that an ISO can, with compensation, demand that an owner run when required for grid reliability.

**Reserve** - The generating capability that an electric utility needs, in addition to the highest level of user demand, to meet its needs.

**Reserve Generating Capacity** - The capacity of units kept available by an electric utility to meet special needs. This can occur when demand is unusually high or when other units are offline for maintenance, repair or refueling.

**Reserve Margin** - The margin between a system's dependable capacity - including firm power purchases, but excluding maintenance or forced outages - and anticipated peak load. It is expressed as a percentage of peak demand.

**Rolled-In Pricing** - A pricing method in which rates are based on the weighted average costs of all customers or services, rather than on allocating specific costs to specific customers.

**Run-of-River Plant** - A hydroelectric plant that relies on the flow of a stream or river with no capacity to store water.

**Security Coordinator** - The regional entity charged with ensuring the reliability of the power system by monitoring the operation of regional grids and coordinating the actions of control area operators during emergencies. A security coordinator is barred from participating in wholesale or retail merchant functions.

**Scheduling Coordinator** - Submits balanced schedules and provides settlement-ready meter data to the independent system operator. The scheduling coordinator also settles with generators and retailers, the PX and the IMO; maintains a year round, 24 hour scheduling centre; provides non-emergency operating instructions to generators and retailers, and transfer schedules in and out of the power exchange, or PX. The PX itself, is a scheduling coordinator.

**Service Voltage** - The voltage at which a customer is connected to the electric system.

**Shaping** - The management of generating resources to meet variable loads. In a hydroelectric system for instance, shaping may involve varying the release of water

from a reservoir in order to maintain a balance between generation and load.

**Short-Run Avoided Costs (SRAC)** - Costs that a utility avoids by taking power from a qualifying facility for a relatively short period, such as one month.

**Spill** - The overflow structure of a dam; the release of water from a reservoir that does not pass through turbines to generate electricity.

**Spinning Reserve** - Unused but available capacity from generating units that are connected to and synchronized with a grid. It is nearly "instantly available" to meet additional demand.

**Standby Demand** - The amount of power available as a secondary source or backup for the outage of a customer's primary source, as specified by contractual arrangement.

**Substation** - a facility that switches, steps down or regulates electricity. Substations also serve as control or transfer points in an electrical system. Their purpose is to route and control electricity, after voltage levels and serve as delivery points.

**Tiered Rates** - A system of rate schedules that divides customer usage into different tiers or blocks, each with a different price.

**Time-of-Use Rates** - With time-of-use prices, the price of electricity will depend on the time that electricity is consumed. There are three different time-of-use periods – off-peak, mid-peak, and on-peak. The prices are reviewed every May 1 and November 1 by the Ontario Energy Board (OEB). The OEB reviews the rates based on electricity prices over the previous six months, as well as its forecast of future prices over the next year. Time- of-use prices reflect the fact that the cost to provide electricity changes throughout the day. When demand is low, less expensive sources of electricity are used. When demand rises, more expensive forms of electricity production are called upon, making prices higher.

**Tolerable Zone** - a band of voltages that is above and below the Preferred Zone. While not ideal, voltages in the tolerable zone permit customers' equipment to operate satisfactorily and without undue wear or damage, although performance may be compromised.

**Transco** - Short for transmission or transportation company. The bulk transmission part of a disaggregated electric utility, operated as a separate entity.

**Transformer** - a device that changes the voltage of alternating current.

**Transition Costs** - Costs associated with deregulating a formerly regulated industry. These costs include stranded costs. They occur when customers are permitted to switch to providers before the original provider has recovered certain costs, including mandated purchased power arrangements, capital, taxes and costs associated with social policy and environmental matters.

**Transmission Grid** - An interconnected system for transmitting power along high-voltage lines in bulk from points of supply to points of demand.

**Two-way metering** - This term is associated with advanced metering and offers the utility the ability to collect data on demand or in pre-defined schedules. In other words, the utility can communicate with the meter at any given time, and the meter has the ability to "dial out" or transmit readings to the utility on a predetermined schedule.

**Unbundled Services** - Energy services that are sold and priced separately, such as generation, transmission, and distribution.

**Vertical Integration** - A corporate structure in which one company owns all the different aspects of making, selling and delivering a product or service. A vertically integrated electric utility would own generation, transmission and distribution facilities.

**Volatility** - Changes in the commodity price. The more price changes, the greater the volatility and the greater the opportunity to make a profit through trading.

**Volt** - A unit if electromotive force. One volt, applied to a circuit with a resistance of one ohm, produces a current of one ampere.

# Electric Measures

**Gigajoule** - A unit of energy that equals 943,213.3 BTU's.

**Gigawatt (GW)** - One billion watts.

**Gigawatt-hour (GWh)** - One billion watt-hours.

**Joule** - A measure of energy equal to one watt-second, or one watt of power supplied to, or taken from, an electrical circuit steadily for one second.

**Kilovolt (kV)** - Electrical potential equal to 1,000 volts. Most car batteries are 12-volt, so 1 kV is the juice that could be produced by 83.3 car batteries.

**Kilowatt (kW)** - A unit of electric power equal to 1,000 watts. One kilowatt can power ten 100-watt lightbulbs.

**Kilowatt-hour (kWh)** - The basic unit for pricing electricity, a kilowatt-hour is equivalent to one kilowatt of power used for one hour. It equals 1,000 watt-hours and is the equivalent of 3,412 BTU's of energy.

**Megawatt (MW)** - One thousand kilowatts.

**Watt** - The basic unit for measuring volume of electricity. Technically, it's the power produced by a current of one ampere across a potential difference of one volt.

**Gigawatt (GW) -** One billion watts

**Gigawatt-hour (GWh)** - One billion watt-hours

**Kilowatt (kW) -** A unit of electrical power equal to 1,000 watts

**Kilowatt-hour (kWh) -** The basic unit for pricing electricity, a kilowatt-hour is equivalent to one kilowatt of power used for one hour.

**Megawatt (MW)** - A megawatt, or 1,000 kilowatts.

**Terawatt-hours (TWh)** - Equal to 1,000 gigawatt-hours, the terawatt is a commonly used energy yardstick in Europe.

**Watt-hour (Wh) -** One watt of power supplied or taken from a circuit for one hour.

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Exhibit: 1
Tab: 3
Schedule: 16

Date Filed:August 26, 2016

# ATTACHMENT 2 OF 3
# LONDON HYDRO'S STATEMENT OF CORPORATE GOVERNANCE PRACTICES

# Statement of Corporate Governance Practices

March, 2014

**Mission:** London Hydro is an electricity distributor dedicated to the pursuit of excellence in safety, reliability, customer service and competitive rates.

**Vision:** Through the pursuit of innovation and growth, we will provide leadership in customer services and add value to the corporation and community.

## VALUES

- social and environmental responsibility
- integrity
- accountability
- innovation



London Hydro

Powering London.
Empowering You.


POSI+
AC-41636

# Table of Contents


Introduction ..... 1

What is Corporate Governance? ..... 1

London Hydro's Corporate Governance ..... 1

Corporate Profile ..... 3

Industry Landscape ..... 6

London Hydro's Place within its Industry ..... 8

Governance of London Hydro ..... 13

Enterprise Risk Management ..... 14

The Board of Directors ..... 16

Qualifications ..... 16

Election and Term ..... 17

The Current Board of Directors ..... 17

The Board's Function and Responsibilities ..... 20

Board's Responsibility to Meet Disclosure Requirements ..... 23

Board's Responsibility to Meet Compliance Requirements ..... 23

Board Evaluation ..... 23

Independence of the Board ..... 24

Board Committees ..... 24

Compensation of the Board ..... 25

Board Attendance - Board and Committee Meetings ..... 25

Appendix A: Board of Directors ..... A-1

Appendix B: Audit Committee ..... B-1

Appendix C: Corporate Governance & Risk Management Committee ..... C-1

Appendix D: Human Resources Policy & Procedures Committee ..... D-1

# Introduction

## What is Corporate Governance?

Corporate governance refers to the system by which organizations are directed and controlled, often by a Board of Directors,[1] for the purpose of fulfilling the corporate mission and objectives within the context of community, market and regulatory conditions. In its governance role, the Board of Directors takes responsibility for monitoring the administration and decisions of the corporation to ensure that the highest ethical standards are maintained. Some of the ways in which the Board meets this responsibility include overseeing the organization's strategic direction, financial management and policy management to ensure the highest level of governance and the greatest value are maintained for the benefit of all shareholders and other stakeholders.

## London Hydro's Corporate Governance

London Hydro Inc. was incorporated on April 26, 2000, and in July, 2000 (through By-Law A-5686-103), the Municipal Council of The Corporation of the City of London transferred all of the employees, assets, liabilities, rights and obligations of what was then the electrical distribution business of the London Hydro Electric Commission to the new corporation.

London Hydro Inc. (London Hydro) became a for-profit, taxable corporation when it was established as a wholly-owned subsidiary of The Corporation of the City of London (City of London) under Ontario's Electricity Act (1998). On April 1, 1999, the Ontario Energy Board (OEB) granted London Hydro a licence (# ED-1999-0275) to provide electrical distribution services to the City of London.

As the sole shareholder, holding all 1001 shares, the City of London has directed London Hydro's Board of Directors to ensure its success by overseeing a governance and operation of the business with a mandate to

- ensure that distribution rates are fair and competitive with rates charged in the industry,
- enhance the quality and reliability of electrical supply,
- maintain the value of the distribution assets, and
- operate the business in a way that fosters innovation and encourages employee satisfaction and retention.

Although the City of London is London Hydro's sole shareholder, London Hydro's Board of Directors is nevertheless accountable to the larger set of stakeholders including customers, regulators, suppliers, debt-holders, employees and the community.

[1] As defined by The Directors College

This statement of Corporate Governance is intended to outline the Board's activities with respect to London Hydro's governance policies and practices and the role the Board plays in fostering the success of the Corporation for all stakeholders.

On the recommendation of its Corporate Governance and Risk Management Committee, the Board of Directors has approved this Statement of Corporate Governance Practices.

# Corporate Profile

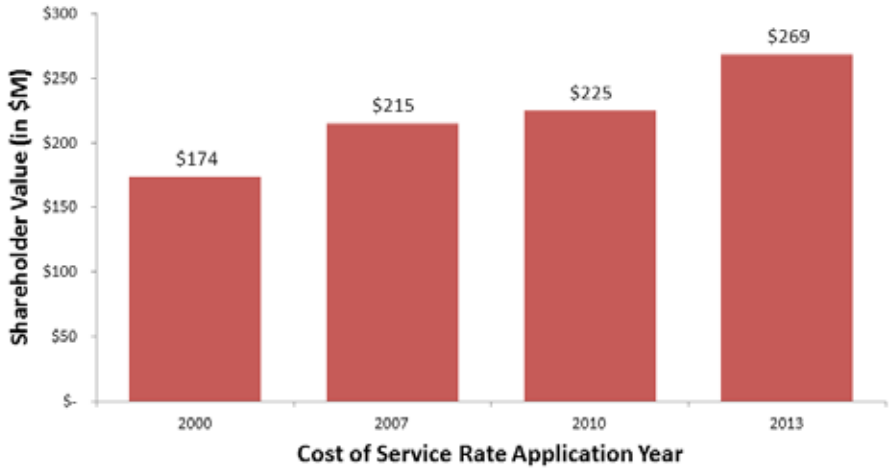
London Hydro is a for-profit, taxable corporation that operates much like any other private entity under the Ontario Business Corporations Act (OBCA). The Board of Directors is accountable for London Hydro's financial health and tax compliance.

## For Profit

As a condition of its licence to distribute electricity, London Hydro is strictly regulated by the Ontario Energy Board (OEB) in terms of rates, quality of service, and return (profit) on investment. The OEB reviews and affirms the annual revenue requirements of London Hydro by evaluating and accepting London Hydro's calculations of the sum of all costs such as operating, maintenance, amortization, servicing cost of debt and a reasonable market-based return on equity investment of the shareholder. Debt and equity investment components are required to fund the rate base, which is a sum of capital assets and the working capital requirements of the corporation; furthermore, the regulator deems the maximum debt and equity ratio to be 60% and 40%, respectively, thus establishing the maximum profit allowed in the determination of annual revenue requirements.

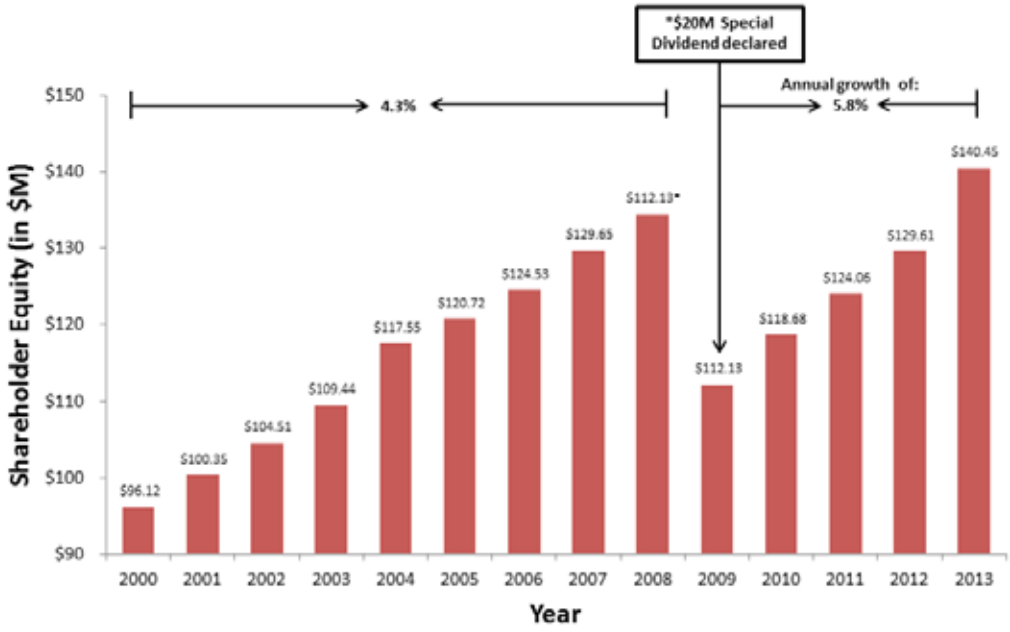
The market return on equity investment is periodically established by the OEB through a market study and has varied between 8% and 10%. Starting in 2013, the allowed rate of return on equity, which is required to finance 40% of the rate base, is set at 9.1%. London Hydro adds to its capital assets, hence its rate base, every year; however, the OEB grants approval of the rate base once every four years as depicted in Figure 1. Since 2000, London Hydro's rate base has grown steadily from $174M to $269M.

**Figure 1: Growth in Rate Base (3.5% per annum)**




As illustrated in Figure 2, the actual shareholder's equity investment in London Hydro is approximately 55% which has grown steadily since 2000 from $96M to $140M in 2013.

Figure 2: Growth in Shareholder Equity (in $M)

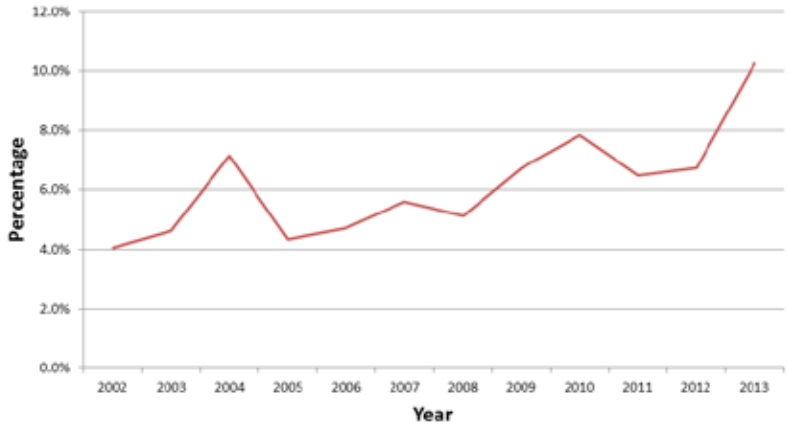



London Hydro's Board of Directors is responsible for shareholder value, and in fulfilling this responsibility, the Board enhances shareholder value in three ways:

i. London Hydro provides interest of 6% on the $70M shareholder Promissory Note;
ii. London Hydro declares a consistent and steady annual dividend payment of $3M per year – at times a special dividend, when warranted, is also declared;
iii. Shareholder equity increases by virtue of increases in rate base when approved ex post by the OEB.

Since the actual equity investment in London Hydro (55% of the rate base) is greater than the deemed equity (40%), the London Hydro Board of Directors strives for a financial target of earning a 7% to 9% return on equity. As shown in Figure 3, London Hydro has been achieving this goal since 2009.

Figure 3: London Hydro - Return on Equity (%)



The London Hydro Board of Directors has consistently enhanced shareholder value in three ways: through the rate base increase as approved by the OEB, through a predictable annual dividend and through a healthy interest on the promissory note. London Hydro's financial success has earned it consistently strong S&P credit ratings, scoring an "A" or better for the past six years.

## Taxable

As a for-profit organization, London Hydro's net income and capital assets are subject to taxes, though the corporation is not taxed in the traditional way. Because London Hydro is owned by the municipality, the City of London, its taxes are paid in accordance with the "Payment in Lieu of Taxes" or PILs system. Under this system, although all taxation on income and capital assets is required in accordance with the Income Tax Act, the tax is remitted to the provincial government and not the federal government. To date, London Hydro has paid $34M to PILs (since incorporation).

# Industry Landscape

The Board of Directors is accountable for both London Hydro's financial health and all its business risks to ensure the consistent success of the corporation. Therefore, the London Hydro Board seeks access to capital, prudently invests in plant assets, manages technological investments and remains compliant in accordance with laws, codes and regulations. Essentially, the Board has a mandate to operate London Hydro as a self-sufficient private corporation while meeting all strategic goals.

Since 2000, many utilities have chosen to achieve their strategic objectives by merging into larger corporations. In 2000, 307 utilities were reduced to 89 through mergers and acquisitions. Since then, the number of utilities has been reduced further and, as of 2013, only 75 LDCs remain. Reductions are likely to continue as smaller utilities seek to exit the market.

The electrical utility industry generates approximately $25 billion per year in total revenue, of which the electricity distribution sector represents $3.3 billion per year; however, the electricity distribution services of London Hydro represent a mere 2% of that amount. In essence, London Hydro services are a very small component of the overall Ontario electrical utility industry. As such, for a typical London Hydro residential customer, the electricity distribution services of London Hydro account for about 19% of the total bill while the remaining 81% reflects the cost of upstream services including energy supplied, transmission services and other government services. While the operation, maintenance and administration of upstream services, and related tariffs, are outside the control and responsibility of London Hydro, London Hydro is responsible for managing accounts receivable on behalf of all the upstream suppliers; thereby, reducing the suppliers' risk of nonpayment. The various components that make up a residential customer's electricity bill are given in Table 1.

**Table 1: Breakdown of a London Hydro Electricity Bill**

| Charge | Explanation | Who sets the rate? | % of Bill |
|---|---|---|---|
| Electricity Supplied | This charge is for the electricity used, including the Global Adjustment[2], and the cost varies depending on when it is used.<br><br>Electricity supplied is produced by generation companies, which are private and provincial government owned. These charges appear as three line items, reflecting on-peak, mid-peak and off-peak consumption. | Provincial regulator (OEB) sets the rate for residential consumers | 52.2% |
| Delivery | This charge is for getting the electricity to the customer. Delivery is made of up two components:<br><br>1. The transmission of electricity from generating stations to the city of London is the responsibility of the provincially owned entity called Hydro One Networks Inc.<br>2. The distribution of electricity in the city of London is the responsibility of London Hydro. | HONI sets the rate; the OEB approves it<br><br>London Hydro sets the rate; the OEB approves it | 9.3%<br><br>18.8% |
| Regulatory Charges | Regulatory Charges are for the operation of the wholesale market run by the Independent Electricity System Operator (IESO). | Set by the IESO; approved by the OEB | 4.1% |
| Debt Retirement Charge (DRC) | The Debt Retirement Charge was established by the provincial government to repay the stranded debt that was incurred by Ontario Hydro (Ontario's original publicly owned electricity utility) on behalf of all Ontario consumers. | Legislated by the Provincial Government | 4.1% |
| HST | The 13% Harmonized Sales Tax | Set by the Provincial and Federal Governments | 11.5% (of the total bill) |
| Total | | | 100% |
| Ontario Clean Energy Benefit | The Ontario Clean Energy Benefit is a discount of 10%, as established by the provincial government that is applied to the total bill. This benefit is scheduled to end by 2015. | Provincial Government | -10% |

[2] Global Adjustment provides both adequate energy supply and green energy for Ontario. It accounts for differences between the market price and the rates paid to regulated and contracted generators and for conservation and demand management programs.

# London Hydro's Place within its Industry

Today, London Hydro is the seventh largest utility in Ontario from a total of 75 Local Distribution Companies (LDCs).

**Table 2: London Hydro – Facts and Figures**

| | |
|---|---|
| • Electricity Customers - 150,000<br>• Water Customers - 101,000<br>• Underground Cables - 1,281 km<br>• Overhead Lines - 1,330 km<br>• Service Area - 420 square km<br>• High Voltage Supply Stations - 6<br>• Smart-grid Interfaces† - 869 | • Electricity Assets - $240,000,000<br>• Electricity Rate Base - $280,000,000<br>• 2013 Energy Sales* - 3,346,458 MWh<br>• 2013 Net Income* - $14,137,086<br>• 2013 Revenue* - $404,767,475 |

†breakers, relays, auto switches, battery chargers
*unaudited projections

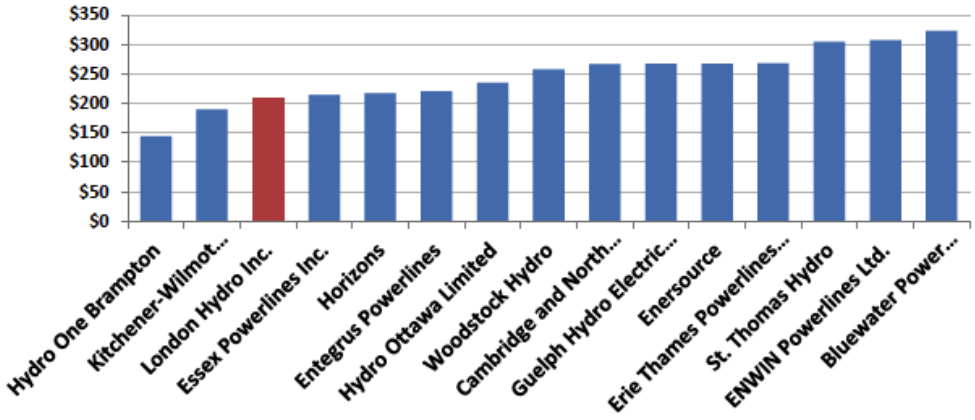
London Hydro's Board of Directors is responsible for the entire operation of London Hydro, and by virtue of its agency model, it delegates its authority to the management of London Hydro.

London Hydro's function is to distribute electricity from high-voltage transmission lines and convert it to a lower voltage level (50 kV and under) for use by its customers, whether they are homes, businesses, institutions or industry. In this capacity, London Hydro is distinguished among its peers in many ways, including efficiency, reliability and customer satisfaction.

In the electric utility industry, efficiency is measured by the controllable cost per customer, and when compared to other LDCs in its neighbourhood and peer group,[3] London Hydro ranks third, as is illustrated in Figure 4. When compared with all LDCs in the province, London Hydro ranks an impressive fifth.

[3] This grouping of neighbourhoods and peers is determined by the OEB and is based on factors including size and geographical location.

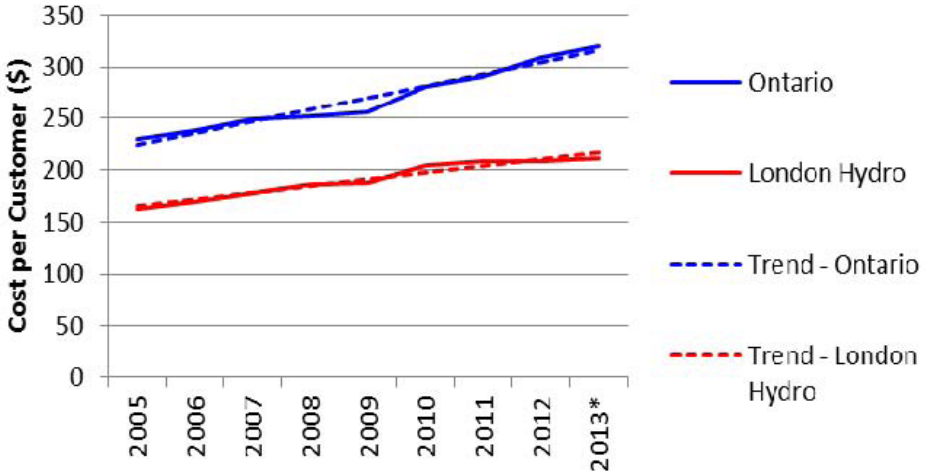
Figure 4: London Hydro's Controllable Cost per Customer Compared to OEB deemed Neighbours and Peers




## Efficiency: Operating, Maintenance and Administration Costs per Customer

The controllable costs per customer are based on Operating, Maintenance and Administrative costs, known as "OM&A" costs, and as Figure 5 illustrates, London Hydro's costs are consistently and substantially lower than those of the provincial average.

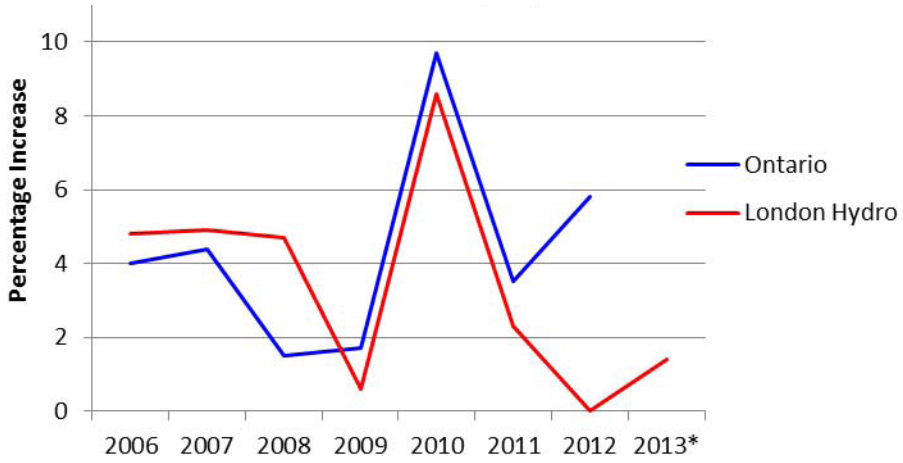
Figure 5: OM&A Cost per Customer: London Hydro and Ontario




* Values for 2013 are projected for London Hydro and Ontario

In addition, as Figure 6 illustrates, since the implementation of smart meters in 2009, the OM&A cost per customer for London Hydro has been increasing at a consistently lower rate than for other utility customers in Ontario. In fact, in 2012, the last year for which Ontario data is available, the average increase for Ontario LDCs was 5.8% while London Hydro's costs did not increase at all; this is a significant improvement since 2009.

Figure 6: OM&A Annual Increase per Customer: London Hydro and Ontario

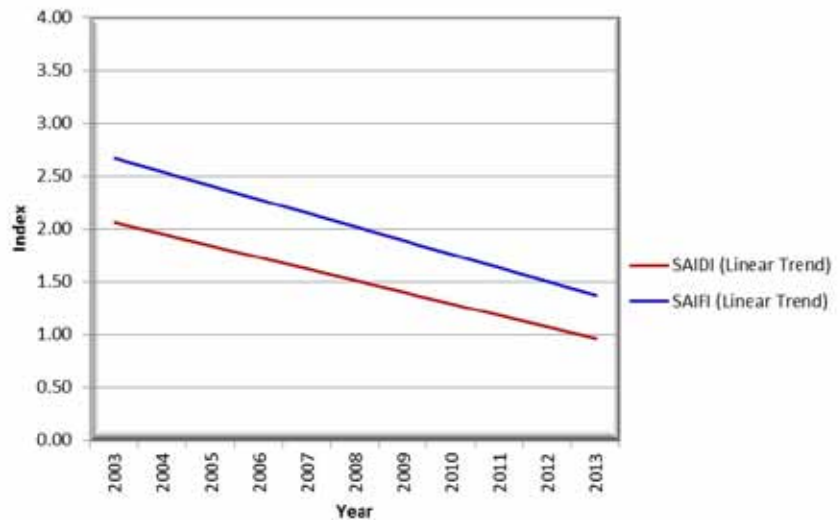



* Values for 2013 are projections for London Hydro and are not available for Ontario

## Reliability

London Hydro's reliability measures have been improving significantly for more than 10 years, and not only are they improving, but also the customer perception of London Hydro's reliability far exceeds both the provincial and national averages.[4] Figure 7 depicts London Hydro's 10 year trend for SAIDI (outage duration) and SAIFI (outage frequency). These current results represent a continuing trend of improvement, which can be directly attributed to investments made in London Hydro's infrastructure through the Reliability-Centred Maintenance Programs over the past 15 years.

Figure 7: 10 Year Trend of SAIDI and SAIFI



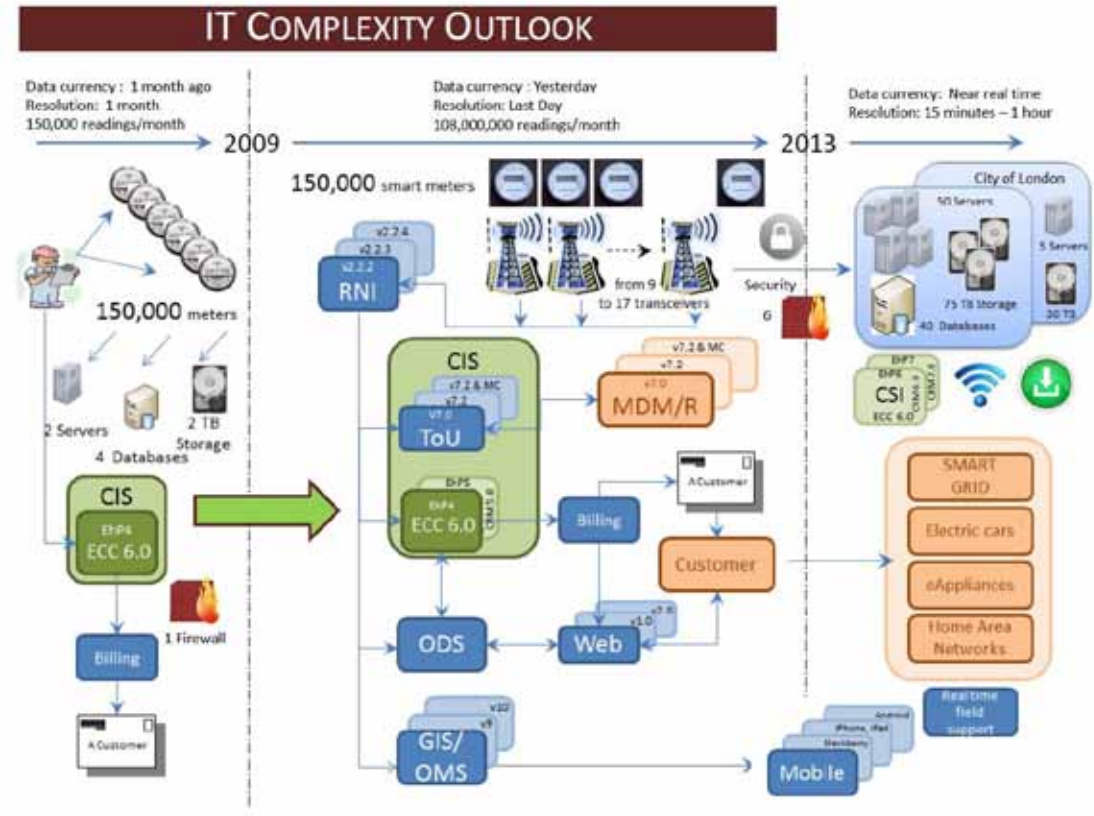

[4] In 2013 only 19% of London Hydro customers polled agreed that they "had a blackout or outage problem in the last 12 months" compared to 41% polled nationally and 35% polled provincially (UtilityPULSE Survey administered by Simul Corp).

## Technology

London Hydro's Board successfully manages all risks associated with technology deployment. It has achieved great success in offering its customers the latest customer support and conservation technologies at relatively low costs, situating London Hydro as a technology leader in the utility industry, as depicted in Figure 8.

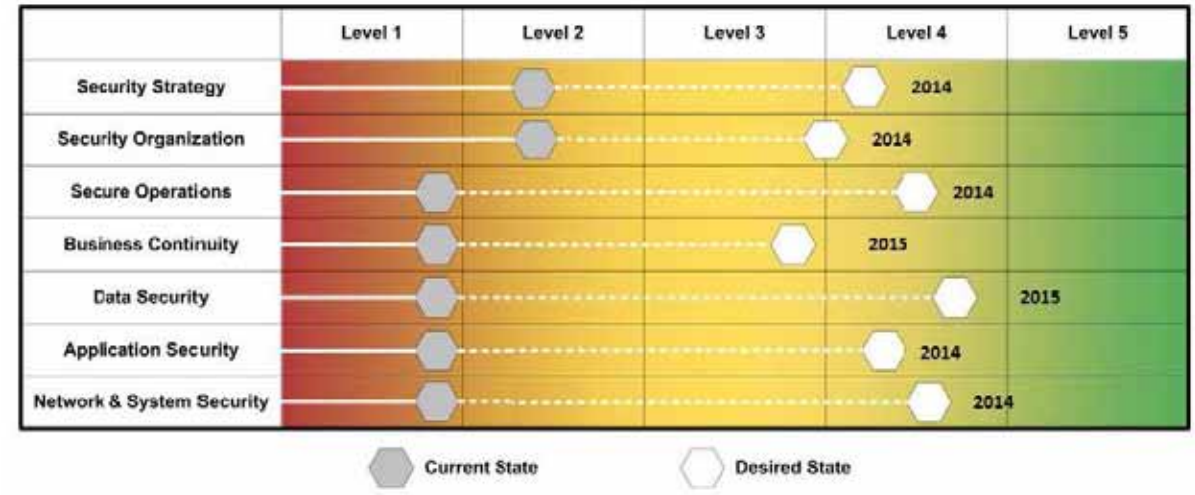
The support of London Hydro's Board empowers employees to bring forward new ideas to exploit opportunities that have created a culture of innovation within London Hydro. London Hydro is now well positioned to take advantage of smart grid technology advances (e.g. ability to provide near real time data to help customers shift their load) and integration of behind the meter smart devices (e.g. to help customers make informed decisions about energy products and services).

**Figure 8: London Hydro's IT Complexity Outlook**




One of the key risks associated with technology deployment is cyber security. London Hydro strives to secure customer privacy and information as it delivers technology and services. Security is achieved through London Hydro's Cyber Security Council, which tracks the corporation's performance against industry standards, as depicted in Figure 9.

Figure 9: Cyber Security Maturity Self-Assessment & Targets




In Figure 9, Level 1 indicates a high level of security; however, London Hydro's goal is to advance to the highest level of security in all areas.

## Customer Satisfaction Survey

London Hydro is committed to continuous improvement in every facet of its business; with a particular emphasis on customer satisfaction and engagement. London Hydro engages a third party, Simul Corp, to perform an annual Customer Service Survey to assess the extent to which customers are satisfied with the services they receive and to discover specific areas in which improvements can be made. As Table 3 illustrates, London Hydro continues to improve its overall satisfaction score to 92%in 2013.

Table 3: London Hydro Satisfaction Scores

| London Hydro SATISFACTION SCORES - Electricity Customers' Satisfaction | | | | |
|---|---|---|---|---|
| Top 2 Boxes: 'very + fairly satisfied' | 2010 | 2011 | 2012 | 2013 |
| LONDON HYDRO | | | | |
| PRE: Initial Satisfaction Scores | 85% | 86% | 85% | 92% |
| POST: End of Interview | 90% | 90% | 87% | 92% |
| NATIONAL | | | | |
| PRE: Initial Satisfaction Scores | 86% | 89% | 88% | 90% |
| POST: End of Interview | 92% | 90% | 89% | 91% |
| ONTARIO | | | | |
| PRE: Initial Satisfaction Scores | 80% | 84% | 86% | 90% |
| POST: End of Interview | 89% | 86% | 88% | 90% |

Source: UtilityPULSE Annual Electric Utility Customer Satisfaction Survey

# Governance of London Hydro

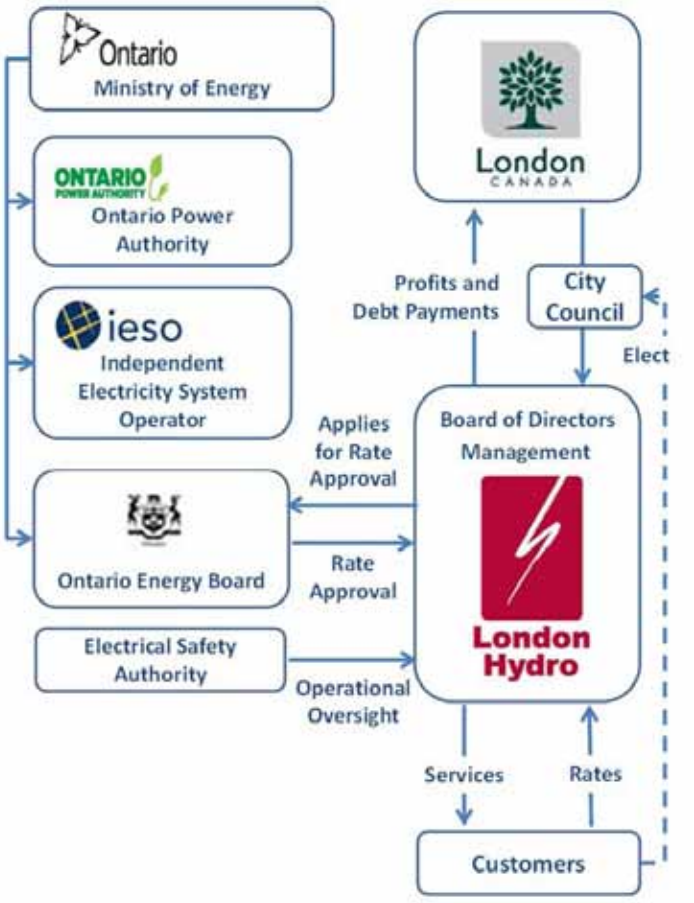
The shareholder, Municipal Council acting through the by-law, has appointed the Board of Directors to oversee the governance of London Hydro in accordance with the Shareholder Declaration of 2008. Good corporate governance is achieved by the Board when it adopts policies and processes that

- protect the interests of the corporation and its stakeholders,
- mitigate the risks of liability,
- mitigate the risks of OEB non-compliance, and
- mitigate the risks of OEB reversing the corporation's decisions.

Through the sanction of the distribution licence, the OEB has the sole responsibility of imposing rules, codes and other government directives as well as approving London Hydro's tariffs.

In summary, the responsibility for establishing tariffs, customer service standards, design standards, safety practices, and all other utility-related operations are governed and approved by the OEB. Additionally, at times, the provincial government and government agencies can issue various directives and/or regulations, which London Hydro is required to obey; however, the OEB is the final body responsible for ensuring London Hydro's compliance with such regulations and directives. Figure 10 illustrates this **governance** structure.

**Figure 10: The Governance Structure of London Hydro**



## Enterprise Risk Management

London Hydro faces a number of risks inherent in its role as an electricity distributer. Chief among these are risks to service, which are associated with aging infrastructure, and risks to the health and safety of its stakeholders, particularly its employees and the public.

The key objective of the Board of Directors of London Hydro is to ensure these risks are managed appropriately throughout the corporation. To this end, London Hydro has developed an Enterprise Risk Management (ERM) framework that details risk management policies and practices as well as ways to mitigate and/or manage significant risks faced by London Hydro. In particular, the Board's Corporate Governance and Risk Management Committee is mandated to oversee this ERM framework and all aspects of safety and risk management for London Hydro.

Over the years, the London Hydro Board has targeted safety as a prime focus throughout the entire operation. As a result of the safety culture it has built, London Hydro has been very successful in accomplishing an excellent safety performance record over the last 10 years. Accordingly, London Hydro has received industry recognition for its efforts, including the following distinctions:

| Year | Award |
|---|---|
| 2013 | ESA Powerline Safety Award<br>IHSA President's Award (250,000 hrs)<br>IHSA President's Award (500,000 hrs)<br>IHSA President's Award (750,000 hrs)<br>IHSA ZeroQuest Program Gold Award (Outcomes – Level 2)<br>National Finalist for Health and Wellness Program of the year |
| 2012 | National Finalist for Health and Wellness Program of the year<br>IHSA President's Award (250,000 hrs)<br>Safety Groups-WSIB rebate $12,244 |
| 2011 | IHSA President's Award (250,000 hrs)<br>Safety Groups-WSIB rebate $11,334 |
| 2010 | IHSA President's Award (250,000 hrs)<br>Safety Groups-WSIB rebate $1790 |
| 2009 | IHSA President's Award (500,000 hrs)<br>Safety Groups-WSIB rebate $9,376<br>IHSA ZeroQuest Program Gold Award (Outcomes) |
| 2008 | IHSA President's Award (250,000 hrs) |
| 2007 | IHSA President's Award (250,000 hrs)<br>IHSA President's Award (500,000 hrs) |
| 2006 | IHSA President's Award (250,000 hrs)<br>IHSA ZeroQuest Program Silver Award (Effort) |
| 2005 | IHSA ZeroQuest Program Bronze Award (Commitment) |

In terms of health and safety, London Hydro is governed by the Ministry of Labour and the Electrical Safety Authority (ESA) and is a member of the Infrastructure Health and Safety Association (IHSA). The Ministry of Labour monitors safety compliance in the field with a view to keeping employees safe; the ESA regulates and monitors the construction and electrical designs as well as the safety records of utilities with a view to keeping the public safe. The IHSA provides the safety rules that utilities are legislated to follow (the E&USA Safety Rule Book) and with which the Ministry of Labour monitors compliance. The IHSA also provides training and incentive programs to foster safety in the workplace. Both the ESA and the IHSA recognize utilities for safety accomplishments. By adopting an ERM framework, London Hydro Board's mitigates the risks of Ministry and ESA non-compliance and fosters a culture of workplace safety that has earned industry recognition for London Hydro.

# The Board of Directors

London Hydro is governed by a seven-member Board of Directors that is appointed by City Council. Directors have diverse backgrounds in law, finance, engineering, technology, and governance, and include one representative from City Council. Each Director is responsible to act honestly, in good faith and in the best interests of London Hydro to support the corporation in fulfilling its mission and discharging its accountabilities.

## Qualifications

### Director Qualifications

In addition to qualifications and requirements for Directors as set out in the OBCA and the by-laws of the corporation, the Board, as a whole, should possess most or all of the following:

- Financial and legal knowledge;
- Reasonable understanding of accounting and tax matters;
- Comprehensive understanding of the core business and objectives of the corporation;
- Utility industry knowledge;
- Strategic planning, including human resource planning;
- Corporate stewardship and risk management;
- Regulatory knowledge;
- Experience in a competitive business environment;
- Awareness of the needs of electric utility customers;
- Awareness of municipal government and local issues;
- Leadership and integrity;
- Experience and knowledge of London industry; and
- Experience and expertise in economic development initiatives.

### Chair Qualifications

To fulfill the responsibilities of the position, the Chair of the Board of Directors must possess the following qualities, skills and experience:

- All of the personal qualifications required of a Board Director;
- Proven leadership skills;
- Good strategic and facilitation skills, ability to influence and achieve consensus;
- Ability to act impartially and without bias;
- Tact and diplomacy;
- Powerful communication skills;
- Political acuity;
- Leadership skills to build a strong relationship between the corporation and its stakeholders;
- Ability to establish a trusted advisor relationship with London Hydro's CEO and other Board Directors;
- Governance and Board level experience in the public utilities sector;

- Outstanding record of achievement in one or several areas of skills and experience used to select Board Directors; and
- A minimum of two (2) years of Board service at the corporation, with a minimum of one (1) year as either a Committee Chair or one (1) year as a Vice-Chair.

### Vice Chair Qualifications

The Vice-Chair, as the Chair's deputy, performs the same roles and responsibilities that are delegated to the Chair, when the Chair is not present, and may include but are not limited to:

- Presiding at all meetings;
- Calling the Board to order at the hour appointed;
- Cause the business of the meeting to proceed in an expedient manner;
- Represent London Hydro in the community and promote its aims and ideals;
- Establish and maintain harmonious relationships with Board members and the Senior Management team;
- Encourage effective communication between the organization and the community;
- Ensure the Board maintains its emphasis on policy matters and that the authority delegated to any standing committee or staff is properly observed; and
- Skills and qualifications of Vice-Chair shall be the same as those of the Chair; additionally, a minimum of two (2) years of Board service at the corporation, with a minimum of one (1) year as a Committee Chair.

In order to perform their governance duties effectively, Directors should be trained in all aspects of corporate governance.

## Election and Term

City Council appoints Board members for a period of three years, and this term is renewable. New appointments are made and existing appointments are confirmed at every Annual General Meeting (AGM). The member of City Council, who sits on London Hydro's Board representing London City Council, may only serve on the Board so long as he or she remains a duly elected member of the Council.

To ensure Board continuity and therefore Board effectiveness, Director appointments are staggered through the implementation of a four class system. Under this system, each of the first three classes consists of two Directors and the fourth consists of the one Director, who is the representative of City Council. Only one class comes up for renewal in any one year, which not only protects the continuity of the Board, but also ensures that new members are brought in gradually.

## The Current Board of Directors

**Peter Johnson**, HBA, MBA, LL.B.

Mr. Johnson was appointed to the Board of London Hydro in 2000 and to the position of Chair in 2005. Mr. Johnson is a lawyer practising in all areas of corporate and commercial law for clients in the health care, technology, retail, manufacturing and agricultural fields. In his practice, Mr. Johnson focuses primarily on governance, mergers and acquisitions, reorganizations, corporate finance, sales and distribution contracts, technology licensing and transfers.

In addition to serving on the London Hydro Board, Mr. Johnson has chaired the Boards of the Ontario Hospital Association, London Health Sciences Centre, Children's Health Foundation, the Fowler Kennedy Sports Medicine Clinic and he has served on a number of Boards of TSE listed companies, including Stuart Energy Systems Corporation, Hydrogenics Corporation and Eplett Dairies Company Limited. Most recently, he has also been appointed to the Board of WORLDiscoveries.

Mr. Johnson has completed the Directors' Education Program at the Rotman School of Management.

**Mohan Mathur**, Ph.D., P. Eng., FCAE, D.Sc. (honoris causa)

Mr. Mathur was appointed to the London Hydro Board in 2005 and to the position of Vice-Chair in 2008, contributing a wealth of expertise in electrical and nuclear engineering. Mr. Mathur is retired from the position of President and CEO of the University Network of Excellence in Nuclear Engineering Inc., and previously held roles as the Vice-President of Nuclear at Ontario Power Generation (OPG) and Dean of Engineering at Western University. His knowledge of power systems and experience in corporate governance have been invaluable for creating policies and setting strategic direction on a variety of Boards, including Ontario Hydro prior to its break up, Canadian Engineering Accreditation Board, and the Board of Governors, Western University.

Mr. Mathur is a member of the Institute of Corporate Directors.

**Marilyn Sinclair**, BA

Ms. Sinclair was appointed to the London Hydro Board in 2005. Ms. Sinclair has more than 20 years of leadership and entrepreneurial experience, building and successfully merging software service businesses. Ms. Sinclair has experience in initiating business start-ups, accessing financing for growth, launching and building a U.S. Corporation, building major strategic partnerships, and managing merger and integration issues, as well as overseeing human resources and public relations. This breadth of experience was invaluable in her role as President of an organization providing advisory services, resources and programs to the tech community in London and Southwestern Ontario.

Ms. Sinclair received the "Woman of Distinction" award for business in 1997 and was also runner up for the "Entrepreneurial Woman of the Year" that same year. Ms. Sinclair has served on many Boards, task forces and committees and volunteers her time on community-based initiatives. Ms. Sinclair has completed the Directors' Education Program at the Rotman School of Management.

**Bernard Borschke**, BComm, FCA

Mr. Borschke was appointed to the London Hydro Board in 2005. Mr. Borschke is a former Chief Financial Officer of Big V Pharmacies as well as CEO of Pharma Plus Kft in Budapest, Hungary. A Chartered Accountant by profession, Mr. Borschke brings a strong financial and managerial background to the Board of London Hydro. Mr. Borschke has served on numerous Boards in both the private and public sectors as well as for a number of charitable organizations.

**Gabe Valente**, BA, BComm, CPA, CA

Mr. Valente was appointed to the London Hydro Board in 2008. Mr. Valente is a Chartered Accountant and managing partner in the accounting and management consulting firm of Valente & Theocharis LLP. Mr. Valente is experienced in providing a broad range of financial, taxation and strategic business management consulting services. He is also Managing Director of Health-Pro Assist, providing management consulting services in the areas of health care practice, practice acquisition and sale services for health care professionals.

Mr. Valente was appointed by the federal government to the Greater London International Airport Authority where he served as Chair. He also chaired the Children's Health Foundation and served on the Boards of the London Health Sciences Centre, the Canadian Airport's Council, as well as the Boards of many other for-profit and not-for-profit organizations.

**Connie Graham**, B.Sc., ICD.D

Ms. Graham was appointed to the London Hydro Board in 2011. In addition to serving on the Board of London Hydro, Ms. Graham is a professional independent Board Director serving on the Boards of the Federal Bridge Corporation Ltd., as well as the Fanshawe College Foundation.

Ms. Graham holds a B.Sc. in Biochemistry and was previously employed in a variety of marketing and sales management capacities with Varian Inc., IBM and General Electric Medical Systems.

**Mayor Joe Fontana**

Mr. Fontana was elected as the Mayor of the City of London in 2010 for a four-year term and sits on the London Hydro Board as City Council's representative.

First elected to Council in 1978, Mr. Fontana represented the City of London until 1988. Following this, Mr. Fontana was elected as Member of Parliament for London East from 1988 to 1997 and was elected as the first Member of Parliament for London North Centre serving his constituents from 1997 to 2006. In addition to this, Mr. Fontana held the position of Minister of Labour and Housing from July 2004 to February 2006.

Mayor Fontana brings a wealth of knowledge, business experience and guidance to the London Hydro Board.

# The Board's Function and Responsibilities

London Hydro's Board is responsible for the overall governance of the affairs of the corporation. In performing its role, the Board delegates to management the authority and responsibility for day-to-day operations and reviews management's performance and effectiveness in undertaking those responsibilities. Specifically, the Board actively oversees the following areas:

- strategic planning and strategic direction
- risk identification and oversight
- quality and performance measurement and monitoring
- policy and procedure management
- financial oversight
- oversight of management including selection, supervision and succession planning
- stakeholder communication and accountability
- governance
- legal compliance

The Board is instrumental in setting the strategic direction for the corporation. To meet its responsibilities for ***Strategic Planning and Strategic Direction***, the Board

- participates in formulating and adopting the Corporation's Mission, Vision and Values;
- participates in the development of and approves a strategic plan that is consistent with the corporation's Mission and Values and that enables the Corporation to realize its Vision;
- ensures the Corporation's operations are consistent with the strategic plan;
- reviews regular progress reports on the implementation of strategic direction and initiatives;
- ensures its decisions are consistent with the strategic plan and the Corporations' Mission, Vision and Values; and
- conducts an annual review of the strategic plan as part of the regular annual planning cycle.

The Board is responsible to be knowledgeable about risks inherent in corporation operations and ensures that appropriate risk analysis is performed as part of Board decision-making. To meet its responsibilities for ***Risk Identification and Oversight***, the Board

- ensures that appropriate programs and processes are in place to protect against risk;
- identifies unusual risks to the corporation and ensures plans are in place to prevent and manage such risks;
- ensures accuracy of financial information through oversight of management and approval of annual audited financial statements;
- ensures management has put measures in place to ensure the integrity of internal controls;
- oversees the corporation's risk management strategies and program;
- reviews and approves the corporation's enterprise risk management report;
- reviews and approves environmental policies; and
- reviews and approves cyber security management policies.

The Board is responsible for ensuring that performance evaluation occurs regularly at all levels of the organization and that the results are acted upon. To meet its responsibilities for ***Quality and Performance Measurement and Monitoring***, the Board

- establishes a process and a schedule for monitoring and assessing performance in areas of Board responsibility including:
  - fulfilment of the strategic direction in a manner consistent with the Mission, Vision and Values
  - oversight of management performance
  - quality of services to London Hydro customers as per OEB metrics
  - financial performance
  - external relations
  - Board's own effectiveness
- ensures that management has identified appropriate measures of performance;
- ensures that management has plans in place to address variances from performance standards; and
- directs and oversees implementation of remediation plans.

The Board is responsible for ensuring that the operation is run consistently following policies and procedures that are safe, sound and of the highest ethical standards. To meet its responsibilities for ***Policy and Procedure Management***, the Board reviews and approves

- policies relevant to the corporation and its operations;
- corporate procedures; and
- collective bargaining parameters.

The Board is responsible for stewardship of financial resources including ensuring availability of, and overseeing allocation of, financial resources. To meet its responsibilities for ***Financial Oversight***, the Board

- reviews and approves annual operating and capital budgets;
- oversees allocation of financial resources as per budget and monitors financial performance against the budget;
- approves policies for financial planning in accordance with generally accepted accounting standards;
- monitors London Hydro's financial performance against the budget;
- reviews and approves quarterly financial statements and management's discussion and analysis;
- approves year-end audited financial statements;
- declares the dividend to the shareholder, should financial position permit;
- approves expenditures not in operating and capital budgets;
- approves the year-end audit planning report; and
- approves investment policies and monitors compliance.

The Board is responsible for overseeing the continuity of the corporation's executive leadership. To meet its responsibilities for ***Oversight of Management Including Selection, Supervision and Succession Planning***, the Board

- reviews and approves succession planning report for the CEO and Executive Management;
- reviews and approves the CEO job description and selection process;

- undertakes recruitment and selection process for the CEO;
- establishes the CEO's annual performance goals;
- reviews and approves the CEO's performance, compensation and incentive;
- conducts annual review of the CEO's performance, including the CEO's supervision of senior management; and
- reviews the Executive performance incentive.

The Board is responsible for identifying the Corporation's stakeholders and understanding stakeholder accountability. To meet its responsibilities for ***Stakeholder Communication and Accountability***, the Board

- contributes to and maintains positive stakeholder relationships;
- acts and communicates with stakeholders in a manner consistent with the vision, mission, and values of the corporation;
- reviews the Corporation's communications strategy; and
- provides quarterly and annual financial reports and the governance report to the shareholder.

The Board is responsible for the quality of its own governance and for establishing governance structures to facilitate the performance of the Board's role and enhance individual Director performance. To meet its responsibilities for ***Governance***, the Board

- reviews and approves annual Board and committee evaluation survey results;
- makes recommendations to the shareholder regarding Board nominations based on skill and Board requirements;
- reviews and appoints membership of Board Committees and Committee Chairs;
- appoints officers;
- reviews and approves Committees' Terms of Reference and Committees' Work plans;
- reviews and approves the annual Board work plan;
- reviews and approves Board education practices;
- reviews and approves changes to corporate by-laws;
- attends the Annual General Meeting of the Corporation;
- reviews the Shareholder Declaration; and
- reviews and recommends Board remuneration to the shareholder.

The Board ensures that appropriate processes are in place to ensure compliance with legal requirements. To meet its responsibilities for ***Legal Compliance***, the Board

- ensures the Corporation is compliant with regulatory and legal requirements;
- reviews the health and safety policy report;
- reviews the Accessibility for Ontarians with Disabilities Act; and
- ensures the corporation is compliant with the Municipal Freedom of Information and Protection of Privacy Act (MFIPPA).

## Board's Responsibility to Meet Disclosure Requirements

In addition to the responsibilities listed above, the Board is responsible for issuing the following documentation, which is also made available to the public:

1. Quarterly Financial Statement & Management's Discussion and Analysis
2. Quarterly Debt Covenant Declaration (to various debt holders - banks)
3. Annual Financial projections to S&P for credit evaluation
4. Annual Audited Financial Statements
5. Regulatory Reporting requirements as per the OEB
6. Health and Safety compliance report as per ESA
7. Green Energy Act Plan (GEA Plan)
8. Distribution System Plan – Filing (Deemed Conditions of Service)
9. Reporting and Record-keeping Requirements (RRR)
10. Customer Service Quality Standard
11. Condition of Service

## Board's Responsibility to Meet Compliance Requirements

The Board is required to be compliant with the following:

1. Distribution System Code
2. Conservation Demand Management Code
3. Affiliate Relationship Code
4. Retail Settlement Code
5. Standard Supply Services Code
6. Electricity Distribution Rate Handbook
7. Accounting Procedures Handbook (APH)
8. OEB Rules of Practice and Procedure
9. Standards of Business Practice and Conduct
10. Regulator Price Plan
11. Retailer System Code

## Board Evaluation

As part of its due diligence obligations, the Board performs an annual self-evaluation of its own performance across multiple parameters, which are documented in the Board's annual Work Plan. To measure these activities and achievements, Board Members complete both an extensive Board Evaluation as well as a Self-Evaluation.[5]

[5] See Appendix A for copies of the Board's Work Plan and the Board Evaluation form.

## Independence of the Board

The Board recognizes the importance of remaining independent of management in order to maintain the highest standards of integrity and to be effective in undertaking its numerous responsibilities on behalf of the corporation. Therefore, to ensure the independence of all Board members, the Board has created a Directors' Disclosure of Interest (Section XV of the Governance Manual) to ensure any and all conflicts of interest are addressed.

## Board Committees

In addition to the responsibilities carried out by the Board of Directors, Board members are also expected to participate on the following three standing Committees:

- Audit Committee
- Corporate Governance & Risk Management Committee
- Human Resources Policy & Procedures Committee

Like the Board as a whole, each of these committees is responsible for a variety of activities, which are captured in their annual Work Plans, as well as for performing an annual evaluation that measures the success of the committee's activities and achievements. Committee Work Plans and Evaluation forms are included in the Appendices.

### Audit Committee[6]

The Audit Committee is responsible for the co-ordination and oversight of the London Hydro's management, internal audit and external audit to ensure the effective development and maintenance of adequate financial controls and reporting. The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities. The Audit Committee reviews the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations and its own code of business conduct. In performing its duties, the Audit Committee maintains effective working relationships with the Board, management, and the external auditors. To perform his or her role effectively, each Audit Committee member obtains an understanding of the detailed responsibilities of committee membership as well as the London Hydro's business, operations, and risks.

### Corporate Governance & Risk Management Committee[7]

The purpose of this committee is to assist the Board of Directors in ensuring that London Hydro operates within a sound corporate governance framework through the development of a recommended appropriate governance structure, including policies, processes and procedures that satisfy legal, health and safety and regulatory requirements in this regard, which also reflects

[6] See Appendix B for copies of the Audit Committee's Terms of Reference, Work Plan and Evaluation form.
[7] See Appendix C for copies of the Corporate Governance & Risk Management Committee's Terms of Reference, Work Plan and Evaluation form.

best practices in the industry. The Corporate Governance & Risk Management Committee also acts in an advisory capacity to the Board in assessing the effectiveness of London Hydro's system of corporate governance.

### Human Resources Policy & Procedures Committee[8]

The Human Resources Policy & Procedures Committee is responsible for acting as an advisor to the London Hydro Board with respect to Human Resource's policies and practices.

## Compensation of the Board

In accordance with 4.6 of the Shareholder Declaration, the shareholder establishes compensation for Directors of London Hydro, the Chair and any officers who are Directors of the corporation, in amounts sufficient to attract candidates with necessary qualifications and consistent with industry norms and standards for comparable Ontario electricity distribution utilities. A Director that is a member of London City Council receives no additional compensation for acting as a Director.

The current compensation was established by Council resolution of May 15, 2000:

- Chair's compensation of $10,000 per year plus $600 per meeting attended
- Directors' compensation of $6,000 per year plus $600 per meeting attended

Directors receive $100 if the meeting is conducted via conference call.

## Board Attendance – Board and Committee Meetings

The Board meets approximately 10 times a year and each Director is expected to adhere to the Board's attendance policy that requires attending at least 75% of Board Meetings. Directors are also expected to sit on at least one standing committee.

As Table 5 illustrates, London Hydro's independent Board members maintain an attendance record above 90% and have consistently upheld that standard since the Board's inception. Moreover, Table 6 illustrates the record of attendance for each standing committee.

[8] See Appendix D for copies of the Human Resources Policy & Procedures Committee's Terms of Reference, Work Plan and Evaluation form.

Table 5: Board Attendance 2009 to 2013

| Independent Board Members | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Average Attendance of the Board Members | 95% | 97% | 96% | 96% | 92% |

Table 6: Committee Attendance for Independent Board Members 2009 to 2013

| Committee | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Audit | 100% | 94% | 91% | 97% | 95% |
| Human Resources Policy & Procedures | 96% | 100% | 100% | 96% | 100% |
| Corporate Governance & Risk Management | N/A | 100% | 100% | 100% | 100% |

# Appendix A: Board of Directors

## London Hydro Inc.

## Board of Directors Work Plan

The Board ensures that each of its Committees has an approved work plan in place and approves the work of these Committees annually. Some of the items in the Board work plan are delegated to the Board's Committees and subject to final approval by the Board of Directors.

| No. | Priority | Target Date |
|---|---|---|
| 1.0 | Strategic Planning and Strategic Directions | |
| 1.1 | Formulate and adopt the corporation's Vision, Mission, Values. | Q4 |
| 1.2 | Conduct an annual review and refresh of strategic plan. | Q4 |
| 1.3 | Adoption of strategic plan. | Q1 |
| 1.4 | Review progress on implementation of strategic plan. | Quarterly |
| 2.0 | Quality and Performance Measurement and Monitoring | |
| 2.1 | Establish corporate performance goals consistent with strategic plan. | Q1 |
| 2.2 | Approve management's identified corporate goals. | Q1 |
| 2.3 | Oversight of management performance against corporate goals. | Quarterly |
| 2.4 | Monitor quality of services to London Hydro's customers per OEB SQI metrics. | Monthly |
| 2.5 | Address variances from performance goals. | Quarterly |
| 3.0 | Policy & Procedure Management | |
| 3.1 | Review and approve policies relevant to the corporation and its operations. | As Required |
| 3.2 | Review and approve corporate procedures. | As Required |
| 3.3 | Review and approve collective bargaining parameters. | As Required |
| 4.0 | Financial Oversight | |
| 4.1 | Review and approve annual operating and capital budgets. | Q4 |
| 4.2 | Oversight of allocation of financial resources as per budget - monitor financial performance against budget. | Quarterly |
| 4.3 | Approve policies for financial planning in accordance with generally accepted accounting standards. | As Required |
| 4.4 | Monitor financial performance against budget. | Quarterly |
| 4.5 | Review and approve quarterly financial statements and management's discussion and analysis. | Quarterly |
| 4.6 | Approve year-end audited financial statements. | Annually |
| 4.7 | Declare dividend to the Shareholder, should financial position permit. | Q1/Q4 |
| 4.8 | Approve expenditures not in operating and capital budgets. | As Required |
| 4.9 | Approve the year-end audit planning report. | Q4 |
| 4.10 | Approve investment policies and monitor compliance. | As Required |
| 5.0 | Risk Identification and Oversight | |
| 5.1 | Oversight of risk management strategies and program. | As Required |
| 5.2 | Review and approve the corporation's enterprise risk management report. | Q1 |
| 5.3 | Review and approve environmental policies. | Annually |
| 5.4 | Review and approve cyber security management policies. | Annually |
| 6.0 | Oversight of Management Including Selection, Supervision and Succession Planning | |
| 6.1 | Review and approve succession planning report for CEO and Executive Management. | Q4 |
| 6.2 | Review and approve CEO job description and selection process. | As Required |
| 6.3 | Establish CEO's annual performance goals. | Q1 |
| 6.4 | Review and approve CEO's performance and incentive. | Q4 |
| 6.5 | Conduct annual of CEO's performance. | Q4 |
| 6.6 | Review the Executive performance incentive. | Q4 |

| | | |
|---|---|---|
| 7.0 | Stakeholder Communication and Accountability | |
| 7.1 | Maintain positive relations with Shareholder. | As Required |
| 7.2 | Contribute and maintain strong stakeholder relationships. | As Required |
| 7.3 | Act in a manner consistent with the vision, mission, and values of the corporation. | As Required |
| 7.4 | Review communications strategy. | Annually |
| 7.5 | Report to Shareholder – quarterly and annually financial plus governance report. | Annually |
| 8.0 | Governance | |
| 8.1 | Review and approve annual Board and committee evaluation survey results. | Q2 |
| 8.2 | Make recommendations to the Shareholder regarding Board nominations based on skill and Board requirements. | Q2 |
| 8.3 | Review and appoint membership of Board Committees. | Q2 |
| 8.4 | Review and appoint Committee Chairs. | Q2 |
| 8.5 | Appoint Officers. | Q2 |
| 8.6 | Review and approve Committees' Terms of Reference and Committees' Work plans. | Q3 |
| 8.7 | Review and approve the annual board work plan. | Q1 |
| 8.8 | Review and approve Board education practices. | As Required |
| 8.9 | Review and approve changes to corporate by-laws. | As Required |
| 8.10 | Attend Annual General Meeting of the corporation. | Q2 |
| 8.11 | Review Shareholder Declaration. | As Required |
| 8.12 | Review and recommend Board remuneration to Shareholder. | Q3 |
| 9.0 | Legal Compliance | |
| 9.1 | Ensure corporation is compliant with regulatory and legal requirements. | As Required |
| 9.2 | Review health and safety policy report. | Annually |
| 9.3 | Review Accessibility for Ontarians with Disabilities Act. | Annually |

## London Hydro Inc.
## Board of Directors Evaluation

| QUESTION | AGREE | NEEDS IMPROVEMENT | NO COMMENT |
|---|---|---|---|
| ***ROLES & RESPONSIBILITIES*** | | | |
| 1. The Board understands its role in the following area: | | | |
| • Strategic Planning | | | |
| • Financial Oversight | | | |
| • Quality (SAIDI, SAIFI, CAIDI) | | | |
| • Regulatory | | | |
| • Risk Management | | | |
| 2. The Board effectively performs in each of the following areas: | | | |
| • Strategic Planning | | | |
| • Financial Oversight | | | |
| • Quality | | | |
| • Risk Management | | | |
| 3. The Board develops an annual workplan with reference to the Corporation's strategic directions and the Board's role. | | | |
| 4. The Board follows its annual workplan. | | | |
| 5. The workplan helps the Board understand and perform its role. | | | |
| 6. The Board understands and performs its governance role and does not become involved in management issues. | | | |
| 7. The Board understands and considers the Corporation's accountabilities. | | | |
| 8. The Board makes decisions that are consistent with the Corporation's mission, vision and values. | | | |
| 9. The Board ensures the strategic plan is being implemented and makes decisions that are consistent with the strategic plan. | | | |
| 10. The Board is well informed about: | | | |
| • The Corporation | | | |
| • Current trends and issues in the public utilities sector | | | |
| • The Board's governance role | | | |

## London Hydro Inc.
## Board of Directors Evaluation

| QUESTION | AGREE | NEEDS IMPROVEMENT | NO COMMENT |
|---|---|---|---|
| ***COMPOSITION & QUALITY*** | | | |
| 1. The Board is the right size for effective Board discussions; all Board members have an opportunity to contribute. | | | |
| 2. The Board identifies the skills and qualities that are required to perform the Board's role. | | | |
| 3. The Board advocates for new members to be recruited on the basis of skills, knowledge, experience and required abilities. | | | |
| 4. Board terms allow for Board turnover to appropriately balance Board continuity and new contributions. | | | |
| 5. Board members receive orientation that prepares them to contribute effectively to the Board. | | | |
| 6. Board members understand their fiduciary obligations and will: | | | |
| • Act in the best interest of the Corporation | | | |
| • Avoid conflicts | | | |
| • Speak with one voice | | | |
| • Follow Board governance policies | | | |
| 7. Board members work well together. | | | |
| 8. Board members have an opportunity to participate in ongoing education programs. | | | |
| ***STRUCTURE & PROCESSES*** | | | |
| **Committees:** | | | |
| 1. The Board has the right committees. | | | |
| **Board Meetings:** | | | |
| 1. Meeting materials are received sufficiently in advance to be thoroughly reviewed by Board members. | | | |
| 2. Materials are appropriate and prepare Directors to make decisions. | | | |
| 3. Meetings are structured so there is sufficient time for discussion of decision items. | | | |
| 4. The Board deals with in-camera business appropriately. | | | |
| 5. Board agendas focus on items that are within the Board's role. | | | |

## London Hydro Inc.
## Board of Directors Evaluation

| QUESTION | AGREE | NEEDS IMPROVEMENT | NO COMMENT |
|---|---|---|---|
| 6. Minutes accurately reflect Board discussions and processes. | | | |
| 7. The Board meets the right number of times. | | | |
| 8. The Board meets at the right time of day. | | | |
| **Board Chair:** | | | |
| 1. The Board Chair conducts meetings in a way that moves the business of the Board forward. | | | |
| 2. The Chair allows adequate time for debate. | | | |
| 3. The Chair ensures all sides of an issue are heard. | | | |
| 4. The Chair ensures the Board has the necessary information or advice to make decisions. | | | |
| 5. The Chair invests time in building relationships with the following: | | | |
| • The CEO | | | |
| • The Directors | | | |
| • The Committee Chairs | | | |
| 6. The Chair and the Board understand the Chair's role as the spokesperson for the Board. | | | |
| 7. The Chair represents the Board and Corporation in the community and helps to build strong relationships with key stakeholders. | | | |
| **Efficiency & Performance:** | | | |
| 1. Board members contribute their skills and experience. | | | |
| 2. Board members respect and value the views of all members of the Board. | | | |
| 3. Board members come prepared. | | | |
| 4. Board members treat eachother with courtesy and respect. | | | |
| 5. Board members respect the confidentiality of Board discussions. | | | |
| 6. Board members declare conflicts of interest as required. | | | |
| 7. Board members are aware of and adhere to the Board Code of Conduct. | | | |

## London Hydro Inc.
## Board of Directors Evaluation

| QUESTION | AGREE | NEEDS IMPROVEMENT | NO COMMENT |
|---|---|---|---|
| ***SELF ASSESSMENT*** | | | |
| **Knowledge:** | | | |
| 1. I have a good understanding of the Corporation's operations. | | | |
| 2. I understand the mission, vision, and values. | | | |
| 3. I am familiar with the strategic plan and take it into account on Board decisions. | | | |
| 4. I understand the difference between the governance role of the Board and the role of the managers. | | | |
| 5. I understand the Board's role and annual work plan. | | | |
| 6. I understand and respect the roles of the committees. | | | |
| **Contributions:** | | | |
| 1. I apply my skill and experience. | | | |
| 2. I listen and consider the views of others. | | | |
| 3. I prepare for meetings. | | | |
| 4. I ask questions that will help me make a decision. | | | |
| 5. I express my views even when I may be in the minority. | | | |
| 6. I respect the decision of the majority. | | | |
| 7. I meet or exceed the attendance requirements. | | | |
| 8. I support corporate events. | | | |
| 9. I contribute to the committees on which I serve. | | | |
| ***COMMENTS ON ANY OR ALL OF THIS EVALUATION:*** | | | |
| | | | |

# Appendix B: Audit Committee

## Terms of Reference

### *Purpose*

The Audit Committee (the "Committee") is responsible for the co-ordination and oversight of London Hydro Inc.'s (the "Corporation") management, internal audit and external audit to ensure the effective development and maintenance of adequate financial controls and reporting.

The Committee will assist the Board of Directors (the "Board") in fulfilling its oversight responsibilities. The Committee will review the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Corporation's process for monitoring compliance with laws and regulations and its own code of business conduct. In performing its duties, the Committee will maintain effective working relationships with the Board, management, and the external auditors. To perform his or her role effectively, each Committee member will obtain an understanding of the detailed responsibilities of Committee membership as well as the Corporation's business, operations, and risks.

### *Organization*

#### Committee Composition

All Board Committees will be established each year by the Board, with the Chair of the Committee (the "Committee Chair") to be selected by the Board.

The Committee will consist of three Board members plus the Board Chair, who are independent of the Corporation's management. Committee members will have had no business transactions outside of the normal course of business (i.e. the purchase of power), relationships or financial interests with the Corporation or its management.

#### Membership Qualifications

All Committee members will be required to be financially literate or to become financially literate within a reasonable time, and have broad business experience. The Committee Chair will be required to have accounting or related financial expertise, or past experience as a member of an Audit Committee of a significant business.

#### Frequency of Meetings

The Committee will meet as many times as is necessary to carry out its responsibilities and report to the Board. As a minimum requirement, the Committee will be required to meet no less than four times per fiscal year to discharge the external audit responsibilities prescribed by this mandate. Special meetings can be called at the request of any Committee member, the external auditors or internal auditors, if applicable.

#### Attendance at Meetings

The Committee may invite such other persons (i.e. the CEO, CFO, external and internal auditors) to its meetings, as it deems necessary.

### Committee Process

The time at which and the place where the meetings of the Committee shall be held, the calling of meetings and the procedures in all respects of such meetings shall be determined by the Committee, unless otherwise provided for in the by-laws of the Corporation or otherwise determined by resolution of the Board. Every attempt should be made for the Committee to meet in person when possible, rather than through teleconference facilities.

No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee. A majority of the members of the Committee shall constitute a quorum provided that, if the number of members of the Committee is an even number, then one half of the number of members plus one shall constitute a quorum.

Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a Director.

The Committee Chair will appoint a Secretary (the "Secretary") who will keep minutes of all meetings. The Secretary does not have to be a member of the Committee or a Director and can be changed by simple notice of the Committee Chair.

## *Reporting Responsibilities*

The responsibility and authority of the Committee is prescribed by the Board and accordingly, the Committee will provide full reporting of each Committee meeting to the Board. The proceedings of all meetings will be minuted.

## *Specific Responsibilities*

### External Audit Responsibilities

The Committee is required to meet with the external auditor prior to the commencement of the annual audit and perform the following:

- Review management's evaluation of the external auditor's independence.
- Review the external auditor's proposed audit planning summary, materiality, risk assessment, audit scope and approach to ensure that areas of risk are adequately addressed.
- Review the external auditors' prior years' actual fees and approve the current year's budgeted fees (it is recognized that the Corporation's shareholder establishes the audit fees).
- Review with the auditor those matters the Committee expects to be informed of in the course of the audit (see attached Appendix I).

The Committee is required to meet with the external auditor prior to the issuance of the final annual audit report and perform the following:

- Conduct a post-audit review of the annual financial statements and audit findings.
- Enquire of management and auditors about any differences of opinion including a review of the auditor's schedule of unadjusted differences.

- Meet in-camera with the auditors to discuss any issues arising from the audit.
- Review any accounting policy or accounting principle changes.
- Review the sufficiency and appropriateness of any significant estimates, management judgements and accounting provisions included in the determination of the financial statements and management's discussion and analysis ("MD&A").
- Review the external auditor's recommendations for improvements to internal control and management's responses to those suggestions.
- Review the performance of the external auditors.
- Review the annual report for consistency with the annual financial statements and MD&A.

## Financial Reporting Responsibilities

- Review and approve interim quarterly financial statements and MD&A, as required to be presented to the Board for their approval.
- Review from the Corporation's counsel their legal response on any legal matters that could have a significant impact on the Corporation's financial statements.
- The Committee will determine to the extent that they consider necessary, the appropriate level of review and involvement in the following areas:

### *1) Internal Control Responsibilities*

- Assess management's programs regarding the adequacy and effectiveness of internal controls and the identification of areas of risk, to ensure that procedures and controls have been implemented to monitor and manage these areas effectively.
- Gain an understanding of the current areas of greatest financial risk and how management is managing these effectively.
- Review the activities, organizational structure and qualifications of the internal audit function.

### *2) Other Compliance Responsibilities*

- Review management's monitoring of compliance and its compliance with the Corporation's code of corporate conduct. Enquire of external auditors and management about any possible breaches. Request that management annually report to the Corporation that it is in compliance with such code.
- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance.
- Obtain regular updates from management and the Corporation's legal counsel regarding compliance matters.
- Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.
- Review the findings of any examinations by regulatory agencies.
- Review the policies and procedures in effect for the review of officers' expenses and perquisites.
- Review the annual report of Executives' expenses.
- Review and approve the annual report of the CEO's expenses.
- If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist.
- Perform other oversight functions as requested by the Board.

## *Remuneration*

The members of the Committee shall be entitled to receive the same remuneration for acting as members of the Committee as that provided for other committees of the Board, the amount of which the Board may from time to time determine.

## *Appendix I*

During the normal course of their audit, the auditors are to inform the Committee of the following:

- significant weaknesses in controls;
- illegal acts;
- significant misstatements including fraud;
- any issues relating to the industry selection of accounting policies and changes therein;
- the methods used to account for significant unusual transactions;
- the effect of accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;
- issues relating to various judgments made by management, including particularly sensitive estimates and disclosures;
- information in the annual report that is inconsistent with the financial statements;
- disagreements with management about matters that affect the financial statements or auditors' report;
- the auditor's views concerning any matters that were the subject of consultation by management with other accountants;
- major issues discussed with management in connection with the initial or recurring audit appointment;
- serious difficulties during the audit, including unreasonable delays in management providing information required by the auditors;
- significant transactions that appear to be inconsistent with the ordinary course of business;
- unusual actions that increase the risk of loss; and
- actions that, if they become public, might cause embarrassment to the Corporation.

## London Hydro Inc.
## Audit Committee Work Plan

The Committee works on behalf of the Board of Directors and makes recommendations to the Board.

| No. | Activity | Target Date | Quarter |
|---|---|---|---|
| 1 | Review the annual work plan and recommend changes as required. | Annually | Q1 |
| 2 | Review the Committee Terms of Reference. | Annually | Q1 |
| 3 | Meet with external Auditors prior to the commencement of the audits. | Annually | Q4 PY |
| 4 | Review the external Auditors' proposed audit planning summary. | Annually | Q4 PY |
| 5 | Review the external Auditors' prior year's fees and approve current budgeted fees. | Annually | Q4 PY |
| 6 | Meet with external Auditors prior to issuance of the final audit report. | Annually | Q2 |
| 7 | Meet/discuss with corporation's legal counsel with respect to any legal matters that could impact financial statements. | Annually | As Required |
| 8 | Review the annual report for consistency with annual financial statements and Management's Discussion and Analysis. | Annually | Q2 |
| 9 | Review and approve the interim quarterly financial statements as presented, prior to approval by the Board. | Quarterly | |
| 10 | Review the policies and precedures in effect for the review of officers' expenses and perquisites. | Annually | Q1 |
| 11 | Review the annual report of Senior Managers' expenses as approved by the CEO. | Annually | Q1 |
| 12 | Review and approve the annual report of the CEO's expenses. | Annually | Q1 |
| 13 | Review the annual Information Technology (IT) strategy. | Annually | Q3/Q4 |
| 14 | Liaise with the Corporate Governance & Risk Management Committee to identify any financial risks. | Annually | |
| 15 | Perform other oversight functions as assigned to the Committee by the Board. | As Required | |

## London Hydro Inc.

## Audit Committee Evaluation

| QUESTION | AGREE | NEEDS IMPROVEMENT | NO COMMENT |
|---|---|---|---|
| 1. The Committee Terms of Reference are reviewed annually. | | | |
| 2. The Committee's Work Plan is established annually and aligns with Board work. | | | |
| 3. The Board respects the work of this Committee and does not redo the Committee's work. | | | |
| 4. Members are assigned to this Committee based on skill and experience. | | | |
| 5. Committee reports are timely. | | | |
| 6. Comittee reports are effective in providing necessary information to the Board. | | | |
| 7. The Committee evaluates its own performance and results are acted upon. | | | |
| 8. The Committee Chair conducts the meetings in a way that moves the business of the Committee forward. | | | |
| 9. The Committee Chair allows adequate time for debate. | | | |
| 10. The Committee Chair ensures all sides of the debate are heard. | | | |
| 11. The Committee Chair ensures the Committee has the necessary information or advice to make decisions. | | | |
| 12. The Committee Chair invests time in building relationships with the members. | | | |
| ***COMMENTS ON ANY OR ALL OF THIS EVALUATION:*** | | | |
| | | | |

# Appendix C: Corporate Governance & Risk Management Committee

## Terms of Reference

### *Purpose*

The Corporate Governance & Risk Management Committee (the "Committee") is responsible for assisting the Board of Directors (the "Board") in ensuring that London Hydro Inc. (the "Corporation") operates within a sound corporate governance framework through the development of a recommended appropriate governance structure, including policies, processes and procedures that satisfy legal, health and safety and regulatory requirements in this regard, and reflect best practices in the industry. The Committee shall also act in an advisory capacity to the Board in assessing the effectiveness of the Corporation's system of corporate governance.

### *Organization*

#### Committee Composition

All Board Committees will be established each year by the Board, with the Chair of the Committee (the "Committee Chair") to be selected by the Board.

The Committee will consist of three Board members plus the Board Chair, who are independent of the Corporation's management. Committee members will have had no business transactions outside of the normal course of business (i.e. the purchase of power), relationships or financial interests with the Corporation or its management.

#### Membership Qualifications

Each Committee member will be required to have broad business experience and expertise.

#### Frequency of Meetings

The Committee will meet as many times as is necessary to carry out its responsibilities and report to the Board. Meetings may be called by the Committee Chair or by any two of its members.

#### Attendance at Meetings

The Committee may invite such other persons (i.e. the CEO, Vice Presidents) to its meetings, as it deems necessary.

#### Committee Process

The time at which and the place where the meetings of the Committee shall be held, the calling of meetings and the procedures in all respects of such meetings shall be determined by the Committee, unless otherwise provided for in the by-laws of the Corporation or otherwise determined by resolution of the Board. Every attempt should be made for the Committee to meet in person when possible, rather than through teleconference facilities.

It is understood that in order to properly carry out its responsibilities with respect to corporate governance recommendation and advice to the Board, the Committee may retain outside consultants at the expense of the Corporation and on the approval of the Board, if it considers it to be necessary.

No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee. A majority of the members of the Committee shall constitute a quorum provided that, if the number of members of the Committee is an even number, then one half of the number of members plus one shall constitute a quorum.

Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a Director.

The Committee Chair will appoint a Secretary (the "Secretary") who will keep minutes of all meetings. The Secretary does not have to be a member of the Committee or a Director and can be changed by simple notice of the Committee Chair.

The Committee shall have access in normal circumstances to the Corporation's auditors, legal counsel, and with the exception of confidential personnel records and files, to such information respecting the Corporation as it considers necessary or advisable in order to perform its duties and responsibilities.

### *Reporting Responsibilities*

The responsibility and authority of the Committee is prescribed by the Board and accordingly, the Committee will provide full reporting of each Committee meeting to the Board. The proceedings of all meetings will be minuted.

### *Specific Responsibilities*

- Act as a nomination committee for new Board members and for the Board Chair and Vice Chair positions.
- Recommend appropriate processes for approval and implementation by the Board to fulfill its responsibility for:
    i. oversight of strategic direction and development and review of ongoing results of operations;
    ii. oversight of the Corporation's shareholder relations and public relations activities and ensuring that procedures are in place for the effective reporting to the shareholder, receipt of shareholder feedback and response to shareholder concerns.
- Recommend a proper delineation of the role, duties and responsibilities of management, the Board and its committees, and delegation of authority by the Board to its committees and management.
- Recommend procedures for meetings of the Board and to otherwise assist in establishing processes, procedures and structures to ensure that the Board functions independently of management and without conflicts of interest.
- Recommend to the Board improvements to enhance an effective and appropriate working relationship between management and the Board.
- Review, consider and advise the Board on the composition of the Board in relation to the needs of the Corporation and the commitment required of individual Directors.
- Review, consider, and advise the Board on appropriate scope and levels of Directors' and Officers' liability insurance and indemnification arrangements.
- Review the Enterprise Risk Management Report and allocate responsibilities to the appropriate Board committee (i.e. banking issues – Audit Committee).

### Board and Committee Structure and Membership

- Review the mandates of the Board's committees and recommend appropriate changes.
- Recommend allocation of Directors of the Corporation to the various committees of the Board.

### Directors

- Develop for Board approval, implement and maintain an orientation and educational program for new appointments to the Board in order to familiarize new Directors with the business of the Corporation, its management and professional advisors and its facilities, as well as their role and responsibilities as Directors.

### Establishment of Operational Governance Policies

- Recommend the development and implementation of appropriate corporate governance policies including, but not limited to, Confidentiality Policies, Corporate Codes of Conduct, Conflict of Interest and other relevant policies associated with ensuring an effective system of corporate governance.
- Policies to be reviewed at least every three years.

### Legal Affairs

- Act in an advisory role to the Board with respect to legal matters, including the retention of legal counsel, the review and approval of any extraordinary legal expenditures and the status of any litigation or other legal matters and to make recommendations to the Board with respect thereto.
- Review insurance agreements and provide recommendations on exposure and strategic ways to reduce the risk to an acceptable level.

### Related Party Transactions

- Review related party transactions for reflection of market practice and being in the best interests of the Corporation and advise the Board thereof.

### Committee Evaluation

- Assess and provide recommendations to the Board on the effectiveness of its Committees and Committee Chairs.

## *Remuneration*

The members of the Committee shall be entitled to receive the same remuneration for acting as members of the Committee as that provided for other committees of the Board, the amount of which the Board may from time to time determine.

## London Hydro Inc.

## Corporate Governance & Risk Management Committee Work Plan

The Committee works on behalf of the Board of Directors and makes recommendations to the Board.

| No. | Activity | Target Date |
|---|---|---|
| 1 | Prepare an annual work plan. | Q1 |
| 2 | Board succession plan. | Q2 (AGM) |
| 3 | Board Chair and Vice-Chair's succession plan. | As Required |
| 4 | Review the composition (skill set) of the Board of Directors in relation to the needs of the Corporation. | Annually |
| 5 | Review and consider appropriate scope and levels of Directors' and Officers' liability and indemnification arrangements. | Annually |
| 6 | Board's and Committee's remuneration review. | Annually |
| 7 | Update on the discussions/relationships with the Shareholder and community stakeholders. Advice on any strategies to strengthen the relationship with the Shareholder. | Annually - Q2 |
| 8 | Review and recommend changes to the governance policies. | Annually |
| 9 | Review of enterprise risk management framework and reports and assign oversight to relevant Committees. | Annually |
| 10 | Review the legal claims outstanding contained within the risk register. | Quarterly |
| 11 | Review insurance agreements and provide recommendations on exposure and strategic ways to reduce the risk. | Annually |
| 12 | Perform special tasks as assigned to the Committee by the Board. | As Required |
| 13 | Responsible for orientation of new members of the Board. | As Required |
| 14 | Responsible for Board and Committee's evaluation. | Annually |

## London Hydro Inc.

## Corporate Governance & Risk Management Committee Evaluation

| QUESTION | AGREE | NEEDS IMPROVEMENT | NO COMMENT |
|---|---|---|---|
| 1. The Committee Terms of Reference are reviewed annually. | | | |
| 2. The Committee's Work Plan is established annually and aligns with Board work. | | | |
| 3. The Board respects the work of this Committee and does not redo the Committee's work. | | | |
| 4. Members are assigned to this Committee based on skill and experience. | | | |
| 5. Committee reports are timely. | | | |
| 6. Comittee reports are effective in providing necessary information to the Board. | | | |
| 7. The Committee evaluates its own performance and results are acted upon. | | | |
| 8. The Committee Chair conducts the meetings in a way that moves the business of the Committee forward. | | | |
| 9. The Committee Chair allows adequate time for debate. | | | |
| 10. The Committee Chair ensures all sides of the debate are heard. | | | |
| 11. The Committee Chair ensures the Committee has the necessary information or advice to make decisions. | | | |
| 12. The Committee Chair invests time in building relationships with the members. | | | |
| ***COMMENTS ON ANY OR ALL OF THIS EVALUATION:*** | | | |
| | | | |

# Appendix D: Human Resources Policy & Procedures Committee

## Terms of Reference

### *Purpose*

The Human Resources Policy & Procedures Committee (the "Committee") is responsible for acting as an advisory to the Board of Directors (the "Board") for London Hydro Inc. (the "Corporation") with respect to Human Resource's policies and practices.

### *Organization*

#### Committee Composition

All Board Committees will be established each year by the Board, with the Chair of the Committee (the "Committee Chair") to be selected by the Board.

The Committee will consist of three Board members plus the Board Chair, who are independent of the Corporation's management. Committee members will have had no business transactions outside of the normal course of business (i.e. the purchase of power), relationships or financial interests with the Corporation or its management.

#### Membership Qualifications

Each Committee member will be required to have broad business experience and expertise.

#### Frequency of Meetings

The Committee will meet at least quarterly, or as many times as necessary, to carry out its responsibilities and report to the Board. Meetings may be called by the Committee Chair or by any two of its members.

#### Attendance at Meetings

The Committee may invite such other persons (i.e. the CEO, Senior Director of Human Resources) to its meetings as it deems necessary.

#### Committee Process

The time at which and the place where the meetings of the Committee shall be held, the calling of meetings and the procedures in all respects of such meetings shall be determined by the Committee, unless otherwise provided for in the by-laws of the Corporation or otherwise determined by resolution of the Board. Every attempt should be made for the Committee to meet in person when possible, rather than through teleconference facilities.

No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee. A majority of the members of the Committee shall constitute a quorum provided that, if the number of members of the Committee is an even number, then one half of the number of members plus one shall constitute a quorum.

Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a Director.

The Committee Chair will appoint a Secretary (the "Secretary") who will keep minutes of all meetings. The Secretary does not have to be a member of the Committee or a Director and can be changed by simple notice of the Committee Chair.

### *Reporting Responsibilities*

The responsibility and authority of the Committee is prescribed by the Board and accordingly, the Committee will provide full reporting of each Committee meeting to the Board. The proceedings of all meetings will be minuted.

### *Specific Responsibilities*

#### Committee Role

- Act as a resource group to review management's development of Human Resources policies and practices including Employee Policy Manuals, Employee Handbooks and Collective Agreements.
- Recommend to the Board the parameters for negotiations for collective agreement, and review management's negotiation of Collective Agreement with bargaining agent(s) and advise management and Board with respect to negotiations.
- Review, consider, and recommend to the Board the appropriate compensation for the CEO, and the parameters for non-union employees.
- Review from time to time the compensation of the Board.
- Review in consultation with the CEO their recommendation for Executive compensation.
- Review the Corporation's compliance programs, policies, standards, procedures and reports with respect to regulatory, health, safety and environmental matters and make recommendations to the Board with respect thereto.
- Adopt a succession plan for the CEO and review the succession plan for Executives and Directors.
- Establish a work plan and evaluation of committee performance.
- Monitor and evaluate corporate goals during and for the year.
- Review any Human Resources related issues identified by the Enterprise Risk Management report.
- Review culture and employee development programs and organizational structure.

### *Remuneration*

The members of the Committee shall be entitled to receive the same remuneration for acting as members of the Committee as that provided for other committees of the Board, the amount of which the Board may from time to time determine.

## London Hydro Inc.

## Human Resources Policy & Procedures Committee Work Plan

The Committee works on behalf of the Board of Directors and makes recommendations to the Board.

| No. | Activity | Target Date |
|---|---|---|
| 1 | Review and recommend strategic targets for the evaluation of Senior Management's annual performance. | Q4 |
| 2 | Review CEO's recommendations for incentive compensation for Senior Management and recommend CEO's compensation. | Late Q3, Early Q4 |
| 3 | Review Management's performance against quarterly targets. | Quarterly |
| 4 | Review the Corporations' compliance programs, policies, standards, procedures, health, safety and environmental matters and make recommendations for change. | Annually |
| 5 | Recommend parameters for negotiations for collective agreement. | Q3 |
| 6 | Review Management's negotiations of collective agreement. | Ongoing During Negotiations |
| 7 | Review and recommend a succession plan for the CEO. | Annually |
| 8 | Review a succession plan for Senior Management. | Annually |
| 9 | Review and recommend compensation parameters for non-union employees. | Late Q3, Early Q4 |
| 10 | Review CEO's recommendations for Senior Management compensation. | Late Q3, Early Q4 |
| 11 | Review and recommend compensation for the CEO. | Late Q3, Early Q4 |
| 12 | Review Management's development of human resources, policies and practices including manual, handbooks and collective agreements. | As Required |
| 13 | Review Management's plan and processes for employee training, culture improvements and satisfaction survey results. | Q4 |
| 14 | Periodically review and recommend compensation of the Board of Directors. | Q3 |
| 15 | Perform special tasks as assigned to the Committee by the Board. | As Required |

## London Hydro Inc.

### Human Resources Policy & Procedures Committee Evaluation

| QUESTION | AGREE | NEEDS IMPROVEMENT | NO COMMENT |
|---|---|---|---|
| 1. The Committee Terms of Reference are reviewed annually. | | | |
| 2. The Committee's Work Plan is established annually and aligns with Board work. | | | |
| 3. The Board respects the work of this Committee and does not redo the Committee's work. | | | |
| 4. Members are assigned to this Committee based on skill and experience. | | | |
| 5. Committee reports are timely. | | | |
| 6. Comittee reports are effective in providing necessary information to the Board. | | | |
| 7. The Committee evaluates its own performance and results are acted upon. | | | |
| 8. The Committee Chair conducts the meetings in a way that moves the business of the Committee forward. | | | |
| 9. The Committee Chair allows adequate time for debate. | | | |
| 10. The Committee Chair ensures all sides of the debate are heard. | | | |
| 11. The Committee Chair ensures the Committee has the necessary information or advice to make decisions. | | | |
| 12. The Committee Chair invests time in building relationships with the members. | | | |
| ***COMMENTS ON ANY OR ALL OF THIS EVALUATION:*** | | | |
| | | | |



London Hydro

Powering London.
**Empowering You.**

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Exhibit: 1
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Schedule: 16

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# ATTACHMENT 3 OF 3
# LONDON HYDRO'S CORPORATE CODE OF CONDUCT

# General Information


Introduction ..... 1-3

Mission Statement….. ..... 1-5

Collective Agreement ..... 1-6

1. Code of Business Conduct ..... 1-10

A. Business Ethics…. ..... 1-10

1. Customer, Supplier and Employee Relations ..... 1-10
2. Conflict of Interest ..... 1-11
3. London Hydro Property ..... 1-11
4. Proprietary Information ..... 1-12

B. Employee Rules and Regulations ..... 1-14

1. Maintenance of an Efficient and Orderly Operation ..... 1-14
2. Licence Requirements to Drive London Hydro Vehicles ..... 1-15
3. Rest Period Practice ..... 1-18
4. Appropriate Dress Practice ..... 1-19
5. Identification Cards ..... 1-20
6. Unsigned Letters ..... 1-20
7. Sick Leave Practice ..... 1-20
8. Alcohol and Substance Use ..... 1-21

C. Privacy – Municipal Freedom of Information and Protection of Privacy Act (MFIPPA) ..... 1-23

1. Freedom of Information ..... 1-23
2. Personal Privacy Protection ..... 1-24

D. Computer Environment – Acceptable Use Policy and Security ..... 1-28

1. Introduction ..... 1-28
2. Overview…. ..... 1-28
3. Rights and Responsibilities ..... 1-28
4. Examples of Misuse ..... 1-28
5. Consequences of Misuse ..... 1-29
6. General Security ..... 1-30
7. Confidentiality ..... 1-30
8. Responsibility of Users ..... 1-30
9. Use of External Data ..... 1-30
10. E-mail and Internet Acceptable Use Policy ..... 1-31
11. Corporate Social Media Policy ..... 1-33
12. Archiving Information ..... 1-41

E. Respect in the Workplace…… .....1-42

1. Statement of Workplace Diversity .....1-42
2. Policies on Discrimination, Harassment and Workplace Violence.....1-42
3. Accessibility for Ontarians with Disabilities Act, 2005 (AODA).....1-53
4. Accessible Customer Service Policy.....1-54
5. Integrated Accessibility Standards Policy.....1-59

F. Health and Safety .....1-64

1. The Occupational Health and Safety Act.....1-64
2. Safety Rules .....1-64
3. Joint Health & Safety Committee (JH&SC) .....1-65
4. Medical Emergencies.....1-65
5. First Aid .....1-67
6. Reporting Personal Injury .....1-68
7. WSIB Return to Work.....1-70
8. Reporting Vehicle Accidents .....1-71
9. Fire Evacuation .....1-72
10. Fire Information Relevant to Employee Safety.....1-72
11. Smoking in the Work Place.....1-73
12. Use of Cell Phones and other Hand Held Devices in Vehicles.....1-73
13. Reporting Property Damage and Injury to the Public .....1-74
14. Vandalism Reporting .....1-74
15. Visitor / Customer Procedures .....1-74

G. Conclusion…… .....1-75

# Introduction

## Purpose of the Employee Policy Manual

The Employee Policy Manual is designed to guide all London Hydro supervisory employees in the day-to-day understanding and administration of human resources issues and current practices, policies and procedures. The practices and procedures contained in this manual should eliminate the need for personal decisions on matters for which there is a London Hydro practice.

To ensure consistent understanding and application of these practices and procedures, it is the responsibility of every supervisor to be familiar with the contents of this manual. Supervisors should consult the manual regularly to address any questions that may arise regarding the appropriate course of action to be undertaken. A number of copies of this manual are assigned to each department and are available for review by any employee. Management is responsible for administering these practices and procedures in a consistent and impartial manner.

Nothing in this manual should be interpreted as being in conflict with the current Collective Agreement. For information about the Employment Standards Act, contact the Human Resources Department.

## Departmental Practices and Procedures

Departmental practices and procedures are regularly developed by individual departments to establish specific work procedures. Generally, these procedures are specific to a particular department and are not applicable to all employees. ***This manual is not intended to document these departmental practices and procedures.*** However, employees are required to understand and perform their daily responsibilities in accordance with the departmental practices and procedures established in their department.

## Development of Departmental Practices and Procedures

Senior Managers are required to establish work procedures and practices that are necessary to direct their staff in the appropriate conduct of their daily responsibilities. These practices should be developed and communicated to departmental employees to ensure consistency and quality in the work performed. Management is responsible for the development and documentation of such practices and for communicating these practices to their employees. Management is encouraged to solicit and utilize employee contributions to this process.

To ensure that a consistent methodology is used to develop, document and revise departmental practices, the Senior Manager is responsible for communicating this methodology to the Human Resources Department. The Human Resources Department will ensure that the practices are appropriately presented and are not in conflict with existing practices, regulations or legislation.

Current practices, regulations or legislation includes but is not limited to the

- Safe work Practices Manual
- Occupational Health & Safety Act and Construction Regulations
- Health and Safety Management System
- Employment Standards Act
- Labour Relations Act
- Collective Agreement
- Ontario Human Rights Code
- Distribution System Code
- Retail Settlement Code
- Standard Supply Service Code

**Manual Revisions**

To be an effective and reliable guide, this manual must be carefully maintained. It is the responsibility of the Human Resources Department to control the development of new practices and procedures as well as revisions to the manual. Human Resources will also be responsible for communicating manual amendments.

Suggestions for improvements to the manual or to any practice or procedure cited in it are welcome and should be forwarded to the Human Resources Department.

# Mission Statement

London Hydro is an electricity distributor dedicated to the pursuit of excellence in safety, reliability, customer service and competitive rates.

# Vision

Through the pursuit of innovation and growth, we will provide leadership in customer services and add value to the corporation and community.

# Values

London Hydro operates within a set of core values established and practiced by our team to provide exceptional customer service consistent with the interests of the corporation.

| | |
|---|---|
| **Integrity** | to exhibit trust in all relationships by acting openly and honestly in all matters and by treating people fairly and respectfully. |
| **Innovation** | to foster an exciting working environment that inspires employees to think creatively |
| **Accountability** | to be truly accountable to our customers, our employees, our shareholder, and our community |
| **Social and Environmental Responsibility** | to act as a positive influence on our employees, society and the environment |

# The Collective Agreement

A Collective Agreement is a legal document between an employer and a trade union containing provisions describing the rights and duties of the employer and employees regarding the terms of employment. The important aspects of the employment relationship which are dealt with in the Collective Agreement include promotion, discipline, discharge, terms of employment and dispute resolution procedures. These are among the issues considered in this manual.

Because the Collective Agreement is a legal document, its interpretation and implementation may be the subject of disagreement. In resolving a dispute about the meaning of any section of the Collective Agreement, the past practices adopted by employees and management are significant as are precedents established by previous legal interpretations. Accordingly, in any instance where there is a dispute about the meaning of the Agreement, please consult the Human Resources Department.

**Overview of the Collective Agreement**

London Hydro management and C.U.P.E, Local #1000, Power Workers' Union have entered into a Collective Agreement to set out the rights and responsibilities of management and employees and to describe the conditions of work.

This manual deals with all areas covered in the Collective Agreement. Some of the information covered by the Agreement and by this manual include:

1. **Who is covered by the Agreement?**

   All employees under the rank of supervisor are covered by the Collective Agreement (Article 1:01; manual section 4-A-1), except employees working fewer than twenty-four (24) hours per week and employees whose job positions are designated as "Confidential."

2. **Union Membership**

   It is a condition of employment that all employees covered by the Collective Agreement are members of the union (Article 3:01; manual section 4-A-2). New members are contacted by the union regarding membership. The union has the right to post notices and distribute bulletins regarding union meetings, seminars and conferences without permission from management. Authorization for the posting and distribution of other union matters should be sought from the Human Resources Department (Article 3:02; manual section 4-B-2).

3. **No Discrimination**

The Agreement provides that the Ontario Human Rights Code, the Employment Standards Act and the Ontario Labour Relations Act apply to the terms of employment. The Grievance Procedure is available for alleged violation of this legislation (Article 4; manual section 1-E-1).

4. **Definition of Employees** - *Covered by the Collective Agreement*

(a) A **Temporary Employee** is hired for a term of less than 12 months.
(b) A **Probationary Employee** is hired to fill a classified position. Probationary employees undergo a probationary period of up to six months during which qualifications are assessed. Time spent as temporary employees doing the same work reduces the six-month period.
(c) A **Permanent Employee** works in a classified position and has completed the probationary period (Article 5, manual section 2-D-1).
(d) A **Part Time Employee** works less than 24 hours per week. (Addendum-June 22 2010)

**Definition of Employees** – *Not Covered by the Collective Agreement*

(e) A **Contract Employee** is hired into a management position for a specified project of limited duration for a negotiated amount (manual section 2-D-1).
(f) An **Executive Employee** is hired into a senior management position.
(g) A **Supervisory Employee** is hired into a management position and has the authority to hire, terminate and discipline employees.
(h) A **Management Employee** is hired into a position that includes handling sensitive confidential information.
(i) **Co-operative, Internship or Work Experience Placements** describe employees hired for specific terms into areas in which they can integrate their academic education with paid work experience related to their program of study.

5. **Seniority**

A permanent employee's seniority is determined by the Human Resources Department in accordance with the guidelines in Article 6 of the Collective Agreement. A seniority list is published and distributed to the union annually (manual section 2-D-2).

6. **Management Rights**

Under Article 8 of the Agreement, management has the right to promote, transfer, demote and to discipline or discharge for just cause any employee, provided that specific provisions of the Collective Agreement are met. Employees affected by these decisions have the right to question them through the Grievance Procedure

(manual section 9-A).

7. **Discipline**

A union representative will be present at the issuance of a written reprimand and management will not discharge or suspend an employee without a union representative being present. Verbal reprimands shall be documented and placed in the employee's file. A suspension or discharge must be in writing and must comply with the time requirements specified in Article 9 of the Agreement. Management has the right to issue written warnings in addition to these provisions (manual section 9-B).

8. **Grievance Procedure**

Article 10 of the Collective Agreement contains a formal procedure whereby employees and management may resolve disagreements concerning the interpretation or alleged violation of the provisions of the Agreement (manual section 9-D).

9. **Holidays, Vacations and Hours of Work**

Holidays, vacations and hours of work are dealt with in Articles 11 through 14 of the Agreement (manual sections 3-A and 3-B).

10. **Promotion**

Article 15 of the Collective Agreement provides a procedure to be followed in filling vacancies. Position openings are bulletined on notice boards. Any employee covered by the Agreement may file an application for the opening on the form provided. Management reviews the applications and establishes the selection procedure. In certain circumstances, a qualification test administered by employee and management representatives may be required. Successful and unsuccessful applicants are notified. Each employee who is promoted has sixty days in which to demonstrate his or her qualifications, after which the employee may revert to his or her former position, if unsuccessful. Should an employee revert to their former classification and rate under this Article, employees promoted as a direct result of the initial promotion or awarding, shall also revert to their former classification and rate.

The purpose of the promotion provisions is to make the procedure open and fair to both employees and management. Senior employees are given special consideration in the promotion process. The length of service of temporary employees is a factor in the promotion of these employees (manual section 2-E).

11. **Sick and Accident Plans, Medical, Pension and Insurance Plans**

London Hydro provides benefits to its employees as described in Articles 23, 24 and 26 of the Collective Agreement (manual sections 6-A and 6-B).

12. **Employment of Relatives** (Article 30)

The Collective Agreement provides that management shall not hire persons on the permanent staff who are the spouse, same-sex partner, child or parent of an existing employee. Employees who become married after attaining permanent employee status are exempt from this provision. Management has the right to transfer such employees between departments. No more than one relative of a permanent employee may be employed by London Hydro in a temporary or casual capacity.

Because employees who have become married after having attained permanent employee status have been accommodated through the provisions of the Collective Agreement, and because the intention of the practice is to permit one temporary or casual employee per family, where two permanent employees are married, no more than one relative of the two may be employed in a temporary or casual capacity at any one time (manual section 2-D-4).

When temporary and casual employees are required, some opportunities will be made available to relatives of union and non-union employees on an equal basis. In order to maintain fair and consistent hiring practices for temporary and casual employees, management will strive to provide one half of temporary and casual employment opportunities to individuals who are not related to employees of London Hydro.

# 1. Code of Business Conduct

This Code applies to all London Hydro employees. We are all expected to act in the best interest of London Hydro, to promote its goals, objectives and policies and to maintain the highest standards of honesty and integrity in our business affairs.

## 1-A. Business Ethics

### 1-A-1. Customer, Supplier and Employee Relations

#### 1. Customer Relations

London Hydro's image in the community is determined, to a large extent, by our interaction with our customers. To our customers, we are not just representatives of London Hydro -- we **are** London Hydro. Accordingly, in all our activities, whether they are on the phone, at service calls or even when not working, we must treat customers fairly, courteously and with sensitivity.

Customer transactions and information may be confidential. We must not give that information to any party unless we have received written authorization from our customer or unless the disclosure is required by law.

#### 2. Supplier Relations

London Hydro is supplied with material, equipment and services by a variety of companies and individuals. In such interactions we must demonstrate the highest standards of business ethics. Employees who are in contact with vendors are to maintain and enhance the reputation of London Hydro for fair dealing. Additional information concerning supplier relationships can be obtained from London Hydro's Purchase Initiatives and Supplier Selection Policy. The policy is available on the Corporate Network, through the Public Folder, Finance Information, "Policies and Procedures."

Employees are not to influence the purchase of goods or services by London Hydro from any supplier with which they may be associated. Employees are "associated" with a supplier if they, or any member of their immediate family, are an officer, director, partner or owner of the supplier or have a majority ownership in the supplier.

#### 3. Employee Relations

London Hydro wants to treat all employees fairly and equitably. In observance of Ontario's Human Rights Code, London Hydro and its employees must respect the rights of every individual and maintain a work place free from discrimination, harassment and sexual harassment (See manual sections 1-E-1 and 1-E-2).

### 1-A-2. Conflict of Interest

We all have a variety of interests and relationships involving our families, friends, co-workers and others with whom we interact. Occasionally, a situation may arise in which one of these personal interests may conflict with our responsibility to London Hydro.

Employees are required to disclose to their supervisor any possible conflict of interest that may exist with any individual or supplier.

As employees, our first business allegiance is to London Hydro. We must remain free of any interest or activity that may obstruct the proper performance of our duties or create an obligation which would affect our ability to act in the best interests of London Hydro.

Specifically, we must ensure that our conduct and activities during off duty hours do not negatively affect London Hydro's reputation or render us unable to perform our jobs properly.

Employees are not to solicit or receive gifts, hospitality or other benefits that could influence or reasonably be perceived to influence their judgement and objectivity.

The acceptance of hospitality in the form of receptions, business luncheons or dinners for the purpose of broadening business contacts or facilitating discussions of importance to London Hydro is not prohibited. The occasions must be clearly within the bounds of propriety and not liable to cast doubt on the employee's objectivity.

Employees are not to have, directly or indirectly, a personal or financial interest in any transaction, which is, or may be, adverse to London Hydro. Similarly, employees are not to have, directly or indirectly, a financial interest in any business enterprise with which London Hydro engages in the purchase, sale, rental or exchange of securities or other property, or from which London Hydro secures services.

## 1-A-3. London Hydro Property

### 1. Intellectual Property

During employment with London Hydro, contract or otherwise, an employee or company, contractor, or people working for or at London Hydro may conceive of inventions, discoveries, concepts, ideas, information, products, processes or software that are useful or relate to our business.

Any inventions, discoveries, concepts, ideas, information, products, processes or software that an employee makes, develops or conceives during the period of his or her employment shall be and remain the property of London Hydro. They may not be used for other purposes or exposed to anyone outside of London Hydro.

For example, an employee may develop and program a new customer billing function. This program is the property of London Hydro. It is not the property of the employee to share with or sell to other companies. That same employee could join

another organization and use his or her skills, education and experience to develop and program a billing function for the new employer. However, the employee could not copy the program designed for London Hydro and give it to the new employer.

Some positions, as identified by the Senior Director of Human Resources, may require the employees that occupy them to sign a Confidentiality Agreement.

### 2. London Hydro Assets

As employees, we must not misuse London Hydro property or revenues. We must also ensure that we use equipment (whether on or off London Hydro property) and facilities strictly for business purposes.

Equipment and supplies are not to be borrowed nor given away, sold, abandoned or destroyed. Any disposition of property should be done according to London Hydro's Disposal of Assets Policy available on the Corporate Network through the Public Folder, Finance Information, "Policies and Procedures." A hard copy of the policy is located in the Purchasing Department as well as in Section 11 of this manual.

Upon termination of employment, all property belonging to London Hydro including laptop computers, cellular telephones, credit or calling cards, vehicle keys, office keys and ID cards will be returned to London Hydro by the employee.

Any outstanding balances on computer or appliance purchase loans and unearned vacation taken shall become due and payable on the last day of employment.

## 1-A-4. Proprietary Information

### 1. Proprietary Information

The need to safeguard information is more than just a matter of upholding a customer's privacy. Employees frequently have access to the proprietary information of London Hydro or others that is confidential and must be protected from unauthorized or inadvertent disclosure. In these days of rapid technological change and growing competition, it is very important for all employees to know what information is confidential and needs to be protected.

Protection of London Hydro information **includes** that contained in business strategies and plans, pending proposals or contracts, unannounced services, unpublished research results, financial results and projections, client and prospect lists, proposed acquisitions and divestitures, computer programs and software, engineering expertise, inventions and any personnel information. Safeguarding such information is a responsibility of all employees. **All employees also have a legal duty to respect any proprietary or copyright conditions that may exist.**

Employees are not to divulge the proprietary information of their former employers. Confidential information acquired by employees in the course of their employment at London Hydro is the exclusive property of London Hydro. Employees shall not,

directly or indirectly, disclose or use at any time, either during or subsequent to their employment with London Hydro, any proprietary information or data obtained in the course of their employment (whether or not acquired or developed by the employees), unless they have obtained the written consent of London Hydro for the disclosure or use.

Proprietary information must be protected even after one's employment is terminated. All documents and records belonging to London Hydro must be returned immediately to London Hydro when an employee leaves.

To safeguard proprietary information, all new and existing employees, as designated by the Senior Director of Human Resources, must sign a Confidentiality Agreement. Signed agreements will be placed in the employee's file.

# 1-B. Employee Rules and Regulations

## 1-B-1. Maintenance of an Efficient and Orderly Operation

**To maintain an efficient and orderly operation at London Hydro, we must**

i. protect the health and safety of the public and all London Hydro employees;
ii. ensure that productivity and jobs are uninterrupted;
iii. protect London Hydro's reputation and property; and
iv. protect private property and public lands.

This document outlines London Hydro's rules and regulations which we, as employees, are required to follow. Any employee who violates the rules and regulations will be subject to disciplinary action up to and including discharge.

**To protect the health and safety of the public and all London Hydro employees—**

1. Adhere to London Hydro safety rules and practices and avoid any conduct which might create a safety hazard; for example, wear safety articles and use protective equipment when required, and immediately report any injury or accident to your supervisor.
2. Do not bring intoxicating beverages, narcotics, firearms, explosives or weapons of any kind onto any London Hydro properties, substations or to any work site area.
3. Report for work in a condition free from impairment caused by the use of alcohol or narcotics.
4. Do not engage in fighting or horseplay.
5. Do not drive a London Hydro vehicle unless you have been given the authority to do so by the Health and Safety Department, and you possess a valid driver's licence.
6. Do not cause or allow any person, procedure or property owned by London Hydro to endanger the life and safety of the public; always meet or exceed standards for public protection set by law or established practice.
7. Ensure that the structures and facilities of London Hydro preserve public safety.

**To ensure that productivity and jobs are accomplished without interruption –**

1. Be at your appointed work place, ready and able to work, at your regular starting time, and remain at work until your regular quitting time. If you are working in a continuous operation, remain at your post at the end of your scheduled shift until you are either replaced by the next shift employee or you are released by your supervisor.

2. Ensure that any absence or lateness is authorized and excused.

3. Except in emergency situations, conduct your personal business, including phone calls during your breaks and lunch.

**To protect London Hydro's property and maintain the reputation of London Hydro –**

1. Do not falsely state, make claim to, or record any information about hours worked, absence, sickness, injury or any personnel, production or financial matter.
2. Ensure that your employee badge or identification card is used only by you. Report the loss of your badge or card immediately to your supervisor, Security or the Facility and Security Supervisor.
3. Be responsible for tools, equipment and property assigned to or requisitioned by you or in your custody and care. Do not misuse, destroy or remove any records, tools, equipment or clothing from London Hydro property or the work site area without proper authorization.
4. Ensure that your conduct at work is both moral and decent at all times. When you are representing London Hydro, do not engage in unlawful or improper conduct which would affect the performance of your job, your relationships with your co-workers or the reputation of London Hydro.
5. Do not direct derogatory, insulting or harassing remarks at, or show improper conduct towards your co-workers or members of the public.

**To protect private property and public lands –**

1. Do not trespass on private property except in the case of an emergency or for duties that normally involve entering onto private property.
2. Do not abuse or encumber public lands; obtain appropriate agency approvals when working on public lands.

The above rules do not include all of the required discipline and proper standards of conduct. You must also observe any rules and regulations set by the Collective Agreement. In addition, London Hydro will establish new rules when they are deemed appropriate, and departmental supervisors may set up particular rules if such rules are deemed necessary by operational standards.

### 1-B-2. Licence Requirements to Drive London Hydro Vehicles

1. An employee who is authorized to drive London Hydro vehicles, either owned, leased or rented, must possess a valid driver's licence in accordance with current licensing legislation and must pass a driver's examination conducted by the Health and Safety Department. It is the responsibility of the employee's supervisor to see that the employee fulfils these qualifications before allowing the employee to drive London Hydro vehicles, either owned, leased or rented.

2. When London Hydro requires an employee to possess an "A", "D" or "Z" licence, London Hydro will pay for the initial medical examination and any subsequent

medical required by the Ministry of Transportation in order to renew the "A", "D" or "Z" licence.

3. Drivers of owned, leased or rented London Hydro vehicles, or vehicles on London Hydro business should follow the guidelines contained in the Ontario Ministry of Transportation and Communication's, *The Driver's Handbook, The Official Air Brake Handbook & The Official Truck Handbook.*

4. London Hydro generally follows the Ministry of Transportation Point System when dealing with employees whose right to hold a valid driver's licence is encumbered by the loss of points.

5. External candidates will not be considered for positions requiring a valid driver's license if they have 6 or more demerit points.

**The Point System**

The Point System is designed to identify persistent traffic violators and to protect pedestrians and careful motorists from drivers who abuse the privilege of operating motor vehicles. The aim of the Point System is driver improvement.

Upon certification of conviction or payment of the fine out of court, points are recorded on the driver's record for the offences listed in the Point System Table (see *The Driver's Handbook*). Demerit points remain on the record for two years from the date of conviction. When 6, 9, and 15 points are accumulated the consequences are as follows:

**At 6 points:**

1. Drivers are informed of their record by the Ministry and urged to improve their driving habits.

2. The employee's supervisor also interviews and informs the driver of London Hydro's concern about the employee's driving record.

**At 9 points:**

1. Drivers may be required by the Ministry to attend a personal interview to discuss their record and to explain why their licence should not be suspended. They may also be required to complete a driver re-examination; if they fail this test, their licence will be cancelled.

2. The employee's supervisor interviews the employee and informs him or her by letter of London Hydro's concern about his or her driving record.

**At 15 points or Ministry Suspension:**

*For permanent employees –*

1. An employee whose position classification requires a valid driver's licence and who fails to maintain a valid driver's licence because of a Ministry suspension is paid at a wage rate reduced by one progression step until he or she regains a valid driver's licence, provided the employee can perform effectively in the current position classification without a valid driver's licence.

2. If the employee cannot perform effectively in the current classification without a valid driver's licence, the employee is demoted to a position classification not requiring a valid driver's licence which the employee can perform effectively until he or she regains a valid driver's licence. The employee is paid the rate of the new position classification until he or she regains a valid driver's licence.

3. The employee's supervisor interviews the employee and informs him or her by letter of London Hydro's concern about his or her driving record.

*For temporary employees* –

4. Temporary employees whose position classification requires a valid driver's licence and who fail to maintain such licence because of a Ministry suspension will be terminated from employment if they cannot perform effectively in their position without a valid driver's licence.

*Second Suspension*

1. An employee whose position classification requires a valid driver's licence, but who fails to maintain such licence because of a second Ministry suspension within five years of the first suspension, is paid a wage rate reduced by two progression steps until he or she regains a valid driver's licence, provided the employee can perform effectively in his or her position classification without a valid driver's licence.

2. If the employee cannot perform effectively in the current classification without a valid driver's licence, the employee is demoted to a position classification not requiring a valid driver's licence which the employee can perform effectively until he or she regains a valid driver's licence. The employee is paid the rate of the new position classification until he or she regains a valid driver's licence.

3. The employee's supervisor interviews the employee and informs him or her by letter of London Hydro's concern about his or her driving record.

*Third Suspension*

An employee whose position classification requires a valid driver's licence and who fails to maintain a valid licence because of a third Ministry suspension within five years of the first suspension is demoted to position level 2. If suitable work is not available in position level 2, the employee is terminated from employment with London Hydro.

The Human Resources Department, or designate, monitors the licenses of employees and advises supervisors accordingly.

## 1-B-3. Rest Period Practice

### Practice

1. Recognizing that employees require time away from their daily work routine and that rest periods contribute to reducing accidents and improving efficiency by decreasing fatigue and refreshing the employees, each employee is granted two rest periods per day, one in each half-day shift. In general, one rest period should be taken in the middle hour of each ½ shift.
2. Rest periods are not to exceed 15 minutes.
3. Please note that it may not always be possible to leave the work area for a rest period.
4. Keep in mind that the purpose of rest periods is to relax and refresh yourself.
5. London Hydro is a public service corporation and we must make every effort to maintain a positive public image; therefore, do not engage in activities during rest periods that might reflect badly on London Hydro.

### Supervision

6. Supervisors are responsible for ensuring that rest periods are controlled in a fair and reasonable manner; thus, they should be sure to follow the rest period procedure as an example to their staff.
7. Because of the varying work situations at London Hydro, it is impossible to outline to all supervisors a formula for controlling work. The objective of the supervisor is to keep non-productive time to a minimum.

Guidelines for beverages during rest periods differ between office settings and crew settings.

### Office Setting

When beverages are consumed at the work station, employees are to be mindful of computer and other office equipment and also of the public. When it is the practice within the department to allow rest periods to be taken in the cafeteria, the time allowed should not exceed 15 minutes.

Employees are encouraged not to leave the premises of London Hydro during a rest period.

## Crew Setting

Crews should stop for beverages at the location closest to the work site. The supervisor should also consider sending one person to obtain beverages for all of the workers at the site, or if possible, the supervisor should arrange for a coffee caravan to visit the work site. Travelling time should be kept to a minimum.

## 1-B-4. Appropriate Dress Practice

### Introduction

As employees, we represent London Hydro directly, when we interact with our customers, and indirectly, when we are in the community performing our jobs. Our behaviour and appearance contribute to our customers' impression of London Hydro.

To enhance and maintain our image in the community, we must be well-groomed and appropriately dressed. Clothing that is too casual or untidy conveys an inappropriate message.

### Purpose

The purpose of the Appropriate Dress Practice is to make sure that our appearance reflects our professionalism.

### Practice

1. Employees who spend the majority of their time working outdoors in the public view will be supplied with uniforms and will be required to wear their uniform at all times during working hours (see Safe Work Practice, "Personal Protective Equipment, Uniforms and Flame Resistant Clothing).

2. A wide variety of work settings, which involve varying degrees of public contact, do not require employees to wear uniforms. In these cases, it is appropriate for each supervisor to assess his or her own area and establish an appropriate dress code in keeping with the objective to enhance and maintain London Hydro's image. As a minimum, employees must not

    - wear clothing that is overly casual, such as muscle shirts, sweat pants, non-dress sandals or shorts, other than of an appropriate length, if permitted in their area;
    - wear shirts, hats or buttons with illustrations or writing that may be offensive to co-workers or to the public;
    - wear any torn clothing; or
    - work without wearing a shirt.

3. If you are uncertain about the acceptability of an article of clothing, ask your supervisor.

## 1-B-5. Identification Cards

All employees receive a London Hydro identification card. Use this card at the card readers to gain access to areas within London Hydro. Keep this card with you at all times during working hours in case a customer asks to see identification.

If you lose your card, notify your supervisor, Security or the Facility and Security Supervisor immediately. A minimal fee may be charged to replace lost cards.

### 1-B-6. Unsigned Letters

**Purpose**

The purpose of this practice is to discourage the distribution of unsigned letters which are delivered, sent, mailed or faxed from unidentified sources to London Hydro.

**Practice**

1. When an item that does not bear a destination **or** return address is received at London Hydro from any source (and a return address cannot be obtained through the "sign-in registers" at customer contact points), the item is to be sent to the Executive Office. Depending on its contents, it will be forwarded to the appropriate party or filed for future action.
2. When an item is received at London Hydro from any source and it bears only a department name as a destination address and does not have a return address, the item should be sent to the senior manager or designate. Depending on its contents, it will be forwarded to the appropriate party or sent to the Executive Office where it will be filed for future action.
3. When an item is received at London Hydro from any source and bears the name of an individual as a destination address but does not have a return address, the item should be delivered to the individual. If the contents of the item are anonymous, the letter should be resealed and sent to the Executive Office, where it will be filed for future action.

### 1-B-7. Sick Leave Practice

London Hydro provides sick leave benefits as outlined in the Collective Agreement. When an employee calls in to report his or her absence and does not have direct contact with his or her supervisor, the employee will receive a return call from the supervisor.

It is important for planning purposes to know when an employee is expected to return to work. Therefore, during the leave period, the supervisor will be in frequent contact with the employee to see how he or she is doing, to offer assistance and to determine a date of return.

If the expected date of return changes, the employee should notify his or her supervisor immediately.

## 1-B-8. Alcohol and Substance Use

### Work Day

The consumption of alcohol during the work day including breaks, lunches and planned and emergency overtime is strictly forbidden. This rule includes functions planned during the work day to celebrate events.

It is the responsibility of all London Hydro employees, regardless of their position, to be concerned about alcohol and substance use in the workplace. If supervisors, in their judgment, feel that an employee is in breach of this policy, they are expected to take immediate action. Immediate action may include, but is not limited to, removing the employee from the worksite, meeting with the employee and/or seeking advice from the Senior Director of Human Resources.

### Company Social Functions

As required by law, no person shall drive while in an impaired condition, and London Hydro asks employees not to drink and drive. Employees participating in company sponsored social events will be provided with alternate transportation home. Staff functions and social gatherings currently sponsored by London Hydro include the

- Perfect Attendance Dinner,
- Service Recognition/Retirement Dinner,
- London Hydro/PWU Golf Tournament and
- Charity Events.

The above list may change at any time. If you are unclear about whether a function is sponsored by London Hydro, contact the Human Resources Department.

Any ad-hoc functions or social gatherings arranged by employees cannot be advertised through the corporate e-mail, pay stubs or posted on company bulletin boards. The cafeteria bulletin board is available to employees for posting of personal advertisements.

A person within London Hydro responsible for an event is referred to as the Event Planner. The London Hydro Event Planner shall

1. Establish start and stop times for serving alcohol and include a statement to the Facility Coordinator that any variance from the schedule can only occur after approval by the London Hydro Event Planner;

2. Require that the Facility Coordinator direct those serving alcoholic beverages to report persons they suspect may be drinking in excess to the London Hydro Event Planner and that they enforce all applicable provincial drinking laws;

3. Introduce herself/ himself to the servers at the beginning of the event and arrange a communication strategy;
4. Make arrangements for food or snacks to be available during an event when alcoholic beverages are served;

5. Circulate through the group to identify any employee or guest drinking to excess (If an individual becomes disruptive, the Event Planner should not approach the person alone, but should involve a management person to assist in approaching the individual);

6. Make alternative transportation arrangements, at London Hydro expense, for those individuals who are unable to drive due to alcohol consumption or who request alternative arrangements to the use of their personal automobile.

The Human Resources Department shall

1. Advise the taxi service of the date and location of the event two days in advance.
2. Ensure that the Event Planner understands his/her responsibilities as listed above.
3. Provide the Event Planner with the name of the taxi service, the chits, and their expiry date (good on day of event only).

The taxi service will invoice the Human Resources Department at London Hydro directly.

**Human Resources Note**

The London Hydro Event Planner will distribute taxi chits to anyone unable to drive or who requests alternative transportation from the event. The Event Planner must advise employees and guests of the
i) availability of the chits,
ii) expiry date of the chits (good on day of event only), and
iii) name of the taxi service that will accept the chits.

## Disciplinary Action

No employee will be disciplined or terminated due to a request for help in overcoming substance dependence or because of involvement in a rehabilitation effort. However, if an employee violates the provisions of this practice, disciplinary action will be taken, up to and including discharge.

# 1-C. Privacy – Municipal Freedom of Information and Protection of Privacy Act (MFIPPA)

**Purpose**

London Hydro is committed to meeting our statutory obligations under the Municipal Freedom of Information and Protection of Privacy Act by administering requests, complaints and appeals and by fostering an organizational culture that respects the privacy of individuals, when applicable, recognizing the need for appropriate protection and management of any personally identifiable information in our custody.

## 1-C-1. Freedom of Information

### 1-C-1-1. Access to Information

Every person has a right of access to a record or a part of a record in the custody or under the control of London Hydro. A record is defined as any record of information, however recorded, whether in print form, on film, by electronic means or otherwise. Such records include drafts, post-it notes, files on your hard drive, e-mail, voice mail, agendas, and address books. If information is recorded in any way, it is a record and potentially subject to MFIPPA.

***Informal Requests*** for access to records held within your department

- should be discussed with your supervisor;
- should be completed if there are no privacy concerns;
- should be discussed with London Hydro's Privacy Officer (Senior Director of Human Resources) if you have any questions;
- should not be disclosed if it is confidential third party information, solicitor advice/correspondence or personal information about another individual; and
- should not be completed if it qualifies under other exemptions in MFIPPA.

***Formal Requests*** for access to records held within your department

- should be sent immediately to your supervisor and the London Hydro Privacy Officer, or designate, to comply with deadlines that must be met under MFIPPA.

Examples of formal and informal requests can be found in Section 8 of this Policy Manual.

### 1-C-1-2. Practice

1. Requests for information under MFIPPA must be made in writing by completing a Request Form or by letter stating the information is being requested under the Act.
2. The request must be sent to London Hydro's Privacy Officer along with a $5.00 application fee made payable to London Hydro.

3. The Privacy Officer will locate the records with the help of staff in the department where the requested information is located.
4. The Privacy Officer will make a decision within 30 days of receiving the request to either release the records in their entirety, release part of the records, or deny access to them. The decision is based on the provisions of the Act and on relevant Orders that have been issued by the Information and Privacy Commissioner (IPC).
5. The Privacy Officer will issue a decision letter to the requester enclosing copies of the records being released and explaining why access is being denied to other records in part or in their entirety.
6. The decision letter will also explain the IPC appeal process, which the requestor can pursue if not satisfied with the decision made by London Hydro's Privacy Officer.

### 1-C-2. Personal Privacy Protection

MFIPPA places restrictions on the collection, use, disclosure, retention and disposal of the personal information related to both customers of London Hydro and its employees. Sharing of personal information both within and outside of London Hydro is limited by the Act. The privacy of personal information is constantly in effect.

#### 1-C-2-1. Responsibility

1. It is the duty of every employee to respect the privacy of individuals, both customers and employees, and to treat as confidential any personal or business information about the customer or employee that he or she learns. This applies to both oral and written information pertaining to the customer or employee, whether it is obtained on London Hydro's or a customer's premises.
2. Management and employees are responsible for maintaining the confidentiality of general and personal information and they are required to ensure that personal information is maintained in a secure environment in relationship to the sensitivity of the personal information.
3. Supervisors and managers are not to keep a personal employee file of records submitted to the Human Resources Department.
4. Personal information must be handled as per Section 8-B-4, "Document Security Policy."
5. Employees should consult, as needed, London Hydro's Privacy Officer, or designate about the disclosure of confidential and personal information, including information to be released under an Act.

For examples of relevant personal information, see Section 8 of this Policy Manual.

#### 1-C-2-2. Employee Personal Information

London Hydro must maintain an accurate and current record of each employee's personal data, particularly for the administration of medical benefits, pension, group life insurance, payroll and for emergencies. Please notify the Human Resources Department of any changes.

Personal information cannot be used for purposes other than those stipulated at the time the information is gathered without the permission of the employee. Personal information about an employee is confidential and will only be disclosed to individuals within the organization who require the information to perform their jobs.

The Power Workers' Union may request and receive a list of names, addresses and telephone numbers of persons it represents. It is within the Union's right to ask for and to receive this information from an employer, as it helps them to carry out their statutory duty.

No information will be given to individuals from outside the organization who request information from an employee's file.

More detailed information about access to employees' files and medical records can be found in Section 8 of this Manual.

### 1-C-2-3. Records and Practices

The Act provides access to records under the care and control of London Hydro to members of the public. As well, it provides individuals with access to the personal information that London Hydro has under its care and control about them. Employees must ensure that the use and transmission of information through London Hydro's electronic and physical resources is professional and appropriate in all circumstances.

As employees we all record information or prepare reports. Some examples of records include expense accounts, time sheets, service calls and financial reports of revenues and costs. London Hydro's books and records must reflect in an accurate and timely manner all transactions of the corporation. No false or artificial entries shall be made in any books or records, and no employee shall engage in any arrangement that results in such entries.

### 1-C-2-4. Document Security Policy

#### Purpose

The purpose of this policy on document security is to ensure that confidential records are secure and are handled appropriately.

#### Policy Statement

London Hydro will use good management practices when handling confidential information.

#### Practice – Hard Copy Documents

1. Any transfer of confidential documents, including personal information, will be completed in designated envelopes marked "confidential."
2. During the work day, employees should not leave any documents, files or messages containing confidential information in open view when they leave their work area.
3. During off hours all confidential documents should be locked in desks, file cabinets or credenzas.

4. Confidential documents must not be removed from London Hydro premises without the permission of the supervisor.
5. Confidential documents must not be discarded without first being shredded.

**Practice – Electronic Documents**

1. Employees should not access new voicemail or email messages in the presence of others unless the others have a right to such information.
2. Employees should not, for any reason, share their e-mail, network or related electronic communications passwords with colleagues.
3. Employees should understand the level of protection each computer system automatically applies to files, and employees should supplement that protection, if necessary, for sensitive information by contacting their supervisor.
4. Sensitive material transferred over the Internet may be at risk of detection by a third party. Employees must exercise caution and care when transferring such material in any form. If there is a need to include confidential information, mark the subject area as "confidential."

For further information please read Section 1-D, "Computer Environment – Acceptable Use Policy and Security."

## 1-C-2-5. Records Retention Policy

**Policy Statement**

All London Hydro records will be maintained in a manner that meets legislative guidelines. For other records not governed by specific legislation, London Hydro policies will be adhered to. All responsibilities related to records retention are covered in Section 8 of this Manual.

## 1-C-2-6. Destruction of Records

**Purpose**

The purpose of this policy is to ensure that documents are disposed of in a manner that meets legislative guidelines. For other records not governed by specific legislation, London Hydro policies will be adhered to.

**Responsibilities**

1. Unless otherwise specified, London Hydro records shall be disposed of in a secure manner, whether in paper or electronic format.
2. Records containing personal information must be permanently destroyed or erased in an irreversible manner that ensures the record cannot be reconstructed in any way.
3. Confidential paper records must be shredded. Depending on the sensitivity of the information, cross-shredding or pulverization of records should be considered.

4. Electronic and wireless media destruction means either the use of a utility program that will remove the information and prevent its reconstruction, or physically damaging the item rendering it unusable.

# 1-D. Computer Environment - Acceptable Use Policy & Security

## 1-D-1. Introduction

This system-wide policy regulates the management of computer data networks and the resources made available by London Hydro and stand-alone computers that are owned and administered by London Hydro. The policy reflects the ethical principles of London Hydro and indicates, in general, what privileges and responsibilities are characteristic of the London Hydro computing environment. London Hydro reserves the right to change the policies at any time and it is the employees' responsibility to review these policies periodically and adhere to them.

## 1-D-2. Overview

### General

London Hydro and the Information Systems Department provide computing resources and network access to employees and contract workers for the sole purpose of performing the tasks of their position for London Hydro. As members sharing these resources, we also share the rights, responsibilities **and** consequences of misuse. Please read this policy because **you are responsible** for knowing and following these policies.

### Does this apply to me?

This policy pertains to any individual using London Hydro computing resources and those who have access to the London Hydro network from remote stations.

## 1-D-3. Rights and Responsibilities

Users of London Hydro computing resources should be able to trust that the products of their intellectual efforts will be safe from violation, destruction, theft, or other abuse. Users must respect and value the rights and privacy of others, respect the integrity of the systems and related physical resources, and observe all relevant laws, regulations, and contractual obligations. Users are responsible for understanding what information technology resources are available, for recognizing that other employees of London Hydro share them, and for refraining from acts that waste resources, prevent others from using them, harm resources or information or abuse them.

## 1-D-4. Examples of Misuse

Examples of misuse include, but are not limited to

1. using London Hydro computing resources without authorization (hardware and/or software); loading software for use or evaluation without signed authorization, using the computing resources without proper registration/authorization;

2. using the system for any purpose that interferes with the speed or efficiency of the system; any experimental use requiring modification of software or hardware requires prior review and authorization from the Information Systems Department;
3. using a computer account or obtaining a password that you are not authorized to use; for example, if you, as an authorized user, give out your account and password to another individual, you are accountable for any actions taken by anyone using your account;
4. using the London Hydro computer network to gain unauthorized access to any computer system (i.e. Internet or bulletin board systems);
5. masking the identity of an account or machine; this includes sending mail anonymously and/or sending mail that appears to come from someone else;
6. knowingly performing an act that will interfere with the normal operation of computers, terminals, peripherals, networks, or that will interfere with others' ability to make use of the resources;
7. violating terms of applicable software licensing agreements or copyright laws;
8. using computers, including social media, or electronic mail to act abusively toward others or to provoke a violent reaction, such as stalking, acts of bigotry, threats of violence, or other hostile or intimidating "fighting words." Such words include those terms widely recognized to victimize or stigmatize individuals on the basis of race, ethnicity, creed (religion), sex, sexual orientation, disability, etc.;
9. attempting to monitor or tamper with another user's files or software without the explicit agreement of London Hydro.
10. using your account for any activity that is commercial in nature, such as consulting services, typing services, developing software for sale, advertising products, and/or other commercial enterprises for personal financial gain;
11. stealing or damaging equipment or software; and
12. using your computer for non-company business such as email, document creation, scanning, printing, loading and storing images from digital cameras, or any personal activity that interferes with your normal day-to-day productivity.

### 1-D-5. Consequences of Misuse

Misuse of computing, networking or information is unacceptable, and users will be held accountable for their conduct. Serious infractions can result in disciplinary action up to and including discharge.

Some types of misuse can be prosecuted under applicable laws. Files may be subject to search under proper authorization. Illegal reproduction of software protected by copyright law is subject to civil damages and criminal penalties including fines and imprisonment.

### 1-D-6. General Security

Information Systems will assume the users are aware that electronic files are not necessarily secure. Users will be informed of methods available for protecting information on London Hydro systems from loss, tampering, unauthorized search, or other access. Levels of obtainable security will vary depending on the computer system.

### 1D-7. Confidentiality

In general, information stored on computers will be treated as confidential (whether or not that information is protected by the computer operating system). Requests for disclosure of information will be honored only under one of the following conditions

- when authorized by the owners of the information; or
- when considered appropriate by the Information Systems Department.

Except when inappropriate, computer users will receive prior notice of such disclosures. (Viewing of information in the course of normal system maintenance does not constitute disclosure.)

### 1-D-8. Responsibility of Users

The user is responsible for the correct and sufficient use of the tools available for maintaining the security of information stored on each computer system. The following precautions are strongly recommended.

Computer accounts, passwords and other types of authorization that are assigned to individual users should not be shared with others.

The user should understand the level of protection each computer system automatically applies to files and users should supplement that protection, if necessary, for sensitive information.

The microcomputer user should be aware of computer viruses and other destructive computer programs and take steps to avoid being a victim or unwitting distributor of these processes.

Ultimate responsibility for resolution of problems related to the invasion of the user's privacy or loss of data rests with the user.

### 1-D-9. Use of External Data

Any computer data originating from outside of London Hydro must first be checked with a virus scanning utility before it may be used with London Hydro computer equipment. If your system is not equipped with a virus scanning utility or you do not know how to use such a utility properly, the data must then be brought to the Information Systems Department for scanning. It is the responsibility of the user to ensure data is properly scanned.

## 1-D-10. E-mail and Internet Acceptable Use Policy

### Overview

London Hydro provides most employees with access to the vast information resources available through the use of our electronic communications system (e-mail, internet (including social media), intranet, and other computer usage). In this setting, use of the system is intended to help employees perform job tasks more efficiently. However, there is justifiable concern that this privilege may be abused, leading potentially to the violation of laws, regulations and company policies.

This policy is based upon the fundamental premise that access to electronic communications using a London Hydro personal computer be for business-related purposes only. Business-related purposes include communicating with customers, suppliers and colleagues, researching pertinent topics and obtaining relevant information.

This policy is designed to help you understand the expectations for the use of these resources.

### Policy Guidelines

1. Employees are prohibited from visiting Internet sites that contain obscene, hateful or pornographic subject matter. Offensive or sexually explicit material may not be archived, stored, distributed, edited or recorded using network or computing resources. The display of any kind of offensive or sexually explicit image or document on any company system is a violation of our Policy on Human Rights (see section 1-E-2-1).
2. Electronic media may not be used for knowingly transmitting, receiving or storing any communications of a discriminatory or harassing nature or that are derogatory to any individual or group based upon the prohibited grounds as outlined in the Ontario Human Rights Code and our Policy on Human Rights (section 1-E-2).
3. Personal computers may not be used for non-company business such as e-mail, social media, document creation, scanning, printing, loading and storing images from digital cameras, or any personal activity that interferes with the employee's day-to-day productivity.
4. Opening and/or playing computer games during the work day is prohibited. The Resource Centre is available to all employees before and after their work day, as well as during breaks and lunches to attend to personal activities.
5. Authorized executable software is available for download though the Information Systems Service Desk portal. It includes all software required by the business that we are licensed to distribute. If you require software not included in the portal, open a ticket with the Information Systems Service Desk. It will be reviewed on an individual request basis to ensure security, budgeting and license compliance.
6. Executable software may not be downloaded without prior written authorization from the Information Systems Department.

i. Obtain an authorization form from the Information Services section of the intranet under downloadable documents.
ii. The form must be completed by the employee requesting authorization and his or her supervisor.
iii. Return the completed form to the Information Systems Department.
iv. The Information Systems Department will download the software upon receipt of the completed authorization form.

7. Non-executable files for business purposes may be downloaded and used only in ways that are consistent within the agreement as posted by the author or current copyright law. These files include reports, files, spreadsheets, information flyers etc. Employees must ensure the reliability of the source as viruses can be introduced to the system.
8. Our electronic communications system does not guarantee the privacy and confidentiality of information. Sensitive material transferred over the Internet may be at risk of detection by a third party. Employees must exercise caution and care when transferring such material in any form. If there is a need to include confidential information, mark the subject area as "confidential."
9. It is unacceptable for employees to use London Hydro's computer technology to operate a personal business or engage in any activity for the purposes of soliciting money for personal gain.
10. Electronic media and services should not be used in a manner that is likely to cause network congestion or significantly hamper the ability of other people to access and use the system.
11. Employees should not assume any expectations of privacy for his or her computer usage. London Hydro reserves the right, at its discretion, to review any employee's electronic files and messages and usage to the extent necessary to ensure that electronic media and services provided are being used in compliance with the laws, regulations and with company policies.
12. Employees should not, for any reason, share their e-mail, network or related electronic communications passwords with colleagues.
13. London Hydro's electronic communications system is not to be made available for use by third parties (suppliers, customers or the general public) without prior authorization.
14. A violation of any part of this Policy constitutes a misuse of company assets and therefore is considered an infraction of London Hydro's Code of Business Conduct and may result in access privileges being revoked, disciplinary action up to and including discharge, and/or legal action.

## 1-D-11. Corporate Social Media Policy

### 1.0 Policy Statement

London Hydro supports the use of online social media tools for London Hydro business where the tool is part of a thoughtful strategic communications plan designed to reach and influence its target audience.

London Hydro recognizes that the implementation of a social media approach has risks and that those risks should be mitigated by the establishment of a clear-set of expectations and standards, which are intended to govern employees' online actions and activities.

London Hydro recognizes that when participating in online commentary and discussion it accepts the risk of sharing negative feedback and criticism publicly.

This policy establishes the basic principles, guidelines, and procedures for staff, for the use and management of social media at London Hydro.

### 2.0 Scope

This policy applies to London Hydro participating in social media.

### 3.0 Objective

The objective of this policy is to support London Hydro in its exploration and careful use of social media technologies and to ensure these social media tools are applied in a way that positively manages the organization's identity, messages and reputation.

### 4. 0 Principles

The following key principles form the basis of London Hydro's Social Media Policy.

(a) London Hydro recognizes that social media can be an effective way to improve civic engagement and public communication.

(b) This policy represents London Hydro's willingness to embrace appropriate social media opportunities with the goal of building strong relationships with key audiences.

(c) Only personnel authorized by their Executive team leader, either on a special basis or due to their roles and responsibilities, may represent or make comments on social media on behalf of London Hydro. Any other person must seek prior approval from their respective Executive team leader.

(d) Anyone establishing an online community must advise the Director of Public Relations and Corporate Communications for inclusion in the annual review. Online communities do not include personal LinkedIn and Facebook associations, instead it pertains to any online community to discuss and exchange London Hydro business.

**5.0 Social Media Definitions**

| | |
|---|---|
| Blog: | A website where an individual(s) provides entries of any type of content, from video and podcasts to traditional text and photos, in order to inform or create discussions. |
| Comment: | Replies or opinions in reference to the topic at hand; usually left on blog posts. |
| Message Boards/ Forums: | An online discussion site where people, looking to discuss particular issues or needing support, post threads (or messages) on the forum or message board to gain more information or start a conversation. |
| Podcasts: | Online audio or visual recordings syndicated on the internet and available to download to portable media players, such as an iPod. |
| Social Media: | Internet-based tools and platforms that are used to help people produce, publish and share online content and to interact with one another. Social media tools include blogs, podcasts, videos, micro-blogs, geotags, wikis, etc. |
| Social Networking Sites: | Large sites that host multiple communities comprised of people with profiles who have similar interests. These sites offer a place where people engage with one another online and share content. |

Examples:

**Facebook** - An online community for people to connect or re-connect with others. Enables people to share videos, pictures and information about themselves

**Google+ -** An online community for people to connect, or re-connect with other. Enables people to share videos, pictures and

information about themselves. Also enables collaboration using collaborative productivity software such as video conferencing.

**Google Hangout -** A free video chat service from Google that enables both one-on-one chats and group chats with up to ten people at a time.

**Google Maps** – A web-based service that provides detailed information about geographical regions and sites around the world. In addition to conventional road maps, Google Maps offers aerial and satellite views of many places as well as street views comprising photographs taken from vehicles. Google Maps also offers users the ability to customize maps either individually or collaboratively. It also offers way-finding services to pedestrians, cyclists, public transportation users, and drivers.

**LinkedIn** - A professional online community used to network with fellow professionals; an online resume sharing site

**YouTube** - An online site for uploading and discussing videos. Videos can also be embedded from YouTube onto other social media sites such as blogs or social networks

**Flickr** - Online website for storing, sharing and commenting on photos

**Twitter** - A micro-blogging community where posts and links are limited to 140 characters or less.

- Tweet – The post/entry made on Twitter

Wiki: Webpage(s) used to collect content about a topic. Anyone with access to the page(s) can edit or modify the information

## 6.0 Acceptable Social Media Use

London Hydro currently employs several social media tools including Google+, Podcast, Google Maps, YouTube, LinkedIn, and Google Hangouts. The employees that use these social medial tools shall abide by this policy.

TWITTER: London Hydro has made a decision to use Twitter for one way communications for outages and service interruptions.

Web Chat: London Hydro will be exploring and piloting web chat in the call centre in the near future.

Sample Tweets

These are examples of the sorts of generic communications that this policy authorizes.

- Power outage in XXX. London Hydro teams are working on it. #ldnont
- Crews still onsite making repairs in the XXX area. Thanks for your patience as we work to restore power. ETOR: XXX #ldnont
- Power restored to most customers in the XXX area. Hope to have customers in the XXX area back on by XXX. #ldnont
- Approx. XXX customers remain w/o power in the XXX, XXX, XXX areas. #ldnont
- Customers calling 519-661-5555 to report an outage may experience longer than normal wait times. We apologize for the inconvenience. #ldnont
- Approx. XXX customers are w/o power in scattered pockets of the city. Heavy winds and rain brought down wires and tree limbs. #ldnont
- We're experiencing a number of outages due to the weather.
- Damage is being assessed. Will provide updates as they become available. #ldnont
- Need to report a power outage this weekend? Please call 519-661-5555. #ldnont

## 7.0 Employee Code of Business Conduct

Employees participating in social media must follow the standards of conduct in London Hydro's Employee Code of Business Conduct, which overrides any less restrictive rules of conduct some employees may have as part of their professional affiliations (e.g. accountants, engineers, lawyers, etc.).

## 8.0 Procedures

### Good Judgment

**8.1** Publication and commentary on social media carries similar obligations to any other kind of publication or commentary.

(a) All statements must be true and not misleading, and all claims must be substantiated and approved.

(b) In accordance with section 4.0, all statements must protect confidential and proprietary information.

(c) Anything that is published online is widely and permanently accessible – it is often impossible to permanently delete a post to social media as it may have been saved by the service provider in many different locations.

**Expertise and Authority**

**8.2** If called upon to write and post on social media, it is important that employees write and post about their area of expertise, and, where appropriate, inform readers that any further questions can be answered at a later date and advise your supervisor accordingly. If the writing or posting pertains to any strategic manner, please advise the Director of Public Relations and Corporate Communications before taking any action.

It is recommended that employees only write in the voice of London Hydro. Any and all personal communication shall not be treated as official London Hydro opinions and as such do not position yourself as an authority for London Hydro.

**Perception and Affiliation**

**8.3** In social media, the lines between public and private, personal and professional are not always clear. In all personal use of social media sites, any mention of affiliation to London Hydro shall be such that it does not bring London Hydro in disrepute. If an employee is speaking on behalf of London Hydro, then their affiliation to London Hydro and their position within London Hydro must be clearly marked.

**Value of Information**

**8.4** Any officially authorized external social media communication from employees should add value and provide assistance services or products that London Hydro provides.

**8.5 Copyright and Accuracy**

(a) Employees must abide by and adhere to copyright laws.

(b) If an employee makes a mistake it is expected they admit and correct it in an upfront and timely fashion. If an employee chooses to modify an earlier post they should make this clear by referencing that the previous post has been corrected.

**Reflection and Consultation**

**8.6** If an employee is about to publish or post something that makes them pause or makes them uncomfortable, the employee should not publish or post the information. Rather, the employee should immediately discuss the matter with their Supervisor **and** then the Director of Public Relations and Corporate Communications before proceeding.

**Respect of Audience**

**8.7** Employees must respect their audience by always providing timely, accurate,

relevant and authoritative information. Employees must refrain from engaging in personal conversations with stakeholders or any member of the public.

**Professionalism**

**8.8** When creating social media content, employees are required to use the same level of professionalism they would employ in any other means of communication, when possible this includes the use of proper grammar, style and tone, and read twice before posting. When engaging in space-limited communication (e.g. Twitter), employees must use the highest standard of communication appropriate to that venue.

## 9.0 Using Social Media for London Hydro Business Purposes

**9.1** Employees who participate and engage in social media programs and services for approved London Hydro business purposes must comply with the following procedures:

(a) Employees will use social media names, avatars and images approved by London Hydro. Such accounts will be owned by London Hydro. In the alternative, the employee will be given access to a London Hydro social media account, which may be for an employees' sole use, or shared amongst employees.

(b) Employees participating in social media should only use this access for the London Hydro program or services they are responsible for.

(c) Employees participating in social media on official London Hydro business must clearly identify themselves as an employee of London Hydro, and should not communicate their personal views online.

(d) Employees may not use London Hydro's name to endorse or promote any personal opinion, product, cause or political position or candidate. Representation of one's personal opinions as endorsed by London Hydro is strictly prohibited.

(e) Any corporate videos posted to social media must be approved in writing by the Director of Public Relations and Corporate Communications before being posted. Any corporate videos produced and posted to social media for the purpose of corporate communications and/or promotion, must be of appropriate quality and approved by the Director of Public Relations and Corporate Communications.

(f) A photo consent form must be signed by the individual(s) featured in a photo before it can be posted. Any photos so posted by employees themselves shall not be subject to this clause.

(g) Employees will use discretion and restraint when responding to rumour or innuendo and online debates.

## 10.0 Restrictions

**(a)** Employees may not use social media to disclose or discuss the following information ***(NOTE: the restrictions in this section apply to all uses of social media by an employee, even if from the employee's personal social media accounts, whether at work or otherwise, and whether using London Hydro supplied tools or otherwise):***

- London Hydro-related matters which have confidentiality or proprietary requirements;
- London Hydro-related legal matters;
- London Hydro-related litigation files or parties London Hydro is in litigation with or considering litigation with;
- Personal information or personal health information about another employee, elected official or citizen that is not publicly known, and without consent;
- Distribution of materials that are owned/copyrighted by London Hydro, including but not limited to images, screen shots, video, and any other London Hydro-related information without approval by the Director of Public Relations and Corporate Communications;
- Distribution of materials licensed to London Hydro by a third party, including but not limited to purchased images and consultant reports; without approval by the Director of Public Relations and Corporate Communications;
- Distribution of information gained in confidence from companies or other third parties such as other government institutions where the information is not already in the public domain without approval by the Director of Public Relations and Corporate Communications; and
- Any other information that would not generally be disclosed under Freedom of Information legislation, such as information pertaining to law enforcement matters, internal advice/ recommendations pertaining to specific matters, information that could reasonably be expected to threaten the health or safety of an individual, etc.

(b) Employees may not use social media to post or link to

- Profane language or content;
- Content that promotes, fosters or perpetuates discrimination on the basis of race, creed, colour, age, religion, gender, marital status, status with regard to public assistance, national origin, physical or mental disability or sexual orientation;
- Inappropriate sexual content;
- Content that violates London Hydro's policies on workplace discrimination, harassment, and violence;
- Solicitations of commerce;
- Conduct or encouragement of illegal activity;
- Information that may tend to compromise the safety or security of the public or public systems;

- Confidential information;
- Personal information or personal health information of others;
- Content that violates legal ownership interests of any other party, and
- any copyrighted material absent permission.

If an employee is in doubt about the content of information that is to be posted online, the employee should first contact the Director of Public Relations and Corporate Communications.

**Steps to Initiate and Maintain a Social Media Program**

**9.2** The use of social media will be reviewed and evaluated on an annual basis by the Director of Public Relations and Corporate Communications and discussed and approved by the Executive Management team:

(a) Once a social media site is created, employees are responsible for monitoring all comments posted on the site and for providing regular updates and posts as required.

(b) When a social media site is no longer in use or relevant, the site should be deleted or unpublished.

**General**

**9.3** (a) An employee who becomes aware of an accidental or intentional breach of this Policy must report it immediately to their Supervisor who shall then advise the Director of Public Relations and Corporate Communications.

(b) The Director of Public Relations and Corporate Communications or a member of the Executive Management team reserves the right to restrict or remove any content that is deemed in violation of this Policy or any applicable law, in consultation with a program or department.

(c) If an employee receives a media request via social media, the employee should inform the requester of the contact information of the Director of Public Relations and Corporate Communications.

## 11.0 Performance Measurement

This policy will be reviewed by the Director of Public Relations and Corporate Communications annually and discussed with the Executive Management Team.

## 12.0 Related Documents

London Hydro Employee Code of Business Conduct

## 13.0 Enforcement

Policy violations will be subject to disciplinary action, up to and including termination of employment.

## 1-D-12. Archiving Information

It is the responsibility of each user to ensure that any information (documents or otherwise) created by the user gets archived for recovery purposes. Each user must ensure that proper backups are performed on their machines locally, or that any data to be archived is placed on the network server via a user directory supplied by the Information Systems Department.

The best way to ensure compliance is to refrain from using local hard disks for data storage and only place user data on the network server. It is NOT the responsibility of the Information Systems Department to archive individual PC's throughout London Hydro. Information Systems will archive all network servers on a nightly basis.

# 1-E. Respect in the Workplace

## 1-E-1. Statement on Workplace Diversity

London Hydro recognizes and respects the changing diversity of its community. Our recruiting efforts are dedicated to finding and identifying the best talent. To do this we must tap all available talent pools and remove barriers to success.

We believe that encouraging a diverse and inclusive work environment leads not only to stronger relationships with our customers, clients, and employees, but also to better decision making, a more creative workplace, and to our ability to attract and retain the best talent.

Diversity encompasses many individual attributes, such as gender, race, ancestry, language, age, sexual orientation, religion, disability and life experiences. Recognizing the importance of diversity acknowledges the unique contributions that employees bring to our workplace.

We are committed to achieving a work environment in which all employees are valued and have the opportunity to contribute to their full potential.

## 1-E-2. Policies on Discrimination, Harassment and Workplace Violence

### 1-E-2-1. Policy on Human Rights

The Ontario Human Rights Code is a provincial law that gives everyone equal rights and opportunities without discrimination or harassment in specific areas such as employment.

London Hydro supports the Ontario Human Rights Code, the Employment Standards Act and the Ontario Labour Relations Act. Any employee who feels that he or she has been discriminated against or claims that there has been a violation of the foregoing legislation shall have the right to seek redress.

All employees of London Hydro must be allowed to work free of harassment in the workplace. The workplace is defined as all London Hydro facilities including offices, common areas, work sites and work locations, including vehicles and other locations where the business of London Hydro is conducted during or outside of normal working hours. It also applies to the behaviour of employees when they are off-site at a meeting, a conference or a London Hydro sponsored social event during or outside of normal working hours.

While any employee has the right to file a complaint with the Ontario Human Rights Tribunal, resolution of problems within London Hydro is preferable.

It is the responsibility of supervisors, managers and executives to be familiar with the above legislative acts as they pertain to employee rights and the conduct of London Hydro's business.

Any employee, supervisor, manager or executive who violates this policy may be subject to discipline up to and including discharge.

### 1-E-2-2. Workplace Violence and Harassment Prevention Programs (Bill 168)

London Hydro is committed to the prevention of workplace violence and harassment and is ultimately responsible for the health and safety of all its employees. London Hydro will take whatever steps are reasonable to protect employees from workplace violence and harassment.

London Hydro will ensure it follows all provisions set out in the Ontario Occupational Health and Safety Act as it relates to workplace violence and harassment, which states that an employer shall develop and maintain programs to implement the policies with respect to workplace violence and harassment. The programs will include measures and procedures for workers to report incidents of workplace violence and harassment to the employer and set out how the employer will investigate and deal with those incidents and complaints.

Every employee has the right to refuse unsafe work including violence in the workplace in accordance with the Occupational Health and Safety Act (OHSA). For a worker to refuse to work due to workplace violence, a person MUST apply or attempt to apply physical force against that worker. However, the worker does not need to have the capacity to appreciate that these actions could cause injury.

To refuse work due to workplace violence the worker must feel **IMMINENT** danger when refusing to work. London Hydro has internal procedures in place (see section 1-E-2-5, "Summoning Assistance – Workplace Violence"), such as calling the police (911) for assistance, when employees have immediate safety concerns due to workplace violence. Because the danger to the worker will be dealt with quickly, the worker may not need to go through the formal Work Refusal process (see Safe Work Practice 151) in these circumstances.

When a worker receives a threat that does not cause the worker to fear for his or her personal safety, the worker should use the procedures set out in section 1-E-2-6, "Complaint Procedure," to report the incident to London Hydro. Differences of opinion or minor disagreements between co-workers would not generally be considered to be workplace violence.

A continuum of inappropriate behaviours can occur at the workplace, ranging from offensive remarks to workplace violence. Workplace harassment may escalate over time into threats or acts of physical violence. In some cases a targeted worker may react violently to prolonged harassment in the workplace. Therefore it is important that London Hydro recognizes these behaviours and deals with them promptly.

### *Domestic Violence*

The Workplace Violence and Harassment Prevention Program recognizes that domestic violence can also affect the workplace. See section 1-E-2-11, "Employer's Right to Information – Domestic Violence," for more information.

## 1-E-2-3. Definitions

### *Discrimination*

Every person has the right to fair and equal treatment in all aspects of employment[1] without discrimination due to race, colour, citizenship, sexual orientation, disability, age (18 and over), marital status (including same sex partners), family status, sex (including pregnancy and gender identity), place of origin, ethnic origin, creed (religion), ancestry, and record of offences.

### *Harassment*

Every employee has a right to freedom from harassment in the workplace by a supervisor, manager, executive, another employee, or by an employee of a contracted service due to race, colour, citizenship, sexual orientation, disability, age (18 and over), marital status (including same sex partners), family status, sex (including pregnancy and gender identity), place of origin, ethnic origin, creed (religion), ancestry, and record of offences.

Harassment is a form of discrimination under the Ontario Human Rights Code. If someone is making unwelcome comments or gestures that offend you or that are threatening or insulting because of one of the protected grounds listed above, that behaviour is called "harassment."

The Ontario Human Rights Code and Bill 168 define "harassment" as engaging in a course of vexatious [distressing] comment or conduct that is known or ought reasonably to be known to be unwelcome. Behaviour will be considered to constitute harassment under the Code if it disparages [belittles] or causes humiliation to a person in relation to one of the prohibited grounds. If an employee has any doubts about whether certain conduct constitutes harassment, she or he should bring that concern to the Human Resources Department.

For example, harassment under the Act includes, but is not restricted to, the following:

- racial, homophobic, sexist or ethnic slurs;
- displays of pornographic, homophobic, sexist, or racist material such as pictures, posters, graffiti, screen savers and e-mails;
- unwelcome remarks, insulting gestures, jokes, innuendoes or practical jokes, which cause embarrassment or awkwardness;
- taunting about a person's physical appearance, racial background, colour, place of birth or ancestry;
- refusal to converse or work with an employee because of his or her racial or ethnic background.

Bill 168 amendments to the Occupational Health and Safety Act extend the definition of workplace harassment to include acts and threats of acts that are not limited by the grounds listed in the Ontario Human Rights Code (see the definition of harassment, above). In

1 All aspects of employment includes recruitment, hiring, training, transfers, promotions, apprenticeship terms, dismissals, layoffs, rates of pay, overtime, hours of work, vacation benefits, shift work, discipline and performance reviews.

addition to the examples listed above, other behaviours that may be workplace harassment under Bill 168 include

- threats, bullying, coercion
- threatened physical assault
- verbal assault, taunting, ostracizing
- malicious gestures, comments or actions
- repeated offensive or intimidating phone calls or e-mails
- display or circulation of offensive pictures or materials in print or electronic form
- intimidating or offensive jokes or innuendos

Dealing appropriately with performance issues or discipline is not harassment under this policy.

***Sexual Harassment***

Every employee has a right to freedom from sexual harassment in the workplace by a supervisor, manager, executive, another employee, or by an employee of a contracted service. Sexual Harassment is defined as

a) repeated sexual advances or solicitations by a person who knows or ought reasonably to know that such advances or solicitations are unwelcome

b) a sexual advance or solicitation made by a person in a position to confer, grant or deny a benefit or advancement to the person where the person making the advance or solicitation knows or ought reasonably to know that it is unwelcome;

c) a reprisal or threat of reprisal for the rejection of a sexual advance or solicitation where the reprisal is made or threatened by a person in a position to confer, grant or deny a benefit to the person; or

d) repeated sexual remarks or behaviours which are known or ought reasonably to be known to be unwelcome by the person making the remarks and which might reasonably be perceived to create a negative psychological (intimidating, hostile, offensive) work environment.

Sexual harassment means that someone is bothering you by saying or doing unwanted or unwelcome things of a sexual nature. For example, sexual harassment is occurring if someone

- makes sexual remarks;
- touches you;
- tells sexist jokes;
- makes sexual requests or suggestions;
- stares at or makes unwelcome comments about your body; or
- displays pictures of scantily clad or nude people.

Occasional compliments, remarks or welcome social relationships do not constitute sexual harassment. For additional information about sexual harassment or this practice contact the Human Resources Department.

### *Workplace Violence*

Workplace violence is defined as an exercise of physical force, or an attempt to exercise physical force by a person against a worker in a workplace that causes or could cause physical injury to a worker. Workplace violence also includes a statement or behaviour that a worker could reasonably interpret as a threat to exercise physical force against a worker, in a workplace, which could cause physical injury to a worker.

Examples of workplace violence include, but are not limited to, the following:

- striking or pushing a worker or attempting to strike or push a worker
- verbally threatening a worker with physical force or harm
- leaving threatening notes at a workplace or sending threatening e-mails to a worker
- shaking a fist in a worker's face
- wielding a weapon at work
- hitting or trying to hit a worker
- throwing an object at a worker that could cause physical injury
- using sexual violence against a worker
- kicking an object the worker is standing on such as a ladder
- trying to run down a worker using a vehicle or equipment such as a forklift

### Poisoned or Hostile Work Environment

A poisoned or hostile work environment may be created by comments or actions of any person regardless of their position or status. Such behaviour can humiliate and make members of the targeted group feel less than equal to their peers. It can also cause co-workers to perceive members of the targeted group as less than equal to themselves.

Comments do not have to be directed toward an individual to adversely affect the environment. A co-worker who hears someone tell an offensive joke to another may view the behaviour as poisoning the environment.

A situation could arise in which particular comments or actions might not be intended to offend another person, but may still result in a violation of that person's rights under the Ontario Human Rights Code. The reason for this is that intent is not a prerequisite for establishing that the treatment was discriminatory. Rather, the Ontario Human Rights Commission looks to the effect or the result of the comments or actions on the recipient.

## 1-E-2-4. Responsibilities of Supervisors, Managers and the Executive for Fostering a Respectful Workplace

Supervisors, managers and executives are responsible for providing a workplace free from harassment and violence and protecting employees' rights by taking steps to prevent or to stop incidents that may lead to complaints of discrimination, harassment, sexual harassment or workplace violence. These steps include

1) **Setting a good example**. Supervisors, managers and executives should let their staff know that they take issues of discrimination, harassment and violence seriously by not participating in or ignoring any of these behaviours.

2) **Communicating**. Supervisors, managers and executives should communicate the principles of this policy and uphold its spirit and intent.

3) **Talking to an employee if there are suspicions**. An employee may find it difficult to come forward. If supervisors, managers and executives become aware of reduced productivity, changes in behaviour, rumours, increased sick leave or changes in performance, they should approach the employee.

4) **Seeking advice from the Bill 168 Coordinator**. The Bill 168 Coordinator is available as a resource to discuss an incident being handled by a supervisor, manager or executive.

5) **Taking appropriate action immediately when known problems or potential problems exist**. Supervisors, managers and executives will be held accountable for their own actions and for dealing with the actions of their staff. In the event of discrimination, harassment or a threat of violence, supervisors, managers and executives should do the following:

    i) Discuss the complaint with the employee who has identified the incident;
    ii) Discuss the incident with the employee to whom the complaint has been directed (He or she may not be aware that his or her behaviour was offensive);
    iii) Seek advice from the Bill 168 Coordinator, if necessary;
    iv) Monitor the situation; and
    v) Take appropriate corrective action.

6) **Keeping a personal record of all discussions with employees.** All discussions with employees, regardless of how informal they may seem, must be documented as a record that the issue was brought forward. In addition, supervisor, managers and executives need to record the action(s) they took as a result of the discussion.

All employees share the responsibility of creating a workplace that is free from harassment, discrimination and violence. Each employee is responsible for understanding what constitutes harassing, discriminatory and/or violent behaviour and conducting himself or herself in a manner that reflects London Hydro's commitment to respect in the workplace.

### 1-E-2-5. Summoning Assistance – Workplace Violence

Canada's Criminal Code deals with matters such as violent acts, threats and behaviours such as stalking.

**The police should be contacted immediately when an act of violence has occurred in the workplace or when someone in the workplace is threatened with violence.**

London Hydro currently has policies and procedures in place to summon assistance. Employees in the field have cell phones with pre-programmed emergency numbers as well as 2-way radios in the vehicles to contact the London Hydro Control Room which is staffed 24 hours a day, seven days a week. Company Bulletin Boards have company phone

numbers as well as external emergency numbers in all departments. London Hydro also has a MAYDAY radio Safe Work Practice (108) to assist employees in need. All employees can use any internal phone to contact Security by calling 3001 which is a direct line to the Security Supervisor's cell phone.

The Visitor Entrance area is staffed by a Security Officer during normal business hours. In the event that a violent person enters the area, the Security Officer has a phone to summon assistance as well as a code word used to contact the Security Supervisor who will respond immediately. All visitors must sign in at the front desk to ensure Security knows who is on the premises at all times. Visitors are also required to sign off that they have read the London Hydro Health and Safety Policy.

### 1-E-2-6. Complaint Procedure

All employees have the right to lodge a complaint of harassment or violence without reprisal or threat of reprisal for so doing. Such allegations are serious, and if falsely made, they could damage the careers of both parties. Therefore, any charges should be considered carefully before being made.

If an employee has any doubts about whether certain conduct constitutes harassment or violence, she or he should bring that concern to the Bill 168 Coordinator.

It is not only the individual respondent[2] who may be found in violation, but also any person who

- knew or should have known of the behaviour;
- had the authority to penalize the respondent or prevent the behaviour; and
- failed to use that authority.

A worker may also seek resolution of a workplace harassment incident or complaint outside of the employer's internal investigation procedure if he or she believes the employer did not deal with the matter properly. A worker may contact the Human Rights Tribunal of Ontario within the timelines outlined in the Ontario Human Rights Code to file an application to have the matter heard if the alleged harassment is based on one of the grounds prohibited under the Code.

The worker may seek to resolve issues through the grievance / arbitration process or seek to resolve the issue through civil litigation, depending on the circumstances.

#### *Procedure: Informal Complaint - Harassment*

Any employee who feels that he or she is being harassed is advised to take the following steps.

1. If you feel that you can talk to the person who is harassing you, or whose behaviour is bothering you, then **TELL** this person that their behaviour is unwelcome. Use words that you are comfortable with, for example:
    i) "I don't like it when you say/do…";

2 Respondent- person who is alleged to have harassed or been violent

ii) "I find it offensive when you…";
iii) "I'm uncomfortable when…";
iv) "That kind of joke isn't welcome…"; or
v) "I don't take that comment as a compliment…".

2. **ASK** the person to stop saying or doing whatever it is you find unwelcome. Focus on the behaviour not on the person.
3. Keep a **RECORD** of
   - what happened – a description of the events or situation including the reaction of the person when you told him or her that the behaviour was unwelcome and asked him or her to stop;
   - when it happened – dates and times of the events or incidents;
   - where it happen; and
   - who saw it happen – the names of witnesses, if any.
4. **RETAIN** any documents or materials such as letters, notes, or offensive pictures that are related to the complaint.

   IF the behaviour was very offensive or clearly out of line, IF you do not feel safe saying anything to that person, or IF you talk to the person and you are not taken seriously and the behaviour continues,

   **SEEK ADVICE** from your supervisor, your shop steward, Human Resources, the Bill 168 Coordinator, the Union Executive, another supervisor, someone else you trust or the London Employee Assistance Consortium (LEAC).
5. If the matter isn't resolved by a supervisor, manager, or executive to your satisfaction, go to the Bill 168 Coordinator.

***Procedure: Formal Complaint***

If an informal attempt to resolve the problem is not appropriate or failed to be effective, a formal complaint and investigation may be required.

**Who** –

- All employees must be aware of the importance of and the process for reporting workplace harassment and violence.
- Any employee who has been subjected to workplace harassment or violence is required to inform his or her supervisor and, with the help of the Bill 168 Coordinator, to complete a Workplace Harassment Incident Report Form or Workplace Violence Incident Report Form outlining the specifics of the incident.
- If the supervisor is involved in the allegation, the worker must report the incident to the Bill 168 Coordinator.

**When**

- The credibility of the London Hydro Harassment and Violence Prevention Programs depends in part upon how quickly and effectively reports are handled. Therefore, all

incidents of harassment and all incidents of violence, real or threatened, must be reported immediately to the supervisor.

- Reporting employees must not be made to fear criticism, loss of privacy, penalties, or judgments.
- All incidents and complaints of workplace harassment and workplace violence will be investigated and dealt with in a fair and timely manner, respecting the privacy and safety of all concerned as much as possible.

**How**

- After the appropriate form has been completed, the Bill 168 Coordinator will begin the investigation of the incident within a 24 hour period.
- Once the investigation has been completed, the Bill 168 Coordinator will forward his or her findings to the Senior Director of Human Resources and Senior Management for further review and follow up.
- The report will include findings of fact and a non-binding recommended course of action.

## 1-E-2-7. Investigation Procedure – Harassment and Violence Prevention Programs

### *London Hydro's Responsibility to Act on Complaints*

1. London Hydro will ensure a thorough and fair investigation of the circumstances involved in any complaint. A fair investigation includes the rights of both parties to an impartial investigation and the right of the respondent to know both the allegations and the complainant[3].
2. During the investigation, the privacy of the employees involved will be respected. However, any complainant wishing to seek remedy through this procedure must be prepared to be identified to the respondent and those involved in the resolution of the complaint.
3. The intent of the investigation is to resolve the matter and, if necessary, to recommend discipline of a harasser. The discipline may take several forms depending on the severity of the harassment.

   London Hydro understands that a complainant may wish to seek remedy without necessarily instituting a formal proceeding for disciplinary action. At the same time, London Hydro has the right and the responsibility to insist that in specific cases, remedy without disciplinary action is not appropriate.
4. Upon becoming aware of any incident, which may fall under the definition of harassment, whether through an informal complaint, formal complaint, or observation, London Hydro may determine that it is necessary, or be legally obligated, to take appropriate action even if a complainant does not wish to proceed or requests that a complaint be withdrawn.

3 Complainant- person who files complaint of harassment or violence.

5. If, as a result of an investigation, it is determined that an otherwise unfounded complaint was intended to be malicious, it will be considered a form of harassment and will be dealt with in accordance with this policy.

The roles played by Supervisors, the Bill 168 Coordinator and the Senior Director of Human Resources in the Investigation Procedure are described in detail in the Employee Policy Manual.

***Course of Action***

In certain situations such as where employee safety may be threatened, it may be necessary to take immediate interim measures to ensure the safety of the complainant or respondent. Such interim solutions may include, but are not limited to, the relocation or removal of the complainant or respondent from their assigned workplace (Non-disciplinary suspension with pay).

If, after an investigation, a complaint is found to be substantiated, London Hydro will determine what corrective action is to be taken, if any. Such action may include, but is not limited to, any of the following:

- the introduction of information or education sessions for the respondent or a particular work group;
- the requirement that the respondent participate in a counseling process;
- discipline for the respondent, ranging from a letter of reprimand up to and including termination; or
- a review and modification of policies, procedures and practices for a particular work group.

**I-E-2-8. Investigation Follow-up Procedure – Harassment Prevention and Violence Prevention Programs**

After an incident of harassment or violence, it is essential that the victim(s), other affected employees and in some cases, the victim's family, obtain immediate counselling and trauma therapy. Early provision of victim support services will reduce the impact of a crisis.

The Bill 168 Coordinator will follow up to ensure all parties receive the appropriate treatment required.

London Hydro is a member of the London Employee Assistance Consortium (LEAC). LEAC assesses the needs of employees who are dealing with harassment and/or violence and provides counselling. LEAC also helps to establish strategies to keep domestic violence from entering the work environment. For details, see Section 1-E-2-13, "London Employee Assistance Consortium."

**1-E-2-9. Confidentiality**

London Hydro understands that it may be difficult to come forward with a complaint of harassment or discrimination and recognizes a complainant's interest in keeping the matter confidential. To protect the interests of the complainant, the respondent and any others who

may report incidents of harassment and discrimination, confidentiality will be maintained throughout the investigatory process to the extent practicable and appropriate under the circumstances.

All records of a complaint, including minutes of meetings, interviews, results of investigations and other relevant material will be kept confidential except to the extent that disclosure is necessary to conduct a fair investigation and to take remedial and/or disciplinary action in relation to the complaint.

### I-E-2-10. Responsibilities – Harassment and Violence Prevention

It is NOT the role of Ministry Inspectors to resolve specific allegations of harassment in the workplace. Employers are responsible for investigating and dealing with incidents and complaints of workplace harassment. The employer is also responsible for deciding which steps, if any, should be taken as a result.

All parties have responsibilities to prevent harassment and violence in the workplace. Responsibilities for employers, supervisors, the Bill 168 Coordinator and the Joint Health and Safety Committee can be found in the Employee Policy Manual.

#### *Workers' Responsibilities*

Workers are responsible for

- Working in compliance with the provisions of the Occupational Health and Safety Act and the regulations as well as with these policies and supporting programs and attend any training required;
- Reporting to their employer or supervisor any contravention of the Occupational Health and Safety Act and/or regulations or the existence of any hazard of which they are aware.
- Not engaging in any prank, contest, feat of strength, unnecessary running or rough and boisterous conduct (While this type of behaviour may not constitute workplace violence, if allowed to continue, this behaviour may escalate into workplace violence); and
- Reporting any concerns in regards to workplace harassment or violence to their supervisor or the Bill 168 Coordinator.

### 1-E-2-11. Employees' Right to Information – Risk of Workplace Violence

The duty of the employer and the duty of the supervisor to provide information to a worker includes the duty to provide personal information related to a risk of workplace violence from a person with a history of violent behaviour. This information will be passed on if the worker can be expected to encounter that person in the course of his or her work and the risk of violence is likely to expose the worker to physical injury.

Employees have the right to be informed if a co-worker has a protection order (peace bond or restraining order) against another party, if there is a potential for those employees to come to harm in the workplace (For the full definition of 'workplace', see section 1-E-2-1 "Policy on Human Rights."

London Hydro shall provide information and instruction that is appropriate to the situation.

No employer or supervisor shall disclose more personal information in the circumstances than is reasonably necessary to protect the worker from physical injury.

### 1-E-2-12. Employer's Right to Information – Domestic Violence

Any employee who has a protection order (peace bond or restraining order) that applies to the workplace must inform London Hydro so that London Hydro can provide all necessary protection to the worker and co-workers.

London Hydro will assist employees to implement a safety plan to protect them from domestic violence during working hours.

### 1-E-2-13. London Employee Assistance Consortium

London Hydro recognizes that harassment and workplace violence involve both emotional and physical stress. London Hydro is a member of the London Employee Assistance Consortium (LEAC), an organization that helps employees and their dependents deal with problems. For **confidential** counselling and advice, contact one of the counsellors at LEAC (519-432-1821).

### I-E-2-14. C.U.P.E Local #1000, Power Workers' Union

C.U.P.E, Local #1000, Power Workers' Union, supports a harassment free workplace. The Principal Steward and union representatives will take an active role in providing a harassment free workplace for its members through education, setting a good example and assisting members affected by harassment.

### 1-E-3. Accessibility for Ontarians with Disabilities Act, 2005 (AODA)

The goal of the AODA is to make Ontario fully accessible for persons with disabilities. In accordance with the AODA, London Hydro is committed to achieving a barrier free environment for our customers, community and employees, which we will accomplish through a gradual establishment and implementation of accessibility standards.

***Accommodation – Emergency Situations***

In the event of an emergency, London Hydro will provide individualized workplace emergency response information and assistance to employees who require accommodation due to a disability.

Employees with disabilities who require such assistance must inform London Hydro of this requirement.

**1-E-4. Accessible Customer Service Policy** (Required for the Implementation of the Accessibility for Ontarians with Disabilities Act – OADA 2005)

**1-E-4.1. Purpose / Background Information**

The Accessibility for Ontarians with Disabilities Act, 2005 (the "AODA") is a Provincial Act with the purpose of developing, implementing and enforcing accessibility standards in order to achieve accessibility for persons with disabilities with respect to goods, services, facilities, accommodation, employment, buildings, structures, and premises.

Under the AODA, Ontario Regulation 429/07 entitled "Accessibility Standards for Customer Services" came into force on January 1, 2008. That Regulation establishes accessibility standards specific to customer service for public sector organizations and other persons or organizations that provide goods and services to members of the public or other third parties.

This policy is in accordance with the Accessibility Standards for Customer Service (Ontario Regulation 429/07) and addresses the following:

- the provision of goods and services to persons with disabilities;
- the use of assistive devices by persons with disabilities;
- the use of service animals by persons with disabilities;
- the use of support persons by persons with disabilities;
- notice of temporary disruptions in services and facilities;
- training;
- customer feedback regarding the provision of goods and services to persons with disabilities; and
- notice of availability and format of documents.

## 1-E-4-2. Application

This policy applies to all persons who deal with members of the public or other third parties on behalf of London Hydro, whether the person does so as an employee, member of the Board of Directors, agent, volunteer, student on placement, or otherwise and all persons who participate in developing London Hydro's policies, practices, and procedures governing the provision of goods and services to members of the public or other third parties.

## 1-E-4-3. Definitions

Assistive Device

A device used to assist persons with disabilities in carrying out activities or in accessing the services of persons or organizations covered by the Customer Service Standard.

Disability

a) any degree of physical disability, infirmity, malformation, or disfigurement that is caused by bodily injury, birth defect, or illness and, without limiting the generality of the foregoing, includes diabetes mellitus, epilepsy, a brain injury, any degree of paralysis, amputation, lack of physical coordination, blindness or visual impediment, deafness or hearing impediment, muteness or speech impediment, or physical reliance on a guide dog or other animal or on a wheelchair or other remedial appliance or device,
b) a condition of mental impairment or a developmental disability,
c) a learning disability, or a dysfunction in one or more of the processes involved in understanding or using symbols or spoken language,
d) a mental disorder, or
e) an injury or disability for which benefits were claimed or received under the insurance plan established under the Workplace Safety and Insurance Act, 1997.

Guide Dog

A guide dog as defined in Section 1 of the Blind Persons' Rights Act is a dog trained as a guide for a blind person and having qualifications prescribed by the regulations under the Blind Persons' Rights Act.

Nurse

A Registered Nurse or Registered Practical Nurse who is a registered member in good standing with the College of Nurses of Ontario.

Physician

A physician who is a registered member, in good standing, with the College of Physicians and Surgeons of Ontario.

Service Animal

Any animal used by a person with a disability for reasons relating to the disability where it is readily apparent that the animal is used by the person for reasons relating to his or her disability; or where the person provides a letter from a physician or nurse confirming that he or she requires the animal for reasons relating to his or her disability; or a valid identification card signed by the Attorney General of Canada or a certification of training from a recognized guide dog or service animal training school.

Support Person

A person who accompanies a person with a disability in order to assist him or her with communication, mobility, personal care, or medical needs or with access to goods or services.

### 1-E-4-4. Policy Statement

London Hydro is committed to providing quality goods and services that are accessible to all persons that we serve.

### 1-E-4-5. General Principles

**a. The Provision of Goods and Services to Persons with Disabilities**

London Hydro will use reasonable efforts to ensure that its policies, practices, and procedures are consistent with the following principles:

- London Hydro's goods and services are provided in a manner that respects the dignity and independence of persons with disabilities;
- provision of London Hydro's goods and services to persons with disabilities are integrated with those provided to persons who do not have disabilities unless an alternative measure is necessary to enable a person with a disability to obtain, use or benefit from London Hydro goods and services; and
- persons with disabilities are given an opportunity equal to that of persons without disabilities to obtain, use or benefit from London Hydro's goods and services.

**b. Communication with Persons with Disabilities**

When communicating with a person with a disability, London Hydro will do so in a manner that takes into account the person's disability.

c. **Notice of Temporary Disruptions in Services and Facilities**

London Hydro is aware that the operation of its services and facilities is important to the public. However, temporary disruptions in London Hydro's services and facilities may occur due to reasons that may or may not be within the London Hydro's control or knowledge.

London Hydro will make reasonable effort to provide notice of the disruption to the public, including information about the reason for the disruption, its anticipated

duration, and a description of alternative facilities or services, if applicable. London Hydro will make reasonable effort to provide prior notice of planned disruption if possible, recognizing that in some circumstances such as in the situation of unplanned temporary disruption, advance notice will not be possible. In such cases, London Hydro will provide notice as soon as possible.

When temporary disruptions occur to London Hydro's services or facilities, London Hydro will provide notice by posting the information in visible places, or on London Hydro's website (www.londonhydro.com), or by any other method that may be reasonable under the circumstances as soon as reasonably possible.

**d. Assistive Devices and other Measures that Assist with Accessibility**

A person with a disability may provide their own assistive device for the purpose of obtaining, using and benefiting from London Hydro's goods and services. Exceptions may occur in situations where London Hydro has determined that the assistive device may pose a risk to the health and safety of a person with a disability or the health and safety of others on the premises.

In these situations and others, London Hydro may offer a person with a disability other reasonable measures to assist him or her in obtaining, using, and benefiting from London Hydro goods and services, where London Hydro has such other measures available.

It should be noted that it is the responsibility of the person with a disability to ensure that his or her assistive device is operated in a safe and controlled manner at all times.

**e. Service Animals**

Persons with a disability may enter premises owned and operated, or operated, by London Hydro accompanied by a service animal and keep the animal with them if the public has access to such premises and the animal is not otherwise excluded by law. If a service animal is excluded by law, London Hydro will ensure that alternate means are available to enable the person with a disability to obtain, use or benefit from the City's goods and services.

If it is not readily apparent that the animal is a service animal, London Hydro may ask the person with a disability for a letter from a physician or nurse confirming that the person requires the animal for reasons relating to his or her disability. London Hydro may also, or instead, ask for a valid identification care signed by the Attorney General of Canada or a certificate of training from a recognized guide dog or service animal training school.

It should be noted that it is the responsibility of the person with a disability to ensure that his or her service animal is kept in control at all times.

**f. Support Persons**

A person with a disability may enter premises owned and operated, or operated, by London Hydro with a support person and have access to the support person while on the premises.

London Hydro may require a person with a disability to be accompanied by a support person while on London Hydro premises in situations where it is necessary to protect the health or safety of the person with a disability or the health and safety of others on the premises.

A support person, when assisting a person with a disability to obtain, use or benefit from London Hydro's goods and services, will be permitted to attend at no charge where an admission fee is applicable.

**g. Feedback**

London Hydro is committed to providing high quality goods and services to all members of the public it serves. Feedback from the public is welcomed as it may identify areas that require change and encourage continuous service improvements.

Feedback from a member of the public about the delivery of goods and services to persons with disabilities may be given by telephone, in person, in writing, in electronic format or through other methods.

Information about the feedback process will be readily available to the public and notice of the process will be posted on London Hydro's website (www. londonhydro.com) and/or in other appropriate locations.

**h. Training**

London Hydro will ensure that all persons to whom this policy applies receive training as required by the Accessibility Standards for Customer Service. The amount and format of training given will be tailored to suit each person's interactions with the public and his or her involvement in the development of policies, procedures, and practices pertaining to the provision of goods and services.

The content of the training will include

- A review of the purposes of the AODA;
- The requirements of the Accessibility Standards for Customer Service (Ontario Regulation 429/07);
- Instruction on London Hydro's policies, procedures, and practices pertaining to the provision of goods and services to persons with disabilities;
- How to interact and communicate with persons with various types of disabilities;
- What to do if a person with a particular type of disability is having difficulty accessing London Hydro's goods or services;
- How to interact with persons with disabilities who use assistive devices or who require the assistance of a support person or service animal; and
- Information about the equipment or devices available on London Hydro premises that may help with the provision of goods or services to persons with disabilities.

Timeline for Training

Training will be provided as soon as practicable upon an individual being assigned the applicable duties as well as on an ongoing basis as changes occur to London Hydro policies, procedures, and practices governing the provision of goods or services to persons with disabilities.

Records of Training

London Hydro will keep records of the training, including the date on which training is provided and the number of individuals to whom it is provided. The names of individuals trained will be recorded for training administration purposes, subject to the *Municipal Freedom of Information and Protection of Privacy Act* (MFIPPA).

### 1-E-4-6. Availability and Format of Documents Required by the Accessibility Standards for Customer Service (Ontario Regulation 429/07)

All documents required by the Accessibility Standards for Customer Service, including London Hydro's Accessible Customer Service policies, procedures, and practices, notices of temporary disruptions, training records, and written feedback process are available upon request, subject to MFIPPA.

When providing a document to a person with a disability, London Hydro will provide the document, or the information contained in the document, in a format that takes the person's disability into account.

### 1-E-4-7. Notice of the Availability of Documents

Notice of the availability of all documents required by the Accessibility Standards for Customer Service will be posted on London Hydro's website, and available through Corporate Communications & Public Relations.

## 1-E-5. Integrated Accessibility Standards Policy

The following policy has been established by London Hydro to govern the provision of services with Regulation 191/11, "Integrated Accessibility Standards" ("Regulation") under the *Accessibility for Ontarians with Disabilities Act, 2005.*

These standards are developed to break down barriers and increase accessibility for persons with disabilities in the areas of information and communications and employment.

London Hydro is governed by this policy as well as the Accessibility Standards for Customer Service Policy and the *Accessibility for Ontarians with Disabilities Act, 2005* in meeting the accessibility needs of persons with disabilities.

### 1-E-5-1. Commitment

London Hydro is committed to treating all people in a way that allows them to maintain their dignity and independence. We believe in integration and equal opportunity. We are committed to meeting the needs of persons with disabilities in a timely manner, and will do so by preventing and removing barriers to accessibility and meeting accessibility requirements under the Accessibility for Ontarians with Disabilities Act.

This policy will be implemented in accordance with the time frames established by the Regulation.

**1-E-5-2. Accessibility Plan**

London Hydro will develop, maintain and document an Accessibility Plan outlining the company's strategy to prevent and remove barriers from its workplace and to improve opportunities for persons with disabilities.

The Accessibility Plan will be reviewed and updated at least once every five years, and will be posted on the company's website. Upon request, London Hydro will provide a copy of the Accessibility Plan in an accessible format.

**1-E-5-3. Accessibility Plan**

London Hydro will ensure that training is provided on the requirements of the accessibility standards referred to in the Regulation and continue to provide training on the *Human Rights Code* as it pertains to persons with disabilities, to

- all its employees and volunteers;
- all persons who participate in developing London Hydro's policies; and,
- all other persons who provide goods, services or facilities on behalf of the company.

The training will be appropriate to the duties of the employees, volunteers and other persons.

Employees will be trained when changes are made to the accessibility policy. New employees will be trained as soon as practicable.

London Hydro will keep a record of the training it provides.

## 1-E-5-4. Information and Communication Standards

### *Feedback*

London Hydro will continue to ensure that its process for receiving and responding to feedback is accessible to persons with disabilities by providing, or arranging for the provision of, accessible formats and communications supports, upon request.

### *Accessible Formats and Communication Supports*

Upon request, London Hydro will provide, or will arrange for the provision of accessible formats and communication supports for persons with disabilities in a timely manner that takes into account the person's accessibility needs due to disability.

London Hydro will consult with the person making the request in determining the suitability of an accessible format or communication support.
London Hydro will also notify the public about the availability of accessible formats and communication supports.

### *Accessible Websites and Web Content*

London Hydro will ensure that our Internet websites, including web content, conform to the World Wide Web Consortium Web Content Accessibility Guidelines (WCAG) 2.0, at Level AA except where this is impracticable.

## 1-E-5-5. Employment Standards

### *Recruitment*

London Hydro will notify its employees and the public about the availability of accommodation for applicants with disabilities in its recruitment process.

### *Recruitment, Assessment or Selection Process*

London Hydro will notify job applicants, when they are individually selected to participate further in an assessment or selection process that accommodations are available upon request in relation to the materials or processes to be used.

If a selected applicant requests an accommodation, London Hydro will consult with the applicant and provide, or arrange for the provision of, a suitable accommodation in a manner that takes into account the applicant's accessibility needs due to disability.

### *Notice to Successful Applicants*

When making offers of employment, London Hydro will notify the successful applicant of its policies for accommodating employees with disabilities.

### *Informing Employees of Supports*

London Hydro will continue to inform its employees of its policies (and any updates to those policies) used to support employees with disabilities, including policies on the provision of job accommodations that take into account an employee's accessibility needs due to disability. This information will be provided to new employees as soon as practicable after commencing employment.

### *Accessible Formats and Communication Supports for Employees*

Upon the request of an employee with a disability, London Hydro will consult with the employee to provide, or arrange for the provision of, accessible formats and communication supports for information that is needed to perform his/her job, and information that is generally available to other employees.

In determining the suitability of an accessible format or communication support, London Hydro will consult with the employee making the request.

### *Workplace Emergency Response Information*

London Hydro will provide individualized workplace emergency response information to employees who have a disability, if the disability is such that the individualized information is necessary, and if London Hydro is aware of the need for accommodation due to the employee's disability. London Hydro will provide this information as soon as practicable after becoming aware of the need for accommodation.

Where the employee requires assistance, London Hydro will, with the consent of the employee, provide the workplace emergency response information to the person designated by London Hydro to provide assistance to the employee.

London Hydro will review the individualized workplace emergency response information when the employee moves to a different location in the organization, when the employee's overall accommodations needs or plans are reviewed.

### *Documented Individual Accommodation Plans*

London Hydro will maintain a written process for the development of documented individual accommodation plans for employees with disabilities.

If requested, information regarding accessible formats and communications supports provided will also be included in individual accommodation plans.

In addition, the plans will include individualized workplace emergency response information (where required), and will identify any other accommodation that is to be provided.

***Return to Work Process***

London Hydro maintains a documented return to work process for its employees who have been absent from work due to a disability and who require disability-related accommodations in order to return to work.
The return to work process outlines the steps London Hydro will take to facilitate the return to work and will include documented individual accommodation plans as part of the process.

This return to work process will not replace or override any other return to work process created by or under any other statute (e.g., the *Workplace Safety Insurance Act, 1997).*

***Performance Management, Career Development and Advancement & Redeployment***

London Hydro will take into account the accessibility needs of employees with disabilities, as well as individual accommodation plans, when conducting performance management, providing career development and advancement to employees, or when redeploying employees.

***Questions about this Policy***

This policy has been developed to break down barriers and increase accessibility for persons with disabilities in the areas of information and communications and employment. If anyone has a question about the policy, or if the purpose of a policy is not understood, an explanation will be provided by the Public Relations and Corporate Communications Department.

# 1-F. Health and Safety

## 1-F-1. The Occupational Health and Safety Act

1. London Hydro complies with the Occupational Health and Safety Act and its regulations.

2. The Ministry of Labour enforces the Act through regular inspections of London Hydro premises.

3. London Hydro also involves the Ministry of Labour in complaints, accidents, injuries or any other circumstance that is covered by the Occupational Health and Safety Act.

London Hydro, supervisors and employees all have responsibilities under the Act, and these responsibilities are detailed in it (Sections 23 – 32). All management personnel are responsible for ensuring that London Hydro's responsibilities are carried out. All employees are responsible for thoroughly understanding and following these regulations as they apply to their particular positions.

## 1-F-2. Safety Rules

London Hydro recognizes that **SAFETY MUST BE GIVEN FIRST PRIORITY IN THE WORK PLACE.**

To enable employees to perform their work in a safe, efficient manner, supervisors are responsible and accountable for

1. providing a healthy and safe work environment;
2. providing suitable training;
3. providing appropriate tools and equipment that are maintained in a safe working condition;
4. thoroughly understanding the rules, regulations and procedures of the Safe Work Practices Manual, the Health & Safety Management System, IHSA, and the Occupational Health and Safety Act as they apply to his or her sphere of operations; and
5. ensuring that employees strictly adhere to these rules, regulations and procedures.

New supervisors and supervisors who need to update their safety training should see the Health and Safety Department to arrange to take an appropriate safety course.

**Employees must**

1. use the training, tools and equipment provided according to manufacturers' instructions;
2. have a positive attitude towards health and safety matters;
3. promote and follow safe work practices at all times;

4. recognize existing or potential hazards and take precautionary steps to

   (a) remove them;
   (b) guard against them;
   (c) learn the proper procedures to work around them safely; and
   (d) ensure co-workers are equally aware of them.

5. comply with the rules in the Safe Work Practices Manual, the Health and Safety Management System, and the IHSA Safety Rules as they apply to his or her position; and

6. comply with the Occupational Health and Safety Act.

### 1-F-3. Joint Health and Safety Committee (JH&SC)

The general objective of the Joint Health and Safety Committee is to develop a better work environment by

a) maintaining the employees' awareness of occupational health and safety matters;

b) providing a forum for open discussion of problems that have resulted or could result in injury or disease;

c) helping management evaluate recommendations for improvements in the work place; and

d) promoting a cooperative spirit between management and the union.

Specific objectives and duties of the JH&SC and the Committee's Terms of Reference are detailed in the Health and Safety Management System (HSMS), Section 4.

### Safety Concerns

When safety issues are identified within a department, they should normally be resolved internally through discussion with the Supervisor or Manager of the department. It is recognized, however, that disagreements or questions on the best solution or the probability of risk or budget constraints will sometimes result in situations where the issue cannot be dealt with at the front line level. In those situations it is appropriate to seek assistance from the Health and Safety Representative for the area or the Health and Safety Department.

### 1-F-4. Medical Emergencies

In the case of an accident or medical emergency, follow these instructions:

1. If the patient is semiconscious, unconscious, has difficulty breathing, or if severe bleeding is present

   CALL AN AMBULANCE: 911

2. Give the exact location of the patient.

3. Contact a First Aid Committee Member (names and phone numbers of First Aid Committee Members can be found on bulletin boards), administer first aid and notify the employee's supervisor. Explain the situation to the Ambulance Attendant upon his or her arrival. Consider the condition of the patient: get blankets, towels, pillows or other materials, as required.
4. Do not allow any bystanders to crowd around the patient.
5. Let the Ambulance Attendant take over; assist only when asked.

**Use of the AED**

6. When a rapid response to Sudden Cardiac Arrest (SCA) is required, any trained first aider is expected to follow this procedure:
    a. For an emergency occurring within the London Hydro building, immediately dial "0" for Security and report details of the patient's location and medical status. Security will call 911. Security will require additional information about the environment and patient, which they will use when speaking to 911.
    b. If you (or someone present at the incident) are trained in the use of AEDs, obtain the nearest AED, First Aid Kit and trauma bag and return to the patient to start administering care.
    c. Security will invoke a 'Code Blue" by dialling 333 and stating "Code Blue. Code Blue. Report to _____(identify patient location). Code Blue. Code Blue."
    d. Upon hearing the Code Blue alert, any member of the First Aid Committee should go immediately to the incident scene, collecting an AED, First Aid Kit and trauma bag on the way.
    e. For AED emergencies that occur in the field, one worker should use the radio to call MAYDAY while the other worker responds to the patient using first aid, including the AED. The Control Room, upon receiving the MAYDAY call, will call 911. If a worker is alone or attending to his or her co-worker, he or she should declare MAYDAY on the radio before attending to the patient.

## 1-F-5. First Aid

### First Aid Room

As an employer of over 200, London Hydro must maintain a First Aid Room, which is stocked and furnished in accordance with Regulation 1101. The room contains First Aid materials as well as information for employees. London Hydro must also have a worker in the immediate vicinity who holds a valid St. John Ambulance Standard First Aid Certificate or its equivalent and who can administer First Aid. All Members of London Hydro's First Aid Committee meet this requirement.

1. To gain access to the First Aid Room, employees must notify a member of the First Aid Committee. A list of First Aid Committee members can be found on the door of the First Aid Room and on the Intranet under Health & Safety Committees. The

First Aid Committee member must make regular checks to monitor the patient's condition to ensure the appropriate care is being given. The phone extension for the First Aid Room is 5267.

2. Anytime the First Aid Room is being used for patient care, the Committee member must complete the Patient Information Form.

3. The maximum stay in the First Aid Room is one hour. After one hour, if the patient is still not feeling well the First Aid Committee member will offer the patient transportation to seek medical attention or a ride home and may also offer to get in touch with a family member.

4. Two First Aid Committee members are required to assist a patient when they provide transportation, a driver and a second person whose sole responsibility is to provide continual monitoring of the patient. **When in doubt call (911).**

**5.** If the patient refuses transportation to an alternative location, the Committee member should notify the employee's supervisor for further direction. If the patient continues to refuse transportation, the supervisor must report the details on the Patient Information Form.

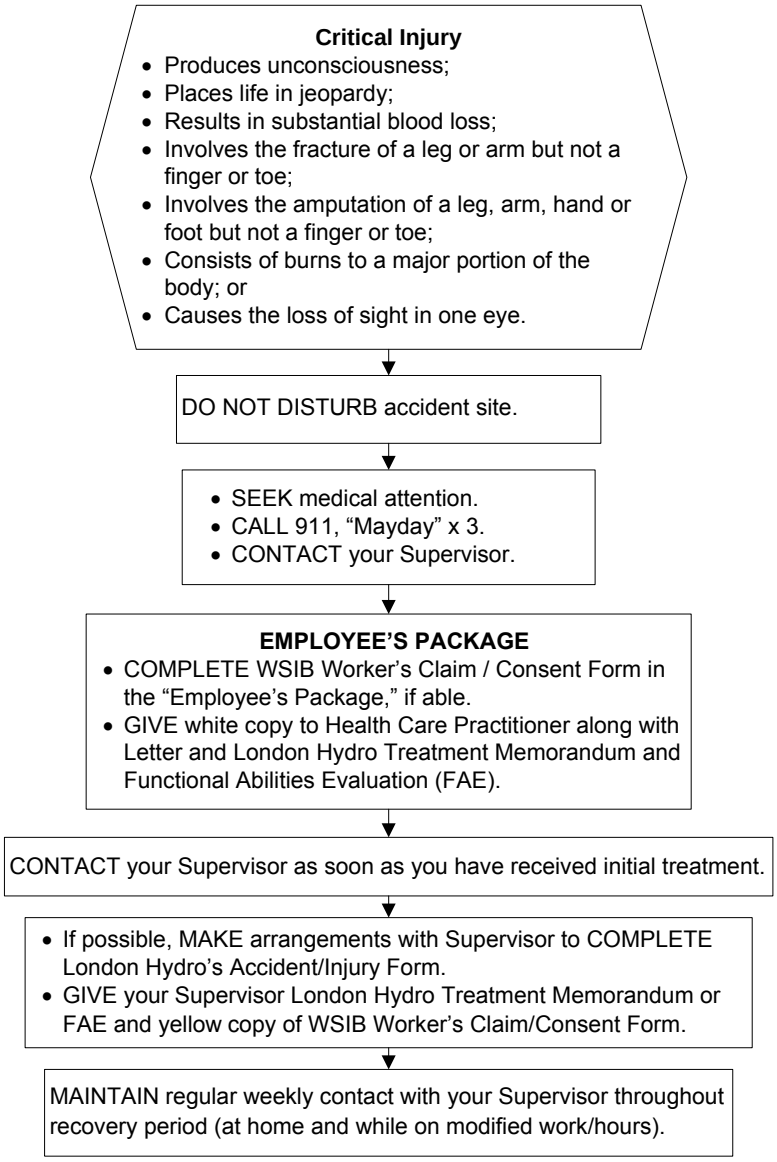
**First Aid Committee**

London Hydro has a trained First Aid Committee that meets annually to discuss First Aid needs and issues at London Hydro. The Manager of Health and Safety is responsible for scheduling this meeting and for ensuring the meeting minutes are kept on file in the Health and Safety Department. At this meeting the Committee reviews practices and procedures to be followed in the case of a First Aid emergency.

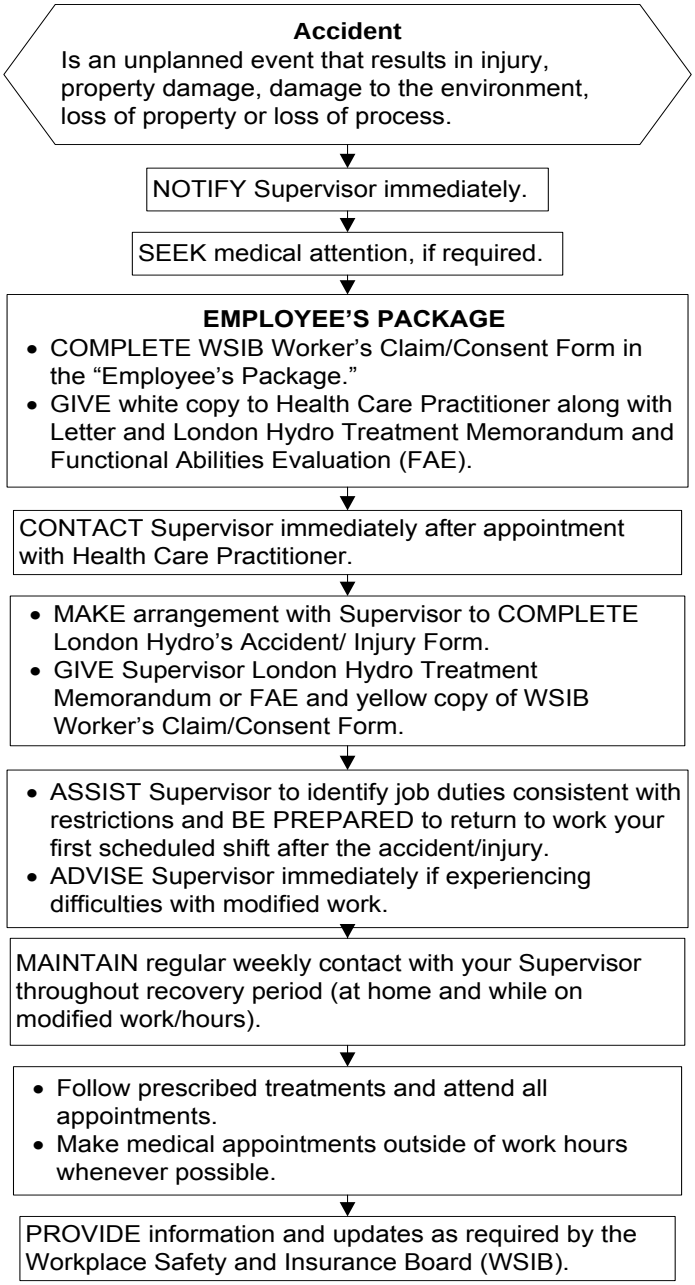
The purpose of the First Aid Committee is to provide employees and/or visitors with access to a volunteer support team who can provide basic First Aid, CPR, AED, and call 911 when required.

## 1-F-6. Reporting Personal Injury

Worker's Responsibilities: Critical Injury



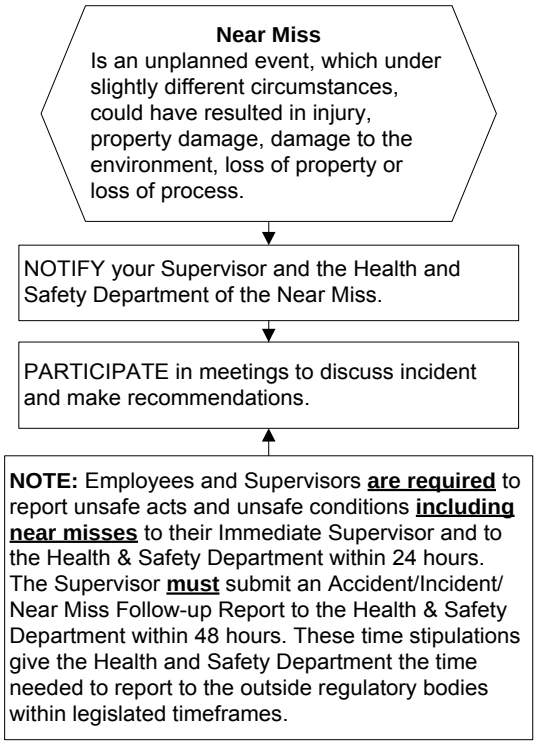
## Worker's Responsibilities: Accidents



### Worker's Responsibilities: Near Misses

Incidents and near misses are work or vehicle accidents that nearly happen. The purpose of monitoring near misses is to analyze them and use information for the prevention of similar accidents. The purpose is not to find fault, lay blame or penalize.

Workers are required to report any injuries, illnesses, accidents, unsafe acts and unsafe conditions, including near misses, to their immediate Supervisor or to the Health and Safety Manager.




## 1-F-7. WSIB Return to Work

London Hydro is committed to providing a healthy and safe workplace for all employees. When an employee becomes injured or ill, we will communicate with the employee and work with the employee to arrange a return to productive and meaningful work based upon his or her functional abilities. We will be fair and consistent in managing all illnesses and injuries.

Employees participating in the return-to-work process are expected to cooperate and to provide constructive feedback. The return-to-work process begins immediately after the injury or illness occurs.

The supervisor, Human Resources Coordinator and employee will work together to develop a return-to-work plan as identified by the employee's attending Health Care Provider.

If an employee has an accident, as co-workers we are all responsible to provide support and encouragement to the employee participating in a return-to-work program, provide direct

assistance for specifically designated tasks on a temporary basis and report any perceived difficulties the injured/ill employee is having to the supervisor.

**Disputes**

Whenever there is a dispute with an injured/ill employee over the return-to-work plan the following steps will be taken.

1. Review of the return-to-work plan, and if any errors were made take reasonable steps to correct the error.
2. If the dispute is regarding the functional ability/suitability of work match obtain an updated functional abilities form and review suitability of available work.
3. Where the dispute cannot be resolved, refer the matter to the WSIB for assistance from a Return-to-Work Specialist.

## 1-F-8. Reporting Vehicle Accidents

1. The employee involved in a vehicle accident must
    a. get the necessary first aid or medical attention, if injured, regardless of the severity of the injury;
    b. obtain the following information at the time of the accident:
        i. the year and make of the other vehicle(s) involved;
        ii. the driver's name, address, and Driver's Licence Registration Number;
        iii. the owner's name, address, and vehicle licence number;
        iv. the names, addresses, and telephone numbers of any witnesses; and
        v. the name of the Insurance Company, the policy number and the expiry date of the insurance covering the other vehicle.

    Note: If the accident involves vehicle damage or property damage less than $1,000.00, please exchange the information noted above (1b) and return to the London Hydro yard to have the vehicle inspected by the Health and Safety Department.
2. If the accident involves vehicle damage or property damage over $1,000.00, report the accident at the London Police Department Accident Reporting Centre (1001 Brydges St.). Submit the information noted above (1b), complete any police forms and return to the London Hydro yard to have your vehicle inspected by the Health and Safety Department.
3. If the accident involves personal injury, suspicion of a Criminal Code / Highway Traffic Act violation, or if either party requests police presence, notify the London Police Department. Call "911" by phone or have the Control Room contact the police. Do not leave the accident scene. Give the above noted information (1b) to the police at the scene, complete any police forms and return to the London Hydro yard to have your vehicle inspected by the Health and Safety Department.
4. Complete a *Vehicle Accident Form*, and submit it to the Immediate Supervisor as soon as possible following the accident.

5. If a London Hydro worker is injured during a vehicle accident, follow the procedures outlined in Section 1-F-3, "Reporting Personal Injury."

### 1-F-9. Fire Evacuation

1. If a fire begins in a building
   (a) activate the nearest fire alarm;
   (b) evacuate the building via the closest exit;
   (c) phone the Fire Department (911);
   (d) try to extinguish minor fires only if it is possible to do so safely; and
   (e) give details to the Fire Department when they arrive.

2. When you hear a fire alarm
   (a) direct members of the public to the nearest exit;
   (b) if necessary, dial 333, have the supervisor announce the name and direct occupants to evacuate immediately, and
   (c) evacuate the building to the holding area.

3. If a fire begins outside
   (a) get out of the area;
   (b) phone the Fire Department (911); and
   (c) try to extinguish minor fires only if it is possible to do so safely.

**Do not return until it is declared safe to do so by a Fire Official.**

### 1-F-10. Fire Information Relevant to Employee Safety

All employees should be familiar with the locations of the fire pull stations, the fire extinguishers, and the exit nearest to their work areas.

**Pull Stations**

| | |
|---|---|
| **Basement Level** | Pull stations are located near each exit, in the parking garage at each exit and in the Fitness Centre at the exit to Ridout Street. |
| **1st Floor** | Pull stations are located at each exit. |
| **2nd Floor** | Pull stations are located at each exit, at the top of the main lobby stairs, and at the entrance to the Visitor Parking area. |
| **3rd Floor** | Pull stations are located at each stairwell exit. |

**NOTE: A fire extinguisher is located near each pull station.**

**Elevators**

Elevators are NOT to be used to evacuate the building after the fire alarm has been sounded.

### Main Fire Alarm Control Panel

The Control Room monitors the main fire alarm control panel. Our system monitors for a trouble light indicator or a fire alarm light.

## 1-F-11. Smoking in the Work Place

Tobacco is the leading cause of preventable illness and premature death in Ontario. Both smokers and non-smokers suffer the negative health effects of smoking. It has been determined that second hand tobacco smoke, (exhaled smoke and the smoke from idling cigarettes, cigars and pipes) is a health hazard.

### Practice

To complement our commitment under our Environmental, Health and Safety Policy to assess health and safety hazards to which people are exposed, it is desirable for the health, safety and welfare of employees that London Hydro provide a 100% Smoke-Free work environment in the workplace.

All persons will be prohibited from all forms of tobacco use in London Hydro buildings. All company-owned vehicles will also be designated smoke-free. This practice applies to all persons in or on London Hydro property including employees, contractors, customers and visitors. There is no allowance for designated smoking rooms or areas.

Additionally, smoking shall be prohibited within nine meters of all building entrances, windows and ventilation systems.

- Smoking includes carrying a lighted cigar, cigarette, pipe or any other lighted smoking instrument, and
- Workplace means any enclosed area of the building or structure in which an employee works and includes but is not limited to washrooms, corridors, lounges, eating areas, reception areas, elevators, hallways, stairways and parking garages as well as any employer-owned or operated vehicles.

## 1-F-12. Use of Cell Phones and other Hand Held Devices in Vehicles

The use of hand-held cell phones and other hand-held communications and entertainment devices while driving is prohibited by law. Drivers who text, type, e-mail, dial or chat using any hand-held device will be personally responsible for any fines they incur.

1. If your cellular phone rings while you are operating a vehicle, you are not permitted to answer it. To retrieve a message and/or place a call, stop and park the vehicle in a safe area off the travelled portion of the roadway.
2. A cellular phone may be used by a passenger in the vehicle while the vehicle is in operation.
3. Although two-way radios are exempt from this law, every effort must be made to stop and park the vehicle in a safe area off the travelled portion of the road to receive and place radio calls when driving alone.

### 1-F-13. Reporting Property Damage and Injury to the Public

1. All incidents of damage to London Hydro property and injury to the public on London Hydro property must be reported as soon after the incident as possible.
2. Employees must report to their supervisor all incidents of property damage (to London Hydro property and non-London Hydro property) and personal injury to the public. The supervisor will then complete the appropriate forms and submit them to the Finance Department.

### 1-F-14. Vandalism Reporting

1. When vandalism is discovered, call the police directly (661-5670), identify yourself and your department within London Hydro, and ask that an officer contact you. An officer will return your call and take all information over the telephone.
2. For vandalism on London Hydro property, submit written documentation to your supervisor with full details as soon as possible after the vandalism is discovered.
3. All incidents of vandalism to London Hydro property must also be reported to the Finance Department.

### 1-F-15. Visitor / Customer Procedures

London Hydro is committed to protecting the personal health and safety of all visitors and customers who visit our premises. A workplace can pose hazards for those unfamiliar with its environment. Therefore, employees must ensure that visitors and customers follow and obey these basic rules while they are with us:

Visitors and customers must

1. Always be accompanied by an employee;
2. Follow and obey all instructions, rules, policies and signs;
3. Stay out of restricted areas;
4. Wear appropriate footwear;
5. Wear personal protective equipment as requested, required and provided;
6. Not touch or operate any machine, device or equipment without authorization;
7. Be aware of traffic while walking in the yard;
8. Stay with the employee escort and follow his or her instructions in the event of a fire or other emergency; and
9. Report an injury immediately, no matter how minor.

## 1-G. Conclusion

This Code of Business Conduct suggests guidelines for behaviour for all London Hydro employees. For any departures from acceptable behaviour, employees should expect disciplinary action, which could include a reprimand, discharge or prosecution. We recognize that it is impossible to define all acceptable standards of business conduct.

Therefore, the use of good judgement and common sense needs to supplement this code.

# LIST OF SPECIFIC APPROVALS REQUESTED

In this proceeding, London Hydro is requesting the following approvals:

1. Approval to charge distribution rates effective May 1, 2017 to recover a service revenue requirement of $69,004,127 which includes a Revenue Deficiency of $3,471,451 as detailed in Exhibit 6. The schedule of proposed rates is set out in Exhibit 8.

2. Approval of the DSP as outlined in Exhibit 2, Appendix 2-6.

3. Approval to adjust the Retail Transmission Rates – Network and Connection as detailed in Exhibit 8.

4. Approval to continue to charge Wholesale Market and Rural Rate Protection Charges approved in the Board Decision and Order in the matter of London Hydro's 2016 Distribution Rates (EB-2015-0087).

5. Approval to continue the Specific Service Charges, Retail Service Charges and Transformer Allowance approved in the Board Decision and Order in the matter of London Hydro's 2016 Distribution Rates (EB-2015-0087).

6. Approval of the proposed loss factors as detailed in Exhibit 8.

7. Approval of the rate riders for a one year disposition of the Group 1 and Group 2 and Other Deferral and Variance Accounts as detailed in Exhibit 9.

8. Approval of the rate riders for a one year disposition of the Lost Revenue Adjustment Mechanism Variance Account ("LRAMVA") and Lost Revenue Adjustment Mechanism ("LRAM") for lost revenue. Previous LRAMVA and LRAM claims, up to an including December 31, 2012, have been claimed in previous applications. For additional information, please refer to Exhibit 4.

9. Approval to dissolve the microFIT rate class and re-class microFIT customers to GS<50 kW rate class for application of monthly service charge as detailed in Exhibit 8.

10. Approval to classify FIT and other IESO contracted generators based on boilerplate capacity for application rate classification as detailed in Exhibit 8.

11. Approvals to classify net metered generators based on boilerplate capacity for application rate classification, and apply the Distribution Volumetric Rate on "Gross Absolute" as detailed in Exhibit 8.

12. Approval to change Street Lights and Sentinel Lights application of monthly Service Charge to read "per device" from "per connection" as detailed in Exhibit 8.

13. Approval to establish new specific service charge "Cellular Meter Read Charge" of $30.00 per month as detailed in Exhibit 8.

14. Approval to declare Standby Rates Final as detailed in Exhibit 8.

15. Approval to establish a new deferral accounts for Retiree Life Insurance

16. Approval to establish a new deferral accounts for Pension & Other Post-Employment Benefits ("P&OPEB")

17. Approval to establish a new deferral accounts for Cap and Trade Deferral Account

18. Approval to establish a new deferral accounts for Climate Change Action Plan Deferral Account. In addition the related expenditures are to be considered final and the accounting recognition of the investments included in fixed assets.

19. Approval to establish a new deferral accounts for Burden Reduction Bill Deferral Account

London Hydro may request such other approvals London Hydro may submit and the Board may allow.

File Number:EB-2016-0091

Exhibit: 1
Tab: 3
Schedule: 17

Date Filed:August 26, 2016

# Attachment 1 of 1

# OEM Appendix 2-A

| | |
|---|---|
| **File Number:** | EB-2016-0091 |
| **Exhibit:** | 1 |
| **Tab:** | 3 |
| **Schedule:** | 17 |
| **Page:** | |
| **Date:** | 8/26/2016 |

# Appendix 2-A
# List of Requested Approvals

The distributor must fill out the following sheet with the complete list of specific approvals requested and relevant section(s) of the legislation must be provided. All approvals, including accounting orders (deferral and variance accounts) new rate classes, revised specific service charges or retail service charges which the applicant is seeking, must be separately identified, as well being clearly documented in the appropriate sections of the application.

Additional requests may be added by copying and pasting blank input rows, as needed.

If additional requests arise, or requested approvals are removed, during the processing of the application, the distributor should update this list.

**London Hydro Inc. is seeking the following approvals in this application:**

| | | |
|---|---|---|
| 1 | | Approval to charge distribution rates effective May 1, 2017 to recover a service revenue requirement of $69,004,127 which includes a Revenue Deficiency of $3,471,451 as detailed in Exhibit 6. The schedule of proposed rates is set out in Exhibit 8. |
| 2 | | Approval of the DSP as outlined in Exhibit 2, Appendix 2-6. |
| 3 | | Approval to adjust the Retail Transmission Rates – Network and Connection as detailed in Exhibit 8. |
| 4 | | Approval to continue to charge Wholesale Market and Rural Rate Protection Charges approved in the Board Decision and Order in the matter of London Hydro's 2016 Distribution Rates (EB-2015-0087) |
| 5 | | Approval to continue the Specific Service Charges, Retail Service Charges and Transformer Allowance approved in the Board Decision and Order in the matter of London Hydro's 2016 Distribution Rates (EB-2015-0087). |
| 6 | | Approval of the proposed loss factors as detailed in Exhibit 8. |

| | | |
|---|---|---|
| 7 | | Approval of the rate riders for a one year disposition of the Group 1 and Group 2 and Other Deferral and Variance Accounts as detailed in Exhibit 9. |
| 8 | | Approval of the rate riders for a one year disposition of the Lost Revenue Adjustment Mechanism Variance Account ("LRAMVA") and Lost Revenue Adjustment Mechanism (“LRAM”) for lost revenue. Previous LRAMVA and LRAM claims, up to an including December 31, 2012, have been claimed in previous applications. For additional information, please refer to Exhibit 4. |
| 9 | | Approval to dissolve the microFIT rate class and re-class microFIT customers to GS<50 kW rate class for application of monthly service charge as detailed in Exhibit 8 |
| 10 | | Approval to classify FIT and other IESO contracted generators based on boilerplate capacity for application rate classification as detailed in Exhibit 8. |
| 11 | | Approvals to classify net metered generators based on boilerplate capacity for application rate classification, and apply the Distribution Volumetric Rate on “Gross Absolute” as detailed in Exhibit 8 |
| 12 | | Approval to change Street Lights and Sentinel Lights application of monthly Service Charge to read “per device” from “per connection” as detailed in Exhibit 8. |
| 13 | | Approval to establish new specific service charge “Cellular Meter Read Charge” of $30.00 per month as detailed in Exhibit 8. |
| 14 | | Approval to declare Standby Rates Final as detailed in Exhibit 8. |
| 15 | | Approval to establish a new deferral accounts for Retiree Life Insurance |
| 16 | | Approval to establish a new deferral accounts for Pension & Other Post-Employment Benefits (“P&OPEB”) |

| | | |
|---|---|---|
| 17 | | Approval to establish a new deferral accounts for Cap and Trade Deferral Account |
| 18 | | Approval to establish a new deferral accounts for Climate Change Action Plan Deferral Account |
| 19 | | Approval to establish a new deferral accounts for Burden Reduction Bill Deferral Account |

# OEB Checklist Completion

London Hydro has prepared this application paying strict attention to the Minimum Filing Requirements July 14, 2016 and the OEB 2017 Checklist. London Hydro is of the opinion that this application is presented in full and complete compliance to all requirements. A completed checklist is attached in Exhibit 1 Tab 3 Schedule 18 Attachment 1.1.

File Number:EB-2016-0091

Exhibit: 1
Tab: 3
Schedule: 18

Date Filed:August 26, 2016

# Attachment 1 of 1

# OEB Checklist

# 2017 Cost of Service Checklist

## London Hydro Inc.

## EB-2016-0091

| Filing Requirement Page # Reference | | | Date: |
|---|---|---|---|
| | | Yes/No/N/A | Evidence Reference, Notes |
| **GENERAL REQUIREMENTS** | | | |
| Ch 1, Pg. 2 | Certification by a senior officer that the evidence filed is accurate, consistent and complete | Yes | Exhibit 1 Tab 3 Schedule 2 |
| Ch 1, Pg. 3 | Confidential Information - Practice Direction has been followed | N/A | |
| Ch 2, Pg. 3 | Chapter 2 appendices in live Microsoft Excel format | | |
| 4 | If applicable, late applications filed after the commencement of the rate year for which the application is intended to set rates is converted to the following rate year. | N/A | |
| 4 | Aligning rate year with fiscal year - request for proposed alignment | N/A | |
| 5 | Text searchable and bookmarked PDF documents | Yes | |
| 6 | Materiality threshold; additional details beyond the threshold if necessary | Yes | Calculated in Exhibit 1 Tab 10 Schedule 1 |
| 7 | State accounting standard(s) used in historical, bridge and test years. Provide a summary of changes to its accounting policies made since the applicant's last cost of service filing. Identify all material changes or confirm no material changes in the adoption of IFRS. Appendix 2-Y | | |
| RESS Guideline | Two hardcopies of application sent to OEB the same day as electronic filing (p10 of RESS Guideline) | Yes | |
| **EXHIBIT 1 - ADMINISTRATIVE DOCUMENTS** | | | |
| *Table of Contents* | | | |
| 9 | Table of Contents listing major sections and subsections of the application. Electronic version of application appropriately bookmarked to provide direct access to each section | Yes | |
| *Executive Summary* | | | |
| 9 | Plain language description of objectives and business plan and how they relate to the application and the RRFE objectives. Description should aid the OEB in understanding the impacts of the busines plan on key areas such as customer service, system reliability, costs and bill impacts. Description of how customer feedback is reflected | Yes | Exhibit 1 Tab 2 Schedule 1 |
| *Administration* | | | |
| 9 | Primary contact information (name, address, phone, fax, email) | Yes | Exhibit 1 Tab 3 Schedule 3 |
| 9 | Identification of legal (or other) representation | Yes | Exhibit 1 Tab 3 Schedule 4 |
| 9 | Applicant's internet address for viewing of application and any social media accounts used by the applicant to communicate with customers | Yes | Exhibit 1 Tab 3 Schedule 5 |
| 10 | Statement identifying customers materially affected by the application including any change to any rate or charge and specific statement of what individual customer or customer groups would be affected by the proposed change | Yes | Exhibit 1 Tab 3 Schedule 6 |
| 10 | Statement identifying where notice should be published and why | Yes | Exhibit 1 Tab 3 Schedule 6 |
| 10 | Bill impacts - distribution only impacts for 750 kWh residential and 2000 kWh GS<50 (sub-total A of Tariff Schedule and Bill Impact Spreadsheet Model) to be used for notice | Yes | Exhibit 1 Tab 3 Schedule 7 |
| 10 | Form of hearing requested and why | Yes | Exhibit 1 Tab 3 Schedule 8 |
| 10 | Requested effective date | Yes | Exhibit 1 Tab 3 Schedule 9 |
| 3 & 10 | Statement identifying all deviations from Filing Requirements; identify concerns with models or changes to models | Yes | Exhibit 1 Tab 3 Schedule 10 |
| 10 | Statement identifying and describing any changes to methodologies used vs previous applications | Yes | Exhibit 1 Tab 3 Schedule 11 |
| 10 | Statement confirming that the distributor will have implemented monthly billing for all customers by December 31, 2016 | Yes | Exhibit 1 Tab 3 Schedule 12 |
| 10 | Identification of OEB directions from any previous OEB Decisions and/or Orders. The applicant must clearly indicate how these are being addressed in the current application (e.g., filing of a study as directed in a previous decision) | Yes | Exhibit 1 Tab 3 Schedule 13 |
| 10 & 11 | Reference to Conditions of Service - LDC does not need to file Conditions of Service, but must provide reference to website and confirm version is current; identify if there are changes to Conditions of Service (a) since last CoS application or (b) as a result of the current application. Confirmation that there are no rates and charges linked in the Conditions of Service that are not in the distributor's Tariff of Rates and Charges must be provided | Yes | Exhibit 1 Tab 3 Schedule 14 |
| 11 | Description of the corporate and utility organizational structure, showing the main units and executive and senior management positions within the utility. Include a corporate entities relationship chart, showing the extent to which the parent company is represented on the utility company's Board of Directors and a description of the reporting relationships between utility and parent company management. Also include any planned changes in corporate or operational structure, including any changes in legal organization and control | Yes | Exhibit 1 Tab 3 Schedule 16 |
| 11 | List of approvals requested (and relevant section of legislation), including accounting orders - a PDF copy of Appendix 2-A should be provided in this section | Yes | Exhibit 1 Tab 3 Schedule 17 |

# 2017 Cost of Service Checklist

## London Hydro Inc.

## EB-2016-0091

**Filing Requirement Page # Reference** | **Date:**

| | | Yes/No/N/A | Evidence Reference, Notes |
|---|---|---|---|
| *Distribution System Overview* | | | |
| **11** | Description of Service Area (including map, communities served) | **Yes** | Exhibit 1 Tab 4 Schedule 1 |
| **11** | Description of whether the distributor is a host distributor and/or embedded distributor. Identification of embedded and/or host distributors; if partially embedded provide %load from host distributor. If the distributor is a host, the applicant should identify whether there is a separate Embedded Distributor customer class or if any embedded distributors are included in other customer classes such as GS > 50 kW | **Yes** | Exhibit 1 Tab 4 Schedule 3 |
| **11** | Statement as to whether or not the distributor has had any transmission or high voltage assets deemed by the OEB as distribution assets and whether or not there are any such assets the distributor is seeking approval for in this application | **Yes** | Exhibit 1 Tab 4 Schedule 4 |
| *Application Summary* | | | |
| At a minimum, the items below must be provided. Applicants must also identify all proposed changes that will have a material impact on customers. | | | |
| **12** | Revenue Requirement - service RR, increase ($ and %) from change from previously approved, main drivers | **Yes** | Exhibit 1 Tab 5 Schedule 1 |
| **12** | Budgeting and Accounting Assumptions - economic overview and identification of accounting standard used for test year and brief explanation of impacts arising from any change in standards | **Yes** | Exhibit 1 Tab 5 Schedule 2 |
| **12** | Load Forecast Summary - load and customer growth, % change in kWh and customer numbers, methodology description | **Yes** | Exhibit 1 Tab 5 Schedule 3 |
| **12** | Rate Base and DSP - major drivers of DSP, rate base for test year, change from last approved ($ and %), capital expenditures requested for the test year, change in capital expenditures from last approved ($ and %), summary of costs requested for renewable energy connections/expansions, any O.Reg 339/09 planned recovery, capex for test year, change from last approved, costs for any REG-related, smart grid, regional planning projects | **Yes** | Exhibit 1 Tab 5 Schedule 4 |
| **13** | OM&A Expense - OM&A for test year and change from last approved ($ and %), summary of drivers, inflation assumed, total compensation for test year and change from last approved ($ and %). | **Yes** | Exhibit 1 Tab 5 Schedule5 |
| **13** | Cost of Capital - Statement regarding use of OEB's cost of capital parameters; summary of any deviations | **Yes** | Exhibit 1 Tab 5 Schedule 6 |
| **13** | Cost Allocation & Rate Design - summary of any deviations from OEB methodologies, significant changes and summary of proposed mitigation plans | **Yes** | Exhibit 1 Tab 5 Schedule 7 |
| **13** | Deferral and Variance Accounts - total disposition (RPP and non-RPP), disposition period, new accounts requested | **Yes** | Exhibit 1 Tab 5 Schedule 8 |
| **13** | Bill Impacts - total impacts ($ and %) for all classes for typical customers | **Yes** | Exhibit 1 Tab 5 Schedule 9 |
| *Customer Engagement* | | | |
| **13 & 14** | Overview of customer engagement activities; description of plans and how customer needs, preferences and expectations have been reflected in the application. | **Yes** | Exhibit 1 Tab 6 Schedule 1 |
| **14** | Discussion on how customers were informed of the proposals being considered for inclusion in the application and the value of those proposals to customers i.e. costs, benefits, and the impact on rates | **Yes** | Exhibit 1 Tab 6 Schedule 1 |
| **14** | Discussion of any feedback provided by customers and how the feedback shaped the final application | **Yes** | Exhibit 1 Tab 6 Schedule 1 |
| **14** | Reference to any other communication sent to customers about the application i.e. bill inserts, town hall meetings or other forms of out reach and the feedback received from customers through these engagement activities | **Yes** | Exhibit 1 Tab 6 Schedule 1 |
| **14** | Complete Appendix 2-AC Customer Engagement Activities Summary - identify how outcomes have shaped the application | **Yes** | Exhibit 1 Tab 6 Schedule 1 |
| **14** | All responses to matters raised in letters of comment filed with the OEB. | **N/A** | |
| *Performance Measurement* | | | |
| **14 & 15** | Discussion of performance for each of the distributor's scorecard measures over the last five years; drivers for its performance, plans for continuous improvement, identify performance improvement targets, forecast of efficiency assessment using the PEG forecasting model for the test year, discussion on how distributor's self-assessment has informed its business plan and the application | **Yes** | Exhibit 1 Tab 7 Schedule 1 |
| *Financial Information* | | | |
| **15** | Non-consolidated Audited Financial Statements for 2 most recent years (i.e. 3 years of historical actuals) | **Yes** | Exhibit 1 Tab 8 Schedule 1 |
| **15** | Detailed reconciliation of AFS with regulatory financial results filed in the application, with identification of any deviations that are being proposed | **Yes** | Exhibit 1 Tab 8 Schedule 1 |
| **15** | Annual Report and MD&A for most recent year of distributor and parent company, if applicable | **Yes** | Exhibit 1 Tab 8 Schedule 1 |
| **15** | Rating Agency Reports, if available; Prospectuses, etc. for recent and planned public issuances | **Yes** | Exhibit 1 Tab 8 Schedule 1 |
| **15** | Any change in tax status | **Yes** | Exhibit 1 Tab 8 Schedule 1 |
| **15** | Existing accounting orders and departures from the accounting orders and USoA | **Yes** | Exhibit 1 Tab 8 Schedule 1 |
| **15** | Accounting Standards used for financial statements and when adopted | **Yes** | Exhibit 1 Tab 8 Schedule 1 |
| **16** | Confirmation that accounting treatment of any non-utility business has segregated activities from rate regulated activities | **Yes** | Exhibit 1 Tab 8 Schedule 1 |
| *Distributor Consolidation* | | | |
| **16** | If a distributor has acquired or amalgamated with another distributor, identify any incentives that formed part of the acquisition or amalgamation transaction if the incentive represents costs that are being proposed to remain or enter rate base and/or revenue requirement. | **Yes** | Exhibit 1 Tab 9 Schedule 1 |

# 2017 Cost of Service Checklist

## London Hydro Inc.

## EB-2016-0091

**Filing Requirement Page # Reference** | **Date:**

| | | Yes/No/N/A | Evidence Reference, Notes |
|---|---|---|---|
| **EXHIBIT 2 - RATE BASE** | | | |
| *Overview* | | | |
| **16** | Completed Fixed Asset Continuity Schedule (Appendix 2-BA) - in Application and Excel format | **Yes** | Excel format done in Appendix workbooks.<br>Application version - Appendix 2-1, Tables 2-44, 2-45, 2-46, 2-47, 2-48, pages 181-186 |
| **16 &17 &18** | Opening and closing balances, average of opening and closing balances for gross assets and accumulated depreciation; working capital allowance (historical actuals, bridge and test year forecast) | **Yes** | Tab 1, Schedule 1, Tables 2-1 and 2-2, pages 5 and 6. |
| **17** | Continuity statements (year end balance, including interest during construction and overheads).<br>Explanation for any restatement (e.g. due to change in accounting standards)<br>Year over year variance analysis; explanation where variance greater than materiality threshold<br>Hist. OEB-Approved vs Hist. Actual<br>Hist. Act. vs. preceding Hist. Act.<br>Hist. Act. vs. Bridge<br>Bridge vs. Test | **Yes** | Continuity statements mentioned above.<br>No restatement.<br>Year over year variance analysis: Tab 1, Schedule 2, pages 8-29. |
| **17** | Opening and closing balances of gross assets and accumulated depreciation must correspond to fixed asset continuity statements. If not, an explanation must be provided (e.g.. WIP, ARO). Reconciliation must be between net book value balances reported on Appendix 2-BA and balances included in rate base calculation | **Yes** | Tab 1, Schedule 1, Table 2-2, page 6 ties to continuity schedules in Appendix 2-1, Tables 2-44, 2-45, 2-46, 2-47, 2-48, pages 181-186 |
| *Gross Assets - PP&E and Accumulated Depreciation* | | | |
| **18** | Breakdown by function and by major plant account; description of major plant items for test year | **Yes** | Gross assets - Tab 1, Schedule 2, Table 2-4, page 8<br>Accumulated Depreciation - Tab 1, Schedule 2, Table 2-11, page 29 |
| **18** | Summary of approved and actual costs for any ICM(s) and/ or ACM approved in previous IRM applications | **N/A** | N/A |
| **18** | Continuity statements must reconcile to calculated depreciation expenses and presented by asset account | **Yes** | Tab 1, Schedule 1, Table 2-3, page 6 shows reconciliation between total depreciation expense in Exhibit 4 and the change in accumulated depreciation per the continuity schedules in Appendix 2-1. |
| **18** | All asset disposals clearly identified in the Chapter 2 Appendices for all historical, bridge and test years and if any amounts related to gains or losses on disposals have been included in Account 1575 IFRS - CGAAP Transitional PP&E Amount | **Yes** | Disposals all clearly identified in continuity schedules, Appendix 2-1 as well as in Chapter 2 Appendices Excel workbook |
| *Allowance for Working Capital* | | | |
| **18** | Working Capital - 7.5% allowance or Lead/Lag Study or Previous OEB Direction | **Yes** | See section "Allowance for Working Capital", Tab 1, Schedule 3, page 32 |
| **19** | Lead/Lag Study - leads and lags measured in days, dollar-weighted | **Yes** | Appendix 2-3 |
| **19** | Cost of Power must be determined by split between RPP and non-RPP customers based on actual data, use most current RPP (TOU) price, use current UTR. Should include SME charge. | **Yes** | Volume, pricing and rates associated with the calculation of the cost of power (used in calculation of allowance for working capital) can be found in Exhibit 6, Tab 1, Schedule 1, Attachment 2.2 |
| *Treatment of Stranded Assets Related to Smart Meter Deployment* | | | |
| **19** | Stranded Meters - if the recovery of stranded conventional meters replaced by smart meters has not been reviewed and approved, a proposal for a Stranded Meter Rate Rider must be made<br>Explanation for approaches that are not the OEB approach<br>Completed Appendix 2-S. | **N/A** | Not applicable, but referred to on Tab 1, Schedule 3, page 33. |

# 2017 Cost of Service Checklist

## London Hydro Inc.

## EB-2016-0091

**Filing Requirement Page # Reference** | **Date:**

| | | Yes/No/N/A | Evidence Reference, Notes |
|---|---|---|---|
| *Capital Expenditures* | | | |
| 21 | As applicable - file evidence that demonstrates that regional issues have been appropriately considered and where applicable addressed in developing the applicant's proposed capital expenditure plan. As part of its planning an applicant should consider municipal planning, including any plans for expansion of boundaries from a regional perspective to demonstrate the most cost effective solutions are being considered | Yes | See section "Planning", page 34. Discussed in further detail in the DSP, Appendix 2-6. |
| 22 | DSP filed as a stand-alone document; a discrete element within Exhibit 2 | Yes | Appendix 2-6 |
| 22 | Complete Appendix 2-AB - historical years must be actuals, forecasts for the bridge and test years | Yes | Chapter 2 Appendices (Excel workbook) |
| 22 | Complete Appendix 2-AA along with: explanation for variances, including that of actuals v. OEB-approved amounts for last OEB-approved CoS application; for capital projects that have a project life cycle greater than one year, the proposed accounting treatment, including the treatment of the cost of funds for construction work-in-progress | Yes | Appendix 2-AA - Chapter 2 Appendices (Excel workbook)<br>Explanation of variances - found within section "Analysis of Capital Expenditures" - Tab 2, Schedule 2, Page 39.<br>Projects greater than one year - Tab 2, Schedule 3, page 45 |
| 22 | Non-distribution activities - capital expenditures and reconciliation to total capital budget | Yes | Tab 2, Schedule 3, page 45, line 8 |
| 22 | If applicable, details of any capital contributions made or forecast to be made to a transmitter with respect to a Connection and Cost Recovery Agreement. Details to be provided include, initial forecast used to calculate contribution, amount of contribution (if any), true-up dates and potential true-up payments | Yes | Tab 2, Schedule 3, page 77 (Section 'TS Upgrade), as well as Tab 2, Schedule 9, page 167 (New Policy Options for the Funding of Capital - Advance Capital Module) |
| 23 | Discussion outlining capital and operating efficiencies realized as a result of the deployment and operationalization of smart meters and related technologies (e.g., AMI communications networks, ODS) in its networks. Qualitative and quantitative description and support should be provided as applicable | Yes | Tab 2, Schedule 2, page 35, line 5 |
| 23 | Description of how incremental conservation initiatives have been considered in order to defer or avoid future infrastructure projects as part of distribution system planning processes | Yes | Tab 2, Schedule 2, page 37, line 4 |
| 23 | If applying for funding through distribution rates to pursue activities such as energy efficiency programs, demand response programs, energy storage programs etc. the application must include a consideration of the projected affects to the distribution system on a long term basis and the projected expenditures. Distributors should explain the proposed program in the context of the distributors five year Distribution System Plan or explain any changes to its system plans that are pertinent to the program | N/A | N/A |
| 23 | Changes to capitalization policy since its last rebasing application as a result of the OEB's letter dated July 17, 2012 or for any other reasons, the applicant must identify the changes and the causes of the changes. | Yes | No changes to capitalization policy.<br>Tab 2, Schedule 5, page 159 |
| 24 | Appendix 2-D complete; identification of burden rates and burden rates prior to changes, if any | Yes | Appendix 2-D - Chapter 2 Appendices Excel workbook<br>Identification of burden rates - Tab 2, Schedule 6, page 164, Table 2-43 |
| 25 | Generation Facilities - If applicable, proposal to divide the costs of eligible investments between the distributor's ratepayers and all Ontario ratepayers per O.Reg. 330/09:<br>- Appendices 2-FA through 2-FC identifying all eligible investments for recovery | N/A | N/A. Mentioned on Tab 2, Schedule 7, page 165 |
| *New Policy Options for the Funding of Capital* | | | |
| 25 | Distributor may propose ACM capital project coming into service during Price Cap IR (a discrete project documented in DSP). Provide cost and materiality calculations to demonstrate ACM qualification | Yes | Tab 2, Schedule 9, page 167-175 |
| *Addition of ICM Assets to Rate Base* | | | |
| 26 | Distributor with previously approved ICM(s) - schedule of ICM amounts, variances and explanation | N/A | N/A. Mentioned on Tab 2, Schedule 8, page 166 |
| 26 & 27 | Balances in Account 1508 sub-accounts, reconciliation with proposed rate base amounts; recalculated revenue requirement should be compared with rate rider revenue | N/A | |
| *Service Quality and Reliability Performance* | | | |
| 27 | 5 historical years of ESQRs, explanation for any under-performance vs standard and actions taken | Yes | Table 2, Schedule 10, page 178, Table 2.3.1.4 |
| 27 | 5 historical years of SAIDI and SAIFI - for all interruptions, all interruptions excluding loss of supply, and all interruptions excluding major events; explanation for any under-performance vs 5 year average and actions taken | Yes | Table 2, Schedule 10, page 178, Tables 2.3.1.1, 2.3.1.2, 2.3.1.3 |
| 27 | Distributors may propose SAIDI and SAIFI benchmarks different than 5 year average; provide rationale | N/A | N/A |
| 27 | Completed Appendix 2-G | Yes | Appendix 2-G - Chapter 2 Appendices Excel workbook, as well as Appendix 2-4, page 251 of Exhibit 2 |

# 2017 Cost of Service Checklist

## London Hydro Inc.

## EB-2016-0091

| Filing Requirement Page # Reference | | Yes/No/N/A | Evidence Reference, Notes |
|---|---|---|---|
| | | | **Date:** |
| **Ch 5 p9** | Where applicable, explanation for section headings other than Chapter 5 headings; cross reference table | **Yes** | DSP Sections are numbered sequentially (from 1.1 to 3.2) with the corresponding Chapter 5 sections shown in parentheses. Text from each Chapter 5 Section is included at the beginning of each section using a different font and colour for ease of reference. |
| **Ch 5 p9-10** | Distribution System Plan Overview - key elements, sources of cost savings, period covered, vintage of information on investment drivers, changes to asset management process since last DSP filing, dependencies | **Yes** | DSP Section 1.1 Distribution System Plan Overview (5.2.1), Section 1.1.1 Key Elements of the DSP (5.2.1a), Section 1.1.2 Sources of Cost Savings (5.2.1 b), Section 1.1.3 Period Covered (5.2.1 c), Section 1.1.4 Vintage of Information (5.2.1 d), Section 1.1.5 Changes Since Last DSP Filing (5.2.1 e), Section 1.1.6 Contingent Activities (5.2.1 f Dependencies) |
| **Ch 5 p10-11** | Coordinated Planning with 3rd parties - description of consultations<br>- deliverables of the Regional Planning Process, or status of deliverables<br>- OPA letter in relation to REG investments (Ch 5 p8&9) and Dx response letter | **Yes** | DSP Section 1.2 Coordinated Planning with Third Parties (5.2.2), Section 1.2.1 Description of Consultations (5.2.2 a), Section 1.2.2 Deliverables of Regional Planning (5.2.2 b), Section 1.2.3 Comment Letter IESO (OPA) - REG Investments (5.2.2 c) - Letter from IESO is in DSP Appendix D, London Hydro did not create a letter of response as the IESO did not identify any concerns |
| **Ch 5 p11** | Performance Measurement - identify and define methods and measures used to monitor DSP performance<br>- summary of performance and trends over historical period. Must include SAIFI and SAIDI for all interruptions and all interruptions excluding loss of supply<br>- explain how information has affected DSP | **Yes** | DSP Section 1.3 Performance Measurement for Continuous Improvement (5.2.3), Section 1.3.1 Planning Process Performance Metrics (5.2.3 a), Section 1.3.2 Performance Summary and Trends (5.2.3 b), Section 1.3.3 Impact on DSP (5.2.3 c) |
| **Ch5 p12** | Asset Management Process Overview - description of AM objectives/corporate goals and how Dx ranks objectives for prioritizing investments | **Yes** | DSP Section 2.1 Asset Management Process Overview (5.3.1), Section 2.1.1 Objectives (5.3.1 a); Prioritization is covered in greater detail in DSP Section 3.2.3 |
| **Ch5 p12** | Inputs/Outputs of the AM process and information flow for investments; flowchart recommended | **Yes** | DSP Section 2.1.2 Components (5.3.1 b) |
| **Ch 5 p13** | Overview of Assets Managed - description of service area (including evolution of features in forecast period affecting DSP),<br>- description of system configuration<br>- service profile and condition by asset type (tables and/or figures) - date data compiled<br>- assessment of degree the capacity of system assets is utilized | **Yes** | DSP Section 2.2 Overview of Assets Managed (5.3.2), Section 2.2.1 Service Area Description (5.3.2 a), Section 2.2.2 System Configuration (5.3.2 b), Section 2.2.3 System Profile and Asset Condition (as of December 2014) (5.3.2 c), Section 2.2.4 System Utilization (5.3.2 d) |
| **Ch 5 p13-14** | Asset Lifecycle Optimization - description of asset lifecycle optimization policies and practices, including asset replacement and refurbishment, maintenance planning criteria and assumptions<br>- description of asset life cycle risk management policies and practices, assessment methods and approaches to mitigation | **Yes** | DSP Section 2.3 Asset Lifecycle Optimization Policies and Practices (5.3.3), Section 2.3.1 Asset Replacement, Refurbishment and Maintenance (5.3.3 a), Section 2.3.2 Risk Management (5.3.3 b) |
| **Ch 5 p14-15** | Capital Expenditure Plan Summary for significant projects and activities to be undertaken - capability to connect new load or Gx customers, total annual capex over forecast period by investment category, description of how AMP and Capex planning have affected capital expenditures for each category<br>- list, description and total capital cost of material capital expenditures sorted by category (table recommended)<br>- information related to Regional Planning Process (Needs Assessment Report, Regional Planning Status Letter, Regional Infrastructure Plan - as appropriate)<br>- description of customer engagement<br>- Dx expectations of system development over next 5 years<br>- list, description and total capital cost of projects planned in response to customer preferences, to take advantage of technology based opportunities, to study innovative processes (table recommended) | **Yes** | DSP Section 3.1 Capital Expenditure Plan Summary (5.4.1), Section 3.1.1 Capability to Connect Load and Generation (5.4.1 a), Section 3.1.2 Total Annual Expenditures by Category (5.4.1 b), Section 3.1.3 Impact of Asset Management and Expenditure Planning (5.4.1 c), Section 3.1.4 Capital Projects by Category (5.4.1 d), Section 3.1.5 Impact of Regional Planning (5.4.1 e), Section 3.1.6 Impact of Customer Engagement (5.4.1 f), Section 3.1.7 Five Year Outlook (5.4.1 g), 3.1.8 Projects in Response to Customer Preference, Technology and Innovation (5.4.1 h) |
| **Ch 5 p15** | Capital Expenditure Planning Process Overview - description of capex planning objectives/criteria/ assumptions, relationship with AM objectives, policy on consideration of non-distribution alternatives, processes used to identify projects in each investment category, customer feedback and impact on plan, method and criteria used to prioritise REG investments | **Yes** | DSP Section 3.2 Capital Expenditure Planning Process Overview (5.4.2), Section 3.2.1 Objectives and Assumptions (5.4.2 a), Section 3.2.2 Non-Distribution Alternatives (5.4.2 b), Section 3.2.3 Prioritization (5.4.2 c). Section 3.2.4 Customer Engagement (5.4.2 d), Section 3.2.5 REG Investments (5.4.2 e) |
| **Ch 5 p16** | System Capability Assessment for REG - REG applications > 10 kW, number and MW of REG connections for forecast period, capacity of Dx to connect REG, connection constraints | **Yes** | DSP Section 3.3 System Capacity Assessement for REG (5.4.3) |
| **Ch 5 p16-18**<br>**Ch 2 p24** | Capital Expenditure Summary by Investment Category - completed Table 2 of Ch 5 for historical and forecast period, explanation of markedly different variances plan vs actual, explanation of markedly different variances year over year<br>Table 2 of Ch 5 is provided in Excel format in Appendix 2-AB (must provide actual totals for historical years, as a minimum) | **Yes** | DSP Section 3.4 Capital Expenditure Summary (5.4.4); Table 2 has been separated into Historical Spending with Variances to Budget in Table 46 and a Five Year Forecast in Table 47 |

# 2017 Cost of Service Checklist

## London Hydro Inc.

## EB-2016-0091

| Filing Requirement Page # Reference | | Date: | |
|---|---|---|---|
| | | Yes/No/N/A | Evidence Reference, Notes |
| Ch5 p19 | Overall Plan - comparative expenditures by category over historical period, forecast impact of system investment on O&M, drivers of investments by category, information related to Dx system capability assessment | Yes | DSP Section 3.5 Justifying Capital Expenditures (5.4.5), Section 3.5.1 Overall Plan (5.4.5.1), Section 3.5.1.1 Historical Comparison (5.4.5.1), Section 3.5.1.2 Forecast Impact on O&M Cost (5.4.5.1), Section 3.5.1.3 Investment Drivers by Category (5.4.5.1), Section 3.5.1.4 System Capability Assessment (5.4.5.1) |
| Ch 5 p19-25 | Material Investments - For each project that meets materiality threshold set in Ch 2 p10<br>- general information - total capital, customer attachments, dates, risks, variances, REG investments<br>- evaluation criteria - may include: efficiency, customer value, reliability, etc.<br>- category specific requirements for each project - system access, system renewal, system service, general plant (as applicable) | Yes | DSP Section 3.5.2 Material Investments (5.4.5.2); Details for all projects for 2016 and 2017 are included in "Project Sheets" which are located in various Appendices: DSP Appendix G Asset Management Plan Section 12 contains Distribution System Project Sheets for the Bridge Year 2016, DSP Appendix G Asset Management Plan Section 13 contains Distribution System Project Sheets for the Test Year 2017, DSP Appendix L contains the remaining Project Sheets (General Plant plus metering) for the Bridge Year 2016 and Test Year 2017. |

# 2017 Cost of Service Checklist

## London Hydro Inc.

## EB-2016-0091

**Filing Requirement Page # Reference** | **Date:**

| | | Yes/No/N/A | Evidence Reference, Notes |
|---|---|---|---|
| **EXHIBIT 3 - OPERATING REVENUE** | | | |
| *Load and Revenue Forecasts* | | | |
| **28** | Explanation of causes, assumptions and adjustments for volume forecast. Economic assumptions and data sources for customer and load forecasts | **Yes** | Exhibit 3 Tab 1 Schedule 1 |
| **28** | Explanation of weather normalization methodology | **Yes** | Exhibit 3 Tab 1 Schedule 1 |
| **28** | Quantification of any impacts arising from the persistence of historical CDM programs as well as the forecasted impacts arising from new programs in the bridge and test years through the current 6-year CDM framework. | **Yes** | Exhibit 3 Tab 1 Schedule 1 |
| **29** | Completed Appendix 2-IB; the customer and load forecast for the test year must be entered on RRWF, Tab 10 | **Yes** | Exhibit 3 Tab 1 Schedule 2 Attachment 1.1 |
| **29 & 30** | Multivariate Regression Model - rationale for choice, regression statistics, explanation of weather normalization methodology, sources of data for endogenous and exogenous variables, any binary variables used to either account for individual data points or to account for seasonal or cyclical trends or for discontinuities in the historical data, explanation of any specific adjustments made; data used in load forecast must be provided in Excel format, including derivation of constructed variables | **Yes** | Exhibit 3 Tab 1 Schedule 1 |
| **30** | NAC Model - rationale for choice, data supporting NAC variables, description of accounting for CDM including licence conditions, discussion of weather normalization considerations | **Yes** | Exhibit 3 Tab 1 Schedule 1 |
| **30 & 31** | CDM Adjustment - account for CDM in 2017 load forecast. Consider impact of persistence of historical CDM and impact of new programs. Adjustments may be required for IESO reported results which are full year impacts | **Yes** | Exhibit 3 Tab 1 Schedule 1 |
| **31** | CDM savings for 2017 LRAMVA balance and adjustment to 2017 load forecast; data by customer class and for both kWh and, as applicable, kW. Provide rationale for level of CDM reductions in 2017 load forecast | **Yes** | Exhibit 3 Tab 1 Schedule 1 |
| **31** | Completed Appendix 2-I | **Yes** | Exhibit 3 Tab 1 Schedule 3 Attachment 1.1 |
| *Accuracy of Load Forecast and Variance Analyses* | | | |
| **31** | Completed Appendix 2-IB | **Yes** | Exhibit 3 Tab 2 Schedule 1 Attachment 1.1 |
| **31** | For customer/connection counts - identification as to whether customer/connection count is shown in year end or average format, year-over-year variances in changes of customer/connection counts with explanation of major changes, explanations of bridge and test year forecasts by rate class, for last rebasing variance analysis between last OEB-approved and actuals with explanations for material differences | **Yes** | Exhibit 3 Tab 2 Schedule 1 |
| **31 & 32** | For consumption and demand - explanation to support how kWh are converted to kW for applicable demand-billed classes, year-over-year variances in kWh and kW by rate class and for system consumption overall (kWh) with explanations for material changes in the definition of or major changes over time (should be done for both historical actuals against eachother and historical weather-normalized actuals over time), explanations of the bridge and test year forecasts by rate class, variance analysis between the last OEB-approved and the actual and weather-normalized actual results | **Yes** | Exhibit 3 Tab 2 Schedule 1 |
| **32** | For revenues - calculation of bridge year forecast of revenues at existing rates, calculation of test year forecasted revenues at existing and proposed rates, year-over-year variances in revenues comparing historical actuals and bridge and test year forecasts | **Yes** | Exhibit 3 Tab 2 Schedule 1 |
| **32** | With respect to average consumption, for each rate class, distributors are to provide weather-actual and weather-normalized average annual consumption or demand per customer as applicable for last OEB approved and historical, weather normalized average annual consumption or demand per customer for the bridge and test years, explanation of the net change in average consumption from last OEB-approved and actuals from historical, bridge and test years based on year-over-year variances and any apparant trends in data | **Yes** | Exhibit 3 Tab 2 Schedule 1 |
| *Other Revenue* | | | |
| **33** | Completed Appendix 2-H | **Yes** | Exhibit 3 Tab 3 Schedule 1 Attachment 1.1 |
| **33** | Variance analysis - year over year, historical, bridge and test | **Yes** | Contained in narrative under each USofA account |
| **33** | Any new proposed specific service charges, or proposed changes to rates or application of existing specific service charges | **Yes** | Mentioned in discussion on OEB 4235 and referenced to Exhibit 8 |
| **33** | Revenue from affiliate transactions, shared services, corporate cost allocation | **N/A** | Included in discussion in Exhibit 4 |
| **33** | Distributors must identify any discrete customer groups that may be materially impacted by changes to other rates and charges | **N/A** | |

# 2017 Cost of Service Checklist

## London Hydro Inc.

## EB-2016-0091

**Filing Requirement Page # Reference** | **Date:**

| | | Yes/No/N/A | Evidence Reference, Notes |
|---|---|---|---|
| **EXHIBIT 4 - OPERATING COSTS** | | | |
| *Overview* | | | |
| **34** | Brief explanation of test year OM&A levels, cost drivers, significant changes, trends, inflation rate assumed, business environment changes | **Yes** | page 1 - 48 |
| *Summary and Cost Driver Tables* | | | |
| **34** | Summary of recoverable OM&A expenses; Appendix 2-JA | **Yes** | OEB Appendix 2-JA |
| **34** | Recoverable OM&A cost drivers; Appendix 2-JB | **Yes** | Table 4-61 (page 334), OEB Appendix 2-JB, page 333 - 387 |
| **34** | Recoverable OM&A Cost per customer and per FTE; Appendix 2-L | **Yes** | page 16, OEB Appendix 2-L |
| **34** | Identification of change in OM&A in test year in relation to change in capitalized overhead. | **N/A** | page 4 |
| **35** | OM&A variance analysis for test year with respect to bridge and historical years; Appendix 2-D | **Yes** | OEB Appendix 2-D |
| *Program Delivery Costs with Variance Analysis* | | | |
| **35** | Completed Appendix 2-JC OM&A Programs Table - completed by program or major functions; include variance analysis limited to variances that are outliers, between test year and last OEB approved and most recent actuals, including an explanation for each significant change whether the change was within or outside the applicant's control and explanation of why | **Yes** | page 49 - 331, OEB Appendix 2-JC |
| **35** | For each significant change within the applicant's control describe business decision that was made to manage the cost increase/decrease and the alternatives | **Yes** | page 49 - 331 |
| *Workforce Planning and Employee Compensation* | | | |
| **35** | Employee Compensation - completed Appendix 2-K | **Yes** | Table 4-64 (page 341), OEB Appendix 2-K |
| **35** | Description of previous and proposed workforce plans, including compensation strategy | **Yes** | page 412 - 426, page 338 - 345 |
| **36** | Discussion of the outcomes of previous plans and how those outcomes have impacted their proposed plans including an explanation of the reasons for all material changes to headcount and compensation. Explanation for all years includes:<br>- year over year variances<br>- basis for performance pay, eligible employee groups, goals, measures, and review process for pay-for-performance plans,<br>- relevant studies (e.g. compensation benchmarking) | **Yes** | page 412 - 426, page 338 - 345 |
| **36** | Details of employee benefit programs including pensions for last OEB approved, historical, bridge and test; must agree with tax section | **Yes** | Table 4-70 (page 348) |
| **36** | Most recent actuarial report on employee benefits, pension and OPEBs | **Yes** | Appendix 4-7 |
| **36** | Completed Appendix 2-KA - accounting method for pension and OPEBs | **Yes** | OEB Appendix 2-KA |
| *Shared Services and Corporate Cost Allocation* | | | |
| **36** | Identification of all shared services among affiliates and parent company; identification of the extent to which the applicant is a "virtual utility" | **N/A** | |
| **36 & 37** | Allocation methodology for corporate and shared services, list of costs and allocators, including any third party review | **Yes** | page 427 - 434 |
| **37** | Completed Appendix 2-N for service provided or received for historical, bridge and test; including reconciliation with revenue included in Other Revenue | **Yes** | page 427 - 434, Table 4-113, OEB Appendix 2-N, Table -114 |
| **37** | Shared Service and Corporate Cost Variance analysis - test year vs last OEB approved and most recent actual | **Yes** | page 427 - 434 |
| **37** | Identification of any Board of Director costs for affiliates included in LDC costs | **N/A** | |
| *Non-Affiliate Services, One-Time Costs, Regulatory Costs* | | | |
| **37** | Purchased Non-Affiliated Services - file a copy of procurement policy (signing authority, tendering process, non-affiliate service purchase compliance) | **Yes** | page 434 - 438, Appendix 4-10 |
| **37** | For material transactions that are not in compliance with procurement policy, or that were undertaken pursuant to exceptions contemplated within the policy, an explanation as to why as well as a summary of the nature and cost of the product, and a description of the specific methodology used for selecting the vendor | **N/A** | |
| **37** | Identification of one-time costs in historical, bridge, test; explanation of cost recovery in test (or future years) | **Yes** | page 439 - 441 |
| **38** | Regulatory costs - breakdown of actual and forecast, supporting information related to CoS application, proposed recovery (i.e. amortized?). Completed Appendix 2-M | **Yes** | page 439 - 441, OEB Appendix 2-M |
| *LEAP, Charitable and Political Donations* | | | |
| **38** | LEAP - the greater of 0.12% of forecasted service revenue requirement or $2,000 should be included in OM&A and recovered from all rate classes | **Yes** | page 442 - 443 |
| **38** | Detailed information for all contributions that are claimed for recovery | **Yes** | page 442 - 443 |
| **38** | Charitable Donations - the applicant must confirm that no political contributions have been included for recovery | **Yes** | page 444 |

# 2017 Cost of Service Checklist

## London Hydro Inc.

## EB-2016-0091

**Filing Requirement Page # Reference** | **Date:**

| | | Yes/No/N/A | Evidence Reference, Notes |
|---|---|---|---|
| *Depreciation, Amortization and Depletion* | | | |
| **39** | Explanations for any useful lives of an asset that are proposed that are not within the ranges contained in the Kinectrics Report | **N/A** | Table 4-94 (page 390) |
| **18 & 39** | Depreciation, Amortization and Depletion details by asset group for historical, bridge and test years. Include asset amount and rate of depreciation/amortization. Must agree to accumulated depreciation in Appendix 2-BA under rate base | **Yes** | page 393-395, Table 4-95 to 4-97 |
| **39** | Identification of any Asset Retirement Obligations and associated depreciation, accretion expense | **N/A** | page 391 |
| **39** | Identification of historical depreciation practice and proposal for test year. Variances from half year rule must be documented and supporting rationale provided | **Yes** | page 391 - 392 |
| **39** | Copy of depreciation/amortization policy, or equivalent written description; summary of changes to depreciation/amortization policy since last CoS | **Yes** | page 391 |
| **40** | Explanation of any deviations from the practice of depreciating significant parts or components of PP&E separately | **N/A** | |
| **40** | For any depreciation expense policy or asset service lives changes since its last rebasing application:<br>- identification of the changes and detailed explanation for the causes of the changes, including any changes subsequent to those made by January 1, 2013<br>-use of Kinectrics study or another study to justify changes in useful life<br>- list detailing all asset service lives tied to USoA, detail differences in TUL from Kinectrics and explain differences outside of minimum and maximum TUL range from Kinectrics; Appendix 2-BB<br>-File applicable depreciation appendices as provided in Chapter 2 MIFRS Appendices (Appendix 2-CA to 2-CK) | **N/A** | OEB Appendices 2-CB to 2CF, Table 4-98 to 4-102 |
| *PILs and Property Taxes* | | | |
| **40** | Completed version of the PILs model (PDF and Excel); derivation of adjustments for historical, bridge, test years | **Yes** | Appendix 4-4, Appendix 4-5, Excel PILs model |
| **40** | Supporting schedules and calculations identifying reconciling items | **Yes** | Table 4-105 (page 404) |
| **41** | Most recent federal and provincial tax returns | **Yes** | Appendix 4-6 |
| **15 & 41** | Financial Statements included with tax returns if different from those filed with application | **N/A** | page 407 |
| **41** | Calculation of Tax Credits; redact where required (filing of unredacted versions is not required) | **Yes** | page 404 - 406 |
| **41** | Supporting schedules, calculations and explanations for other additions and deductions | **Yes** | Table 4-104 (page 403) |
| **41** | Explanation of how taxes other than income taxes or PILS (e.g. property taxes) are derived | **Yes** | page 411 |
| *Non-recoverable and Disallowed Expenses* | | | |
| **41** | Exclude from regulatory tax calculation any non-recoverable or disallowed expenses | **Yes** | page 408 |
| *Integrity Checks* | | | |
| **41** | Completion of Integrity checks listed on p.41; statement confirming completion | **Yes** | page 408 - 410 |
| *Conservation and Demand Management* | | | |
| **43 &44** | LRAMVA - disposition of balance. Distributors must provide new LRAMVA Workform in a working Excel file and provide the following:<br>- statement indicating use of most recent input assumptions when calculating lost revenue<br>- statement indicating reliance on most recent CDM evaluation report from IESO; copy of report<br>- Tables for each rate class showing lost revenue by year; list of programs applicable to rate class. Within each separate rate class table, a list of all the CDM programs/initiatives applicable to that rate class and the energy savings (kWh) and peak demand (kW) savings assigned to those programs/initiatives.. For peak demand (kW) savings, the monthly multiplier amount used to convert the peak demand (kW) savings value included in the IESO's final results report into an annual value for each program<br>- lost revenue calculations - energy savings by class and OEB-approved variable charge<br>- statement that indicates if carrying charges are requested | **Yes** | LRAMVA Work Form provided in Excel, Conservation and Demand Management section of Exhibit 4 (pages 444 to 456), Exhibit 4 Appendices 4-11 and 4-12 |
| **44** | Third party report for any OEB-approved programs | **N/A** | |

# 2017 Cost of Service Checklist

## London Hydro Inc.

## EB-2016-0091

**Filing Requirement Page # Reference** | **Date:**

| | | Yes/No/N/A | Evidence Reference, Notes |
|---|---|---|---|
| **EXHIBIT 5 - COST OF CAPITAL AND CAPITAL STRUCTURE** | | | |
| *Capital Structure* | | | |
| **45** | Statement that LDC adopts OEB's guidelines for cost of capital and confirms that updates will be done. Alternatively - utility specific cost of capital with supporting evidence | **Yes** | Exhibit 5 Tab 1 Schedule 1 |
| **45** | Completed Appendix 2-OA for last OEB approved and test year | **Yes** | Exhibit 5 Tab 1 Schedule 1 Attachment 1.1 |
| **45** | Completed Appendix 2-OB for historical, bridge and test years | **Yes** | Exhibit 5 Tab 1 Schedule 1 Attachment 2.1 |
| **45** | Explanation for any changes in capital structure | **Yes** | Exhibit 5 Tab 1 Schedule 1 |
| *Cost of Capital (Return on Equity and Cost of Debt)* | | | |
| **45** | Calculation of cost for each capital component | **Yes** | Exhibit 5 Tab 1 Schedule 1 |
| **45** | Profit or loss on redemption of debt | **N/A** | |
| **45** | Copies of promissory notes or other debt arrangements with affiliates | **N/A** | |
| **45** | Explanation of debt rate for each existing debt instrument | **Yes** | Exhibit 5 Tab 1 Schedule 1 |
| **45** | Forecast of new debt in bridge and test year - details including estimate of rate | **Yes** | Exhibit 5 Tab 1 Schedule 1 |
| **46** | If proposing any rate that is different from the OEB guidelines, a justification of the proposed rate(s), including key assumptions | **N/A** | |
| **46** | Notional Debt - difference between actual debt thickness and deemed debt thickness attracts the weighted average cost of actual long-term debt rate (unless 100% equity financed) | **Yes** | Exhibit 5 Tab 1 Schedule 1 |
| *Not-for-Profit Corporations* | | | |
| **47** | Not for Profit Corporations - evidence that excess revenue is used to build up operating and capital reserves | **N/A** | |
| **47** | Detailed calculation for test year revenue requirement based on its Reserve Requirement | N/A | |
| **47** | The proposed reserves and rationale for the need to establish each reserve, the time period of building up the reserves, and the procedure and policy of each reserve | N/A | |
| **47** | Description of the governance of the not-for-profit corporation | N/A | |
| **47** | If there are approved reserves from previous OEB decisions provide the following:<br>-any changes to the reserve policies and rationale for the changes since last CoS<br>limits of any capital and/or operating reserves as approved by the OEB and identify decisions<br>-current balances of any established capital and/or operating reserves<br>-list withdrawals from capital and operating reserves, identify amounts and purpose of withdrawal<br>-if limits on capital and operating reserves achieved provide a proposal for utilization of amounts<br>-if limits on reserves not achieved provide rationale and the detail for its forecast of the Reserve Requirement for the test year | N/A | |
| **EXHIBIT 6 - REVENUE DEFICIENCY/SUFFICIENCY** | | | |
| **48** | Calculation of delivery-related Revenue Deficiency/Sufficiency (excluding cost of power and associated costs): net utility income, rate base, actual return on rate base, indicated rate of return, requested rate of return, deficiency/sufficiency, gross deficiency/sufficiency. Deficiency/sufficiency must also be net of other costs (e.g. LV costs, RSVAs, smart meter and other DVA balances). | **Yes** | Exhibit 6 Tab 1 Schedule 1 |
| **48** | Summary of drivers for test year deficiency/sufficiency, how much each driver contributes; references in application evidence mapped to drivers | **Yes** | Exhibit 6 Tab 1 Schedule 1 |
| **49** | Impacts of any changes in methodologies to deficiency/sufficiency | **Yes** | Exhibit 6 Tab 1 Schedule 1 |
| *Revenue Requirement Work Form* | | | |
| **49** | RRWF - in PDF and Excel. Revenue requirement, def/sufficiency, data entered in RRWF must correspond with other exhibits | | Exhibit 6 Tab 1 Schedule 2 Attachment 2.1 |
| **49** | If the enhanced RRWF cannot reflect a distributor's proposed rates accurately, the distributor must file its rate generator model | **N/A** | |

# 2017 Cost of Service Checklist

## London Hydro Inc.

## EB-2016-0091

**Filing Requirement Page # Reference** | **Date:**

| | | Yes/No/N/A | Evidence Reference, Notes |
|---|---|---|---|
| **EXHIBIT 7 - COST ALLOCATION** | | | |
| *Cost Allocation Study Requirements* | | | |
| **50** | Completed cost allocation study using the OEB-approved methodology or a comparable model must be filed reflecting future loads and costs and be supported by appropriate explanations and live Excel spreadsheets. Sheets 11 and 12 of the RRWF must also be completed. Live Excel version of 2017 cost allocation model will be filed (updated load profiles or scaled version of HONI CAIF). Model must be consistent with test year load forecast, changes to customer classes and load profiles. | **Yes** | Exhibit 7 Tab 1 Schedule 1 |
| **50** | Explanation provided if a distributor is unable to update its load profiles and confirm that it intends to put plans in place to update its load profiles the next time a cost allocation model is filed | **N/A** | |
| **51** | Description of weighting factors, and rationale for use of default values (if applicable) | **Yes** | Exhibit 7 Tab 1 Schedule 1 |
| **51** | Hard copy of sheets I-6, I-8, O-1 and O-2 (first page) | **Yes** | Exhibit 7 Tab 1 Schedule 3 Attachments |
| **51 & 52** | Host Distributor - evidence of consultation with embedded Dx<br>- Statement regarding embedded Dx support for approach to allocation of costs<br>- If embedded Dx is separate class - class in cost allocation study and RRWF, Sheet 11<br>- If new embedded Dx class - rationale and supporting evidence (cost of serving, load served, asset ownership information, distribution charges); include in cost allocation study and RRWF, Sheet 11<br>- If embedded Dx billed as GS customer - , include with the GS class in cost allocation model and Appendix 2-P. Provide cost of serving, load served, asset ownership information, distribution charges, appropriateness of rate class. File Appendix 2-Q. | **N/A** | |
| **52** | Unmetered Loads (including Street Lighting) - Confirmation of communication with unmetered load customers when proposing changes to the level of the rates and charges or the introduction of new rates and charges | **Yes** | Exhibit 7 Tab 1 Schedule 4 |
| **52** | microFIT - if the applicant believes that it has unique circumstances which would justify a certain rate, appropriate documentation must be provided | **Yes** | Exhibit 8 Tab 1 Schedule 1 |
| **53** | Standby Rates - if seeking approval on final basis, provide evidence that affected customers have been advised. If seeking changes to standby charges, provide rationale and evidence that affected customer have been advised. | **Yes** | Exhibit 8 Tab 11 Schedule 2 |
| **53** | New customer class or eliminated customer class - rationale and restatement of revenue requirement from previous CoS | **Yes** | Exhibit 8 Tab 1 Schedule 1 |
| *Class Revenue Requirements* | | | |
| **53 & 54** | To support a proposal to rebalance rates, the distributor must provide information on the revenue by class that would apply if all rates were changed by a uniform percentage. Ratios must be compared with the ratios that will result from the rates being proposed by the distributor. | **Yes** | Exhibit 7 Tab 1 Schedule 3 |
| *Revenue to Cost Ratios* | | | |
| **54** | If R:C ratios outside deadband based on model - distributors must include cost allocation proposal to bring them within the OEB-approved ranges. In making any such adjustments, distributors should address potential mitigation measures if the impact of the adjustments on the rates of any particular class or classes is significant. | **Yes** | Exhibit 7 Tab 1 Schedule 3 |
| **55** | If Cost Allocation Model other than OEB model used - exclude LV, exclude DVA such as smart meters | **N/A** | |

# 2017 Cost of Service Checklist

## London Hydro Inc.

## EB-2016-0091

**Filing Requirement Page # Reference** | **Date:**

| | | Yes/No/N/A | Evidence Reference, Notes |
|---|---|---|---|
| **EXHIBIT 8 - RATE DESIGN** | | | |
| **55** | Monthly fixed charges - 2 decimal places; variable charges - 4 decimal places | **Yes** | Exhibit 8 Tab 12 Schedule 1 |
| *Fixed Variable Proportion* | | | |
| **55 & 56** | The following is to be provided in relation to the fixed/variable proportion of proposed rates:<br>-Current F/V with supporting info<br>-Proposed F/V proportion with explanation for any changes (billing determinants from proposed load forecast)<br>-Comparison between current and proposed monthly fixed charges with the floor and ceiling as in cost allocation study<br>Analysis must be net of rate adders, funding adders, and rate riders | **Yes** | Exhibit 8 Tab 1 Schedule 1 |
| *Rate Design Policy* | | | |
| **56** | LDCs must propose changes to residential rates consistent with policy to transition to fully fixed monthly distribution service charge. | **Yes** | Exhibit 8 Tab 2 Schedule 1 |
| **56** | Proposal follows approach set out in Tab 12 of RRWF | **Yes** | Exhibit 8 Tab 2 Schedule 1 Attachment 1.1 |
| **57** | If applicable, distributor with seasonal residential class must propose indentical rate design treatment for such a class | **N/A** | |
| *RTSRs* | | | |
| **57** | Retail Transmission Service Rate Work Form - PDF and Excel | **Yes** | Exhibit 8 Tab 3 Schedule 1 |
| **57** | RTSR information must be consistent with working capital allowance calculation | **Yes** | Exhibit 8 Tab 3 Schedule 1 |
| *Retail Service Charges* | | | |
| **57** | If proposing changes to Retail Service Charges or introduction of new rates and charges - evidence of consultation and notice | **N/A** | Exhibit 8 Tab 4 Schedule 1 |
| *Regulatory Charges* | | | |
| **57** | Wholesale Market Service Rate - reflect current approved rate in application or justify otherwise | **Yes** | Exhibit 8 Tab 5 Schedule 1 |
| *Specific Service Charges* | | | |
| **58** | Specific Service Charge description/purpose/reason for new and revised SSC; calculations to support charges | **Yes** | Exhibit 8 Tab 7 Schedule 2 |
| **58** | Identification in the Application Summary all proposed changes that will have a material impact on customers, including charges that may affect a discrete group. | **Yes** | Exhibit 1 Tab 5 Schedule 9 |
| **58** | Identification of any rates and charges in Conditions of Service that do not appear on tariff sheet. Explain nature of costs, provide schedule outlining revenues or capital contributions 2012-2015, bridge and test years.<br>Whether these charges should be included on tariff sheet | **Yes** | Exhibit 1 Tab 3 Schedule 15 |
| **58** | Ensure revenue from SSCs corresponds with Operating Revenue evidence | **Yes** | Exhibit 3 Tab 3 Schedule 1 Attachment 1.1 |
| *Low Voltage Service Rates* | | | |
| **58** | Forecast of LV cost, sum of host distributors charges | **N/A** | |
| **58 & 59** | Low Voltage Cost (historical, bridge, test), variances and explanations for substantive changes | **N/A** | |
| **59** | Support for forecast LV, e.g. Hydro One Sub-Transmission charges | **N/A** | |
| **59** | Allocation of LV cost to customer classes (typically proportional to Tx connection revenue) | **N/A** | |
| **59** | Proposed LV rates by customer class | **N/A** | |

# 2017 Cost of Service Checklist

## London Hydro Inc.

## EB-2016-0091

**Filing Requirement Page # Reference** | **Date:**

| | | Yes/No/N/A | Evidence Reference, Notes |
|---|---|---|---|
| *Loss Factors* | | | |
| 59 | Proposed SFLF and Total Loss Factor for test year | Yes | Exhibit 8 Tab 9 Schedule 1 |
| 59 | Statement as to whether LDC is embedded including whether fully or partially | Yes | Exhibit 8 Tab 9 Schedule 1 |
| 59 | Study of losses if required by previous decision | N/A | |
| 59 | 3-5 years of historical loss factor data - Completed Appendix 2-R | Yes | Exhibit 8 Tab 9 Schedule 1 Attachment 1.1 |
| 59 | If proposed loss factor >5%, explanation and action plan to reduce losses going forward | N/A | |
| 59 | Explanation of SFLF if not standard | N/A | |
| *Tariff of Rates and Charges* | | | |
| 59 | Current and proposed Tariff of Rates and Charges filed in the Tariff Schedule/Bill Impacts Model - each change must be explained and supported in the appropriate section of the application | Yes | Exhibit 8 Tab 12 Schedule 1 |
| 60 | Explanation of changes to terms and conditions of service if changes affect application of rates | Yes | Exhibit 8 Tab 12 Schedule 1 |
| *Revenue Reconciliation* | | | |
| 60 | Calculations of revenue per class under current and proposed rates; reconciliation of rate class revenue and other revenue to total revenue requirement | Yes | Exhibit 8 Tab 13 Schedule 1 |
| 60 | Completed RRWF - Sheet 13 - rates and charges entered on this sheet should be rounded to the same decimal places as tariff | Yes | Exhibit 8 Tab 13 Schedule 1 Attachment 2.1 |
| *Bill Impact Information* | | | |
| 60 | Completed Bill Impacts Model for all classes in the distributor's tariff schedule. Bill impacts must identify existing rates, proposed changes to rates, and detailed bill impacts. | Yes | Exhibit 8 Tab 14 Schedule 1 |
| 60 | Impact of changes resulting from the as-filed application on representative samples of end-users (i.e. volume, % rate change and revenue). Commodity and regulatory charges held constant | Yes | Exhibit 8 Tab 14 Schedule 1 |
| 60 | Rates and charges input in the tariff schedule and Bill Impacts Model rounded to the decimal places as shown on the existing tariff | Yes | Exhibit 8 Tab 14 Schedule 1 |
| 61 | Bill impacts provided for typical customers and consumption levels. Must provide residential 750 kWh, residential at the lowest 10th percentile and GS<50 2,000 kWh. Bill impacts must be provided for a range of consumption levels relevant to the service territory. | Yes | Exhibit 8 Tab 14 Schedule 1 |
| 61 | If applicable, for certain classes where one or more customers have unique consumption and demand patterns, the distributor must show a typical impact and provide an explanation | Yes | Exhibit 8 Tab 14 Schedule 1 |
| *Rate Mitigation* | | | |
| 61 | Evidence showing that the monthly service charge would not rise by more than $4 per year due only to the rate design change, and that the total bill impact, reflecting all proposed changes in the application, will not exceed 10%. If either of these criteria is not met, some form of mitigation may be required (i.e. extending transition period). | N/A | |
| 62 | Evaluation of bill impact for residential customer at 10th consumption percentile. Describe methodology for determination of 10th consumption percentile. File mitigation plan for whole residential class if impact >10% for these customers. | Yes | Exhibit 8 Tab 2 Schedule 1 |
| 62 & 63 | Mitigation plan if total bill increase for any customer class is >10% including: specification of class and magnitude of increase, description of mitigation measures, justification, revised impact calculation. The Tariff Schedule and Bill Impacts Model must reflect any mitigation plan proposed. | N/A | |
| 63 | Rate Harmonization Plans, if applicable - including impact analysis | N/A | |

# 2017 Cost of Service Checklist

## London Hydro Inc.

## EB-2016-0091

**Filing Requirement Page # Reference** | **Date:**

| | | Yes/No/N/A | Evidence Reference, Notes |
|---|---|---|---|
| **EXHIBIT 9 - DEFERRAL AND VARIANCE ACCOUNTS** | | | |
| **63** | List of all outstanding DVA and sub-accounts; provide description of DVAs that were used differently than as described in the APH | **Yes** | Table 9-2 |
| **63** | Completed DVA continuity schedule for period following last disposition to present - live Excel format | **Yes** | Enclosed |
| **63** | Confirm use of interest rates established by the OEB by month or by quarter for each year | **Yes** | Table 9-1 |
| **64** | Explanation if account balances in continuity schedule differs from trial balance in RRR and AFS | **Yes** | Under Section DVA Account Balances |
| **64** | Identification of Group 2 accounts that will continue/discontinue going forward, with explanation | **Yes** | In Section Group 2 DVA - Identification of Group 2 DVA |
| **64** | Statement as to any new accounts, and justification. | **Yes** | In Section Request for Approval of the Use of New Variance Accounts |
| **64** | Statement whether any adjustments made to DVA balances previously approved by OEB on final basis; explanation, amount of adjustment and supporting documents | **N/A** | Statement in Introduction - no adjustments made |
| **64** | Breakdown of energy sales and cost of power by USoA - as reported in AFS mapped and reconciled to USoA. Provide explanation if making a profit or loss on commodity. | **Yes** | Section Energy Sales and COP; Tables 9-19, 9-20 |
| **64** | Statement confirming that IESO GA charge is pro-rated into RPP and non-RPP; provide explanation if not pro-rated. | **Yes** | Under account description of 1589 RSVA GA |
| *One-Time Incremental IFRS Costs* | | | |
| **64 & 65** | Request for disposition of Account 1508 sub-account IFRS Transition Costs if balances are still in account and not previously requested for disposition:<br>- completed Appendix 2-YA<br>-statement whether any one time IFRS transition costs are embedded in 2017 revenue requirement, where and why it is embedded, and the quantum<br>-explanation for material variances in Account 1508 sub-account IFRS Transition Costs Variance<br>- explanation on why costs incurred after adoption of IFRS, if any, and the nature of the costs<br>- statement that no capital costs, ongoing IFRS compliance costs are recorded in 1508 sub-account; provide explanation if this is not the case | **Yes** | Appendix 2-YA completed; other requirements included in narrative |
| *Account 1575, IFRS-CGAAP Transitional PP&E Amounts* | | | |
| **65 & 66** | 1575 IFRS-CGAAP PP&E account<br>- Account 1575 and 1576 can't be used interchangeably<br>- breakdown of balance, including explanation for eaach accounting change; Appendix 2-EA<br>- listing and quantification of drivers<br>- volumetric rate rider to clear 1575; seperate rider must be on a fixed basis for the residential class;<br>- rate of return component is to be applied to 1575 but not recorded in 1575<br>- statement confirming no carrying charges applied to 1575<br>- explanation for the basis of the proposed disposition period to clear Account 1575 rate rider<br>- show the balance in DVA continuity schedule | **N/A** | dealt with in 2013 COS, currently disposition is in progress |
| *Account 1576, Accounting Changes under CGAAP* | | | |
| **67** | Changes to depreciation and capitalization in 2012 or 2013 - Account 1576 IFRS-CGAAP PP&E<br>- Appendix 2-BA must not be adjusted for 1576<br>- breakdown of balance related to 1576, Appendix 2-EB or 2-EC -<br>drivers of change in closing net PP&E identified and quantified<br>- volumetric rate rider to clear 1576; the rider for the residential class must be on a fixed basis<br>- rate of return component is to be applied to 1576 but not recorded in 1576<br>- statement confirming no carrying charges applied to 1576<br>- explanation for the basis of the proposed disposition period to clear Account 1576 rate rider<br>- show the balance in DVA continuity schedule | **N/A** | dealt with in 2013 COS, currently disposition is in progress |
| *Retail Service Charges* | | | |
| **67 & 68** | Retail Service Charges - material balance in 1518 or 1548<br>- confirm variances are incremental costs of providing retail services; identify drivers for balances<br>- provide schedule identifying all revenues and expenses listed by USoA for 2013, actual/forecast for bridge and test year<br>- state whether Article 490 of APH has been followed; explanation if not followed | **Yes** | no material balance, drivers and schedule included |
| **68** | Retail Service Charges - zero balance in 1518 or 1548 - state whether Article 490 of APH has been followed; explanation if not followed | **N/A** | accounts have balances; followed APH |

# 2017 Cost of Service Checklist

## London Hydro Inc.

## EB-2016-0091

**Filing Requirement Page # Reference** | **Date:**

| | | Yes/No/N/A | Evidence Reference, Notes |
|---|---|---|---|
| *Disposition of Deferral and Variance Accounts* | | | |
| 68 | Identify all accounts for which LDC is seeking disposition; identify DVA for which LDC is not proposing disposition and the reasons why | Yes | Tables 9-7 and 9-8 |
| 68 | Statement whether DVA balances before forecasted interest match the last AFS; explain any variances | Yes | explained - DVA Balances, and detail in individual account descriptions |
| 68 | Provide an explanation of variance > 5% between amounts proposed for disposition and amounts reported in RRR for each account. | Yes | explained - DVA Balances, and detail in individual account descriptions |
| 68 | Provide explanations if variances are < 5% threshold if the variances in question relate to: (1) matters of principle (i.e. conformance with the APH or prior OEB decisions, and prior period adjustments); and/or, (2) the cumulative effect of immaterial differences over several accounts total to a material difference between what is proposed for disposition in total before forecasted interest and what is recorded in the RRR filings | Yes | explained - DVA Balances, and detail in individual account descriptions |
| 68 | Show relevant calculations: rationale for allocation of each account, proposed billing determinants | Yes | Section Methods of Disposition of DVA Balances |
| 68 | Propose charge type (fixed or variable) for recovery purposes in accordance with Rate Design Policy | Yes | Section Methods of Disposition of DVA Balances |
| 68 | Propose rate riders for recovery or refund of balances that are proposed for disposition. The default disposition period is one year; if the applicant is proposing an alternative recovery period must provide explanation. | Yes | Section Methods of Disposition of DVA Balances |
| 69 | Establish separate rate riders to recover balances in the RSVA's from Market Participants who must not be allocated the RSVA balances related to charges for which the MP's settle directly with the IESO. | Yes | Section Proposed Rate Riders |
| 69 | Proposed disposition of Account 1580 sub-account CBR Class B in accordance with the CBR Accounting Guidance. In the DVA continuity schedule, applicants must indicate whether they serve any Class A customers. Account 1580 sub-account CBR Class A is not to be disposed through rates proceedings but rather follow the OEB's accounting guidance. | Yes | Section Methods of Disposition of DVA Balances |
| *Global Adjustment* | | | |
| 69 | Establishment of a separate rate rider included in the delivery component of the bill that would apply prospectively to Non-RPP customers when clearing balances from the GA Variance Account | Yes | Section Methods of Disposition of DVA Balances and Proposed Rate Riders |
| 69 | Indicate whether a Class B customer switched to Class A during the 2015 rate year in DVA Continuity Schedule | Yes | completed |
| 70 | Description of settlement process with IESO or host distributor, specify GA rate used for each rate class, itemize process for providing estimates and describe true-up process, details of method for estimating RPP and non-RPP consumption, treatment of embedded generation/distribution. | Yes | Under account description of 1589 RSVA GA |
| *Establishment of New Deferral and Variance Accounts* | | | |
| 70 | New DVA - information provided which addresses that the requested DVA meets the following criteria: causation, materiality, prudence; include draft accounting order. | Yes | In Section Request for Approval of the Use of New Variance Accounts |

| | |
|---|---|
| **TOTAL "NO"** | **0** |

File Number: EB-2016-0091

Date Filed: August 26, 2016

# Exhibit 1

# Tab 4 of 10

# Distribution System Overview

# DESCRIPTION OF APPLICANTS SERVICE AREA

| | |
|---|---|
| COMMUNITY SERVED: | City of London |
| TOTAL SERVICE AREA: | 423 sq. km |
| URBAN SERVICE AREA | 162.8 sq. km |
| RURAL SERVICE AREA: | 260.3 sq. km |
| DISTRIBUTION TYPE: | Electricity distribution |
| SERVICE AREA POPULATION: | 366,151 |
| MUNICIPAL POPULATION: | 366,151 |

A map of the London Hydro Distribution Service Territory and System is provided in attachment 1 below.

The following map is provided to show where the London Hydro operates within the Province of Ontario.



London Hydro services all customers within the City of London's boundary. It also services the City's water pumping plant located immediately north of the municipal boundary. Electricity is supplied by six high voltage transformer stations located throughout the City. These stations

are owned and operated by Hydro One. The distribution circuits emanating from these stations operate at 27.6kV or 13.8kV. The system also has 43 distribution stations of which 35 step down voltage from 27,600 or 13,800 to 8,320 or 4,160 volts.

The distribution network includes 50 Feeders at 27,600 volts, plus an additional 35 feeders at 13.8 kV, 1 feeder at 8.32 kV, and 95 feeders at 4.16kV. There are approximately 15,775 pole and pad mounted step-down transformers. London Hydro owns approximately 29,384 poles and shares space on another 3,000 poles owned by Bell Canada and Hydro One Networks. In total, London Hydro has approximately 2,800 circuit km of primary line.

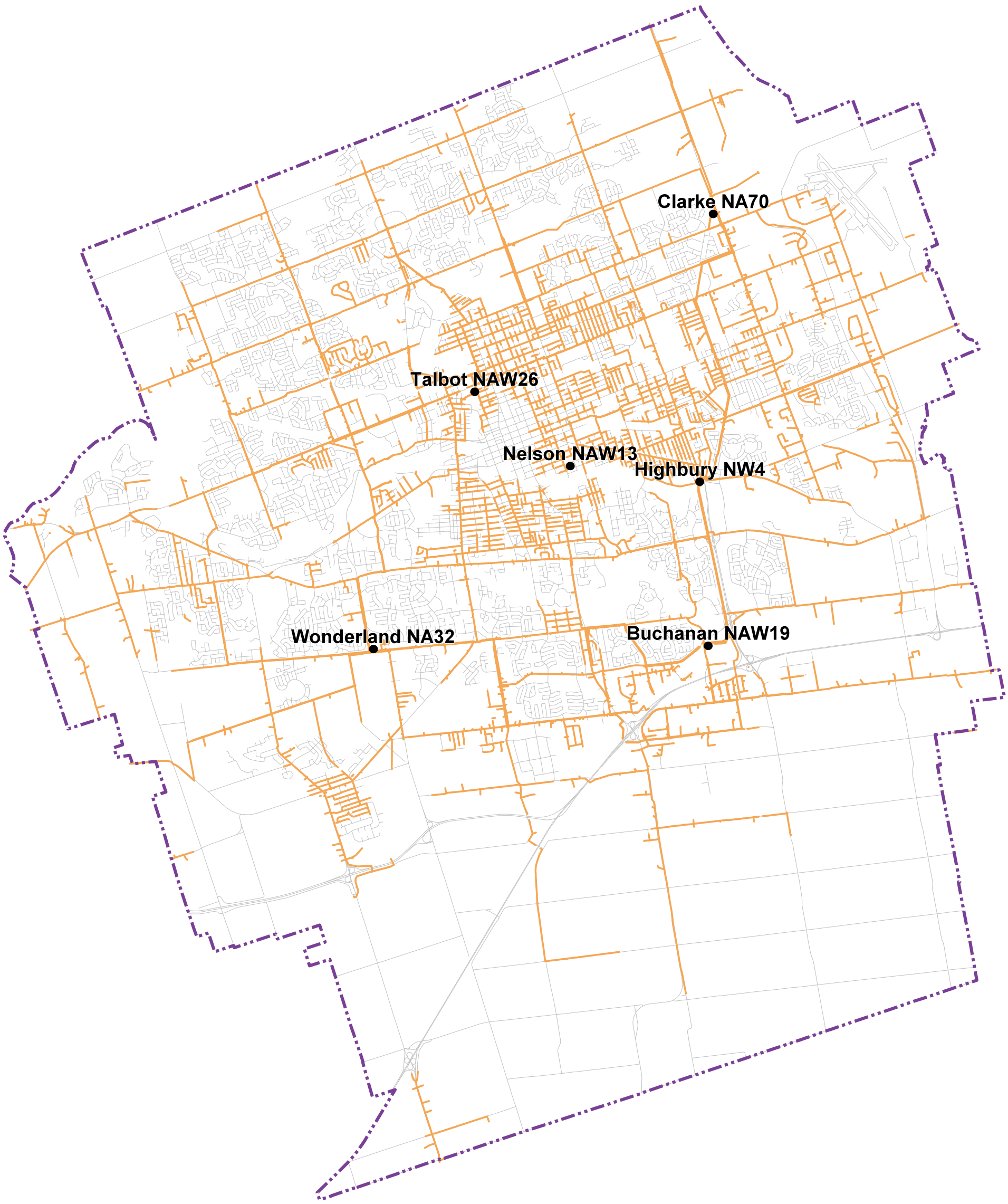
Most of the core area of the city is fed by an extensive underground system consisting of approximately 350 manholes (out of a total of 1,100 manholes in London Hydro's service territory), concrete encased duct structure and for the most part, 15kV paper insulated lead covered power cable. Within the core area, there is also a separate low voltage network grid distribution system consisting of 76 transformers housed in 59 vaults under the sidewalks of city streets. The high voltage sides of the transformers are fed at 13.8kV and the low voltage sides are interconnected through more than twenty kilometres of 120/208 volt cables in a grid pattern providing a reliable network supply to the core area commercial customers.

File Number:EB-2016-0091

Exhibit: 1
Tab: 4
Schedule: 1

Date Filed:August 26, 2016

# ATTACHMENT 1 OF 1
# SERVICE AREA MAP




# OVERVIEW MAP
# LONDON HYDRO CORPORATION
# CITY OF LONDON

London Hydro

SERVICE TERRITORY

27.6 KV PRIMARY OVERHEAD CONDUCTOR

MUNICIPAL SUBSTATION

N

0 1 2 3 4

Kilometers

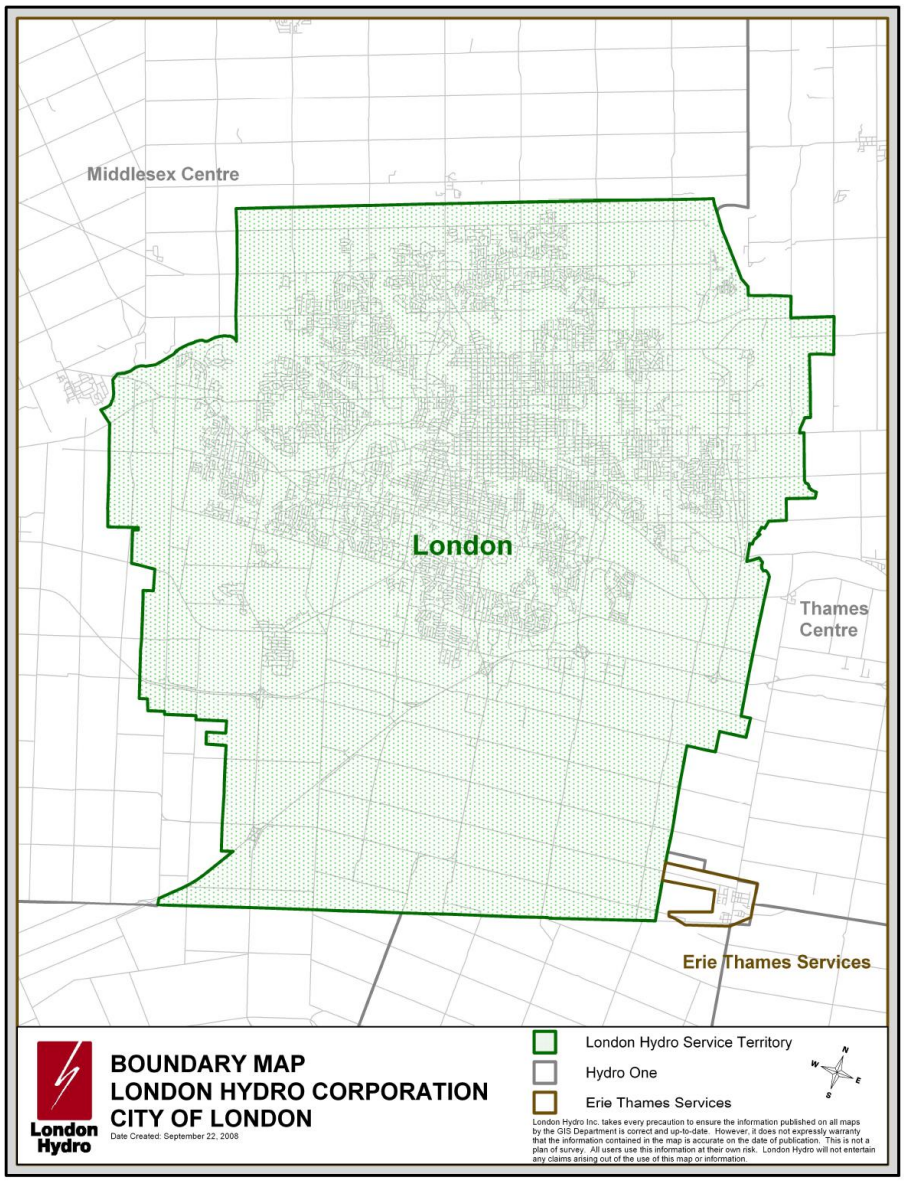
London Hydro Inc. takes every precaution to ensure the information published on all maps by the GIS Department is correct and up-to-date. However, it does not expressly warrant that the information contained in the map is accurate on the date of publication. All users use this information at their own risk. London Hydro will not entertain any claims arising out of the use of this map or information.

May 2016

# NEIGHBOURING DISTRIBUTORS

The following distributors are located adjacent to London Hydro service areas:

- Hydro One Networks Inc.
- Erie Thames Powerlines Corp.



# HOST\EMBEDDED DISTRIBUTOR

London Hydro has no retail metered embedded utilities connected to its distribution system. London Hydro is connected to a single host distribution system – Hydro One Networks Inc. ("HONI"). There are 4 retail metered locations at which London Hydro is connected to HONI as a host utility with respect to a number of long-term load transfer ("LTLT") customers. The following is a description of each host location and the reason for it:

## HIGHWAY 4

This location was established at the time of Market Opening (May, 2002). This approximate 500 kW supply to London Hydro is connected to the Edgeware M2 27.6 kV feeder and has an IESO registered meter at the boundary. There is a 2012 capital enhancement plan to increase the London Hydro infrastructure serviced from this retail metered point from approximate 500 kW to approximate 1 MW. Hydro One has agreed to this change. Commodity and associated charges are settled via the monthly IESO settlement process with London Hydro. Transmission and distribution related charges are settled via a monthly invoice from HON.

## WESTDEL BOURNE

This location was established in late 2007 to address a number of LTLT customers. This is treated as a retail embedded point of delivery to London Hydro from HON. The approximate 50 kW single phase supply is settled via a monthly invoice from HON.

## SHARON ROAD

This location was established in early 2008 to address a number of LTLT customers. This is treated as a retail embedded point of delivery to London Hydro from HON. The ~ 35 kW single phase supply is settled via a monthly invoice from HON.

## NISSOURI ROAD

This location was established in late 2007 to address a number of LTLT customers. This is treated as a retail embedded point of delivery to London Hydro from HON. The ~ 35 kW single phase supply is settled via a monthly invoice from HON.

As the London Hydro distribution system is further developed through normal expansion or enhancement projects, these embedded points of delivery from Hydro One Networks will be eventually eliminated over time.

There are also a small number of retail unmetered LTLT customers associated with both London Hydro and Hydro One. As of year-end 2015, there are 6 London Hydro LTLT customers connected to the Hydro One distribution system and 5 Hydro One LTLT customers connected to the London Hydro distribution system. In accordance with EB-2015-0006 – Revised Proposal to Amend the Distribution System Code to eliminate all load transfer arrangements and Hydro One's Implementation Plan to Eliminate Long-Term Load Transfers issued January 21, 2016, London Hydro is scheduled to file joint Service Area Amendments in month 14 of HONI's plan.

# STATEMENT OF DEEMED TRANSMISSION ASSETS

London Hydro does not have any transmission or high voltage asset (>50kV) deemed previously by the Board as distribution assets and does not have any such assets for which London Hydro is seeking Board approval to be deemed as distribution assets in this Application.

File Number: EB-2016-0091

Date Filed: August 26, 2016

# Exhibit 1

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# Tab 5 of 10

# Application Summary

# A. REVENUE REQUIREMENT

London Hydro is herein requesting to recover $73,176,406 in overall revenue requirement for our Test Year 2017. This includes $69,004,127 to be recovered from rate payers against our revenue offset estimated amount of $4,964,164 and includes $791,884 in transformation ownership allowance. At the current 2016 rates (effective May 1, 2016), London Hydro has determined that for the year 2017 it would recover $65,532,676 from consumers. This results in our request to increase our rates by the deficiency amount of $3,471,451 or an overall rate increase of 5.30%.

London Hydro is requesting the approval of its proposed service revenue requirement of $69,004,127, an increase of $5,525,657 or 8.7% in comparison to the 2013 Board-Approved, as shown below in Table 1.5.1.1 below.

**Table 1.5.1.1 Comparison of Revenue Requirement**

| | 2017 | 2013 | | |
|---|---|---|---|---|
| Description | Amount | Amount | Change | % |
| OM&A Expenses | 38,797,000 | 32,978,000 | 5,819,000 | 17.6% |
| Amortization | 17,128,312 | 15,756,350 | 1,371,962 | 8.7% |
| Grossed up PIL's | 1,377,498 | 808,078 | 569,420 | 70.5% |
| Deemed Interest | 4,781,399 | 7,109,159 | (2,327,760) | -32.7% |
| Return on Equity | 11,092,198 | 9,674,446 | 1,417,752 | 14.7% |
| **Revenue Requirement** | **73,176,406** | **66,326,033** | **6,850,373** | **10.3%** |
| Revenue Offsets | (4,964,164) | (3,650,567) | (1,313,597) | 36.0% |
| **Revenue Requirement After Offsets** | **68,212,243** | **62,675,466** | **5,536,777** | **8.8%** |
| Transformer Ownership Allowance | 791,884 | 803,004 | (11,120) | -1.4% |
| **Revenue Requirement After Other Inclusions** | **69,004,127** | **63,478,470** | **5,525,657** | **8.7%** |

The main drivers of this increase are shown in Table 1.5.1.2.

**Table 1.5.1.2 London Hydro 2017 vs 2013 OEB Change Drivers**

| | | |
|---|---|---|
| Increase in Average Gross Fixed Assets | $40,092,422 | |
| Change in Average Accumulated Depreciation | $ (2,878,923) | |
| Increase in Average Net Fixed Assets | $37,213,499 | |
| Decrease in Working Capital | $ (3,980,428) | |
| Change in Rate Base | $33,233,071 | |
| | | |
| Reduction In Interest | $ (2,327,760) | |
| Increase in Return on Equity | $ 1,417,752 | |
| Change in Return on Rate Base | $ (910,008) | $ (910,008) |
| | | |
| Change in OM&A | | $ 5,819,000 |
| Change in Depreciation | | $ 1,371,962 |
| Change in Grossed-up PILS | | $ 569,420 |
| Change in Miscellaneous Revenue | | $ (1,313,597) |
| Change in Transformer Ownership Allowance | | $ (11,120) |
| Net Changes (2013 vs 2017) | | $ 5,525,657 |
| Change in Revenue at Existing Rates (2013 vs 2017) | | $ 5,999,662 |
| Change in Deficiency Adjustment (2013 vs 2017) | | $ (474,005) |

## RETURN ON RATE BASE

London Hydro is applying to decrease its Return on Rate Base component by $0.9M. The Net Book Value of London Hydro's assets is projected to increase by approximately $37.2M between the 2013 Board-Approved and the 2017 Test Year, as shown in Exhibit 2. London Hydro is also projecting that Working Capital Allowance base will increase by $70.6M. However, as a result of a new lead lag study as submitted in Exhibit 2, London Hydro is proposing to reduce the Working Capital Allowance to 8.67% from its previous amount of 11.42% accepted in 2013. Therefore London Hydro is proposing to reduce its working capital allowance by $3.9M. Hence London Hydro is forecasting an overall increase in Rate Base of $33.3M. However while there is an increase overall rate base there is a resulting decrease in Return on Rate Base of $0.9M. London Hydro is proposing a Weighted Average Cost of Capital of 5.26%, down from the 2013 approved value of 6.24%. The Return on Equity is forecasted to increase by $1.4M as a result of the higher overall Rate Base combined with a slightly higher Return on Equity

percentage (9.19% versus 8.98% 2013 approved). London Hydro notes that this amount will likely change when the OEB reviews the 2017 Return on Equity amount expected to be published before the end of 2016. London Hydro will recalculate this value when directed. As an offset London Hydro has successfully renegotiated it Long Term Debt and is herein reducing its Long Term Debt rate to 2.71% from the OEB approved 2013 amount of 4.58%. In conjunction London Hydro is proposing a reduced Short-term Debt amount of 1.65% down from 2013 2.07%. Again London Hydro notes that this amount will likely change when the OEB reviews the 2017 Return on Equity amount expected to be published before the end of 2016. London Hydro will recalculate this value when directed.

## OPERATING MAINTENANCE & ADMINISTRATION ("OM&A") EXPENSE INCREASE

London Hydro's OM&A component has increased by approximately $5.8M, as explained in Exhibit 4. This includes an increase of $3.2M (9.8%) related to normal operational adjustments when scaled over the four years between COS applications results in an average annual increase less than inflation. The remaining $2.6M increase is driven primarily by forces outside of London Hydro management control. This is discussed in detail in Exhibit 4. London Hydro is proud of the fact that it has been able to contain quantitative costs through efficiencies while enhancing qualitative consumer related services

## DEPRECIATION INCREASE

Under the previous accounting methodology (CGAAP), the growth in rate base between 2013 Board Approved and 2017 Test Year would have driven a greater increase to London Hydro's depreciation expense. However, London Hydro's depreciation component has increased by approximately $1.4M. See Exhibit 4 for the depreciation calculation.

## PAYMENTS-IN-LIEU OF TAXES ("PILS") INCREASE

The increase in the PILs component by approximately $0.6M is consistent primarily with the growth in Return on Equity by $1.4M. See Exhibit 4 for the PILs calculation.

## MISCELLANEOUS REVENUES INCREASE

The increase in Miscellaneous Revenues of $1.3M is primarily driven by increases of $0.8M in Late Payment charges and the IFRS inclusion requirement of Amortization of Contributed Capital $0.2M. See Exhibit 3 Tab 3 Schedule 1 for further details for this item.

## OVERALL INCREASE

In this application London Hydro is seeking to recover an additional $5.5M in revenue requirement over 2013. London Hydro would note that when compared to its 2013 Board approved deficiency adjustment this application requesting $0.5M less in the way of revenue deficiency adjustment. For a more detailed discussion on the please see Exhibit 6 Tab 1 Schedule 2.

# B. BUDGETING AND ACCOUNTING ASSUMPTIONS

The development of London Hydro's budget is a key process, as it identifies past successes as well as future initiatives and projections for capital and operating costs. Budgets are developed pursuant to directives from the Executive Committee and the Board of Directors to ensure that costs are contained in connection with ongoing operations and that provisions are made for new services.

Each department manager or supervisor develops capital and operating plans, which are reviewed and tested by the Executive Committee and ultimately reviewed and approved by the Board of Directors to ensure they support London Hydro's strategic initiatives, as well as being prudent and financially sustainable.

London Hydro's 2017 Cost of Service Rate Application, like its 2013 Application, has been filed in accordance with Modified International Financial Reporting Standards ("MIFRS"). All schedules and number references in this Application are in accordance with MIFRS.

For external financial statement purposes, London Hydro implemented International Financial Reporting Standards ("IFRS") effective January 1, 2015. The Company had previously chosen to defer the transition due to issues surrounding rate-regulated accounting for regulatory assets and liabilities, which have now been temporarily resolved.

For rate-making purposes, London Hydro, in essence, moved to MIFRS effective January 1, 2012. This early adoption was accomplished by implementing required MIFRS changes acceptable under the CGAAP accounting standard, as follows:

- Capital assets were segregated into more intricate components and new life spans were applied;
- Materials Management overhead burdens were reduced to consider direct labour only. (All other expenditures cannot be tied to a specific item so are considered general and administrative in nature under MIFRS); and

- Labour overhead burdens were reduced slightly to exclude the capitalization of costs associated with training employees.

London Hydro did not utilize an inflation factor in any significant way when developing both capital and operating budgets for the 2016 Bridge or proposed 2017 Test Year. When developing budget amounts at the individual account level, price increases having an impact on non-labour expenditures are implicit and considered but not calculated into forecasts.

Where inflation is cited in this Application, statistical information references the Ontario Consumer Price Index and is provided for illustration purposes only as a gauge to help segregate true cost drivers from those resulting in increased pricing. This approach is taken to help the reader identify business environment changes affecting London Hydro and all distribution companies in the province.

Customer growth is considered during budget development but not mathematically included in budgeted amounts is any significant way when developing both capital and operating budgets for the 2016 Bridge or proposed 2017 Test Year. The customer growth rate in London has been relatively stable at the rate of approximately 1% per year.

London Hydro provides detailed explanations in the applicable sections of the Application for the major components of the budget: Revenue, OM&A and Capital. Assumptions and methods of calculation from these exhibits for the 2017 Test Year are as follows:

## REVENUE

The Total Customer/Connections are forecasted to increase slightly based on the forecast by rate class which is reflective of current conditions in London Hydro's service area; and, other revenues were viewed on an item-by-item basis and were either based on a historical indicators and business plans moving forward.

## OPERATING, MAINTENANCE AND ADMINISTRATION EXPENSES

OM&A expenses have been developed based on managers' or supervisor's operating plans, using a bottom up approach. These plans are reviewed by senior management, and are prepared with a mindset of containing costs while still providing an acceptable level of service and reliability;

Staffing levels are based on the estimated time required to complete the operating plans, as well as hiring for future requirements. The 2017 Test Year full time equivalent ("FTE") employee complement is forecasted to increase by 0.5 from the 2016 Bridge Year level of 311.7 FTEs;

During budget development in the fall of 2015, incremental annual increases were anticipated at 2.25% and included in amounts budgeted for the 2016 Bridge Year and proposed 2017 Test Year. London Hydro's union contract was settled after budget development. Actual negotiations resulted in a slight decrease in the percentage for annual wage increases. However, this decrease was offset by increases in other areas during collective bargaining such as incremental increases for several positions driven by internal equity processes as well as increases medical benefits.

Regulatory costs for this Application and other One-Time Costs have been normalized over the five year life of the application.

## AMORTIZATION

Amortization has been calculated based on the revised useful lives in accordance with MIFRS requirements.

## PILS

Regulatory PILS have been calculated using the Board Approved Model; and, PILS are forecasted to decrease mainly due to the decrease in depreciation that results from the change in useful lives and an increase in capital cost allowance which is not affected by the change in useful lives.

# CAPITAL

The Capital Budget was formulated on a project by project basis Distribution asset related projects were prioritized based on multiple factors as explained in the DSP.

General Asset related projects were submitted by managers and supervisors on a project by project basis. Major projects were based on fleet replacement scheduling, work equipment requirements and Information Technology assessments.

# C. LOAD FORECAST SUMMARY

London Hydro's load forecast is weather normalized and considers factors such as historical power purchased load, weather conditions, time and local economic conditions.

As outlined in Exhibit 3, London Hydro has used the same regression analysis methodology utilized in the London Hydro 2013 Cost of Service Application (EB-2013-0146). The regression analysis was conducted on historical electricity purchases to produce an equation that will predict weather normalized power purchases in 2017. The weather normalized purchased energy forecast is adjusted by a historical loss factor to produce a weather normalized billed energy forecast which is allocated to rate class using historical billing data.

## CUSTOMER/CONNECTION

The forecast of customers by rate class was determined primarily using geometric mean analysis, which resulted in an expected number of customers/connections for the 2017 Test Year of 194,872. The 2017 Test Year forecast represents a 3.2% increase over this 2013 Board Approved as shown in Table 1.5.3.1 below. This is discussed further in the Load Forecast Exhibit 3 Tab 1 Schedule 2.

**Table 1.5.3.1 Comparison of Customers/Connections**

| Description | 2017 | 2013 | Change | % Change |
|---|---|---|---|---|
| **Customers** | | | | |
| Residential | 142,509 | 138,061 | 4,448 | 3.2% |
| General Service <50 | 12,749 | 12,111 | 638 | 5.3% |
| General Service >50 | 1,561 | 1,661 | (100) | -6.0% |
| CoGeneration | 4 | 3 | 1 | 33.3% |
| CoGeneration StandBy | | | | |
| Large Use | 1 | 3 | (2) | -66.7% |
| Street Lighting | 35,912 | 34,842 | 1,070 | 3.1% |
| Sentinel Lighting | 599 | 674 | (75) | -11.1% |
| Umetered Scatter Load | 1,537 | 1,521 | 16 | 1.1% |
| **TOTAL** | **194,872** | **188,876** | **5,996** | **3.2%** |

In Exhibit 8 Tab 1 Schedule 1 Fixed/Variable Proportion London Hydro is proposing to classify 300 microFIT customers to be included as GS<50 kW customers. In addition London Hydro is also proposing to re-classify FIT customers from GS<50 kW to GS>50 kW. The intent is to allow London Hydro to fully recover costs incurred in servicing these customers. London Hydro is proposing to adjust the fixed cost rate to accommodate this change.

**Table 1.5.3.2 Comparison of Customers/Connections after Exhibit 8 Adjustment**

| Description | 2017 | 2013 | Change | % Change |
|---|---|---|---|---|
| **Customers** | | | | |
| Residential | 142,509 | 138,061 | 4,448 | 3.2% |
| General Service <50 | 12,999 | 12,111 | 888 | 7.3% |
| General Service >50 | 1,611 | 1,661 | (50) | -3.0% |
| CoGeneration | 4 | 3 | 1 | 33.3% |
| CoGeneration StandBy | - | | | |
| Large Use | 1 | 3 | (2) | -66.7% |
| Street Lighting | 35,912 | 34,842 | 1,070 | 3.1% |
| Sentinel Lighting | 599 | 674 | (75) | -11.1% |
| Umetered Scatter Load | 1,537 | 1,521 | 16 | 1.1% |
| **TOTAL** | **195,172** | **188,876** | **6,296** | **3.3%** |

London Hydro continues to see positive growth in the residential class with growth in the small commercial class GS<50 kW for services that normally complement residential growth. Over the last several years London Hydro has experienced an overall decline in its larger commercial class GS>50 kW mostly attributed to the reclassification to the smaller commercial class as a result of annual load reviews. In 2016 London Hydro reclassified two large use customers, one of which discontinued business and the other that was reclassified due to load decline below 5,000 kW.

## CONSUMPTION KWH

Based on the load forecast methodology using geometric mean, the total 2017 Test Year kWh forecast is 3,070,021,511 kWh. By comparison, in 2013 London Hydro had a Board Approved 2013 load forecast in EB-2012-0146 of 3,320,872,357 kWh. The 2017 Test Year kWh forecast represents a 7.6% decrease over this 2013 Board Approved. This is detailed in Table 1.5.1.3 below. This is discussed further in the Load Forecast Exhibit 3 Tab 1 Schedule 2.

**Table 1.5.1.3 Comparison of Energy kWh**

| Description | 2017 | 2013 | Change | % Change |
|---|---|---|---|---|
| **Energy kWh** | | | | |
| Residential | 1,068,671,798 | 1,085,576,654 | (16,904,856) | -1.6% |
| General Service <50 | 371,911,863 | 398,880,653 | (26,968,790) | -6.8% |
| General Service >50 | 1,486,650,047 | 1,570,040,805 | (83,390,758) | -5.3% |
| CoGeneration | 34,191,555 | 40,595,514 | (6,403,959) | -15.8% |
| CoGeneration StandBy | | | | |
| Large Use | 82,923,505 | 196,152,208 | (113,228,703) | -57.7% |
| Street Lighting | 19,502,488 | 23,918,927 | (4,416,439) | -18.5% |
| Sentinel Lighting | 706,221 | 775,203 | (68,982) | -8.9% |
| Umetered Scatter Load | 5,464,035 | 4,932,393 | 531,642 | 10.8% |
| **TOTAL** | **3,070,021,511** | **3,320,872,357** | **(250,850,846)** | **-7.6%** |

London Hydro is experiencing reduced consumption primarily due to conservation efforts. There is significant decline in the Large Use class due to the reclassification of two large users, as

discussed above. Of particular note is street lighting, which is experiencing reduced load especially due to a CDM relamping initiative in 2016.

## DEMAND KW

Demand kW is based on the load forecast methodology of using the average of demand over consumption applied against the forecasted consumption. The total 2017 Test Year kW forecast is 4,214,804 kW. By comparison, in 2013 London Hydro had a Board Approved 2013 load forecast in EB-2012-0146 of 4,591,487 kW. The 2017 Test Year kWh forecast represents a 8.2% decrease over this 2013 Board Approved. This is detailed in Table 1.5.1.4 below. This is discussed further in the Load Forecast Exhibit 3 Tab 1 Schedule 2.

**Table 1.5.1.4 Comparison of Demand kW**

| Description | 2017 | 2013 | Change | % Change |
|---|---|---|---|---|
| **Demand kW** | | | | |
| Residential | | | | |
| General Service <50 | | | | |
| General Service >50 | 3,778,018 | 3,932,952 | (154,934) | -3.9% |
| CoGeneration | 65,844 | 43,793 | 22,051 | 50.4% |
| CoGeneration StandBy | 154,800 | 154,800 | - | 0.0% |
| Large Use | 159,628 | 390,735 | (231,107) | -59.1% |
| Street Lighting | 54,607 | 67,093 | (12,486) | -18.6% |
| Sentinel Lighting | 1,907 | 2,114 | (207) | -9.8% |
| Umetered Scatter Load | | | | |
| **TOTAL** | **4,214,804** | **4,591,487** | **(376,683)** | **-8.2%** |

The significant change in demand is from the reclassification of two large users plus the reclassification of GS>50 kW customers to the GS<50 kW class. The impact of the CDM street lighting relamping program is also a contributing factor.

# D. RATE BASE AND CAPITAL PLAN

## DISTRIBUTION SYSTEM PLAN

In creating the DSP (refer to Exhibit 2, DSP 3.5.1.3 Investment Drivers by Category (5.4.5.1)), London Hydro believes the objective and scope of this 2016 – 2020 investment plan speaks directly to the RRFE and London Hydro's core values and also to the Board's DSP evaluation criteria of efficiency, customer value and reliability.

### Historic Drivers – 2012 to 2016

From 2012 to 2014, London Hydro's total capital spending was flat and the most significant variance occurred in 2015 when total spending increased by approximately $7.6M and remained near this level for 2016.

**System Access** increased due to an unexpected increase in relocations to accommodate road projects in 2016 ($1.5M more than average).

**System Renewal** increased for the following reasons:

- The addition of 27.6 kV feeder ties in 2015 ($0.5M) and 2016 ($0.8M) to support 4 kV voltage conversions.
- The extension of a 27.6 kV feeder into downtown in 2016 ($1.8M) to support 13.8 kV voltage conversions and future development.
- Upgrades to civil infrastructure in 2015 ($1.8M) and 2016 ($1.0M) in downtown to support 13.8 kV voltage conversions and provide a more secure supply for existing and future loads.
- The start of 13.8 kV main feeder conversions in 2015 ($0.5M) and 2016 ($0.7M) to facilitate the Nelson TS conversion.
- The start of 13.8 kV underground conversions in 2015 ($0.5M) and 2016 ($1.3M) to facilitate the Nelson TS conversion.

- The start of 13.8 kV overhead conversions in 2015 ($0.8M) and 2016 ($0.4M) to facilitate the Nelson TS conversion.
- The overall increase in replacing depreciated plant (poles, insulators, etc.).

**General Plant** increased in 2015 by $1.5M due to the first payment to Hydro One for the Nelson TS conversion and increased in 2015 by $2.0M and in 2016 by $0.8M due to increased investment in IT projects (cyber security, mobile workforce, enterprise resource planning, OMS, servers and storage, and network development).

## Forecast Drivers – 2017 to 2021

**System Access:** The two main drivers of System Access projects are new and upgraded services for residential and commercial customers and infrastructure relocations to accommodate City of London Projects. Approximately 66% of projects in this category are the result of requests from customers for new or upgraded services, including developers of residential and commercial subdivisions. The volume of work related to customer requests is expected to increase by an average of 1.7% per year, with some years higher or lower. The remaining 34% of projects accommodate relocation requests from the City of London. The volume of relocation requests from the City of London is expected to decrease from a peak of $3.4M in 2017 to $0.7M in 2021, based on the most recent forecast from the City.

**System Renewal:** Addressing aging infrastructure is the main driver of spending in this category. Over the forecast period, the average increase per year is approximately 3.7%. Specifically, addressing end-of-life primary underground cables via silicone injection or replacement accounts for approximately 19% of spending in this category. Voltage conversions (4.16 kV or 13.8 kV to 27.6 kV) of end-of-life assets account for 27% of spending in this category. Upgrades to the infrastructure (civil and electrical) supplying the downtown core account for 27% of spending in this category. The remaining work addresses components such as wood poles, insulators and switching enclosures that are at end-of-life and pose safety and reliability risks.

**System Service:** The main driver of System Service work is to improve the overall system reliability and decrease Operating and Maintenance costs by investing in technology that

improves the visibility of the system performance and isolates problems faster. Spending is expected to decline in the forecast period, after a major upgrade to the Control Centre is completed in 2017 and 2018.

**General Plant:** The main driver of General Plant investments is improvements in IT (Information Technology), which represents 62% of the spending in this category. Of this amount, approximately one third addresses customer preferences for additional or improved services (such as additional self-service options on the website and the Green Button initiative). Investments in Fleet and Facilities represent 26% of the spending in this category, which is needed to replace or upgrade equipment that is at end-of-life, unsafe, costly to maintain or obsolete. The remaining 12% is driven by the contributions to Hydro One for the voltage conversion of the Nelson TS from 13.8 kV to 27.6 kV. Excluding the contributions to Hydro One, spending during the forecast period increases an average of 4.7% per year, driven mainly by IT upgrades, enhancements, and new systems needed to address customer preferences, regulatory changes, and equip employees with the necessary tools and equipment to perform their work safely and efficiently.

The DSP and London Hydro's Capital Expenditure Plan seeks to find the right balance between capital investments in new infrastructure, and operating and maintenance costs so that the combined total cost over the life of an asset is minimized.

As will be demonstrated in the DSP as well as the remainder of this summary, the proposed levels of capital investment, for each category and in total, are relatively consistent and slightly declining from the 2016 Test Year onwards. This is reflective of the London Hydro's belief that over the forecast period, investment drivers will remain characteristically similar to 2017 and that there are no foreseen extraordinary expenditures.

## RATE BASE

London Hydro's rate base for the 2017 Test Year is calculated at $301,746,404. Total rate base has increased by $32,761,148 between the 2013 Board Approved amounts and the 2017 Test Year, representing a total increase of 12.2% or a 2.9% compound annual growth rate (CAGR).

Table 1.5.4.1 below presents a summary of London Hydro's rate base for the 2013 Board Approved Year, 2013-2015 Historical Years, 2016 Bridge Year, and 2017 Test Year.

**Table 1.5.4.1 Summary of Rate Base**

| SUMMARY OF RATE BASE | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 Actual | 2013 Board Approved | 2014 Actual | 2015 Actual | 2016 Bridge | 2017 Test | 2013 Board Approved to 2017 Test | CAGR |
| | $ | $ | $ | $ | $ | $ | $ | % |
| Opening Balance, January 1 | 223,433,727 | 222,156,052 | 228,404,051 | 235,609,045 | 247,353,386 | 258,767,468 | 36,611,416 | *3.9%* |
| Closing Balance, December 31 | 228,404,051 | 230,954,219 | 235,609,045 | 247,353,386 | 258,510,661 | 268,869,300 | 37,915,081 | *3.9%* |
| 1576 CGAAP to IFRS Adjustment | 471,922 | 471,922 | 393,268 | 275,288 | 157,307 | | (471,922) | *-100.0%* |
| Adjusted Closing Balance, December 31 | 228,875,973 | 231,426,141 | 236,002,313 | 247,628,674 | 258,667,968 | 268,869,300 | 37,443,159 | *3.8%* |
| Net Fixed Assets (Average) | 226,154,850 | 227,027,058 | 232,439,143 | 241,815,493 | 253,148,321 | 263,768,634 | 36,741,576 | *3.8%* |
| Allowance for Working Capital | 42,538,003 | 41,958,198 | 45,338,048 | 47,397,023 | 51,285,613 | 37,977,770 | (3,980,428) | *-2.5%* |
| **Rate Base** | **268,692,852** | **268,985,256** | **277,777,190** | **289,212,516** | **304,433,933** | **301,746,404** | **32,761,148** | ***2.9%*** |
| Annual Change | | 292,403 | 8,791,935 | 11,435,326 | 15,221,417 | (2,687,529) | | |
| Annual Change % | | 0.1% | 3.3% | 4.1% | 5.3% | -0.9% | **12.2%** | |

Please refer to Exhibit 2 for detailed discussion on changes to rate base.

## CAPITAL EXPENDITURES

Total capital expenditures requested for the 2017 Test Year amount to $32,575,000. This represents an increase of $4,721,600 compared to the 2013 Board Approved amount; a 17.0% increase, or 4.0% CAGR (compound annual growth rate).

Table 1.5.4.2 below outlines capital spending for the 2013 Board Approved Year and the 2017 Test Year.

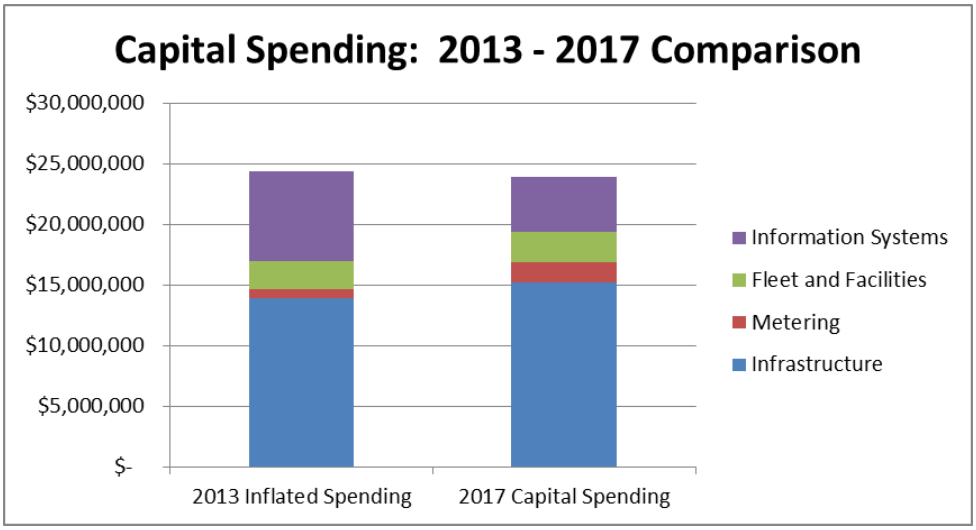
**Table 1.5.4.2 Capital Spending Summary 2013 vs. 2017**

| CAPITAL SPENDING 2012 - 2017 (before Capital Contributions) SUMMARY BY CATEGORY | | | | |
|---|---|---|---|---|
| | 2013 Board Approved | 2017 Test | 2013 Board Approved to 2017 Test | CAGR |
| | $ | $ | $ | % |
| Infrastructure | 13,447,000 | 15,214,000 | 1,767,000 | *3.1%* |
| Metering | 648,000 | 1,671,000 | 1,023,000 | *26.7%* |
| Fleet and Facilities | 2,295,000 | 2,528,000 | 233,000 | *2.4%* |
| Information Systems | 6,000,000 | 4,510,000 | (1,490,000) | *-6.9%* |
| **Regular Capital Spending (at LHI's Discretion)** | 22,390,000 | 23,923,000 | 1,533,000 | |
| TS Upgrade | - | 1,882,000 | 1,882,000 | |
| Demand | 5,463,400 | 6,770,000 | 1,306,600 | *5.5%* |
| **Other Capital Spending (Atypical or Demand Driven)** | 5,463,400 | 8,652,000 | 3,188,600 | |
| | **27,853,400** | **32,575,000** | **4,721,600** | **4.0%** |

The increase in spending from 2013 to 2017 can be broken down into 3 segments: (1) basic costs, (2) inflation, and (3) TS Upgrade & Demand spending. The basic costs segment is the only area of the spending increase that is at London Hydro's discretion, so further discussion will be focused here.

When capital spending in the areas of TS Upgrade and Demand are removed (due to being atypical or demand-driven), the variance between 2013 inflated spending and 2017 proposed spending, in fact, represents a decrease of $510,135 or 2.1% (or an annual decrease of 0.5%). This outcome demonstrates that although at a category level, spending patterns have changed, London Hydro's regular discretionary spending at a corporate level has remained relatively consistent from 2013 to 2017. Refer to Exhibit 2, Section 'A Comparison between 2013 and 2017' for more information regarding this calculation and assumptions used.

**Table 1.5.4.3 LHI's Regular Capital Spending: A Comparison 2013 – 2017**




The largest increase in capital spending since the 2013 Board Approved is in the area of Infrastructure. The majority of this increase is related to the Networks and Main Feeders categories and is primarily driven by the need to convert the 13.8 kV downtown system to 27.6 kV (due to the conversion of the Nelson TS from 13.8 kV to 27.6 kV) and the subsequent expansion of the 27.6 kV system to supply this area.

A new grouping in this Application is entitled TS Upgrade, with the first spending occurring in 2015. This grouping refers to capital contributions (intangible asset) paid to Hydro One regarding the decommissioning of the 13.8kV Substation and the conversion of the Substation to 27.6kV.

The capital expenditures for the Demand area are driven solely by City Works and Developer Works and are not under the control of London Hydro.

The increase in spending for Metering is primarily due to a new AMI Communications Renewal project and increased equipment costs.

Fleet and Facilities spending has fluctuated insignificantly.

Information Systems spending is decreasing due to the increased reliance on Cloud Computing, which lessens the need for London Hydro-owned premise-based IT Infrastructure.

## RENEWABLE ENERGY CONNECTIONS AND REGIONAL PLANNING

London Hydro uses a comprehensive approach to its Distribution System Planning which includes all categories of investments including System Renewal and expansion, Renewable Generation Connection, and Regional Planning as required. This comprehensive approach ensures the investments made by London Hydro are efficient and that they support the goals identified by the Board in the Filing Requirements. London Hydro herein confirms there are no costs requested for Renewable Generation Connection, smart grid, and regional planning.

## RENEWABLE ENERGY INVESTMENTS

London Hydro's distribution system has been planned and proactively built and equipped to handle forecasted renewable generation. As part of the DSP, London Hydro prepared a Renewable Energy Generation Investments Plan and has submitted this plan to the IESO (formerly the OPA). Based on the evaluation of the distribution system to accept green energy generation connections, no constraints have been identified in the system, preventing the connection of renewable energy generation installations. On this basis, London Hydro is not proposing any capital investments for capacity upgrades on its distribution system to accommodate the applications for the connection of any Renewable Energy Generation ("REG") plant over the forecast period of the DSP. London Hydro herein confirms that there are no specific requests to recover costs from ratepayers per O.Reg 330/09

London Hydro has been involved in meetings with the other distributors and HONI with regard to Regional Supply Planning for many years prior to the process being formalized into the IRRP. The IESO's response to London Hydro's Renewable Energy Generation Investments Plan is shown in the DSP (see Exhibit 2, Attachment 2-D, Appendix II).

# E. OM&A EXPENSE

## OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES

OM&A expenditures in the amount of $38,797,000 are proposed for the 2017 Test Year. These costs are required to deliver safe and reliable energy to the customers of London Hydro. The forecast for 2017 provides an increase over 2013 Board Approved amounts of $5,819,000, resulting in a Cumulative Annual Growth Rate ("CAGR") of 4%.

**Table 1.5.5.1– OM&A Expenditures by Program**

| OM&A Expenditures by Program | | | | |
|---|---|---|---|---|
| | | | Total Change | |
| Program | 2013 Board Approved | 2017 Proposed Test Year | 2013 Budget to 2017 Test | |
| | $ | $ | $ | CAGR |
| Asset management | 3,646,200 | 4,338,100 | 691,900 | 4% |
| Operations and maintenance | 9,261,600 | 9,960,700 | 699,100 | 2% |
| Metering and data management | 2,818,300 | 3,716,800 | 898,500 | 7% |
| Information Technology | 3,991,200 | 4,944,200 | 953,000 | 5% |
| Customer service and collections | 2,389,200 | 2,412,300 | 23,100 | 0% |
| Corporate communications | 693,800 | 963,600 | 269,800 | 9% |
| Human resources, health and safety | 1,481,200 | 1,801,700 | 320,500 | 5% |
| Facilities and environmental services | 3,176,800 | 3,805,800 | 629,000 | 5% |
| Corporate services | 4,252,800 | 5,480,100 | 1,227,300 | 7% |
| Locate services | 797,900 | 917,700 | 119,800 | 4% |
| Capital materials supply management | 469,000 | 456,000 | (13,000) | -1% |
| | **32,978,000** | **38,797,000** | **5,819,000** | **4%** |

At the time of filing the last Cost of Service Rate Application for 2013, Smart Meters and Time of Use ("TOU") pricing had just recently been implemented. Since then, new initiatives and regulations have been introduced to support advancements in enabling renewable generation, Smart Grid technologies and the Renewed Regulatory Framework.

Committing to all of these objectives coupled with other pressures, such as increased labour costs and inflation, has resulted in increased costs. However, London Hydro continues to focus on increasing operational effectiveness and leveraging innovation to help offset rising costs. In fact, the most recent OEB Scorecard data for 2014 positions London Hydro as having the 6th lowest cost per customer out of the 72 LDCs in Ontario.

Many cost drivers underpin the budget developed for the 2017 Test Year, the most significant of which relate to increased labour costs and the impact of inflation. Salaries and wages have increased between 2.25% and 2.5% per year. The shortage of skilled resources, the high demand for the same resources throughout the industry, and union settlements have resulted in higher costs.

**Table 1.5.5.2 – Wage escalations 2013 to 2017**

| Summary of Wage Increases by Year | | |
|---|---|---|
| **Year** | **Amount** | **%** |
| 2013 | $ 100.00 | |
| 2014 | $ 102.50 | 2.50% |
| 2015 | $ 105.06 | 2.50% |
| 2016 | $ 107.43 | 2.25% |
| 2017 | $ 109.84 | 2.25% |
| **CAGR** | | **2.4%** |
| Overall change 2013-2017 | | 9.8% |

**Table 1.5.5.3 – Gross and Net OM&A Labour Comparison**

| Gross and Net OM&A Labour Comparison | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 Budget | | 2017 Test Year | | $ Change | | CAGR | |
| Components | Gross Labour | Net OM&A | Gross Labour | Net OM&A | Gross Labour | Net OM&A | Gross Labour | Net OM&A |
| Base salaries | 23,618,900 | 16,989,100 | 27,010,800 | 18,806,225 | 3,391,900 | 1,817,125 | 3.4% | 2.6% |
| Overtime, shift, standby | 1,206,500 | 759,100 | 1,530,100 | 822,700 | 323,600 | 63,600 | 6.1% | 2.0% |
| Benefits and employer costs | 7,231,500 | 5,196,400 | 8,257,100 | 5,801,975 | 1,025,600 | 605,575 | 3.4% | 2.8% |
| | **32,056,900** | **22,944,600** | **36,798,000** | **25,430,900** | **4,741,100** | **2,486,300** | **3.5%** | **2.6%** |

London Hydro did not utilize an inflation factor in any significant way when developing both capital and operating budgets for the 2016 Bridge or proposed 2017 Test Year. When developing budget amounts at the individual account level, price increases having an impact on non-labour expenditures are implicit and considered but not calculated into forecasts. References in this Rate Application to the Consumer Price Index ("CPI") are provided for illustration purposes only to provide the reader with an estimate of the impact of inflation on costs.

**Table 1.5.5.4 – Consumer Price Index for Ontario**

| Consumer Price Index for Ontario | | |
|---|---|---|
| **Year** | **Amount** | **%** |
| 2013 | $ 100.00 | |
| 2014 | $ 102.40 | 2.40% |
| 2015 | $ 103.63 | 1.20% |
| 2016*(estimate)* | $ 105.39 | 1.70% |
| 2017*(estimate)* | $ 107.71 | 2.20% |
| **CAGR** | | **1.9%** |
| Overall change 2013-2017 | | 7.7% |

Other factors having a significant influence on costs relate to the accommodation of new initiatives and the need to respond to specific challenges, including:

- high rate of retirements in the electricity industry
- replacement of aging infrastructure
- demand for customer self-sufficiency and tools
- increased focus on customer service
- Increased focus on reliability
- regional planning enhancements
- customer growth

- Smart Grid technologies
- increased focus on MFIT and FIT customers
- disaster recovery
- increased use of Cloud computing
- increased focus on leveraging Smart Meters
- increased focus on handling “big data”
- cyber security
- improvement in standards
- increased commitment to environmental initiatives
- enhancements to health and safety programming

London Hydro is one of the lowest cost utilities in the province while delivering highly reliable services and customer value. Cost controls are achieved by counteracting the cost of new requirements and regulations with innovation, process improvements and fiscal restraint. Maintaining an appropriate level of reliability and customer service is paramount for the Company’s ability to provide customer value. Pacing expenditures, economic efficiency and cost effectiveness are integral parts of London Hydro’s planning, processes and operations.

# F. COST OF CAPITAL

London Hydro has prepared its Application in accordance with the Board's guidelines provided in the Report of the Board on Cost of Capital for Ontario's Regulated Utilities (the "Cost of Capital Report") dated December 11, 2009.

London Hydro has relied on the Board's letter titled Cost of Capital Parameter Updates for 2016 Applications dated October 15, 2015 for the cost of capital parameters.

**Cost of Capital Parameter Updates**

| Rates Effective | Return on Equity (ROE) | Deemed Long-term Debt Rate | Deemed Short-term Debt Rate | Weighted Average Cost of Capital (WACC)* | Letter (issuance date) |
|---|---|---|---|---|---|
| Jan 1, 2016 | 9.19% | 4.54% | 1.65% | 6.28% | Oct 15, 2015 |

Table 1.5.6.1 below compares the 2017 proposed cost of capital used in this application to the 2013 Final Board Approved. The most significant change is in the long term interest rate resulting from the renegotiation of our long term debt in 2014.

**Table 1.5.6.1 Comparison Cost of Capital 2017 vs 2013 Board Approved**

| | 2017 | 2013 |
|---|---|---|
| Deemed ShortTerm Debt % | 4.00% | 4.00% |
| Deemed Long Term Debt % | 56.00% | 56.00% |
| Deemed Equity % | 40.00% | 40.00% |
| Short Term Interest | 1.65% | 2.07% |
| Long Term Interest | 2.71% | 4.58% |
| Return on Equity | 9.19% | 8.98% |
| Weighted Average Cost Of Capital | 5.26% | 6.24% |

London Hydro will update its evidence to reflect future Board cost of capital parameters for rates with effective dates in 2017, prior to the issuance of the Board's decision for its Application. London Hydro proposes no deviations from the Board's Cost of Capital Methodology.

Please reference Exhibit 5 Tab 1 Schedule 1 for complete details on the calculation of the cost of capital included in this application.

# G. COST ALLOCATION AND RATE DESIGN

The data used in the updated cost allocation study is consistent with London Hydro's cost data supporting the proposed 2017 revenue requirement outlined in this Application. The breakout of Assets, Capital Contributions, Depreciation, Accumulated Depreciation, Customer Data and Load Data by Primary, Line Transformer and Secondary categories were developed from the best data available to London Hydro, its Engineering Records, and its Customer and Financial Information Systems.

In accordance with the Report of the Board "Review of Electricity Distribution Cost Allocation Policy, dated March 31, 2012", whereby the Board stated that "default weighting factors should now be utilized only in exceptional circumstances", London Hydro has developed and utilized its own weighting factors for the purposes of preparing the Cost Allocation Model. The 2017 Cost Allocation Study has resulted in a change in the cost allocations by rate class using London Hydro's weighting factors.

In accordance with the letter, dated June 12, 2015, the OEB stated that it expected distributors to be mindful of material changes to load profiles and to propose updates in their respective cost of service applications when warranted. London Hydro has made best effort to update all classes' load profiles using the most recent available data, particularly from smart and/or interval meters.

As shown in Table 1.5.7.1 below, the resulting 2017 Cost Allocation Study indicates the Revenue to Cost ("RTC") Ratios for the GS<50 kW, Street Lighting, Sentinel Lighting and Unmetered Scattered Load are outside the Board's range. For the period 2017 to 2020, London Hydro proposes that these ratios be brought within the Board's range with the GS>50 kW class used as the work horse class in order to maintain revenue neutrality to bring all rate classes within the Board's range. This is shown in Table 1.5.7.2.

**Table 1.5.7.1 PROPOSED REVENUE TO COST RATIOS**

| Rate Class | Previously Approved Ratios Most Recent Year: 2013 | Status Quo Ratios (7C + 7E) / (7A) | Proposed Ratios (7D + 7E) / (7A) | Target Range Floor | Target Range Ceiling |
|---|---|---|---|---|---|
| Residential | 109.7% | 102.1% | 102.1% | 85% | 115% |
| General Service Less Than 50 kW | 93.8% | 126.0% | 124.5% | 80% | 120% |
| General Service 50 to 4,999 kW | 82.7% | 81.8% | 82.6% | 80% | 180% |
| General Service 1,000 To 4,999 kW (co-ge | 109.1% | 80.7% | 80.7% | 80% | 180% |
| Standby Power | 64.5% | 85.3% | 85.3% | 0% | 0% |
| Large Use | 115.8% | 107.6% | 107.6% | 85% | 115% |
| Street Lighting | 81.3% | 127.3% | 125.5% | 70% | 120% |
| Sentinel Lighting | 81.1% | 63.4% | 65.1% | 70% | 120% |
| Unmetered Scattered Load | 82.0% | 73.1% | 74.8% | 80% | 120% |

**Table 1.5.7.2 Proposed Revenue to cost ratio Adjustments**

| Rate Class | Proposed Ratios 2017 | 2018 | 2019 | 2020 | Target Range Floor | Target Range Ceiling |
|---|---|---|---|---|---|---|
| Residential | 102.1% | 102.1% | 102.1% | 102.1% | 85% | 115% |
| General Service Less Than 50 kW | 124.5% | 123.0% | 121.5% | 120.0% | 80% | 120% |
| General Service 50 to 4,999 kW | 82.6% | 83.4% | 84.2% | 85.0% | 80% | 180% |
| General Service 1,000 To 4,999 kW (co-ge | 80.7% | 80.7% | 80.7% | 80.7% | 80% | 180% |
| Standby Power | 85.3% | 85.3% | 85.3% | 85.3% | 0% | 0% |
| Large Use | 107.6% | 107.6% | 107.6% | 107.6% | 85% | 115% |
| Street Lighting | 125.5% | 123.6% | 121.8% | 120.0% | 70% | 120% |
| Sentinel Lighting | 65.1% | 66.7% | 68.4% | 70.0% | 70% | 120% |
| Unmetered Scattered Load | 74.8% | 76.5% | 78.3% | 80.0% | 80% | 120% |

Please reference Exhibit 7 Tab 1 for further explanation of London Hydro's proposed Cost Allocation.

# RATE DESIGN

## Distribution Rates

London Hydro proposes to design its 2017 distribution rates to maintain the current weighted average Fixed/Variable proportions assumed in its current rates, with the exception of the Residential rate classes. This exception is due to the implementation of fixed rates for the

Residential rate class, consistent with implementation of the recent Board Policy entitled "A New Distribution Rate Design for Residential Electricity Customers (EB-2012-0140). The transition to fixed Residential rates is described in Exhibit 8 Tab 1 Schedule 1.

Table 1.5.7.3 below provides a comparison of the 2016 Current Fixed Distribution Rates (by rate class) to the 2017 Proposed Fixed Distribution Rates.

**Table 1.5.7.3 COMPARISON OF CURRENT AND PROPOSED FIXED DISTRIBUTION RATES**

| Rate Class | Proposed Base Service Charge A | Current Base Service Charge D | Adjustment Required Base Service Charge G = A - D | % Change Base Service Charge |
|---|---|---|---|---|
| Residential | $ 20.11 | $ 16.42 | $ 3.69 | 22.5% |
| General Service Less Than 50 kW | $ 33.52 | $ 32.25 | $ 1.27 | 3.9% |
| General Service 50 to 4,999 kW | $ 167.52 | $ 157.55 | $ 9.97 | 6.3% |
| General Service 1,000 To 4,999 kW (co-generation) | $ 2,650.00 | $ 2,523.99 | $ 126.01 | 5.0% |
| Standby Power | $ - | $ - | $ - | |
| Large Use | $ 21,350.00 | $ 20,286.64 | $ 1,063.36 | 5.2% |
| Street Lighting | $ 1.70 | $ 1.64 | $ 0.06 | 3.7% |
| Sentinel Lighting | $ 3.77 | $ 3.48 | $ 0.29 | 8.2% |
| Unmetered Scattered Load | $ 2.25 | $ 2.08 | $ 0.17 | 7.9% |
| microFIT | $ - | $ 5.40 | $ (5.40) | -100.0% |

Note that Residential is going up significantly over 2016 reflecting the second year transition to fully fixed rates. London Hydro is proposing to transfer microFIT generators to the GS<50 kW rate class and FIT generators to the GS>50 kW rate class. This is all discussed further in Exhibit 8 Tab 1 Schedule 1.

Table 1.5.7.4 below provides a comparison of the 2016 Current kWh Volumetric Distribution Rates (by rate class) to the 2017 Proposed kWh Volumetric Distribution Rates.

## Table 1.5.7.4 COMPARISON OF CURRENT AND PROPOSED VOLUMETRIC kWh DISTRIBUTION RATES

| Rate Class | Proposed Base Distribution Volumetric Rate kWh B | Current Base Distribution Volumetric Rate kWh E | Adjustment Required Base Distribution Volumetric Rate kWh H = B - E | % Change Base Distribution Volumetric Rate kWh |
|---|---|---|---|---|
| Residential | $ 0.0082 | $ 0.0121 | -$ 0.0039 | -32.0% |
| General Service Less Than 50 kW | $ 0.0108 | $ 0.0104 | $ 0.0004 | 3.9% |
| General Service 50 to 4,999 kW | $ - | $ - | $ - | |
| General Service 1,000 To 4,999 kW (co-generation) | $ - | $ - | $ - | |
| Standby Power | $ - | $ - | $ - | |
| Large Use | $ - | $ - | $ - | |
| Street Lighting | $ - | $ - | $ - | |
| Sentinel Lighting | $ - | $ - | $ - | |
| Unmetered Scattered Load | $ 0.0194 | $ 0.0180 | $ 0.0014 | 7.9% |
| microFIT | $ - | $ - | $ - | |

Note that Residential is going down significantly over 2016 reflecting the offset for second year transition to fully fixed rates. This is discussed further in Exhibit 8 Tab 1 Schedule 1.

Table 1.5.7.5 below provides a comparison of the 2016 Current kW Volumetric Distribution Rates (by rate class) to the 2017 Proposed kW Volumetric Distribution Rates.

## Table 1.5.7.5 COMPARISON OF CURRENT AND PROPOSED VOLUMETRIC KW DISTRIBUTION RATES

| Rate Class | Proposed Base Distribution Volumetric Rate kW C | Current Base Distribution Volumetric Rate kW F | Adjustment Required Base Distribution Volumetric Rate kW I = C - F | % Change Base Distribution Volumetric Rate kW |
|---|---|---|---|---|
| Residential | $ - | $ - | $ - | |
| General Service Less Than 50 kW | $ - | $ - | $ - | |
| General Service 50 to 4,999 kW | $ 2.7963 | $ 2.6298 | $ 0.1665 | 6.3% |
| General Service 1,000 To 4,999 kW (co-generation) | $ 4.6482 | $ 4.4090 | $ 0.2392 | 5.4% |
| Standby Power | $ 3.2101 | $ 3.0486 | $ 0.1615 | 5.3% |
| Large Use | $ 2.3177 | $ 2.2003 | $ 0.1174 | 5.3% |
| Street Lighting | $ 8.8279 | $ 8.5143 | $ 0.3136 | 3.7% |
| Sentinel Lighting | $ 12.4297 | $ 11.4837 | $ 0.9460 | 8.2% |
| Unmetered Scattered Load | $ - | $ - | $ - | |
| microFIT | $ - | $ - | $ - | |

## Specific Service Charges

London Hydro is proposing to introduce one new $30 service charge called "Cellular Meter Read Charge" to be applied to GS>50 kW customers who elect to have a cellular interval meter installed. This is explained more fully in Exhibit 8 Tab 7 Schedule 2.

## Loss Factors

London Hydro is proposing to reduce its loss factors from those currently approved, see Table 1.5.7.1 below. The most significant reductions appear to be associated with the minimizing of technical losses. In this regard, London Hydro reviews the entire distribution system every year and identifies areas where feeders can be shortened or where the load can be reduced by changing open points, adding switches, or building new supply feeders. One other important development is the conversion of primary lines from 13.8 kV to 26.8 kV. London Hydro has focused on converting the primary lines, resulting in improved efficiencies of its distribution system and an anticipated reduction in line losses.

**Table 1.5.7.6 COMPARISON OF CURRENT AND PROPOSED LOSS FACTORS**

| LOSS FACTORS | Current | Proposed |
|---|---|---|
| Total Loss Factor - Secondary Metered Customer < 5,000 kW | 1.0350 | 1.0315 |
| Total Loss Factor - Secondary Metered Customer > 5,000 kW | 1.0136 | 1.0146 |
| Total Loss Factor - Primary Metered Customer < 5,000 kW | 1.0246 | 1.0212 |
| Total Loss Factor - Primary Metered Customer > 5,000 kW | 1.0035 | 1.0045 |

London Hydro takes great pride in pointing out that over the last many years London's line loss factors have been consistently declining, which results in a significant saving to our customers. This is a true reflection of London Hydro's commitment to continuous improvement.

**Table 1.5.7.7 History of Line losses**

| History | Loss Factor |
|---|---|
| pre 2009 | 1.0460 |
| 2009 COS | 1.0409 |
| 2013 COS | 1.0350 |
| 2017 COS | 1.0315 |

# H. DEFERRAL AND VARIANCE ACCOUNTS

As outlined in Exhibit 9, London Hydro is requesting approval of the disposition of Group 1, Group 2 and Other Deferral and Variance Accounts ("DVAs") in the amount of $7,040,813.54 refunded to customers. This includes an RSVA – Global Adjustment amount of $533,396.08 refund to Non-RPP customers only. The remaining amount of $6,507,417.46 is to be refunded to all customers.

London Hydro is proposing a one year disposition period for all DVAs commencing May 1, 2017.

London Hydro is requesting the following new Deferral and Variance Accounts:

- Retiree Life Insurance
- Pension & Other Post-Employment Benefits ("P&OPEB")
- Cap and Trade Deferral Account
- Climate Change Action Plan Deferral Account
- Burden Reduction Bill Deferral Account

# I. SUMMARY OF BILL IMPACTS

In Exhibit 6 Tab 1 Schedule 1 London Hydro has calculated a revenue deficiency of $3,471,451. As a result London Hydro is proposing an overall rate increase of 5.3% required from London Hydro's customers.

Exhibit 7 Tab 1 Schedule 3 determines that after consideration of fair allocation of costs to revenues as determined by the OEB cost allocation model the following adjustments shown in Table 1.5.9.1 below are to be applied to each rate class.

**Table 1.5.9.1 Allocation of rate adjustments by rate class**

| Rate Class | Proposed Total Revenue C | Current Revenue | Change $ Revenue | Current % Revenue from Volumetric |
|---|---|---|---|---|
| Residential | 43,183,365 | 41,010,902 | 2,172,463 | 5.3% |
| General Service Less Than 50 kW | 9,148,828 | 8,801,746 | 347,082 | 3.9% |
| General Service 50 to 4,999 kW | 13,702,387 | 12,886,659 | 815,727 | 6.3% |
| General Service 1,000 To 4,999 kW (co-ge | 433,254 | 411,458 | 21,796 | 5.3% |
| Standby Power | 496,922 | 471,923 | 24,999 | 5.3% |
| Large Use | 626,170 | 594,669 | 31,501 | 5.3% |
| Street Lighting | 1,214,842 | 1,171,689 | 43,154 | 3.7% |
| Sentinel Lighting | 50,778 | 46,914 | 3,865 | 8.2% |
| Unmetered Scattered Load | 147,580 | 136,716 | 10,864 | 7.9% |
| | 69,004,127 | 65,532,676 | 3,471,451 | 5.3% |

Included in Exhibit 8 Tab 14 Schedule 1 is a detailed analysis of the impacts of changes resulting from the as-filed application on representative samples of end-users.

Further to the above London Hydro has determined that an amount of $6,507,417 in deferral and variance accounts disposition is to be refunded to all customers as discussed in Exhibit 9.

Hence as detailed below the proposed total bill impacts for 2017 will result in negative adjustments for the majority of customers. The customer total bill impacts are summarized in

Table 1.5.9.2 below for RPP customers on Time-of-Use and Table 1.5.9.3 for NonRPP customers.

**Table 1.5.9.2 Change in Total Bill RPPTOU**

| Rate Class | Volumetric | kWh | RPPTOUCurrTotBill | RPPTOUPropTotBill | RPPTOUTotBill$Chg | RPPTOUTotBill%Chg |
|---|---|---|---|---|---|---|
| Residential | kWh | 286.33 | $ 72.91 | $ 75.28 | $ 2.37 | 3.25% |
| Residential | kWh | 500 | $ 105.19 | $ 106.29 | $ 1.10 | 1.05% |
| Residential | kWh | 750 | $ 143.00 | $ 142.55 | $ (0.45) | -0.31% |
| Residential | kWh | 1000 | $ 180.82 | $ 178.78 | $ (2.04) | -1.13% |
| Residential | kWh | 1500 | $ 256.41 | $ 251.29 | $ (5.12) | -2.00% |
| Residential | kWh | 2000 | $ 332.02 | $ 323.81 | $ (8.21) | -2.47% |
| Residential | kWh | 5000 | $ 785.64 | $ 758.88 | $ (26.76) | -3.41% |
| General Service Less Than 50 kW | kWh | 1000 | $ 204.43 | $ 205.35 | $ 0.92 | 0.45% |
| General Service Less Than 50 kW | kWh | 2000 | $ 361.35 | $ 361.88 | $ 0.53 | 0.15% |
| General Service Less Than 50 kW | kWh | 4000 | $ 675.21 | $ 674.94 | $ (0.27) | -0.04% |
| General Service Less Than 50 kW | kWh | 5000 | $ 832.16 | $ 831.46 | $ (0.70) | -0.08% |
| General Service Less Than 50 kW | kWh | 10000 | $ 1,616.80 | $ 1,614.10 | $ (2.70) | -0.17% |
| General Service Less Than 50 kW | kWh | 15000 | $ 2,401.49 | $ 2,396.73 | $ (4.76) | -0.20% |
| Unmetered Scattered Load | kWh | 150 | $ 37.32 | $ 36.69 | $ (0.63) | -1.69% |
| Unmetered Scattered Load | kWh | 296.25 | $ 61.52 | $ 60.78 | $ (0.74) | -1.20% |

**Table 1.5.9.3 Change in Total Bill NONRPP**

| Rate Class | Volumetric | kWh | kW | Load Factor | NONRPPCurrTotBill | NONRPPPropTotBill | NONRPPTotBill$Chg | NONRPPTotBill%Chg |
|---|---|---|---|---|---|---|---|---|
| General Service 50 to 4,999 kW | kW | 30,000 | 60.0 | 68.5% | $ 4,928.03 | $ 4,702.85 | $ (225.18) | -4.57% |
| General Service 50 to 4,999 kW | kW | 50,000 | 100.0 | 68.5% | $ 8,094.55 | $ 7,714.02 | $ (380.53) | -4.70% |
| General Service 50 to 4,999 kW | kW | 78,626 | 200.5 | 53.7% | $ 12,998.96 | $ 12,254.70 | $ (744.26) | -5.73% |
| General Service 50 to 4,999 kW | kW | 250,000 | 500.0 | 68.5% | $ 39,759.50 | $ 37,826.00 | $ (1,933.50) | -4.86% |
| General Service 50 to 4,999 kW | kW | 366,711 | 665.6 | 75.5% | $ 57,650.69 | $ 55,034.07 | $ (2,616.62) | -4.54% |
| General Service 50 to 4,999 kW | kW | 500,000 | 1,000.0 | 68.5% | $ 79,340.69 | $ 75,465.95 | $ (3,874.74) | -4.88% |
| General Service 50 to 4,999 kW | kW | 1,000,000 | 2,000.0 | 68.5% | $ 158,503.07 | $ 150,745.88 | $ (7,757.19) | -4.89% |
| General Service 50 to 4,999 kW | kW | 1,750,000 | 3,500.0 | 68.5% | $ 277,246.63 | $ 263,665.71 | $ (13,580.92) | -4.90% |
| General Service 50 to 4,999 kW (CoGeneration) | kW | 212,570 | 1,371.7 | 21.2% | $ 49,088.19 | $ 48,199.92 | $ (888.27) | -1.81% |
| General Service 50 to 4,999 kW (CoGeneration) | kW | 1,750,000 | 3,500.0 | 68.5% | $ 290,983.63 | $ 287,128.62 | $ (3,855.01) | -1.32% |
| Large Use | kW | 6,910,292 | 13,302.3 | 71.2% | $ 1,095,082.12 | $ 1,076,617.01 | $ (18,465.11) | -1.69% |
| Large Use | kW | 9,000,000 | 18,000.0 | 68.5% | $ 1,424,774.39 | $ 1,399,639.63 | $ (25,134.76) | -1.76% |
| Street Lighting | kW | 45 | 0.1 | 49.0% | $ 10.20 | $ 9.89 | $ (0.31) | -3.04% |
| Street Lighting | kW | 150 | 1.0 | 20.6% | $ 39.10 | $ 35.45 | $ (3.65) | -9.34% |
| Sentinel Lighting | kW | 98 | 0.3 | 50.8% | $ 22.46 | $ 22.40 | $ (0.06) | -0.27% |
| Sentinel Lighting | kW | 150 | 1.0 | 20.6% | $ 44.61 | $ 41.71 | $ (2.90) | -6.50% |

File Number: EB-2016-0091

Date Filed: August 26, 2016

# Exhibit 1

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# Tab 6 of 10

# Customer Engagement

# CUSTOMER ENGAGEMENT

The RRFE Report contemplates enhanced engagement between distributors and their customers to provide better alignment between distributor operational plans and customers' needs and expectations.

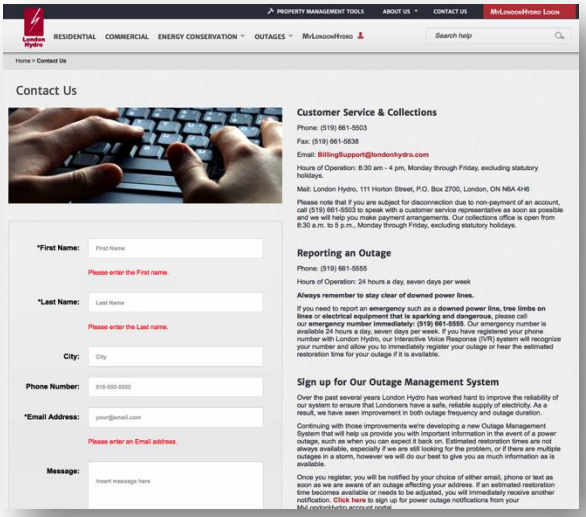
London Hydro continues to offer a number of ongoing customer engagement activities based on the comments, feedback and needs of our customers, including the following examples:

- Continuous Website Enhancements
- Development of new technology and Apps (Commercial and Industrial Customers)
- Property Management Portal
- MyLondonHydro
- Online Payment Notification
- Online Payment Arrangements
- Outage Notification – message sent via text, phone or email
- Annual Customer Satisfaction Surveys
- Participation in Home Shows
- Exhibits and presentations at Community events
- Electricity School Education Program
- Energy Conservation School Education Program
- Electricity Safety School Program
- Community support – LEAP financial support increase
- Exhibits at the London Regional Children's' Museum
- Environmental Awareness – Sustainability Program and Report to Londoners
- Paperless Billing
- Loyalty Incentive Program for our customers
- Billing inserts
- Radio advertisements
- Media interviews
- Support of the Salvation Army Christmas Hamper Program

- Support of the London Food Bank's Christmas Food Drive
- Employee volunteering for community events
- Employee fundraising for charities
- Interval Data Centre – focus groups and use cases

## LISTENING TO OUR CUSTOMERS

London Hydro listens to our customers to understand their needs and expectations for the services that we provide. Through customer satisfaction surveys, trending issues through our call centre, website and other outreach activities we are able to identify issues or services where customers would like more information or additional tools or services to help them manage their electricity needs.




## INFORMATION GAINED THROUGH CUSTOMER SATISFACTION SURVEYS

Over the last 17-year period, London Hydro has engaged the services of Simul Corporation to conduct a customer satisfaction survey that helps us to benchmark against other utilities, identify issues, provide an opportunity for customers to tell us about their level of satisfaction with London Hydro and measure the interest in specific projects or services and their costs.

Overall Satisfaction – 85%

Customer Performance Experience Rating – 85%

Accurate Billing – 86%

"Spends money prudently to keep the system reliable and up-to-date" – 77%

Strategy for replacing equipment "Proactive replacement, even though it may cost more, should ensure reliable power"

Provides information to help customers reduce electricity costs – 77%

Provides consistent, reliable energy – 90%

Makes using electricity safely a top priority – 88%

### Interest in additional services

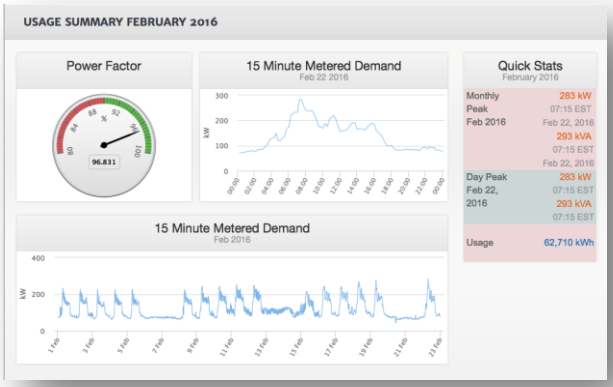
- An outage notification system that automatically sends you a message by phone call, email or text – 77%
- A smart phone applications that allows you to access your smart meter electricity usage information – 46%
- Receiving Air Miles or Aeroplan points when you update your account information or participate in specific programs – paperless billing – 45%
- Willing to pay more per month for…
    - Increased tree trimming to improve reliability – 57&
    - How much $0.25 or less – 61%
    - Is proactive in communicating changes and issues which may affect customers – 79%
    - Provides information and tools to help manage electricity consumption – 79%
    - Provides information to help reduce electricity costs – 78%

## INTRODUCING NEW TECHNOLOGY

In order to continually provide customers with tools that help them understand and manage their electricity costs and usage, London Hydro investigates new technology and opportunities to enhance the customers' experience in all areas of our operations. Some programs have been developed to solve a specific problem and then expanded to optimize the use of the program across our customer base and where we can, we offer to assist other utilities to implement the same services for their customers.

Examples of the Commercial and Industrial tools include the Event Assist App and the Interval Data Centre App (IDC). Both of these applications were developed in collaboration with our customer and also involved Western University faculty and students in the development. Additionally, focus groups were held to help further develop the tool and use cases were created to outline how various local businesses have taken advantage of this portal.

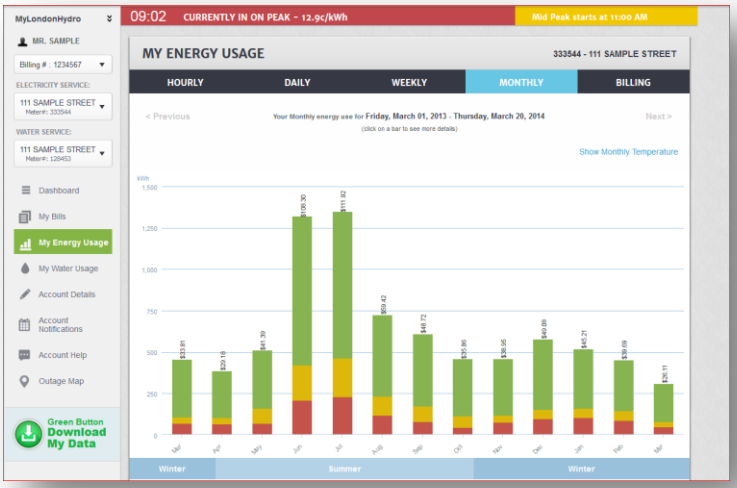
Event Assist is a program that allows large venues such as Budweiser Gardens in London to be able to track and forecast the costs of running an event. Through the App, they can calculate the projected cost of event using historical energy usage data and select the types of equipment that will be used at an event to control costs and identify areas of improvement for more efficient use of electricity.




IDC allows customers to look at real time data to analyze and manage their electricity usage through changes evolving from the information available at that specific time. It could mean an immediate change in a production line or the shift of time a specific task is performed to another time when electricity costs less.

On the residential customer front, through surveys, emails, talking and listening to our customers, London Hydro has identified specific concerns and needs of our customers and developed the tools to resolve those issues or concerns.

With the introduction of Time of Use (ToU) rates and Smart Meters, we continuously heard from customers that they needed to have a better understanding of ToU rates and how it impacts their energy usage and, more importantly, their costs. London Hydro developed and implemented a communications plan to help educate our customers on Smart Meters and ToU rates. The plan was very successful, rather than focusing on the cost of electricity we found that customers really needed to understand the time of day that rates changes. To simplify it for our customers, we created a tagline “Electricity costs less after 7 p.m. and all weekend long.” This tagline resonated so well with customers that today they still recite it when referring to the time of day they perform heavier energy consuming household tasks such as laundry and running the dishwasher.




MyLondonHydro is a password secured online tool that provides customers with many options for viewing usage information and managing their accounts anytime, anywhere they have internet access. Customers can view their consumption data and costs hourly, daily, weekly and monthly and compare to previous usage to determine how they are using electricity and identify areas that can be reduced or shifted to a less expensive time of day to use energy. Customers can also, request a move-in or move-out, record a payment, make payment arrangement, download their bill to view or print, download their energy data, confirm their meter reading date, select paperless billing and register their Aeroplan number to participate in loyalty rewards. We also provide a delegation feature that allows customers to give permission to another person to manage or have access to their account (students and elderly people are the most popular users).

The London Hydro website also offers an outage notification program. Customers can view the outage map on our main page or register for outage notification through their MyLondonHydro account. In this area, customers can select how they would like to be notified, by email, phone, cell phone or text. In the event an outage occurs affecting their property the system will send them an alert regarding the outage and when possible will also send a notification with the estimated time of restoration.

On the payment front, we have developed a new Overdue and Urgent Payment notification service that will be implemented in the fall of 2016 for residential customers and will roll out to other customers at a later date. The program will make outgoing calls to the customer on the fourth day after the due date directing them to our website to make payment or payment

arrangements. The Urgent Payment notification will be executed after a disconnection notice has been delivered and five days before disconnection for non-payment would occur. Customers may change their preferred channel of communication to email or text by logging onto their MyLondonHydro account.

London Hydro has adopted a digital strategy for customer engagement by promoting energy management self-service. London Hydro's digital transformation includes moving to the Cloud, mobile first, embracing the Green Button Standard and, with the addition of Aeroplan customer loyalty program, rewarding customers for adopting self-service offerings.

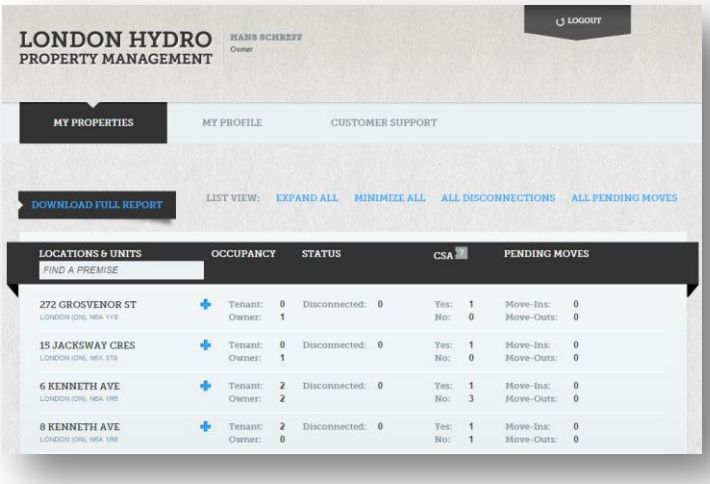
## London Hydro's Property Management Portal empowers property owners and managers by providing self-service access to utility information

London Hydro services over 200 property managers and owners that manage over 18,000 individual units. Property managers benefit from tools that provide additional information to address their unique needs regarding energy usage information.

Property managers were being left in the dark when tenants cancelled their hydro services and they were often left with the responsibility of paying the bill. Also, it was difficult to share relevant property information with superintendents. London Hydro recognized a need for more services tailored to property managers.

Working with the London Property Management Association and property owners, London Hydro designed the Property Management Portal, a self-service online application.

The program allows property managers to gain secure access to their accounts around the clock. Using this portal, property managers can elect to receive emails regarding move requests and service disconnections for each of their properties. Many of these property managers are managing hundreds of



units and, by receiving these notifications and having all of this information in one place, this application assists them with managing the utilities of their properties. In addition, property managers have the ability to assign access to delegates, such as superintendents or office staff, for specific properties.

### *Challenges*

- Notifying property managers of pending tenant move in/outs at various properties and disconnections for nonpayment
- Building a delegation feature to allow property managers to assign access to superintendents or office staff for specific properties
- Providing the ability to quickly obtain consumption information reports for prospective tenants, in accordance with Ontario's Residential Tenancies Act

### *The Solution*

Working with the London Property Management Association and property owners, London Hydro designed the Property Management Portal, a self-service online application. The program allows property managers to gain secure access to their accounts around the clock. Using this portal, property managers can elect to receive emails regarding move requests and service disconnections for each of their properties. Many of these property managers are managing hundreds of units, by receiving these notifications and having all of this information in one place where it is easy to find and interpret is very helpful. In addition, property managers have the ability to assign access to delegates, such as superintendents or office staff, for specific properties. This application is being used by 198 property owners and managers for 18,005 unique addresses and London Hydro relies on continual feedback from these companies and



individuals to update and add features to further enhance what users can do with Property Management Portal.

The Property Management Portal received an Electricity Distributors Association Award for Customer Service Excellence in 2014.

## Customer Incentive Program

London Hydro's innovative approach addresses an industry challenge in an exciting way that adds value for the customer while helping us meet our own goals of environmental sustainability and increased customer engagement and save money. London Hydro already has a solid segment of the customer base that is inclined to use technology using the self-serve account options available online. The challenge is this: how do we motivate additional customers to manage their accounts online and, at the same time, switch to paperless billing while leveraging a loyalty program to deliver more value add to our customers?

London Hydro has met this challenge with the Aeroplan Rewards Program, and our investment in this program is already paying off. It has not only helped us achieve our paperless billing target of 25%, it has surpassed market penetration expectations. Just one year after the official launch, we have reached our target for paperless billing intake, and the program has paid for itself.

When we began researching loyalty programs, we found that Aeroplan was a leader among customer loyalty reward programs. With over five million active members, the Aeroplan program is one of Canada's most widely used and recognized customer loyalty rewards programs. With the program's popularity across Canada, London Hydro saw the opportunity to harness Aeroplan to reward customers. Before London Hydro signed on, we made sure our customers

were interested. On our 2014 Customer Satisfaction Survey, 45% of customers responded that they were interested in receiving Aeroplan Miles through London Hydro.

To register for paperless billing and earn Aeroplan Miles, London Hydro customers are required to register for a MyLondonHydro online account. London Hydro created this online customer portal as a way to help customers manage their accounts and learn how to save money on their electricity bills, while reducing their impact on the environment.




All new paperless billing customers automatically receive 100 bonus Aeroplan Miles when they enrol and five Aeroplan Miles for every paperless bill they receive. Existing paperless customers will immediately begin to receive the recurring rewards as soon as they provide an Aeroplan account number. London Hydro is on a monthly billing cycle, which translates to 60 Aeroplan Miles a year for registered customers. Therefore, new customers will receive 160 Aeroplan Miles in the first year!

The opportunity to collect Aeroplan Miles entices customers who have not already registered for MyLondonHydro and paperless billing to do so and benefit from all the online portal has to offer.

London Hydro realized an immediate savings of $0.83 per bill when customers signed up for paperless billing and a net benefit of at least $0.50 per bill when factoring in the cost of the Aeroplan Program. In terms of a cost-benefit analysis, the Aeroplan Program is essentially self-funded in that it has paid for itself within the last 12 months. Now, the savings will quickly begin accumulate which helps reduce customer rates.

It is anticipated that between 2015 and 2017, London Hydro's participation in the Aeroplan Program will result in a 10% increase in customers registered for a MyLondonHydro account and a 7% increase in those registered for paperless billing. These results would translate to a cumulative net savings (program savings minus program costs) of over $80,000 by the end of 2017.

London Hydro's Aeroplan Rewards Program has been recognized for contributing to increased customer service. In 2015, London Hydro received the EDA Award for Excellence in Customer Service and the CS Week Award for Innovation in Customer Service.




London Hydro's efforts are not going unnoticed by our customers. The 2015 Customers Satisfaction Survey noted that 74% of customers believe that London Hydro adapts well to change and customer expectations. An overall score of grade A for customer service is a testament to the success of programs such as the Aeroplan customer loyalty program in creating value and enhancing the customer experience.

## Green Button

Green Button started with a simple idea that energy data belongs to the consumer and they should be able to access and share that data in a meaningful way.

mygreenbutton

In 2011, a White House call to action led to an industry collaboration looking for a standard format for supplying consumer energy use data. The Energy Service Provider Interface (ESPI) data standard was established by the National Institute of Standards and Technology. The standard sets the common XML file format for interval energy use data. Once the data is in this format, the next component involves transferring the data from a utility to a third party chosen and authorized by the consumer. Basically, Green Button establishes a common language for data to be encoded in and given to third parties, like phone applications (apps) and websites.

London Hydro became involved in late 2012 when the Ontario Ministry of Energy called for Local Distribution Companies to join the Green Button initiative. Since then, we have played a leading role across North America.

There are two components to Green Button: the first is “Download My Data”, which allows customers to access their energy usage in a standard format; the second is “Connect My Data”, which enables customers to authorize third party vendors with applications to directly access their energy data.



In February 2013, London Hydro became the first utility in Canada to make Download My Data available to customers through MyLondonHydro, enabling them to access their energy usage data in a standard file format. Since that launch the team has been working on Connect My Data, which launched publically in November of 2014 and once again we were the first utility in Canada to reach this stage.

By leveraging cloud technology with anonymized data, London Hydro’s Green Button Test Lab allows app developers to see what works and what doesn’t work with their apps. London Hydro is committed to helping app developers in this one of a kind test lab. There are currently over a dozen participating applications.




Green Button applications are changing the way consumers can interact with their energy use information and empowering them to make changes in response to timely, relevant and actionable information. Currently, information can be analyzed as early as 4 or 5 hours after it has been used and as technology improves, this will continue to move closer and closer to real time. Green Button will continue to grow as the ESPI data standard can also be used to represent natural gas and water use information.

If you are not an app developer, you can benefit by using the Green Button-powered energy management apps, including Bidgely, GOODcoins and Wattsly. These applications enable you to analyze and plan energy consumption, potentially saving you money. These apps can facilitate programming home energy management devices, sizing and financing energy conservation and production initiatives (such as LED light bulbs and solar panels, respectively) and verifying home energy savings following the implementation of an energy conservation activity.

London Hydro is the first utility to offer Green Button applications for commercial/industrial users. For businesses, applications like Energent, Event Assist and Interval Data Centre can monitor energy use and help business owners manage it across a building or multiple buildings. Property managers can benefit from applications including the Property Management Tool and Builtspace which allow users optimize energy use across their portfolio of buildings of all sizes. Although these applications serve different kinds of businesses, they can all help businesses lower their energy consumption. Saving energy saves money which makes London's businesses more competitive.

London Hydro uses Green Button based programs to improve internal processes and offer better customer service. Overall, data handling and processing has benefitted with the switch to the standard energy data format. This helps us to deliver new features and perform updates at a much faster pace. An application for Customer Service Representative in our Call Centre enables them to see a wide array of data to help explain bill discrepancies to customers and walk them through what other problems they may be having.

In addition to assisting app developers, London Hydro is committed to helping other utilities improve their Green Button integration. In February of 2015, London Hydro and Festival Hydro signed a collaboration agreement to support implementation of Green Button initiatives in Festival Hydro's service territory. This was the first expansion of the Green Button Connect My Data program beyond the pilots with London Hydro and Hydro One. Because of London Hydro's work during the pilot period, the rollout of Green Button can occur at a faster pace and in a more cost effective manner. In October, London Hydro and Whitby Hydro also signed a collaboration agreement to give customers access to energy usage information through London Hydro's customer engagement platforms, including Green Button.

Over 60% of the province is currently able to access their energy data in a Green Button format and that number continues to grow as more agreements are reached to spread Green Button implementation. This initiative seeks to educate consumers about their energy use practices and to empower consumers by giving back their usage information for them to share with third party applications in an effort to promote energy conservation in homes and businesses. With this format serving as the industry standard among app developers, we can look forward to

innovative applications that empower and educate us to make positive changes to reduce our environmental footprint and put a little money back into our pockets.

## VOLUNTEERING, DONATION, COMMUNITY SUPPORT

In 2015, employees donated over $28,000 through the Employee Community Charity Organization to over 35 charities, many of which are local. This program makes it easy for employees to donate through payroll deductions to the charity of their choice.

Employees also donate their time and money participating in different events and fundraisers throughout the year. The London Food Bank and the Christmas Hamper Toy program are two of the programs that receive substantial donations from the employees each year. London Hydro is a valuable corporation and is committed to the community of London. In 2015 we strengthened our commitment to the Housing Stability Bank by increasing our funding by 33% from $150,000 to $200,000 per year.

Environmental awareness is top of mind in daily operations. In fact, London Hydro has participated in the Global Reporting Initiative for the past two years, tracking and reducing their footprint wherever possible. Earth Day is a day for employees and their families to take part in cleaning up along the river and in Thames and Carfrae Parks.




London Hydro released its 2014 Sustainability Report, which highlighted London Hydro's many achievements in reducing environmental impact while maximizing our effectiveness. A summary of this report was distributed throughout London with the local newspaper, the London Free Press.

# SCHOOL PROGRAMS

**For over 30 years, London Hydro has worked with the Thames Valley District School Board and the London District Catholic School Board to develop education programs and teaching guides to teach children in grades three through eight about energy, electricity safety and conservation.** We recognize the need to inform children at a young age about electricity so that they can stay safe and help keep good conservation habits into adulthood.

There are three facets to the youth programming run by London Hydro: the Power of Electricity program, the You'll Make a World of Difference program and the Electrical Safety Program.

**The Power of Electricity program was developed to help students understand the value of electrical energy in our lives and the role it plays in our lifestyle and economy.** Serving as a guide for teachers, the program covers understanding energy including important terms and definitions, discovering the power of electricity, reading smart meters and the concept of time-of-use metering and home energy audits to lower unnecessary energy use. The teaching materials include educational videos, sample in-class experiments, student handouts and extra resources and websites to find more information. This material covers 20 out of 24 grade six electricity curriculum expectations and it is meant to provide teachers with as much information as possible when making lesson plans for teaching electricity. In doing this, the resources and information is also relevant to Ontario's electrical system in the facts, figures and examples provided.

**The You'll Make a World of Difference program teaches energy conservation to grade five students in accordance with their Science and Technology curriculum for the year.** The program focuses on three things: (1) both renewable and non-renewable sources of energy in our lives, (2) that devices can store, transfer and transform energy to perform a specific function, and (3) the need to use energy wisely to lessen the huge demands that our modern society places on available sources of energy. The program contains background information, lesson plans, activities sheets and hands-on experiments and learning outcomes so that teachers can explore energy conservation with their students in an effective way. One activity is

the Ice Cube Olympics which is a challenge to create the most insulated container for an ice cube out of common household building materials such as Styrofoam and cardboard. Along with the program, students receive an energy conservation home kit to help students take the ideas they learn about and apply them to their own homes to reduce energy consumption.

**The Electrical School Safety Program aims to teach children from grades three through eight about the dangers of electricity and what to do if an electrical accident occurs.** For over 30 years, this program has been taught in schools across the city by representatives from London Hydro.




The safety program covers what electricity is, where electrical hazards exist around the home, how to prevent accidents around electrical equipment and what to do in an emergency. The presentation also talks about lightning and how to stay safe during thunderstorms. Examples of people who have been injured or killed because of electricity accidents or lightning drive home the point that everyone needs to be careful when interacting with electricity.

All three of these programs have had great success with educating school children on electricity, energy conservation and electrical safety and will continue to play a part in educating students so that they know how to stay safe and make changes to their lifestyle to conserve energy.

## CHILDREN'S MUSEUM

London Hydro has partnered with the London Children's Museum to develop and display the "You'll Make a World of Difference" exhibit. The first of three phases opened in June 2014, phase two opened in December 2015 and phase three is coming in 2016.

London Hydro worked with the Ontario Science Centre to design and build the displays.




**Phase one** of this interactive exhibit shows the difference between traditional incandescent light bulbs and LED light bulbs. Children can turn the pedals and compare the difference in energy needed to light up the home with the two light bulb types and how much energy can be saved by switching to LED lights.




Visitors can learn about the flow of electricity through circuits works now that **phase two** of this exhibit is open. The interactive model allows children to move various blocks with buzzers, lights and motors around the board and connect them to form a large circuit. If the circuit is correctly arranged and connected, the blocks will start to light up, move and make noises.

**Phase three** will educate children, and their parents, on the importance of conservation.

## EMPLOYEE SAFETY

London Hydro employees adopted a new mantra for Safety initiatives "Safety Starts with ME" and they are living up to the meaning every day. London Hydro has created a safety culture that has been embraced by the employees and has received lots of recognition for its achievements.

A three-year health and safety strategic plan sets the pace for continued and improved safety initiatives. The strategy includes a list of specific objectives that follow the CODE: Communication, Outreach, Development and Engagement. Through a public safety awareness survey Londoners scored 84% on their knowledge of electrical safety. London's Hydro emphasis on workplace safety has resulted in several awards such as.

- President Award – 1,000,000 hours with no loss time injuries
- The Infrastructure Health and Safety Association President's Award
- ESA Ontario Electrical Safety Award Worker Safety
- ESA Ontario Electrical Safety Award for Powerline Safety
- Electrical Business Magazine – Safety Champion Award

## OUTREACH ACTIVITIES

London Hydro's communications plan includes the use of many tactics to ensure that customers are receiving and understanding the information provided that included billing inserts, radio advertisements, bus shelter signage, digital ads, website, newspaper, media interviews etc. In addition we have found that a presence within the community also helps to allow customers to seek answers to questions and concerns at their leisure.



We have also participated in Home Shows, community events, set up kiosks in local malls and libraries. During these types of events we provide information on our Capital Investments and answer questions regarding the cost and

impact to the customers' specific neighbourhood as well as the overall cost to customers and the benefits of the work performed. We also encourage customers to determine if they qualify and to consider applying for the OESP program. We demonstrate the advantages of our online services and encourage them to register for secure access to their account information and register for paperless billing and the Aeroplan Miles Incentive Program.

Through these initiatives we have found that customers leave with a more positive understanding of the issue or project and a positive perception of London Hydro and the services we provide.

For commercial and industrial customers we have a customer relationship management position that meets with these customers to address their needs and concerns and to develop new programs or services to meet their needs and expectations.

On our large capital programs, where a number of larger customers will be affected, we meet with those customers one on one to explain the project, timeline and any impact on their services and listen to their concerns and comments. This information is taken under consideration moving forward. We also have focus group and presentations to ensure the customers understand the scope and requirements of the work and benefits to our customers and the distribution system.

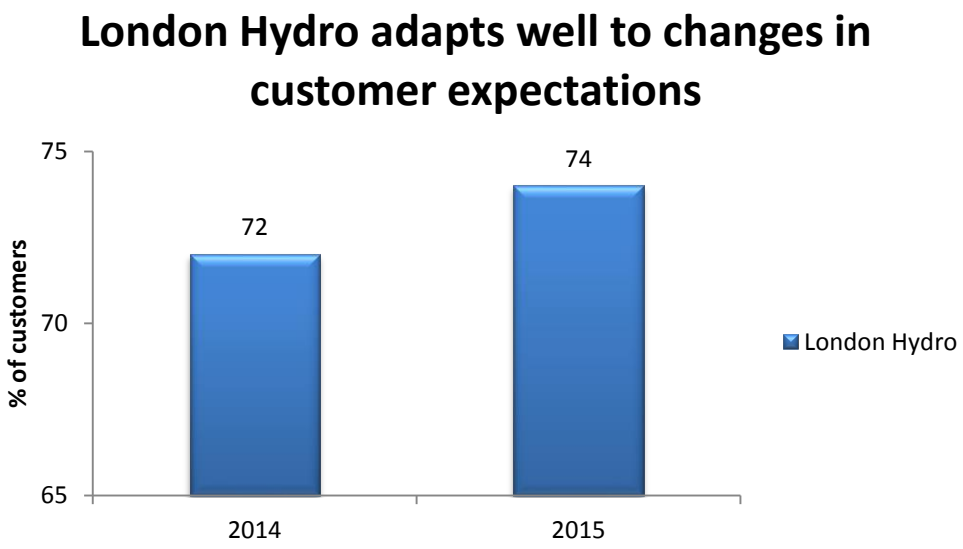
The DSP program has been organized in five major programs where we can identify the projects and areas of the cities involved. This information is helpful to engage in conversations with our customers at various events.

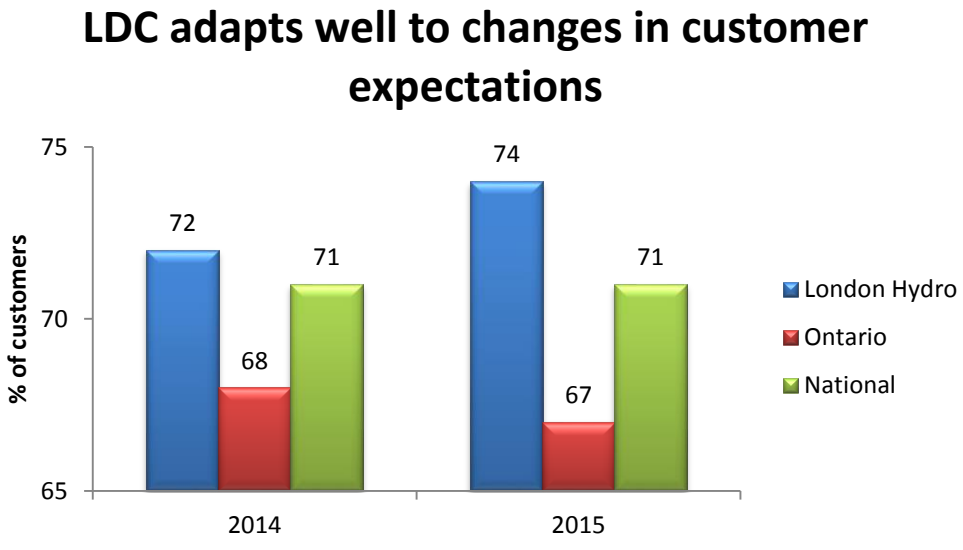
Customers are also kept up to date on our progress with capital plans, new services, development or use of new technology and advancements that help London Hydro to become more efficient and to continually provide improved services to our customers.

In addition to the Annual Report, London Hydro has distributed its Sustainability Report and has prepared a Report on Progress that highlights our major capital projects and the advancements London Hydro has made in the areas of technology, new services, new process and community support which will be distributed in the early fall of 2016.

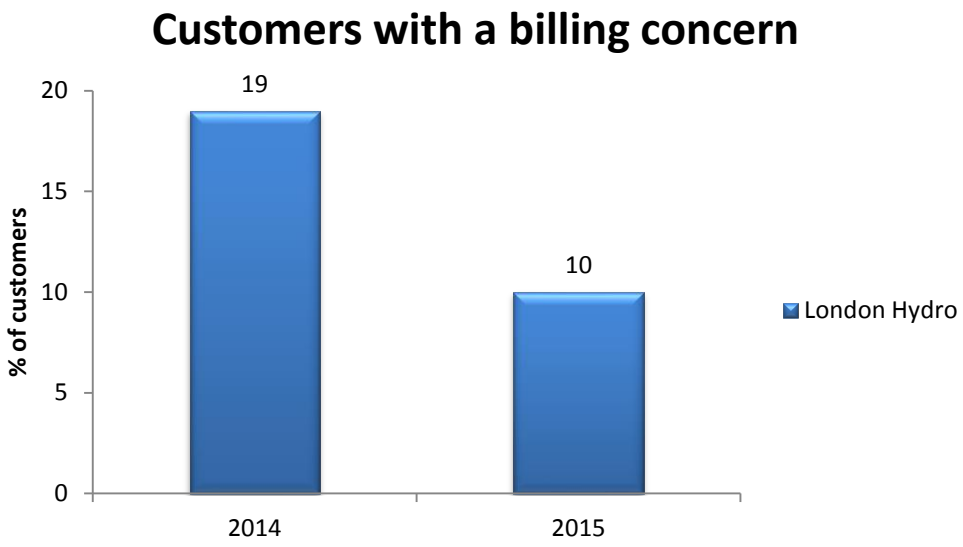
## Trends – Customer Satisfaction Survey

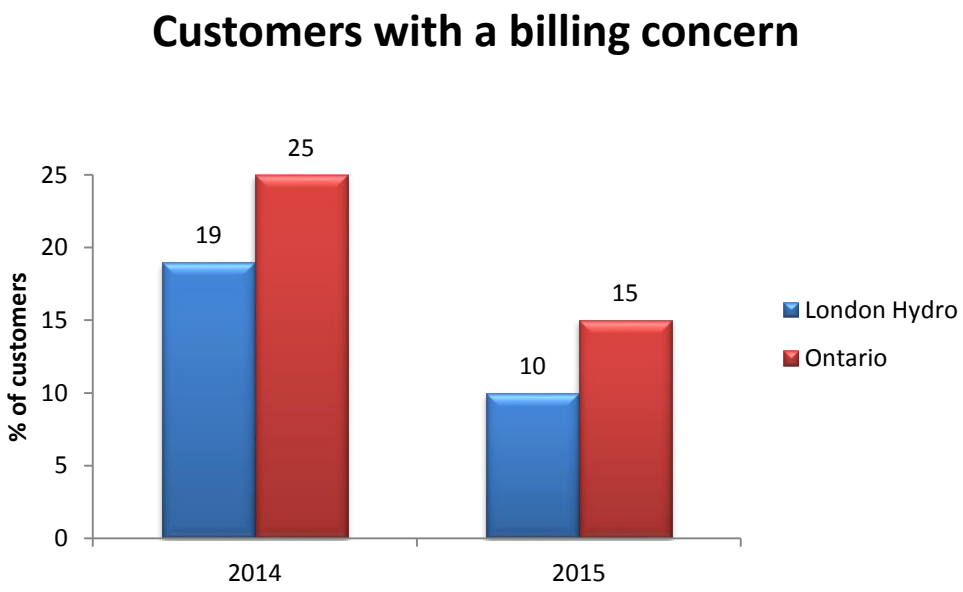
In 2014, customers said that they wanted London Hydro to invest in more online self-serve services. Following the introduction of more self-service options on the website, the 2015 Customer Satisfaction Survey showed that 74% of customers believe London Hydro adapts well to changes in customer expectations representing a 2% increase from 2014.



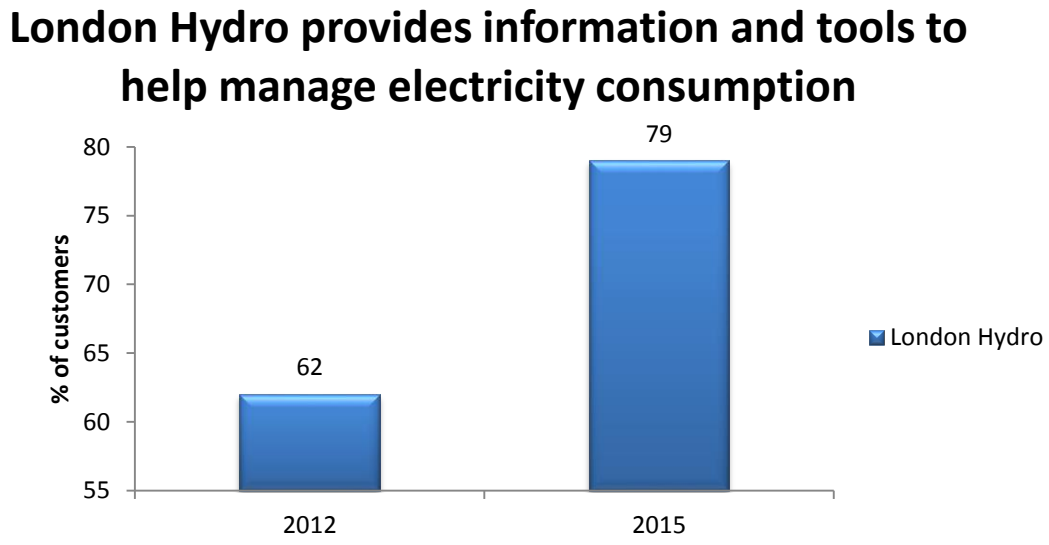



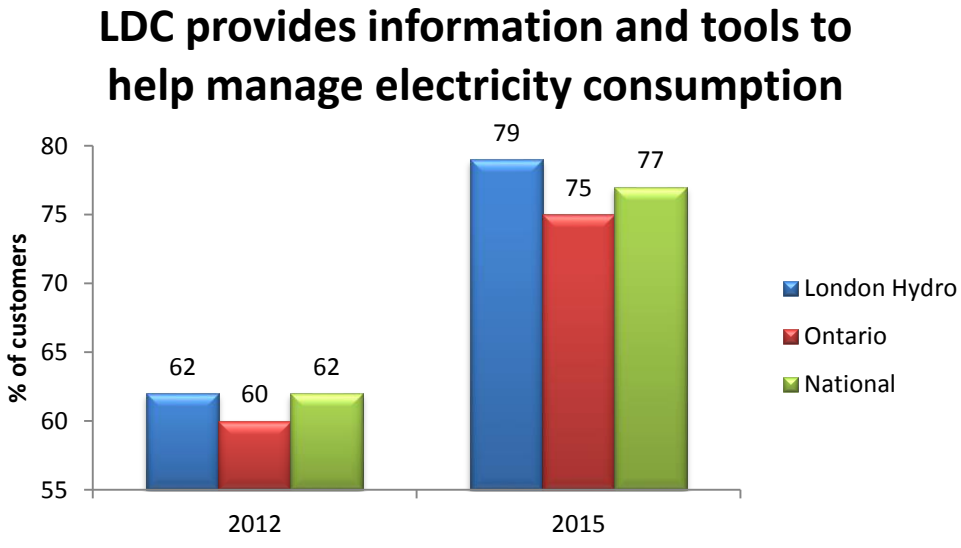
Self-service options empower customers to see their usage and billing information in more detail through MyLondonHydro. In 2015, 10% of customers reported that they had a billing concern over the previous 12 months, 9% less than in 2014.



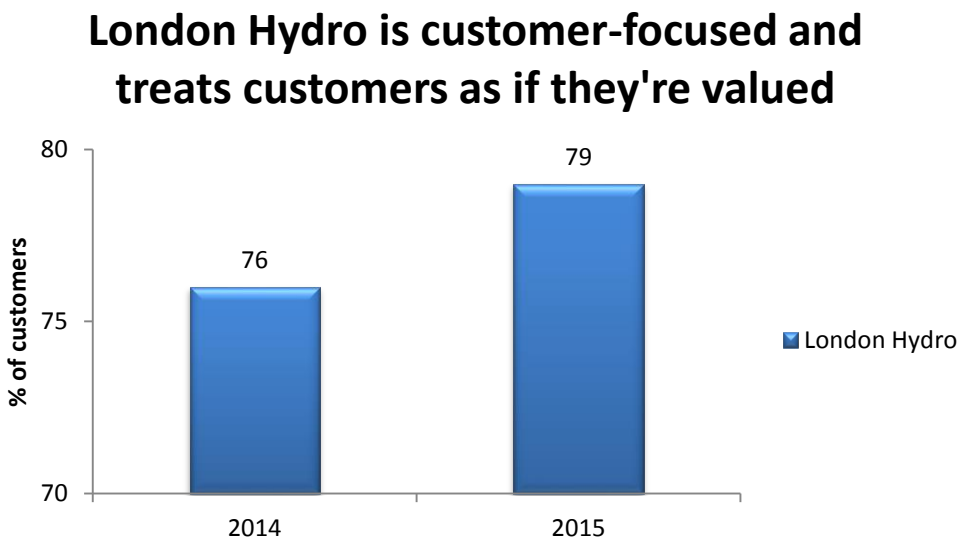



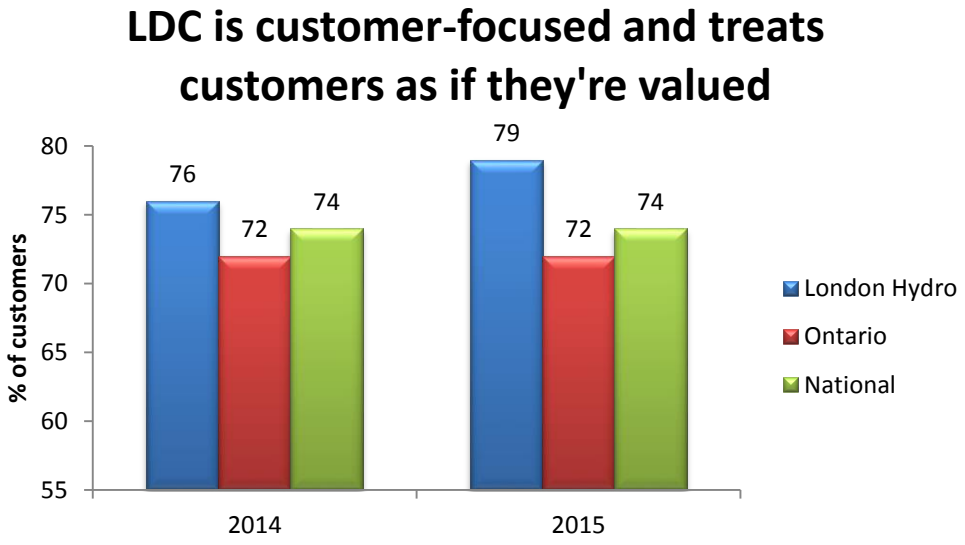
In addition to more online self-service options, 76% of customers wanted London Hydro to invest in educating customers about energy conservation. From 2012 to 2015, there has been a 17% increase in customers who agree that London Hydro provides information and tools to help manage electricity consumption and promote conservation.



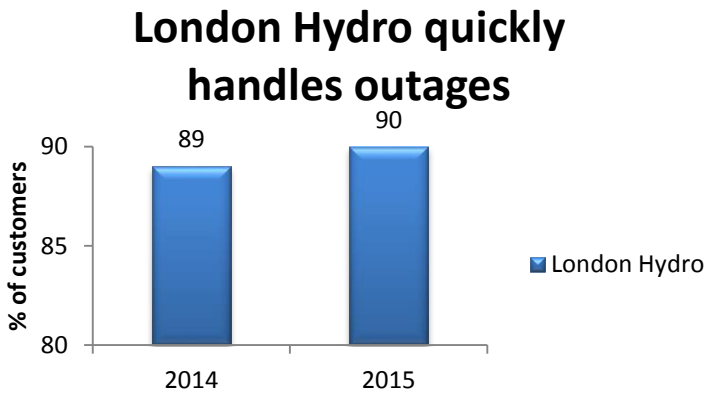



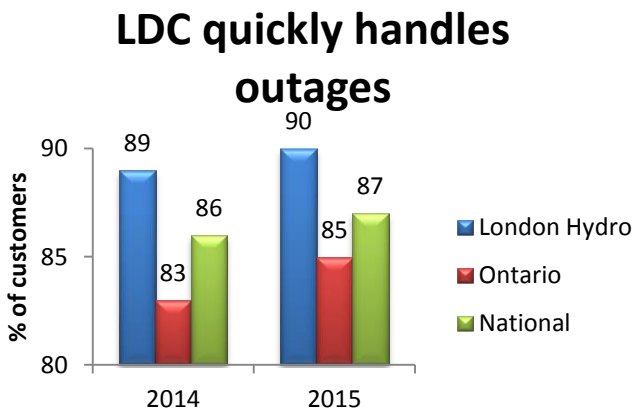
Initiatives such as the Aeroplan Customer Loyalty Program reward customers for participating in beneficial London Hydro programs. Following the introduction of the Aeroplan Loyalty Program, customers believe that London Hydro has placed a greater focus on customers, with 79% of customers surveyed in 2015 saying that they believe London Hydro treats customers as if they're valued.

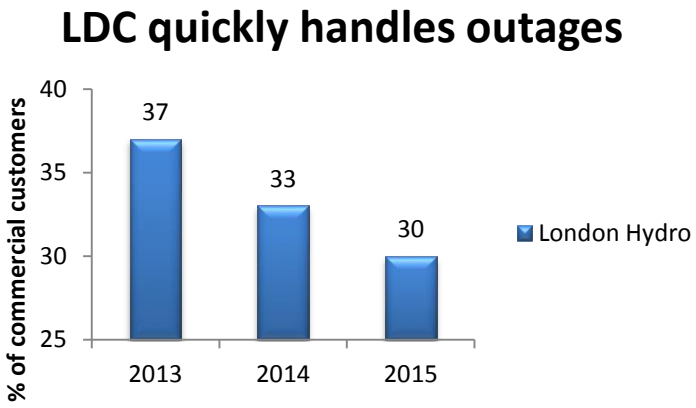


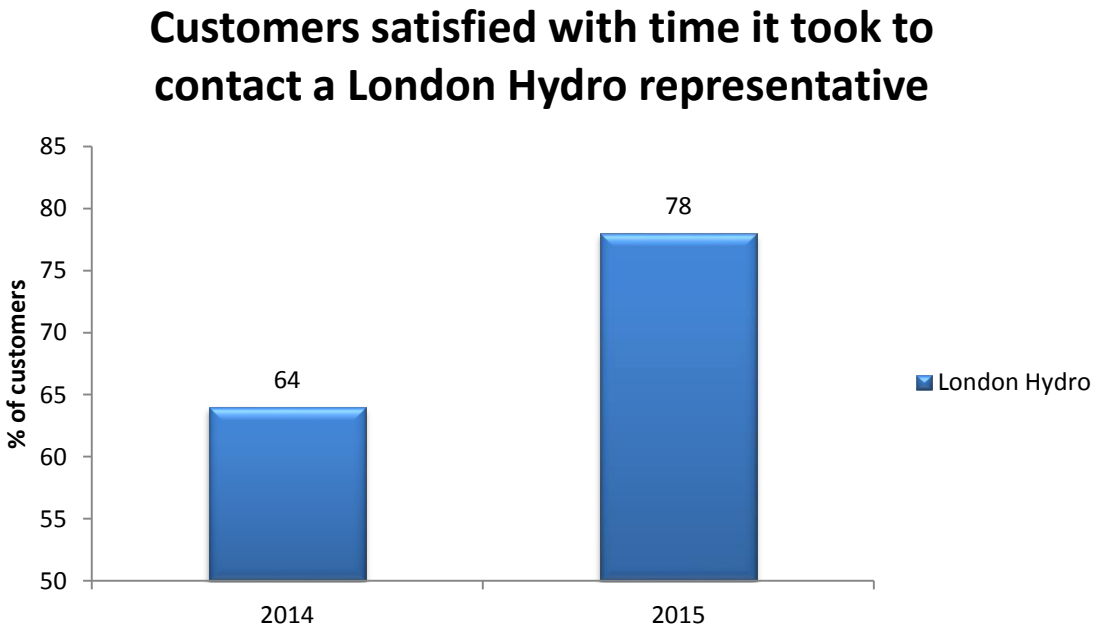
In 2015, 90% of London Hydro customers believed that London Hydro quickly handles outages, increasing from 2014. With new features such as outage notifications that are sent automatically by phone, email or text, customers feel more informed about outages and estimated restoration times affecting their homes and businesses. Additionally, being able to access an online outage map leads fewer customers to contact London Hydro for information about outages. 30% of commercial customers reported that they contacted London Hydro about outages in 2015, a decrease of 7% since 2013.



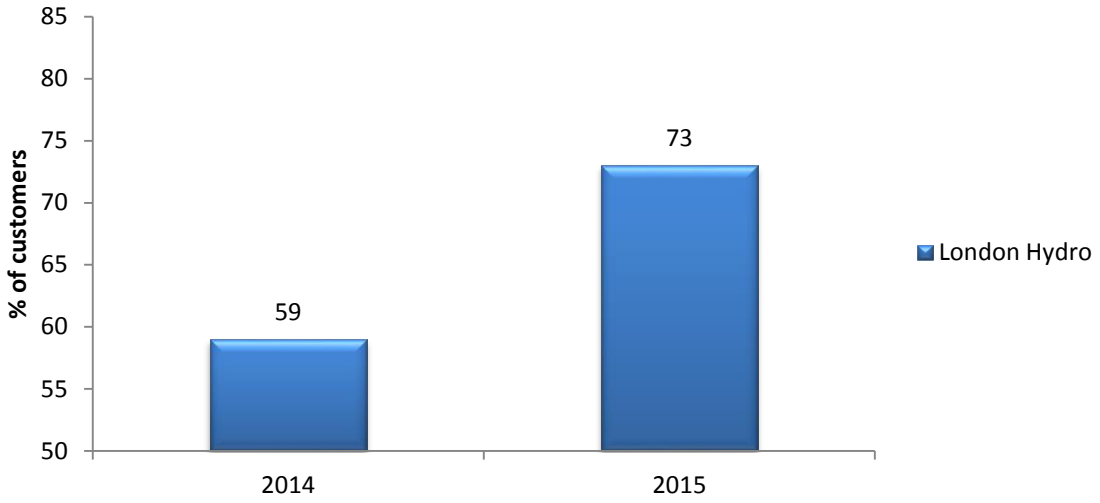






Customers are also more satisfied with the time it took to contact someone at London Hydro and the time it took to address and correct any issues. The introduction of the Interactive Voice Response (IVR) system provides customers with a recorded message before being added to a queue to speak with a Customer Service Representative during times of high call volumes. If London Hydro is aware of the outage that a customer is calling about, the IVR system will inform the customer that London Hydro is aware of the outage and is working to restore power.



# Customers satisfied with the time it took for London Hydro to assist with issue




1

File Number:EB-2016-0091

Exhibit: 1
Tab: 6
Schedule: 1

Date Filed:August 26, 2016

# ATTACHMENT 1 OF 1
# APPENDIX 2-AC CUSTOMER ENGAGEMENT ACTIVITIES SUMMARY

**File Number:** EB-2016-0091
**Exhibit:** 1
**Tab:** 4
**Schedule:** 1
**Page:**

**Date:** 8/26/2016

# Appendix 2-AC
# Customer Engagement Activities Summary

| Provide a list of customer engagement activities | Provide a list of customer needs and preferences identified through each engagement activity | Actions taken to respond to identified needs and preferences. If no action was taken, explain why. |
|---|---|---|
| Continuous Website Enhancements | Through emails, phone calls and surveys customers expressed the need for website enhancements to enable them to find the information they needed at any time 24/7 through our website | London Hydro developed and continues to develop online services that allow customers to manage their account and energy usage whenever and wherever they have access to email 24/7 |
| Development of New Technology and Apps (Commercial and Industrial Customers) | The need to have tools available to help them understand and manage their electricity usage in real time, not waiting until after their received their bills | In collaboration with commmercial and industrial customers, two Apps were developed, the first Event Assist to help manage energy usage and cost by using historical data to forecast energy costs for previous events such as concerts, sports events etc. The second App for commercial allow customers to access their energy data in close to real time and assess the need to make immediate changes to their processes to reduce their usage and costs during peak periods. |
| Property Management Portal | Property managers requested an online tool to help them manage the rental activity in their properties to ensure billing was accurate and correct for each tenant | A password secured property management tool was designed to allow rental property owners to manage their move in/ move outs online, to also assign delegates to have access to specific properties or account information (bulding superintendents etc)This also reduced the call time in the call centre in trying to determine timelines for bills, between tenants and reduced landlord -tenant disputes |
| MyLondonHydro | Through survey and emails and phone calls, customers emphasized the need for more online - self-service functions | MyLondonHydro was designed to provide customers with online services that allowed them to understand and monitor their energy usage. Customers can view their usage hourly, daily, weekly or monthly and also view or print their bills. |
| Online Payment Notification/Arrangements | Through calls to our call centre - customers requesting the ability to notify us of a payment through our website | Customers may report a payment or make payment arrangements online to avoid collection activity on their account |
| Outage Notification | Through surveys and phone calls customer requested notifications on outages - concerns about children going home after school if there is an outage affecting their home - also for elderly parents - notice will help them make arrangements for caregiver if necessary | A notification system was built that includes a outage map on the homepage of the website that shows the areas that are affected by an outage. Through the phone number registered with their account customers will receive a message telling them about the outage affecting their property and where possible the estimated restoration time. Customers may also register their preferred method of communcation, cell phone, email or text through MyLondonHydro. |
| Customer Satisfaction Surveys | Annual customer satisfaction surveys are conducted that will identify areas that customers feel London Hydro is performing well and will also identify problem areas or areas that could be improved | London Hydro closely monitors the results of the surveys and takes immediate action to correct any problem areas and with areas of improvement we investigate and implement solutions to resolve the issues. We also use the survey to determine the customers desire for new ideas and technology that will improve their service experience with us. |
| Participation in Home Shows | As part of our outreach programs to customers we go out into the community to meet with customers that may not call into the call centre or have an opportunity to review new services | The Home Shows allow us the opportunity to meet face to face with our customers, introduce them to Energy Conservation Programs that will help them reduce their energy consumption, learn about online services that will help them manage their bills, understand of Capital Project and how they impact their neighbourhood and the benefits to the distribution system, customers may also register for programs or services right at the events. |
| Exhibits and presentations at community events | Customers request London Hydro's presence at some events and others we attend as outreach opportunities | These events allow us to help provide more education on the electricity system, rates, energy usage and conservation as well as career opportunities |
| Electricity School Education Program | School boards expressed the need for children to understand electricity from generation to end use (1996) | In collaboration with the Thames Valley District School Board , London Hydro developed the Power of Electicity program that is taught in grades 5 and 6 |
| Energy Conservation Program | To teach school children about energy conservation - become ambassadors in their homes to promote conservation | London Hydro in collaborations with the teachers developed - an energy conservation program as a companion program to the Power of Electricity Program |
| Electricity School Safety Program | Requested by the School Boards and Community Groups | The safety program teaches children and members of the public of the dangers of electricity, how to use electricity safely and when they should contact London Hydro for help |

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| Community Support - LEAP financial support increase | The popularity of the LEAP program showed the need for additional financial support for local families | London Hydro strengthened its commitment to the Housing Stability Bank by increasing its funding by 33% from $150,000 to $200,000 per year in 2015 to provide assistance to additional customers. |
| London Children's Museum World of Difference Exhibit | Through survey, customers showed interest in public education programs regarding electrical safety and energy conservation | Working with the Ontario Science Centre, London Hydro has developed a 3 phase exhibit at the London Children's Museum. Two of three phases have already been launched, with the third scheduled for opening in 2016. The You'll Make a World of Difference exhibit teaches visitors how much energy can be saved by using energy efficient devices, the flow of electricity through circuits, and the importance of energy conservation. |
| Environmental Awareness - Sustainability Program & Report to Londoners | Survey results show it is important to customers that London Hydro be conscious of our impact to the environment and our community | To educate customers on the steps taken to reduce its ecological footprint, London Hydro released the 2014 Sustainability Report and is activiely running various sustainability program internally. London Hydro has also participated in the Global Reporting Inititive for the past two years. |
| Paperless Billing | Through survey, phone calls and emails, customers have shown great interest in registering for paperless billing and simplify their billing experience | Paperless billing is available to all customers. Customers are required to register for an online MyLondonHydro account and paperless billing to receive emails when their bill is ready. These emails have a short breakdown of the amount owning and date required. This allows customers to conveniently pay their bill, or if they require further details, they are able to log into their online account and download their complete monthly bill. Customers are also able to register their Aeroplan numbers and recieve Aeroplan rewards for each bill their receive electronically. |
| Customer Loyalty Incentive Program | Customers showed interest in London Hydro offering a customer loyalty program where they are rewarded for utilizing various online features | London Hydro developed an innovative customer loyalty rewards program by offering Aeroplan Rewards to customers who register for paperless billing. This program has increased registrations for both online accounts and paperless billing. This allows London Hydro to save paper reduce the carbon footprint and reduce the operating costs.The program has already paid for itself and these results would translate to a cumulative net savings of over $80,000 by the end of 2017. |
| Billing Inserts | Through calls to our call centre and emails, customers are eager to be provided with information and details regarding new developments of programs and offerings from London Hydro. IESO and the OEB. Additionally, customers would like to be informed of any other changes that may affect their energy usage or billing | Billing inserts are continuously created and delivered along with bills to share important information with customers. Inserts are also available online through the London Hydro website and are located at the reception area for customers to take with them after visiting the office. Currently, billing inserts are delivered to over 153,000 customers. |
| Radio Advertisements | Customers have showen through survey and emails that they are interested in getting information about various programs that are offered | Radio advertisements are aired in monthly cycles on various stations throughout London. These advertisements communicate to customers current programs, such as outage notifications and paperless billing. |
| Media Interviews | Through survey and calls to the contact centre, customers want information about current events affecting their energy usage and billing | Media interviews are done with local media are ae arranged through the Corporate Communications Department. These interviews are typically held with London Hydro's CEO, Vinay Sharma, or the Director of Public Relations and Corporate Communication, Nancy Hutton. Topics that are covered are relevant to any current topics, issues or campaigns. |
| Support of Salvation Army Christmas Hamper Program | There is a recognized need in the community for families struggling during the holiday season | London Hydro employees rasie money through raffles and other fundraising initiatives during the holiday season to purchase toys for the Chirstmas Hamper Program. Employees also bring in additional toys to add to the collection that is donated to the program each year. This fundraising initiative is fully funded by London Hydro employees. Additionally, London Hydro staff members volunteer at the event and help package and hand out the hampers. |
| Support of the London Food Bank Christmas Food Drive | Customer and community feedback has shown the importance of London Hydro's participation with the local food bank | Annually, London Hydro employees collect funds to purchase goods to donate to the London Food Bank to help families in need during the holiday season. Employees are also encouraged to bring in additional food donations. London Hydro donates an additional $5,000 to the Food Bank for the purchase of perishable items that are required. London Hydro and its employees also donate their time and the use of a truck in the annual Santa Claus Parade to collect food donations along the parade route. |
| Employee volunteering for community events | Through customer comments there is a belief it is important that London Hydro is committed to our community | London Hydro employees volunteer their time for various community events including the annual Salvation Army Chirstmas Hamper Program and with the London Food Bank. Employees also volunteer for an annual Earth Day cleanup and other events throughout the year. |

| | | |
|---|---|---|
| Employee fundraising for charities | Customer comments show that they support London Hydro's employees donation initiatives | In 2015, London Hydro employees dontated over $28,000 through the Employee Community Charity Organization to over 35 charities, many of which are local. This program alows employees to donate to a registered charity of their choice through payroll deductions. |
| Interval Data Centre | Commercial customers requested easier access to their usage information | London Hydro worked with local commerial customers and held a focus group to find out what information they are interested in having access to. Use cases were developed to showcase how various commercial customers are able to use IDC to their benefit. |

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# Exhibit 1

# Tab 7 of 10

# Performance Measurement

# PERFORMANCE MEASUREMENT

## OVERVIEW

As discussed in the Minimum Filing Requirements July 14, 2016 under the Renewed Regulatory Framework a distributor is expected to continuously improve its understanding of the needs and expectations of its customers and its delivery of services. To facilitate performance monitoring and benchmarking of distributors the OEB uses a scorecard approach.

The Report of the Board on Performance Measures for Electricity Distributors: A Scorecard Approach sets out the OEB's policies on the measures that will be used by the OEB to assess a distributor's effectiveness and continuous improvement in achieving the four outcomes which form the basis of the RRFE Report.

London Hydro herein presents discussion on its performance for each of the distributor's scorecard measures over the last five years, and explains the drivers for its performance with the focus in plan(s) for continuous improvement.

Implicit with this discussion London Hydro is providing a forecast of its efficiency assessment using the PEG forecasting model for the test year for the purposes of providing the OEB with a directional indicator of efficiency. The following is London Hydro's submission with respect to the above noted requirements.

## DISCUSSION

### Customer Focus

Customer focus is a performance outcome that measures the extent to which "services are provided in a manner that responds to customer preferences" and is divided into two categories: Service Quality and Customer Satisfaction.

## Service Quality

Service Quality is evaluated based on meeting OEB specified targets for three criteria:

- New Residential/Small Business Services Connected on Time (90% of the time)
- Scheduled Appointments Met on Time (90% of the time)
- Telephone Calls Answered on time (65% of the time)

As the table below illustrates, London Hydro has surpassed these targets for each of the last five years (2011-2015).

| Service Quality Measures | OEB Target | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| 1. New residential/Small business services connected on time | **90%** | 97.6% | 96.8% | 99.9% | 100% | 97.6% |
| 2. Scheduled appointments met on time | **90%** | 99.5% | 99.9% | 99.9% | 99.3% | 100% |
| 3. Telephone Calls answered on time | **65%** | 67.3% | 68.3% | 67.1% | 65.9% | 68% |

### *New Residential/Small Business Services Connected on Time*

In 2015, London Hydro connected 97.6% of its 1,554 eligible low-voltage residential and small business customers (those utilizing connections under 750 volts) to its system within the five-day timeline prescribed by the Ontario Energy Board (OEB). This score exceeds the OEB-mandated threshold of 90%. London Hydro is consistently able to achieve high levels of compliance in this area due to the existing workflow processes and computer systems that are used to monitor the status of each job. London Hydro also previously implemented an evening shift service truck, which has resulted in improved flexibility for connecting new customers.

### *Scheduled Appointments Met On Time*

London Hydro scheduled 1,750 appointments with its customers in 2015 to complete work requested by customers or the customers' representative. The utility met 100% of these appointments on time, which significantly exceeds the industry target of 90%. The duties and obligations of this requirement are well communicated to and known by London Hydro's staff, which has contributed to London Hydro's success in this area.

### *Telephone Calls Answered On Time*

In 2015, 172,611 calls were made to London Hydro of which 168,162 were answered by our Customer Service Representatives, which represents an average of 700 calls a day. We continue to meet the required percentage of calls answered in 30 seconds or less.

In 2014, London Hydro engaged a call over-flow company to assist in call-handling after the implementation of our new online, self-service tool, MyLondonHydro. The drivers to enhance our self-serve online portal included the increase in email correspondence (2012 -14,311 emails; 2013 -16,640 emails; 2014 -20,699 emails; and 2015 – 21,131 emails) and customer requests for additional online tools to manage interactions 24 hours a day, seven days a week. London Hydro anticipates that telephone call volumes will decline with more customer acceptance of this tool. In 2015, this engagement with the call over-flow partner continued as further enhancements to our customer self-serve web continued.

London Hydro is committed to maintaining exceptional customer care and to continuing to find ways to improve the customer experience. London Hydro's approach is to balance customer preferences with regulatory requirements, when necessary. For example, as a best practice, London Hydro's maintains the prescribed 65% metric for "Calls Answered on Time." While we could try to surpass that metric by hiring more Customer Service representatives, our customers have told us that it is more important to keep costs low; therefore, we focus on meeting this objective rather than surpassing it.

### Customer Satisfaction

Customer satisfaction is evaluated based on three performance measures:

- First Contact Resolution
- Billing Accuracy (98%)
- Customer Satisfaction Survey Results

These measures have only been in place for the last two years; London Hydro's performance for those years is as follows:

| Customer Satisfaction Measures | OEB Target | 2014 | 2015 |
|---|---|---|---|
| First Contact Resolution | n/a | 99.7 | 99.2 |
| Billing Accuracy | 98% | 99.28 | 98.34 |
| Customer Satisfaction Survey Results | n/a | A | A |

### *First Contact Resolution*

London Hydro strives to serve customers in a friendly and professional manner and to answer their questions and resolve their issues within the first call. In 2015, London Hydro had great success on the First Contact Resolution measure, scoring over 99%. Our success can be attributed to a number of factors including our intensive training program for new hires and our dedicated resource for gap training and process management. We also use call monitoring tools to record and archive every call to allow us to evaluate our staff's call handling, and each month we review one randomly selected call with each CSR. Any anomalies or customer escalations are reviewed when warranted. All customer interactions are logged in our CIS System, including any escalations. We use the results of our annual Customer Satisfaction Survey to learn what is working and what areas require improvement.

### *Billing Accuracy*

In 2015, London Hydro distributed an average of 153,453 invoices per month and achieved an overall billing accuracy rate of 98.34%. The vast majority (74%) of the reprinted bills were the result of estimated billing that was updated as soon as actual numbers were made available to us. To supplement our validating, estimating and editing process, our CIS system uses audits and controls to ensure the accuracy of bill calculations. Any billing irregularities are investigated, analyzed and evaluated for impacts. All changes are verified and tested by our Subject Matter Experts. This dedicated team also monitors and manages bill print exceptions. As an additional check, we audit the value of the bill, and by setting a "threshold" amount for each billing class of customers, we ensure no excessive/irregular invoice is distributed without validation.

### *Customer Satisfaction Survey Results*

For the past 17 years, London Hydro Inc. has engaged a third party to conduct a Customer Satisfaction Survey. The purpose of London Hydro's involvement in these surveys is to

determine a benchmark for measuring the level of satisfaction our customers experience with all areas of service and, equally important, to identify any areas for improvement. The survey asks a core set of questions that provide benchmarks year-to-year, such as overall satisfaction with London Hydro, reliability of service, outages, billing issues and corporate image. Additionally, London Hydro provides a second set of questions regarding specific current issues to identify and respond to new needs or expectations of the customers. The information gathered from the survey is then carefully considered and included in the development or enhancement of both London Hydro's Strategic Plan and Corporate Communications Plan.

In 2015, London Hydro's Customer Satisfaction results were equal to or better than Provincial and National counterparts, and, on most measures, London Hydro demonstrated improvement over the previous year's score. Customers' overall satisfaction rating for London Hydro was 88%. On reliability, London Hydro scored 92% where the Ontario benchmark was 88%.

In 2015, questions regarding Operational and Capital Expenses were included to determine the customers' perspective on capital expenditures. For example, when asked whether they would support paying increased rates for converting overhead service to underground, 67% of London Hydro customers surveyed said "no." 57% of customers surveyed indicated they would be willing to pay more for items that have provided a direct benefit to themselves.

Again, this survey is a valuable tool for gauging customers' awareness of changes in the industry, their level of satisfaction with the services London Hydro provides, their insights into capital programs, and for identifying any areas of improvement to services. London Hydro's goal is to provide service excellence in all we do, and we plan to continue surveying our customers to benchmark our service levels and help us continue to develop service enhancements.

## Operational Effectiveness

Operational Effectiveness is a performance outcome that measures the extent to which "continuous improvement in productivity and cost performance is achieved and distributors deliver on system reliability and quality objectives." This outcome is further divided into four categories: Safety, System Reliability, Asset Management and Cost Control.

## *Safety*

Safety is evaluated based on a distributor's performance on four measures:

- Level of Public Awareness
- Level of Compliance with Ontario Regulation 22/04
- Serious Electrical Incident Index: Number of General Public Incidents
- Serious Electrical Incident Index: Rate per 10, 100, 1000 km of line

Over the past five years, London Hydro achievement on safety outcomes is as follows:

| Safety Measures | **OEB Target** | **2011** | **2012** | **2013** | **2014** | **2015** |
|---|---|---|---|---|---|---|
| 1. Level of Public Awareness | | n/a | n/a | n/a | n/a | 84% |
| 2. Level of Compliance with Ontario Regulation 22/04 | **C** | C | C | C | C | C |
| 3. Serious Electrical Incident Index: Number of General Public Incidents | **1** | 0 | 2 | 3 | 0 | 3 |
| 4. Serious Electrical Incident Index: Rate per 10, 100, 1000 km of line | **0.391** | 0.000 | 0.709 | 1.056 | 0.000 | 1.029 |

### *Level of Public Awareness of Electrical Safety*

In 2015, London Hydro undertook major safety awareness efforts, including

- the School Electricity Safety Program, which is presented to over 10,000 students annually;
- the Power of Electricity, a curriculum-based program that involves training teachers to present the program to grades 5 and 6 each year,
- media coverage for electrical safety-related issues and incidents in the community;
- pole top rescue training
- support and presentations at the Safety Village, numerous summer camps and
- other community event presentations.

In 2015, London Hydro conducted a new public awareness survey (developed by the ESA) among a representative sample of its customers. The survey helped to gauge the public's awareness of fundamental safety precautions related to electricity. London Hydro achieved a score of 84% in the survey.

## *Compliance with Ontario Regulation 22/04*

Over the past five years, London Hydro has been found to be compliant with Ontario Regulation 22/04 (Electrical Distribution Safety). This success was achieved by London Hydro's strong commitment to safety and adherence to company policies, procedures and Safe Work Practices. The Electrical Distribution Safety Regulation (Ontario Regulation 22/04) establishes an objectives based electrical safety requirements for the design, construction, and maintenance of electrical distribution systems owned by licensed distributors. Specifically, the regulation requires the approval of equipment, plans, specifications and inspection of construction before they are put into service.

The Electrical Safety Authority (ESA) performs Due Diligence Inspections (DDI) throughout the year to ensure utilities remain compliant with the objectives set out in Ontario Regulation 22/04. London Hydro has a process in place for responding to DDI's and for reporting back to the ESA on the action plans taken within the specified time period. In 2015, eleven DDI's were performed on London Hydro equipment and infrastructure and we received no statements of non-compliance.

## *Serious Electrical Incident Index*

London Hydro experienced no reportable incidents in two of the last five years (2011 and 2014). None of the electrical incidents that occurred in 2012, 2013 or 2015 resulted in injury, either to a worker or to a member of the public. In order to maintain the safety and reliability of the distribution grid, London Hydro conducts an investigation of all incidents of this nature. One of the three incidents was caused by the failure of customer-owned equipment and the remaining two were caused by the failure of London Hydro owned equipment.

Through analysis and review of these incidents, London Hydro has implemented modifications to engineering designs and/or targeted replacement programs where appropriate to ensure continued safe and reliable distribution of electricity to our customers.

## *System Reliability*

For the OEB Scorecard, System Reliability is measured in two ways:

- The Average Number of Hours that Power to a Customer is Interrupted (SAIDI)
- The Average Number of Times that Power to a Customer is Interrupted (SAIFI)

London Hydro's results over the last five years are presented in the table below:

| System Reliability Measures | 2011 | 2012 | 2013 | 2014 | 2015 | OEB Target for London Hydro (2015) |
|---|---|---|---|---|---|---|
| The Average Number of Hours that Power to a Customer is Interrupted (SAIDI) | 1.67 | 0.89 | 0.99 | 0.98 | 1.04 | 1.08 |
| The Average Number of Times that Power to a Customer is Interrupted (SAIFI) | 2.14 | 1.30 | 1.24 | 1.21 | 1.22 | 1.38 |

### *Average Number of Hours that Power to a Customer is Interrupted*

In 2015, London Hydro surpassed its performance target for the average number of hours that power to a customer was interrupted. London Hydro's System Average Interruption Duration Index (SAIDI), without Loss of Supply, was 1.04 hours, which is below the target of 1.08.

A large percentage of London Hydro's SAIDI result is related to scheduled outages, which are necessary to complete infrastructure improvement projects and to maintain the system. This work ensures that the system will continue to be reliable in the future.

### *Average Number of Times that Power to a Customer is Interrupted*

In 2015, London Hydro also surpassed its performance target for the average number of times that power to a customer was interrupted. London Hydro's System Average Interruption Frequency Index (SAIFI), without Loss of Supply, was 1.22, which is lower than the 1.38 target. In addition, this was the second lowest SAIFI value in the last five consecutive years.

London Hydro's reliability performance is a clear indicator of our commitment to deliver electricity on a reliable basis to our customers. In order to achieve this performance, London Hydro's engineers analyze the utility's reliability data and produce weekly reports, monthly reports, and an annual Quality of Supply report, which includes a feeder by feeder performance

analysis, and initiate action items to direct projects in areas that need improvement. Also, by investing in maintaining our assets and infrastructure, we ensure that our system is robust enough to handle inclement weather.

## *Asset Management*

The Asset Management category measures the progress of the Distribution System Plan (DSP) implementation.

### *Distribution System Plan Implementation Progress*

London Hydro's DSP implementation is "in progress."

London Hydro has metrics in place to ensure that ongoing and new initiatives related to the distribution system are effective. The main performance indicator is the reliability of the system. While the overall system reliability (expressed as SAIDI and SAIFI) is important, London Hydro has refined the outage reporting and analysis to the point where specific outage causes (such as underground primary cable faults) can be tracked before and after implementing a change in remediation (such as introducing silicone cable injection).

For London Hydro's DSP, the following reliability metrics will be monitored and used to make annual adjustments to the projects and programs that are in place to make improvements.

| Reliability Metric | Purpose & Form | Desired Outcome | Motivation | Related Projects / Programs |
|---|---|---|---|---|
| System Average Interruption Duration Index (SAIDI) – Equipment Design-Related Outages (outages related to controllable causes such as defective equipment) | SAIDI – EDRO (Equipment Design Related Outages) provides a measure of the reliability of the distribution system as affected by controllable causes. It is calculated using only outages related to controllable causes such as defective equipment. | Stable year-over-year; slight decrease over time in customer minutes of outage | Consumer: Consistent level of reliability for customers<br>Corporate: Cost effectiveness – prevent costs associated with unplanned outages<br>System Performance: Evidence that assets are performing as expected | Most System Renewal Projects; 16C1 Feeder Tie; 17C1 Supply to Core; 16B7, 17B7 Installation of Backup Supply; 16B8, 17B8 Installation of Fault Indicators; 16H1, 17H1 Recloser Installation; 16H5, 17H5 Line Status Sensors |

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| System Average Interruption Frequency Index (SAIFI) – Equipment Design Related Outages | SAIFI – EDRO provides a measure of the reliability of the distribution system as affected by controllable causes. It is calculated using only outages related to controllable causes such as defective equipment. | Stable year-over-year; slight decrease over time in number of customers affected by an outage | Consumer: Consistent level of reliability for customers<br>Corporate:<br>Cost effectiveness – prevent costs associated with unplanned outages<br>System Performance: Evidence that assets are performing as expected | Most System Renewal Projects |
| Customer Acceptance of Existing Level of Reliability (via surveys) | This metric measures customer acceptance of reliability. Expressed as a percentage of respondents who agree "London Hydro provides consistent, reliable energy" | Consistent year-over-year of majority of responses find existing level of reliability acceptable (90%) | Consumer: Consistent level of reliability for customers | Overall spending on System Renewal and reliability focused projects are kept relatively consistent year-over-year |
| Number of Faults in Residential Underground Primary Conductor | This metric tracks the quantity of faults on residential underground primary conductor per year to determine if the level of investment in cable injection and rebuilds is effective. | Year-over-year decrease | Consumer: Consistent level of reliability for customers<br>Corporate:<br>Cost effectiveness – prevent costs associated with unplanned outages<br>System Performance: Evidence that assets are performing as expected | 16B1, 17B1 Cable Silicone Injection; 16B2, 17B2 Subdivision Conversions / Rebuilds with Silicone Injection |

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|---|---|---|---|---|
| Number of Outages Caused by Lightning | This metric tracks the quantity of outages caused by lightning each year to determine if lightning mitigation measures are effective. | Year-over-year decrease (relative to the number of lightning flashes) | Consumer: Consistent level of reliability for customers<br>Corporate:<br>Cost effectiveness – prevent costs associated with unplanned outages<br>System Performance: Evidence that assets are performing as expected | Pre-2016 projects (15G6) to install shield wire and arrestors on critical main feeders; now part of new construction standard for overhead main feeders |
| Number of Broken Poles (not due to motor vehicle accidents) | This metric tracks the quantity of outages caused by broken poles each year to determine if the pole testing and replacement program is effective. | Stable year-over-year quantity | Consumer: Consistent level of reliability for customers<br>Corporate:<br>Cost effectiveness – prevent costs associated with unplanned outages and optimize the lifecycle cost of wood poles<br>System Performance: Evidence that assets are performing as expected | 16G1, 17G1 Replace Deteriorating Poles |
| Number of Pole Fires | This metric tracks the quantity of outages caused by pole fires each year to determine if the pole inspection and replacement program is effective. | Year-over-year decrease | Consumer: Consistent level of reliability for customers<br>Corporate:<br>Cost effectiveness – prevent costs associated with unplanned outages and optimize the lifecycle cost of wood poles<br>System Performance: Evidence that assets are performing as expected | 16G2, 17G2 Replacement of Poles Susceptible to Pole Fires |

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| Number of Outages due to Sectionalizing Enclosure (SE) Failures | This metric tracks the quantity of outages caused by SE failures each year to determine if the SE inspection and replacement program is effective. | Year-over-year decrease | Consumer: Consistent level of reliability for customers<br>Corporate:<br>Cost effectiveness – prevent costs associated with unplanned outages<br>System Performance:<br>Evidence that assets are performing as expected | 16B3, 17B3 Replacement / Removals of SE's |

London Hydro also monitors the overall cost to our customers to ensure competitiveness with our peers and affordable increases year-over-year. The following cost-based metrics provide feedback to our customers and stakeholders regarding our overall cost efficiency.

| Cost Metric | Purpose & Form | Desired Outcome | Motivation | Related Projects / Programs |
|---|---|---|---|---|
| Controllable Cost per Customer | This metric tracks the controllable costs per customer each year to ensure costs are competitive with peers. Values are sourced from OEB Yearbook. | Bottom quartile of all LDCs | Consumer:<br>Customers should see rates competitive with similar sized LDCs<br>Corporate:<br>Feedback to management on cost effectiveness of LDC | Top down budget constraints, System Renewal Projects[1]; 16B8, 17B8 Installation of Fault Indicators & 16H5, 17H5 Line Status Sensors (reduce time required to locate problems) |
| PEG Efficiency Assessment | This metric measures the LDC's overall efficiency as determined by PEG. Values are sourced from OEB/PEG. | Remain within Group 2 (2nd most efficient) | Consumer:<br>Customers should see rates competitive with similar sized LDCs<br>Corporate:<br>Feedback to management on cost effectiveness of LDC | Top down budget constraints |
| Annual Distribution Revenue (Residential) | This metric tracks the average annual distribution revenue per residential customer. Values are sourced from OEB yearbook; stats by class tab. | Bottom quartile of all LDCs | Consumer:<br>Customers should see rates competitive with similar sized LDCs<br>Corporate:<br>Feedback to management on cost effectiveness of LDC | Top down budget constraints |

To ensure the work outlined in the DSP is carried out efficiently, London Hydro has developed some measurement tools to assist in the timely execution of projects and completion of the overall planned projects:

- Each crew leader is given access to a smart phone application referred to as EASY (Economic Assessment System), which provides current data on the progress of capital projects. Providing field crews with near-real time tracking of their work effort against the budgeted amount allows them to identify potential variances early in the project and take appropriate corrective action to address inefficiencies or adjust the mix of resources assigned to the project.
- An Engineering Instruction (EI-21 Engineering & Operations Capital Program Project Cost Control Requirements) is used by staff to assess the variance to budget for all capital projects. Any project valued at $25,000 or more that comes in over or under budget by 10% or more requires analysis to determine the source of the variance. These variance reports are reviewed by managers to determine if opportunities exist to improve the estimating process and/or project execution process.
- Regular meetings with engineering and operations staff are used to provide status reports (red/green/amber) on capital projects and review significant variances. Bi-weekly meetings focus on the project level while monthly meetings focus on the program level. A year-end report is used to assess total variance to budget and actual completion of planned work to budget.

| DSP Implementation Metric | Purpose & Form | Desired Outcome | Motivation | Related Projects / Programs |
|---|---|---|---|---|
| Utilization of the EASY application (number of crew leaders using application on a regular basis) | Crew leaders are encouraged to take ownership of projects and monitor their costs compared to budget. This metric will track the number of crew leaders using this application to ensure it is effective and user-friendly. | Higher utilization should result in lower variance to budget for capital projects | Corporate: Less variance to budget should assist with keeping costs within budget, resource allocation is optimized<br>Consumer: Meeting budget targets should keep rates stable | All capital projects |
| Average % Variance to Budget for System Renewal and System Service Projects | This metric measures the variance percentage to budget to determine the accuracy of budgeting and effectiveness of project execution. Calculated as the percent difference in actual annual spending to budget on System Renewal and System Service projects. | Slight improvement each year with ultimate goal of 10% or less | Corporate: Less variance to budget should assist with keeping costs within budget<br>Consumer: Meeting budget targets should keep rates stable | All System Renewal and System Service Projects |
| Percentage of Actual System Renewal and System Service Projects Completed per Half Year vs Planned | This measures the quantity of actual work vs planned work to determine the effectiveness of the planning and execution of capital projects. Calculated as the percent difference of actual vs planned System Renewal and System Service projects each quarter. Some subjectivity will be used as some projects will span set time periods. | Slight improvement each year with ultimate goal of 100% | Corporate: Less variance to budget should assist with keeping costs within budget<br>Consumer: Meeting budget targets should keep rates stable | All System Renewal and System Service Projects |

For customer-focused initiatives, London Hydro monitors the number of customers using each initiative and then adjusts either the promotion of the initiative (so more customers are aware of them) or the actual initiative (to make it more useful to customers)

| Customer Participation Metric | Purpose & Form | Desired Outcome | Motivation | Related Projects / Programs |
|---|---|---|---|---|
| Number of Customers Subscribed to Paperless Billing | This measure will track usage of this website option to determine how many customers find this application useful. Software tracks the number of subscribers. | Gradual Increase in usage year-over-year | Consumer: Easier customer access to billing information<br>Corporate: Effectiveness of website development, proper allocation of resources in Customer Service area. | CE (Customer Engagement) Website Enhancements |

| Customer Participation Metric | Purpose & Form | Desired Outcome | Motivation | Related Projects / Programs |
|---|---|---|---|---|
| Number of Customers Subscribed to Customer Portals (UCES / myLondonHydro) | This measure will track usage of this website option to determine how many customers find this application useful. Software tracks the number of subscribers. | Gradual Increase in usage year-over-year | Consumer: Easier customer access to billing information Corporate: Effectiveness of website development, proper allocation of resources in Customer Service area. | Builders Portal, New Property Management Portal |
| Number of Customers Subscribed to Outage Notification | This measure will track usage of this website option to determine how many customers find this application useful. Software tracks the number of subscribers. | Gradual Increase in usage year-over-year | Consumer: Better communication with customers on outage status | CE (Customer Engagement) Website Enhancements |
| Number of Customers on Paperless Billing Enrolled in Aeroplan | This measure will track usage of this website option to determine how many customers find this application useful. Software tracks the number of subscribers. | Gradual Increase in usage year-over-year | Consumer: Travel Rewards for converting to paperless billing; reduced costs to customers over time due to lower OM&A Corporate: Effectiveness of website development, proper allocation of resources in Customer Service area. | CE (Customer Engagement) Website Enhancements |
| Number of online move-in / move-out / transfer of service requests placed via LH website | This measure will track usage of this website option to determine how many customers find this application useful. Software tracks the number of subscribers. | Gradual Increase in usage year-over-year | Consumer: Services available on-demand, anywhere Corporate: Effectiveness of website development, proper allocation of resources in Customer Service area. | CE (Customer Engagement) Website Enhancements |
| Number of Accounts Utilizing Delegate Functionality | This measure will track usage of this website option to determine how many customers find this application useful. Software tracks the number of subscribers. | Gradual Increase in usage year-over-year | Consumer: More flexibility for customers to assign others to be responsible for hydro account, fewer missed or late payments Corporate: Effectiveness of website development, proper allocation of resources in Customer Service area. | CE (Customer Engagement) Website Enhancements |
| Number of Budget Billing Sign Ups via MyLondonHydro | This measure will track usage of this website option to determine how many customers find this application useful. Software tracks the number of subscribers. | Gradual Increase in usage year-over-year, decline in quantity and value of late and delinquent accounts | Consumer: Option for customers to assist with budgeting hydro payments Corporate: Effectiveness of website development, proper allocation of resources in Customer Service area. | CE (Customer Engagement) Website Enhancements |

| Customer Participation Metric | Purpose & Form | Desired Outcome | Motivation | Related Projects / Programs |
|---|---|---|---|---|
| Number Payment Notifications via MyLondonHydro | This measure will track usage of this website option to determine how many customers find this application useful. Software tracks the number of subscribers. | Gradual Increase in usage year-over-year, decline in quantity and value of late and delinquent accounts | Consumer: Reduces the likelihood of late or missing payments and subsequent repercussions Corporate: Effectiveness of website development, proper allocation of resources in Customer Service area. | CE (Customer Engagement) Website Enhancements |
| Number Payment Arrangements via MyLondonHydro | This measure will track usage of this website option to determine how many customers find this application useful. Software tracks the number of subscribers. | Gradual Increase in usage year-over-year, decline in quantity and value of late and delinquent accounts | Consumer: Simplifies payment process Corporate: Effectiveness of website development, proper allocation of resources in Customer Service area. | CE (Customer Engagement) Website Enhancements |

In addition to these metrics, Google Analytics is used to monitor the number of website visits (total, unique, new, and returning), the percentage of mobile users, average bounce rate and most popular page.

### *Cost Control*

Cost control is measured in three ways:

- Efficiency Assessment
- Total Cost per Customer
- Total Cost per Km of Line

Over the last five years, London Hydro has achieved the following results on these measures:

| Cost Control Measures | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Efficiency Assessment | n/a | 2 | 2 | 2 | 2 |
| Total Cost per Customer | $473 | $463 | $466 | $477 | $505 |
| Total Cost per km of Line | $24,880 | $24,386 | $24,430 | $24,946 | $27,149 |

## *Efficiency Assessment*

The total costs for Ontario local electricity distribution companies are evaluated by the Pacific Economics Group LLC (PEG) on behalf of the OEB to produce a single efficiency ranking. The electricity distributors are divided into five groups based on the magnitude of the difference between their respective individual actual and predicted costs. London Hydro's 2015 results placed us in Group 2, for the fourth year in a row. Group 2 distributors are defined as having actual costs that are 10% to 25% below predicted costs. Group 2 is considered "better than average efficiency" – in other words, London Hydro's costs are better than the average cost range for distributors in the Province of Ontario. In reviewing the provincial electricity distributors 2015 results, 51% (36 distributors) (2014 - 47% (34 distributors)) of the Ontario distributors were ranked as "average efficiency"; 20% (14 distributors) (2014 - 28% (20 distributors)) were ranked as "more efficient"; 15% (11 distributors) (2014 - 25% (18 distributors)) were ranked as "least efficient.

London Hydro notes that with the passage of time many distributors are challenged with respect to the efficiency measures and are losing ground. London Hydro's goal is always to advance in the ranking to the "more efficient" group; however, management's expectation is that London Hydro's efficiency performance will decline over the next few year, pushing the company into the average efficiency category. While London Hydro works hard to implement efficiencies and maintain costs at or less than inflation, continuing outside influences accelerate operational spending, which is the prime driver in this assessment.

The following is the results of the forecast of London Hydro's efficiency assessment using the PEG forecasting model for the test year. The purpose of the model is to provide the OEB with a directional indicator of efficiency. As is indicated model is predicting declining results over the bridge and test year periods.

# Summary of Cost Benchmarking Results

**London Hydro Inc.**

| Cost Benchmarking Summary | 2015 (History) | 2016 (Bridge) | 2017 (Test Year) |
|---|---|---|---|
| Actual Total Cost | 77,809,466 | 82,218,714 | 80,440,488 |
| Predicted Total Cost | 85,939,427 | 89,304,335 | 85,637,571 |
| Difference | (8,129,961) | (7,085,621) | (5,197,083) |
| **Percentage Difference (Cost Performance)** | **-9.9%** | **-8.3%** | **-6.3%** |
| Three-Year Average Performance | | | -8.2% |
| Stretch Factor Cohort | | | |
| Annual Result | 3 | 3 | 3 |
| Three Year Average | | | 3 |

Over the last several years London Hydro has seen the growing influence of additional spending in areas outside of our normal business. The push for distributed generation, smart meter management and maintenance, consumer engagement, public policy implementation (i.e. OESP), etc. have accelerated current spending requirements. London Hydro is concerned that more public policy requirements will be have significant influence in the future, such as initiatives to support the environment and climate change plan and the OEB initiative for amendments to the Burden Reduction Bill (Bill 218), which would give the OEB more authority over how electricity utilities exercise their right to disconnect for nonpayment. If passed, and as currently worded, Bill 218 would allow the OEB to make rules setting out periods when an electricity utility cannot disconnect a residential or small business consumer. London Hydro's previous experience with similar initiatives has resulted in the escalation of losses due to bad debts, an expense perceived as normal distributor responsibility.

London Hydro would caution that this model is relatively new and will require years of observations to determine reasonableness of results.

### *Total Cost per Customer*

Total cost per customer is calculated as the sum of London Hydro's capital and operating costs divided by the total number of customers that London Hydro serves. The cost performance result for 2015 is $505 /customer (2014 was $477 /customer) which is a 5.8% increase over 2014.

Similar to most distributors in the province, London Hydro has experienced increases in its total costs required to deliver quality and reliable services to customers. London Hydro's Total Cost per Customer has increased on average by 2.2% (2014 1.8%) per annum over the period 2011 through 2015. Province-wide programs such as smart meters required for Time of Use pricing, growth in wage and benefits costs for our employees, as well as investments in new information systems technology and the renewal and growth of the distribution system, have all contributed to increased operating and capital costs.

London Hydro will continue to replace distribution assets proactively along a carefully managed timeframe in a manner that balances system risks and customer rate impacts. As will be demonstrated in our future 2017 Cost of Service rate application, London Hydro will continue to implement productivity and improvement initiatives to help offset some of the costs associated with future system improvement and enhancements. Customer engagement initiatives will continue in order to ensure customers have an opportunity to share their viewpoint on London Hydro's capital spending plans. However, as discussed in our efficiency assessment, London Hydro is concerned that continuing public policy initiatives will result in continued cost escalations beyond London Hydro management's control.

### *Total Cost per Km of Line*

This measure uses the same total cost that is used in the Cost per Customer calculation above. The total cost is divided by the kilometres of line that London Hydro operates to serve its customers. London Hydro's 2015 rate is $27,149 per km of line, an 8.8% increase over 2014. London Hydro experienced a moderate level of growth in its total kilometers of lines complemented by moderate annual customer growth rate. This continued modest growth rate provides London Hydro with the ability to fund capital renewal projects and buffers some of the

increased operating costs realized through customer growth. As a result, cost per km of line has increased year over year with the increase in capital and operating costs. See above cost per customer section for cost drivers commentary. London Hydro continues to seek innovative solutions to help ensure cost per km of line remains competitive and within acceptable limits to our customers.

## Public Policy Responsiveness

Public Policy Responsiveness measures the extent to which "utilities deliver on obligations mandated by government" and is divided into two categories: Conservation and Demand Management and Connection of Renewable Energy.

### *Conservation and Demand Management*

Conservation and Demand Management is measured by the Net cumulative Energy Savings achieved by the utility.

### *Net Cumulated Energy Savings*

As a means of improving the overall effectiveness of both organizations, London Hydro entered into a partnership arrangement with Tillsonburg Hydro for the delivery of CDM programs throughout the 2015-2020 CDM delivery framework, and submitted a Joint CDM Plan to IESO consisting of the following public-domain documents:

- London Hydro Report EM-14-03, Integrated Resource Planning: Forecasts of Energy Efficiency Program Outcomes as a Demand-Side Resource (Volume 1 – Articulation of the Vision); April 2015
- London Hydro Report EM-14-03B, Integrated Resource Planning: Forecasts of Energy Efficiency Program Outcomes as a Demand-Side Resource (Volume 2 – Budget & Resource Plan); April 2015
- London Hydro Report EM-14-03C, Integrated Resource Planning: Forecasts of Energy Efficiency Program Outcomes as a Demand-Side Resource (Volume 3 – Tillsonburg Hydro Element); April 2015

London Hydro's assigned net energy savings target for the current framework was 196.66 GWh. Since there was no capacity in Tillsonburg for connection of embedded load displacement generation (due to constraints on the provincial transmitter's upstream 115 kV transmission network), as an interim measure (for the purpose of Joint CDM Plan approval), Tillsonburg Hydro's anticipated target shortfall was transferred to London Hydro (a permitted approach for Joint CDM Plans) thereby temporarily increasing London Hydro's CDM target to 220.623 GWh. One of the outcomes of the *Regional Supply Planning* process was a reassessment of the 115 kV transmission network and allocation of generation connection capacity within Tillsonburg (re: Hydro One Networks' July 07th, 2016 notification to Tillsonburg Hydro; *Restricted Station Capacity Update*). Consequently two (2) embedded load displacement generation projects within Tillsonburg Hydro's franchise service territory are proceeding to the engineering feasibility study stage and the Joint CDM Plan will be amended in late summer 2016 to transfer these CDM targets back to Tillsonburg Hydro.

According to the IESO publication *Final 2015 Annual Verified Results Report*, throughout 2015 London Hydro achieved 28,534.593 MWh of net energy savings (persisting to 2020), or 15% of its 196 GWh target. London Hydro is on-target to meet its assigned CDM target (for both London Hydro and Tillsonburg Hydro).

Embedded load displacement generation projects by their very nature are long-term in nature (and can involve some level of unpredictability of in-service date due to the number of steps set forth in the *Distribution System Code* and number of organizations involved in the process), and have significant associated energy savings. At the time the Joint CDM Plan was formulated, London Hydro did not have dependable insight into the likely in-service date of the various generation projects underway, so simply assumed a linear adoption (i.e. equal savings each year) wherein realistically these savings will be very lumpy in nature.

## Connection of Renewable Generation

This performance category is measured based on two criteria:

- Renewable Generation Impact Assessments Completed on Time
- New Micro-embedded Generation Facilities Connected on Time

Over the last five years, London Hydro's results on these two measures are as follows:

| Connection of Renewable Generation Measures | OEB Target | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Renewable Generation Impact Assessments Completed on Time | | 100% | 100% | 100% | 100% | 90.91% |
| New Micro-embedded Generation Facilities Connected on Time | **90%** | n/a | n/a | 100% | 100% | 92.72% |

In 2015, London Hydro completed ten out of eleven Connection Impact Assessments within the prescribed time limit of 60 days. Due to a significantly higher than normal volume of applications received at the same time, it was not feasible to complete all of the assessments within the prescribed period. However, all projects were prioritized with the proponents' input to ensure their timelines were not negatively impacted.

In the same year, new Micro-embedded Generation Facilities were connected 51 out of 55 times. In the area of Micro-embedded Generation, we have also experienced a rise in applications and, thus, a higher volume of connections to be made within the prescribed five business days. In certain cases, an ESA inspection is received towards the end of a day resulting in one fewer work day to begin with. Nonetheless, we strive to meet the prescribed timelines and occasionally, circumstances prevent us from meeting the target 100% of the time.

## Financial Performance

Financial Performance measures the extent to which "financial viability is maintained and savings from operational effectiveness are sustainable" and is evaluated by financial ratios in four areas:

- Liquidity: Current Ratio (current Assets/current Liabilities)
- Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio
- Profitability: Regulatory - Deemed (included in rates)
- Return on Equity - Achieved

London Hydro's achievement on these measures over the past five years are as follows:

| Financial Ratio Measures | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Liquidity: Current Ratio (current Assets/current Liabilities) | 1.53 | 1.23 | 1.13 | 1.23 | 1.17 |
| Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio | 0.71 | 0.66 | 0.61 | 0.64 | 0.66 |
| Profitability: Regulatory - Deemed (included in rates) | 8.01% | 8.01% | 8.98% | 8.98% | 8.98% |
| Return on Equity - Achieved | 6.80% | 4.90% | 11.22% | 9.10% | 7.52% |

### *Liquidity: Current Ratio (Current Assets/Current Liabilities)*

Current assets represent cash and other assets that are expected to become cash within the next year. Conversely, current liabilities are financial obligations that are anticipated to be paid within a year. A ratio that is greater than 1 may be an indicator that a company is able to meet its financial obligations coming due within the next year. A higher ratio of current assets to current liabilities provides a greater comfort zone since it indicates that current liabilities can be paid, while leaving excess funds for ongoing operations. A ratio of less than 1 could be a signal that a company may not be able to keep up with its upcoming payments, indicating insufficient cash flows from profits or the need for financing.

London Hydro's current ratio is affected by items such as accounts receivable and liabilities for electricity, which can fluctuate significantly, depending on factors including changes in customer consumption and the price of electricity acquired on behalf of customers. Additionally, the timing

and extent of capital investments in the London Hydro distribution system can have a significant impact on cash balances. Accordingly, a fluctuation in London Hydro's ratio is not an indicator of stability or financial performance but more a matter of timing and leveling with long-term debt.

The Company's ratio as of December 2015 was 1.17, which is down from 2014 (1.23) and up from 2013 (1.13).

### *Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio*

London Hydro has a capital mix of 40% debt and 60% equity (debt to equity ratio of .66) for 2015. The OEB uses a deemed capital structure of 60% debt and 40% equity (debt to equity ratio of 1.5) when establishing rates.

A debt to equity ratio higher than 1.5 may indicate that the Company will have difficulty obtaining any required debt to finance capital investments and meet working capital requirements. A debt to equity ratio less than 1.5 may be a signal that the Shareholder is not achieving an optimum rate of return, as a portion of their investment is providing a lower yield.

London Hydro's capital mix equips the Company with unused debt capacity making funds readily available. This, in turn, keeps London Hydro in a strong financial position as displayed by the recent Standard & Poor's Rating Services rating of A/Stable.

### *Profitability: Regulatory Return on Equity – Deemed (included in rates)*

London Hydro's current distribution rates were approved by the OEB and include an expected (deemed) regulatory return on equity of 8.98%. The OEB allows a distributor to earn within +/- 3% of the expected return on equity. When a distributor performs outside of this range, the actual performance may trigger a regulatory review of the distributor's revenues and costs structure by the OEB.

### *Profitability: Regulatory Return on Equity – Achieved*

London Hydro s' regulatory return on equity (ROE) achieved in 2015 was 7.52% (2014 9.10%), which is well within the +/-3% range allowed by the OEB.

London Hydro experienced higher distribution revenue in 2015 than was forecasted in our 2013 Cost of Service application (COS). This result is primarily due to the impact of the IRM rate adjustments in 2014 and 2015. Other revenues are lower in 2015 than were forecasted in our 2013 as a result of reduced disposals. OM&A costs are significantly higher than the COS forecast primarily in the area of Operation & Maintenance and Billing. The overall higher distribution revenue is offset by significant reduction in the 2015 ROE results stemming from the fact that London Hydro annually invests more in capital spending than is covered by the depreciation provided in our COS. Our 2015 calculated depreciation was $1.0 M higher that projected in our COS. This results in lower measured net income.

London Hydro's 2015 formulaic rate base is $25.7M greater than COS. $5.4 M is due to escalating customer consumption and electricity costs which London Hydro is required to cover in working capital. The remaining $20.3M is the change in Average Net Fixed Assets. With the assumption that this trend will continue London Hydro projects that future reported ROE balances will continue to decline.

File Number: EB-2016-0091

Date Filed: August 26, 2016

# Exhibit 1

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# Tab 8 of 10

# Financial Information

# FINANCIAL INFORMATION

## 1.5.1 AUDITED FINANCIAL STATEMENTS

Copies of London Hydro's 2013 and 2014 and 2015 Audited Financial Statements are provided in the following Exhibit 1 Tab 5 Schedule 1 Attachment 1.

## 1.5.2 RECONCILIATION BETWEEN AUDITED FINANCIAL STATEMENTS AND REGULATORY ACCOUNTING

Reconciliations of London Hydro's Audited Financial Statements to the annual RRR Trial Balance for 2012, 2013 and 2014 are provided as Exhibit 1 Tab 5 Schedule 1 Attachment 2.

London Hydro has a limited amount of non-utility services, including Conservation & Demand Management and some Renewable Generation (10 kW solar array). For more details regarding the non-utility services see Exhibit 3, Section 3.4 regarding Other Revenue.

## 1.5.3 ANNUAL REPORT

Copies of London Hydro's 2013 and 2014 and 2015 Annual Reports are provided in the following Exhibit 1 Tab 5 Schedule 1 Attachment 3.

## 1.5.4 RATING AGENCY REPORT

The June 2, 2015, Standard & Poor's rating agency report on London accompanies this application as Exhibit 1 Tab 5 Schedule 1 Attachment 4.

## 1.5.5 PROSPECTUSES OR INFORMATION CIRCULARS

London Hydro has no past or planned prospectuses, information circulars, or other similar documents.

## 1.5.6 CHANGES IN TAX STATUS

London Hydro is a corporation incorporated pursuant to the Ontario Business Corporations Act and has not had a change in tax status since its last Cost of Service Application.

## 1.5.7 STATEMENT OF ACCOUNTING 1 STANDARD USED

### Modified IFRS Application

London Hydro's 2017 Cost of Service Rate Application, like its 2013 Application, has been filed in accordance with Modified International Financial Reporting Standards ("MIFRS"). All schedules and number references in this Application are in accordance with MIFRS.

For external financial statement purposes, London Hydro implemented International Financial Reporting Standards ("IFRS") effective January 1, 2015. The Company had previously chosen to accept the available deferral to IFRS due to issues surrounding rate-regulated accounting for regulatory assets and liabilities, which have now been temporarily resolved.

For rate-making purposes, London Hydro, in essence, moved to MIFRS effective January 1, 2012. This early adoption was accomplished by implementing required MIFRS changes acceptable under the CGAAP accounting standard, as follows:

- Capital assets were segregated into more intricate components and new life spans were applied;
- Materials Management overhead burdens were reduced to consider direct labour only. (All other expenditures cannot be tied to a specific item so are considered general and administrative in nature under MIFRS); and
- Labour overhead burdens were reduced slightly to exclude the capitalization of costs associated with training employees.

Accordingly, London Hydro's transition to IFRS has no impact for rate-making purposes. The only change as a result of moving to the IFRS accounting standard relates to the presentation of

contributed capital amortization, which has been reclassified from depreciation expense to other revenue. There are differences between the CGAAP and IFRS accounting standards relating to the treatment of pensions and post-employment benefits; however, they have no impact on revenue requirement. As a result, OEB Appendix 2-Y Summary of Impacts to Revenue Requirement from Transition to MIFRS is not applicable and has not been provided with this Cost of Service Rate Application.

## 1.5.8 NON-UTILITY BUSINESS ACCOUNTING

London Hydro engages in water billing, street light maintenance and a limited amount of renewable generation activities (the latter since 2011). London Hydro confirms that accounting for these activities was segregated from London Hydro's rate regulated activities in accordance with the Board's Guidelines: Regulation and Accounting Treatments for Distributor-Owned Generation Facilities G-2009-0300 dated September 15, 2009.

Further, London Hydro is engaged in the delivery of the Ontario Power Authority's CDM programs. The accounting for these activities is segregated from London Hydro's rate regulated activities in accordance with the Board's Accounting Procedures Handbook for Electricity Distributors.

File Number:EB-2016-0091

Exhibit: 1
Tab: 8
Schedule: 1

Date Filed:August 26, 2016

# ATTACHMENT 1 OF 4
# AUDITED FINANCIAL STATEMENTS




# London Hydro Inc.

## Financial Statements

For the year ended December 31, 2013

*with comparative amounts for 2012*

**KPMG LLP**
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London ON N6A 5P2
Canada

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# INDEPENDENT AUDITORS' REPORT

To the Shareholder of London Hydro Inc.

We have audited the accompanying financial statements of London Hydro Inc. (the "Entity"), which comprise the balance sheet as at December 31, 2013 and the statements of earnings and retained earnings, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of London Hydro Inc. as at December 31, 2013, and the results of its earnings and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 26, 2014

London, Canada

**KPMG Confidential**

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## London Hydro Inc.
## Table of Contents to the Financial Statements
**For the year ended December 31, 2013**


| | Page |
|---|---|
| Balance Sheet | 1 |
| Statement of Operations and Retained Earnings | 2 |
| Statement of Cashflows | 3 |
| Notes to the Financial Statements | 4 - 23 |

**London Hydro Inc.**
**Balance Sheet**
**December 31, 2013, with comparative amounts for 2012**
(in thousands of dollars)

| | Note | 2013 | 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | 4 | $ - | $ 1,666 |
| Accounts receivable | 5 | 71,046 | 62,416 |
| Income tax receivable | | 80 | - |
| Regulatory assets | 7 | 1,483 | 2,329 |
| Inventories | 6 | 731 | 786 |
| Prepaids | | 1,456 | 1,117 |
| **Total current assets** | | 74,796 | 68,314 |
| Regulatory assets | 7 | 854 | 1,812 |
| Property, plant and equipment | 8 | 240,693 | 232,315 |
| Future income tax assets | 18 | 2,463 | 5,736 |
| **Total non-current assets** | | 244,010 | 239,863 |
| **Total assets** | | $ 318,806 | $ 308,177 |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | |
| **Current liabilities** | | | |
| Bank indebtedness | 4 | $ 3,012 | $ - |
| Accounts payable and accrued liabilities - | | | |
| Due to Independent Electricity System Operator | | 37,447 | 28,824 |
| Other | | 14,003 | 12,742 |
| Regulatory liabilities | 7 | 3,829 | 6,248 |
| Current portion of long-term debt | 13 | 2,304 | 2,304 |
| Customer and other deposits | 10 | 1,626 | 4,123 |
| Due to shareholder | 11 | 6,577 | 4,721 |
| **Total current liabilities** | | 68,798 | 58,962 |
| **Long-term liabilities** | | | |
| Unrealized loss on interest rate swap | 13 | 199 | 408 |
| Regulatory liabilities | 7 | 5,496 | 14,203 |
| Customer and other deposits | 10 | 7,419 | 6,410 |
| Long-term debt | 13 | 10,738 | 13,042 |
| Due to shareholder | 11 | 3,976 | 4,242 |
| Due to related party | 11,13 | 70,000 | 70,000 |
| Employee future benefits | 19 | 11,733 | 11,302 |
| **Total long-term liabilities** | | 109,561 | 119,607 |
| **Total liabilities** | | 178,359 | 178,569 |
| **Shareholder's equity** | | | |
| Share capital | 14 | 96,116 | 96,116 |
| Retained earnings | | 44,331 | 33,492 |
| **Total shareholder's equity** | | 140,447 | 129,608 |
| Commitments | 9, 23 | | |
| **Total liabilities and shareholder's equity** | | $ 318,806 | $ 308,177 |

**On behalf of the Board**

Director

Director

London Hydro Inc.
Statement of Operations and Retained Earnings
Year Ended December 31, 2013, with comparative amounts for 2012
(in thousands of dollars)

| | Note | 2013 | 2012 |
|---|---|---|---|
| **Revenues** | | | |
| Energy | | $ 341,136 | $ 316,677 |
| Distribution | | 63,795 | 61,780 |
| | | 404,931 | 378,457 |
| Cost of power | | (341,136) | (316,677) |
| **Distribution revenue** | | 63,795 | 61,780 |
| **Operating expenses** | | | |
| Plant operating and maintenance | | 12,613 | 12,087 |
| General and administrative | | 22,955 | 22,403 |
| Amortization of plant and equipment | | 16,938 | 20,603 |
| | | 52,506 | 55,093 |
| Less: Costs recovered | 11 | (3,904) | (3,088) |
| | | 48,602 | 52,005 |
| **Operating income** | | 15,193 | 9,775 |
| **Other income (expense)** | | | |
| Interest and other revenue | 16 | 5,085 | 4,684 |
| Unrealized gain on interest rate swap | 13 | 209 | 140 |
| Interest expense | 17 | (5,082) | (5,189) |
| | | 212 | (365) |
| **Earnings before income taxes** | | 15,405 | 9,410 |
| Income tax expense | 18 | 1,566 | 857 |
| **Net earnings for the year** | | 13,839 | 8,553 |
| **Retained earnings, beginning of year** | | 33,492 | 27,939 |
| **Dividends** | | (3,000) | (3,000) |
| **Retained earnings, end of year** | | $ 44,331 | $ 33,492 |

The accompanying notes are an integral part of these financial statements.

London Hydro Inc.
Statement of Cashflows
Year Ended December 31, 2013, with comparative amounts for 2012
(in thousands of dollars)

| | Note | 2013 | 2012 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net earnings for the year | | $ 13,839 | $ 8,553 |
| Adjustments for: | | | |
| Depreciation and amortization | | 16,938 | 20,603 |
| Gain on disposal of property, plant and equipment | | (175) | (117) |
| Unrealized (gain)/loss on interest rate swap | | (209) | (140) |
| | | 30,393 | 28,899 |
| Net change in non-cash working capital related to operations | 15 | 890 | 769 |
| Employee future benefits | | 431 | 662 |
| **Net cash provided by operating activities** | | 31,714 | 30,330 |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | | (27,712) | (28,666) |
| Proceeds on disposal of capital assets | | 231 | (272) |
| Regulatory assets and liabilities - future income taxes | 3 (g) | 3,273 | 1,554 |
| Other regulatory assets and liabilities, including smart meters | | (9,401) | 2,182 |
| **Net cash used in investing activities** | | (33,609) | (25,202) |
| **Financing activities** | | | |
| Customer and other deposits | | (1,488) | (181) |
| Contributions in aid of construction | | 2,419 | 3,781 |
| Shareholder advances / (repayments) | | 1,590 | (2,071) |
| Dividends paid | | (3,000) | (3,000) |
| Long-term debt repaid | 13 | (2,304) | (2,304) |
| **Net cash used in financing activities** | | (2,783) | (3,775) |
| **Net increase / (decrease) in cash and bank indebtedness during the year** | | (4,678) | 1,353 |
| **Cash, beginning of the year** | | 1,666 | 313 |
| **Cash / (bank indebtedness), end of the year** | | $ (3,012) | $ 1,666 |
| **Supplemental cashflow information** | | | |
| Interest paid | | $ 4,858 | $ 4,896 |
| Income taxes paid | | $ 1,780 | $ 635 |

The accompanying notes are an integral part of these financial statements

## 1. Regulated Business Operations and Distribution Rates

London Hydro Inc. ("the Company") is a wholly owned subsidiary company of the Corporation of the City of London and provides regulated electrical distribution services to the inhabitants of the City of London.

The Company is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the Ontario Energy Board Act (1998). The OEB has responsibility to set just and reasonable distribution rates and thereby approves all of the Company's distribution and ancillary rates. The Company's distribution revenue is determined by applying those regulated rates to customers and their consumption of electricity in the Company's distribution territory, as established by its distribution license granted by the OEB.

## 2. Financial Effects of Distribution Rate Regulation

The financial results presented are in accordance with Canadian generally accepted accounting principles and within that framework the Company accounts for the impact of regulatory actions in the following manner:

a) Regulatory decisions to adjust distribution rates

In the event that a regulatory decision is rendered, providing regulatory approval and certainty to the recognition of an asset, or creation of a liability, and culminating in an adjustment to the Company's distribution rates, such occurrences are immediately reflected in the Company's accounts.

b) Regulatory direction and practice

In the absence of a regulatory decision impacting rates, and where the Company is required by regulatory accounting practice or direction to accumulate balances for future rate recovery or create liabilities for future discharge, those amounts are recorded in accordance with that regulatory direction. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provisions for future uncertainty, are more fully described in Note 7 to the financial statements.

## 3. Summary of Significant Accounting Policies

a) Revenue recognition

The Company is licensed by the OEB to distribute electricity. As a licensed distributor, the Company is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties.

The Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers. The Company is acting as a principal for the electricity distribution and therefore present electricity revenues on a gross basis.

Revenue attributable to the delivery and consumption of electricity is based upon rates approved by the OEB and the Independent Electricity Systems Operator ("IESO") and includes the cost of electricity supplied, distribution charges and any regulatory charges. Revenue recognized as electricity is delivered and consumed by customers. Revenue is recorded on the basis of regular monthly meter readings and estimates of customer usage since the last meter reading date to the end of the period. Revenue is measured at the value of the consideration received or receivable, net of sales tax.

Amounts billed for Debt Retirement Charges are excluded from revenues, as the Company is acting as an agent for the collection of these amounts. The Company may file to recover uncollected debt retirement charges from the Ontario Electricity Financial Corporation.

b) Financial assets and liabilities

The standards require that as financial assets and liabilities are initially recognized that they be measured at fair value, except for certain related party transactions. After initial recognition, financial assets are categorized as assets held-for-trading, held-to-maturity investments, loans and receivables or, available-for-sale assets, and financial liabilities must be classified as held-for-trading, or other financial liabilities. All financial instruments are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments, and other liabilities, which are measured at amortized cost.

Subsequent measurement and changes in fair value depend on their initial classification as follows: held-for-trading is measured at fair value and changes in fair value are recognized in the statement of operations and retained earnings.

The Company has classified its financial instruments as follows:

| | |
|---|---|
| Cash | Held-for-trading |
| Accounts receivable | Loans and Receivables |
| Income taxes receivable | Loans and Receivables |
| Bank indebtedness | Other Liabilities |
| Accounts payable and accrued liabilities | Other Liabilities |
| Customer and other deposits | Other Liabilities |
| Due to shareholder | Other Liabilities |
| Long-term debt | Other Liabilities |
| Due to related party | Other Liabilities |

**Summary of Significant Accounting Policies, continued**

c) Inventories

Inventories are required to be measured at the lower of average cost and net realizable value. Items considered to be major future components of property, plant and equipment are recorded as such in the financial statements.

d) Property, plant and equipment

Property, plant and equipment are amortized over their estimated useful lives using the straight-line method over the following periods:

| | |
|---|---|
| Land rights and buildings | 25 to 75 years |
| Distribution substation equipment | 15 to 45 years |
| Other distribution equipment | 25 to 60 years |
| Other fixed assets | 3 to 35 years |

When an item of property, plant and equipment is sold or otherwise disposed of, the related cost and accumulated amortization are removed from the respective accounts and any gain or loss on disposition is recognized in earnings.

Assets under construction are not subject to depreciation until they are put into service.

Plant and equipment, that by their nature are not readily identifiable as individual assets, are grouped together. Under this method, the related cost and accumulated amortization are removed from their respective grouping account at the end of the asset's estimated useful life, regardless of actual service life. Any proceeds on disposition are recognized in earnings in the year of disposition.

e) Contributions to capital costs

Contributions are received from developers and contractors for capital costs incurred by the Company. These contributions are included as a reduction to the cost of the related plant and equipment when those assets are placed in service.

f) Cash

Cash on hand and on deposit with banks, and short-term investments with maturity of three months or less, are considered cash.

**Summary of Significant Accounting Policies, continued**

g) Future income taxes

CICA Handbook Section 3465 states that where future income taxes may be expected to be included in approved rates charged to customers in the future and to be recovered or returned to future customers, the recognition of a regulatory asset or liability for the increase or reduction in future revenue is required. Furthermore, the regulatory asset or liability established by this requirement is a temporary difference for which an additional future income tax asset or liability is recognized.

h) Employee future benefits

The Company has adopted the following policies for future benefits provided to both active and retired employees:

*Pension benefits*

The Company has a pension agreement with the Ontario Municipal Employees Retirement System, which is a multi-employer contributory defined benefit plan. Company contributions to the plan are recognized as pension expense in the period that they are incurred. As this is a multi-employer plan, no pension liability for this type of plan is recorded in the Company's financial statements.

*Other post-retirement and post-employment benefits*

The Company provides other benefits to active and retired employees including group life insurance and health-care benefits. Recognition of these benefits are actuarially determined using the projected benefit method pro-rated on service using management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

i) Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the financial statements.

Certain estimates are also required as regulations, which will ultimately determine the actual results, have yet to be finalized and are dependent on the completion of regulatory proceedings or decisions. Due to these uncertainties, actual results might differ from those estimates and the impact will be recorded in the current period when the actual results are known.

## 4. Cash and Bank Indebtedness

| | | 2013 | | 2012 |
|---|---|---|---|---|
| **Cash** | $ | - | $ | 1,666 |
| **Bank indebtedness** | $ | 3,012 | $ | - |

## 5. Accounts Receivable

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Trade receivables | $ | 31,295 | $ | 27,414 |
| Allowance for doubtful accounts | | (1,961) | | (1,837) |
| Unbilled revenue | | 39,731 | | 33,158 |
| Other | | 1,981 | | 3,681 |
| | $ | 71,046 | $ | 62,416 |

Included in accounts receivable is approximately $8.0 million (2012 - $5.8 million) of customer receivables for water consumption that the Company bills and collects on behalf of the Corporation of the City of London. As the Company does not assume liability for collection of these amounts, any amount relating to water consumption that is determined to be uncollectible is charged to the Corporation of the City of London.

At year end, approximately $0.5 million (2012 - $0.4 million) is included in the allowance for doubtful accounts for uncollectible amounts relating to water consumption.

Also, included in the accounts receivable is $1.2 million (2012 - $1.0 million) of energy, water, and sundry receivables due from the Corporation of the City of London.

## 6. Inventories

Inventories, which consist of parts and supplies acquired for internal construction, consumption, or recoverable work, is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis. Net realizable value is determined by replacement cost.

The amount of inventories consumed by the Company and recognized as an expense during the year ended December 31, 2013 was $0.6 million (2012 - $0.7 million).

## 7. Regulatory Assets and Liabilities

Regulatory assets:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Amounts approved for recovery in distribution rates: | | | | |
| Stranded meter expenditures in excess of recoveries | $ | 1,366 | $ | 3,154 |
| IFRS-CGAAP Transitional PP&E recoveries | | 393 | | 472 |
| Amounts to be submitted for future rate approval: | | | | |
| Other | | 578 | | 515 |
| | | 2,337 | | 4,141 |
| Less: Current portion | | 1,483 | | 2,329 |
| | $ | 854 | $ | 1,812 |

Regulatory liabilities:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Amounts approved for disposition in distribution rates | $ | 3,829 | $ | 6,766 |
| Purchase power cost variances (non-commodity) | | 4,496 | | 6,599 |
| Purchase power cost variances (commodity) | | (1,567) | | 827 |
| Future income tax liability | | 2,410 | | 5,628 |
| Other | | 157 | | 631 |
| | | 9,325 | | 20,451 |
| Less: Current portion | | 3,829 | | 6,248 |
| | $ | 5,496 | $ | 14,203 |

**Regulatory Assets and Liabilities, continued**

*Regulatory assets*

a) Stranded meter expenditures

The Company has been authorized under Ontario Regulation 427/06 to undertake metering activities pursuant to the Provincial Smart Meter Program, and to recover through rates, the funding required for the implementation of this program. This balance represents the stranded meter costs of the Smart Meter Program.

During 2012, the Company filed its 2013 Cost of Service Rate Application which included a request for OEB approval for the disposition of certain authorized regulatory deferral accounts including the stranded meter account. The OEB issued its decision with respect to this Application which authorizes recovery of these balances over a one-year period commencing May 1, 2013.

*b) IFRS-CGAAP Transitional PP&E recoveries*

Compliant with OEB directives of the Accounting Procedures Handbook, the Company must use this account to record differences arising as a result of accounting policy changes caused by the transition from previous Canadian GAAP to Modified International Financial Reporting Standards ("MIFRS").

During 2012, the Company filed its 2013 Cost of Service Rate Application which included a request for OEB approval for the recovery of certain authorized regulatory deferral accounts including these IFRS-CGAAP Transitional PP&E differences. The OEB issued its decision with respect to this Application which authorizes amortization of the balance into rate base and revenue requirement amounts. Therefore, the approved distribution rates during the four year period commencing May 1, 2013, include the recovery of these IFRS-CGAAP Transitional PP&E account differences.

*c) Other cost recoveries*

Other cost recoveries include various deferred amounts in connection with Green Energy programs, Lost Revenue Adjustment Mechanism ("LRAM") Variances, Smart Metering Entity Charge Variances and IFRS transition expenditures. Green Energy programs authorized by the OEB include renewable generation facilities, renewable enabling improvements and investments towards smart grid. Costs incurred with respect to these various activities have been captured under deferral accounts for future rate recovery $0.6 million (2012 - $0.5 million)

**Regulatory Assets and Liabilities, continued**

*Regulatory liabilities*

a) Amounts approved for disposition in distribution rates

During 2011, the Company filed its IRM rate application for the 2012 rate year. The OEB issued its decision with respect to this application which included a request for OEB approval for the disposition of certain authorized regulatory deferral accounts and purchased power variance account balances, for amounts as at December 31, 2010. The regulatory decision approved the disposition of these balances over a two-year period ending April 30, 2014.

b) Purchased power cost variances

As a regulated distributor of electricity, the Company is obligated to provide energy supply to all consumers unless they elect to purchase their energy from an energy retailer. The regulatory framework requires that all energy commodity and non-commodity costs be billed at regulated rates to consumers who are on the Regulated Price Plan.

Variances between purchase costs and amounts billed are required to be captured in the Retail Settlement Variance Accounts for disposition through future rates. The variance accounts have been further defined by the regulator into commodity related and non-commodity accounts. Those accounts defined as commodity accounts are eligible for regulatory review on a quarterly basis. All other accounts are defined as non-commodity and are currently eligible for review on an annual basis.

For all variance accounts, the review period does not in itself determine whether any adjustment will be permitted as the regulator will determine when the balances are material enough to warrant an adjustment to rates.

These variances are for future disposition. Variances accumulated prior to January 1, 2011 are included in the regulatory amounts that were approved in 2012 for disposition effective May 1, 2012 through to April 30, 2014.

During 2012, the Company filed its 2013 Cost of Service Rate Application which included a request for OEB approval for the disposition of the RSVA Power account and the RSVA Power-Global Adjustment sub accounts. These accounts include amounts accumulated between January 1, 2011 and December 31, 2012. The non-commodity RSVA accounts include amounts accumulated between January 1, 2011 and December 31, 2011. The OEB issued its decision with respect to this Application which authorizes the disposition of these balances over a one-year period commencing May 1, 2013.

c) Other

The other regulatory liabilities consist primarily of the amounts recorded during 2012 as a result of the implementation of the Harmonized Sales Tax – $0.2 million.

## 8. Property, Plant and Equipment

*Cost:*

| | Land and Buildings | Distribution Substation Equipment | Other Distribution Equipment | Other Fixed Assets | Construction in Progress | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2012 | $ 24,315 | $ 16,379 | $ 298,598 | $ 36,637 | $ 10,618 | $ 386,547 |
| Additions | 1,453 | 652 | $ 16,169 | $ 10,510 | (3,898) | 24,886 |
| Regulatory Asset Transfer | - | - | 16,653 | 7,989 | - | 24,642 |
| Disposals / Retirements | - | - | $ (9,855) | $ (2,431) | - | (12,286) |
| Balance at December 31, 2012 | $ 25,768 | $ 17,031 | $ 321,565 | $ 52,705 | $ 6,720 | $ 423,789 |
| Balance at January 1, 2013 | $ 25,768 | $ 17,031 | $ 321,565 | $ 52,705 | $ 6,720 | $ 423,789 |
| Additions | 437 | 127 | 12,402 | 8,013 | 4,314 | 25,293 |
| Disposals / Retirements | (2,234) | (35) | (12,454) | (6,540) | - | (21,263) |
| Balance at December 31, 2013 | $ 23,971 | $ 17,123 | $ 321,513 | $ 54,178 | $ 11,034 | $ 427,819 |

*Accumulated depreciation:*

| | Land and Buildings | Distribution Substation Equipment | Other Distribution Equipment | Other Fixed Assets | Construction in Progress | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2012 | $ 10,671 | $ 6,133 | $ 145,102 | $ 19,045 | $ - | $ 180,951 |
| Depreciation | 1,922 | 333 | 11,493 | 6,448 | - | 20,196 |
| Regulatory Asset Transfer | - | - | 1,267 | 1,327 | - | 2,594 |
| Disposals / Retirements | - | - | (9,836) | (2,431) | - | (12,267) |
| Balance at December 31, 2012 | $ 12,593 | $ 6,466 | $ 148,026 | $ 24,389 | $ - | $ 191,474 |
| Balance at January 1, 2013 | $ 12,593 | $ 6,466 | $ 148,026 | $ 24,389 | $ - | $ 191,474 |
| Depreciation | 895 | 322 | 8,550 | 7,091 | - | 16,858 |
| Disposals / Retirements | (2,234) | (35) | (12,439) | (6,498) | - | (21,206) |
| Balance at December 31, 2013 | $ 11,254 | $ 6,753 | $ 144,137 | $ 24,982 | $ - | $ 187,126 |

*Net book value:*

| Balance at | Land and Buildings | Distribution Substation Equipment | Other Distribution Equipment | Other Fixed Assets | Construction in Progress | Total |
|---|---|---|---|---|---|---|
| December 31, 2012 | $ 13,175 | $ 10,565 | $ 173,539 | $ 28,316 | $ 6,720 | $ 232,315 |
| December 31, 2013 | $ 12,717 | $ 10,370 | $ 177,376 | $ 29,196 | $ 11,034 | $ 240,693 |

## 9. Letters of Credit

At December 31, 2013, the Company had provided $6.6 million (2012 – $6.6 million) in bank standby letters of credit to the IESO.

## 10. Customer and Other Deposits

Customer and other deposits include security deposits for energy consumption bearing interest at a rate of prime less 2% per annum and developer deposits held in accordance with regulation.

Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB, or upon termination of their electricity distribution service.

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, and dependent upon the final determination of the required capital contribution, these deposits are either refunded to the developer or transferred to contributions in aid of construction.

Customer deposits are comprised of:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Customer deposits | $ | 5,665 | $ | 7,765 |
| Construction deposits | | 3,380 | | 2,768 |
| | | 9,045 | | 10,533 |
| Less: Current portion | | 1,626 | | 4,123 |
| | $ | 7,419 | $ | 6,410 |

## 11. Related Party Balances and Transactions

a) Trade balances due to shareholder

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Non-interest bearing trade balance due to shareholder, without stated repayment terms | $ | 6,276 | $ | 4,202 |
| Trade balance due to shareholder, bearing 1% interest per annum, without stated repayment terms | $ | 4,277 | $ | 4,761 |
| | | 10,553 | | 8,963 |
| Less: Current portion | | 6,577 | | 4,721 |
| | $ | 3,976 | $ | 4,242 |

During the year ended December 31, 2013, the Company billed customers for water service on behalf of the shareholder and remitted funds to the shareholder in the amount of $131.6 million (2012 – $127.5 million). The shareholder paid $3.9 million (2012 - $3.1 million) for this service.

b) Promissory note due to related party

| | 2013 | 2012 |
|---|---|---|
| Unsecured promissory note, due to related party, bearing interest at 6% per annum, payable on demand with 367 days notice, maturing October 31, 2015 | 70,000 | 70,000 |
| | 70,000 | 70,000 |
| Less: Current portion | - | - |
| | $ 70,000 | $ 70,000 |

The Company paid interest on the promissory note above during the year ended December 31, 2013 in the amount of $4.2 million (2012 - $4.2 million).

## 12. Credit Facilities

The Company has an uncommitted operating revolving line of credit facility of $20.0 million with the Toronto Dominion Bank. As at December 31, 2013, the amount drawn by the Company under this line of credit was $2.0 million (2012 - $nil). The line of credit is unsecured and interest is at bank prime rate on prime based borrowings minus 0.5%, or at Bankers Acceptances ("B/A") rates plus a 0.75% stamping fee on B/A based borrowings.

At December 31, 2013, the Company had a committed 364 day extendable operating revolving loan facility of $15.0 million with the Toronto Dominion Bank and the amount drawn by the Company under this loan facility was $nil (2012 - $nil). Under the terms of this agreement, the loan has a maturity date of March 31, 2016. The Company has a one year period from the loan maturity date to repay any outstanding balances in the event the lender elects not to extend the loan for an additional 364 day period. Interest is at bank prime rate on prime based borrowings minus 0.50%, or at B/A rates plus a 0.75% stamping fee on B/A based borrowings.

## 13. Long-term Debt

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Non-revolving term instalment loan bearing interest at the 7.75 year Banker's Acceptance rate of 2.43% plus a stamping fee of 0.9% payable in monthly instalments of $192,000 principal plus interest due on March 31, 2020 | $ | 13,042 | $ | 15,346 |
| | | 13,042 | | 15,346 |
| Less: Current portion | | 2,304 | | 2,304 |
| | $ | 10,738 | $ | 13,042 |

The Company has an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan in the original amount of $20.5 million to fund its Smart Meter capital expenditure program. Principal repayments on this loan commenced in October 2010 and are being amortized over a 10 year period ending March 31, 2020. The agreement is a fixed rate swap and matures March 31, 2020 which effectively converts variable interest rates on unsecured Bankers Acceptances to an effective interest rate of 2.43%, plus a stamping fee of 0.9%, for an all-in rate of 3.33%.

The swap agreement entered into with Royal Bank of Canada does not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contract is marked to market at year end with the unrealized gain or loss recorded in the statement of operations and retained earnings. The unrealized gain for the year ended December 31, 2013 was $0.2 million (2012 - $0.1 million).

**Long-term Debt, continued**

At December 31, 2013, the Company would be required to pay $0.2 million (2012 - $0.4 million) if it wished to cancel the swap agreement.

Additionally, and as described in Note 11 to these financial statements, the Company has issued a promissory note to the Public Utility Commission of the City of London in the amount of $70.0 million bearing interest at 6% per annum. Interest is paid at the end of each quarter. The note is unsecured and payable on demand with 367 days notice, and matures on October 31, 2015.

## 14. Share Capital

Authorized:

An unlimited number of common shares

An unlimited number of non-voting, non-cumulative preference shares, redeemable at the paid-up amount.

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Issued: | | | | |
| 1,001 common shares | $ | 96,116 | $ | 96,116 |

## 15. Change in Non-Cash Working Capital Related to Operations

The net change in non-cash working capital related to operations is comprised of:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Accounts receivable | $ | (8,630) | $ | (1,385) |
| Income taxes receivable | | (80) | | 254 |
| Inventories | | 55 | | 94 |
| Prepaid expenses | | (339) | | (296) |
| Accounts payable and accrued liabilities | | 9,884 | | 2,102 |
| | $ | 890 | $ | 769 |

## 16. Interest and Other Revenue

Interest and other revenue is comprised of:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Interest (Note 17) | $ | 202 | $ | 383 |
| Late payment charges | | 1,454 | | 1,289 |
| Collection and occupancy charges | | 1,256 | | 1,335 |
| Customer billing service fees | | 593 | | 602 |
| Pole and other rental income | | 394 | | 387 |
| Sale of scrap | | 399 | | 289 |
| Gain (loss) on disposal of property, plant & equipment | | 175 | | 117 |
| Renewable generation revenue | | 297 | | 144 |
| Sundry | | 315 | | 138 |
| | $ | 5,085 | $ | 4,684 |

## 17. Interest Income and Expense

Interest income and expense is comprised of:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Interest income from: | | | | |
| Bank deposits | $ | 104 | $ | 115 |
| Regulatory assets | | 98 | | 268 |
| Interest income | | 202 | | 383 |
| Interest expense on: | | | | |
| Due to related party | | 4,200 | | 4,200 |
| Long- term debt | | 507 | | 595 |
| Short-term debt | | 48 | | 25 |
| Regulatory liabilities | | 201 | | 254 |
| Other | | 126 | | 115 |
| Interest expense | | 5,082 | | 5,189 |
| | $ | 4,880 | $ | 4,806 |

## 18. Income Taxes

a) Income tax status

As a wholly owned subsidiary company of the Corporation of the City of London, the Company is exempt from income taxes under the Income Tax Act (Canada). Pursuant to the Electricity Act (1998) (Ontario), the Company is required to make payments in lieu of tax to the Ontario Electricity Financial Corporation. The amount of payments in lieu of tax will be approximately equivalent to corporate taxes that would have to be paid if the Company was a taxable corporation under the Income Tax Act (Canada).

b) Income tax expense

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Earnings before income taxes | $ | 15,405 | $ | 9,410 |
| Income tax expense based on combined federal and provincial statutory income tax rate of 26.5% (2012 - 26.5%) | $ | 4,082 | $ | 2,494 |
| Tax effect of temporary differences | | (2,416) | | (1,644) |
| Other items | | (100) | | 7 |
| Income tax expense recognized | $ | 1,566 | $ | 857 |
| Income tax expense is comprised of the following: | | | | |
| Current income tax | $ | 1,511 | $ | 828 |
| Future income tax | | 55 | | 29 |
| | $ | 1,566 | $ | 857 |

c) Future income tax balances

CICA 3465.103 recognizes that, as a rate regulated entity, future income tax assets paid on behalf of customers will be returned to customers as they are recovered. As a result, these increases or decreases in future income tax assets are offset by a regulatory liability.

The benefit of certain future income tax assets will be realized by customers by way of a reduction in future distribution rates charged by the Company. The components of future income tax assets are as follows:

**Income Taxes, continued**

Future income tax assets:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Capital assets | $ | (1,338) | $ | 780 |
| Employee future benefits | | 3,109 | | 3,137 |
| Smart Meter net recoveries | | - | | 270 |
| Other regulatory liabilities | | 639 | | 1,441 |
| Benefit of future income taxes to be realized by customers | | 2,410 | | 5,628 |
| Loss on interest rate swap | | 53 | | 108 |
| | $ | 2,463 | $ | 5,736 |

## 19. Employee Future Benefits

a) Pension plan

The Company has a pension agreement with OMERS, on behalf of its employees. The plan is a contributory defined benefit plan which specifies the amount of retirement benefit to be received by the employees based on the length of service and rates of pay. During the year, the Company contributed $2.4 million (2012 - $2.1 million).

b) Medical and life insurance benefits plan

The Company provides medical and life insurance benefit coverage to certain retirees of the Company. Based on a recent actuarial valuation, the following information has been determined:

Accrued benefit obligation:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Balance, beginning of year | $ | 13,572 | $ | 11,479 |
| Current service costs | | 368 | | 283 |
| Interest cost | | 535 | | 573 |
| Benefits paid | | (525) | | (438) |
| Actuarial loss (gain) | | (1,037) | | 1,431 |
| Other benefits | | (18) | | 244 |
| Balance, end of year | $ | 12,895 | $ | 13,572 |

**Employee Future Benefits, continued**

Accrued benefit liability:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Accrued benefit obligation | $ | 12,895 | $ | 13,572 |
| Unamortized net actuarial loss | | (1,162) | | (2,270) |
| Accrued benefit liability, end of year | $ | 11,733 | $ | 11,302 |

The Company's net periodic benefit cost is comprised of the following:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Current service cost | $ | 368 | $ | 283 |
| Interest cost | | 535 | | 573 |
| | $ | 903 | $ | 856 |

The excess of the net actuarial loss in excess of ten percent of the accrued benefit obligation is amortized over the average remaining service life of employees, which is estimated to be 13 years.

| | 2013 | 2012 |
|---|---|---|
| Discount rate | 4.7% | 4.0% |
| Initial medical cost rate | 6.5% | 6.6% |
| Ultimate medical cost rate | 4.5% | 4.5% |
| Year ultimate rate reached | 2028 | 2028 |
| Dental cost rate | 4.5% | 4.5% |

The estimated impact on fiscal 2013 reported pension amounts of a one percent increase or decrease in the health care cost assumptions is as follows:

| | Reported | +1.0% | -1.0% |
|---|---|---|---|
| Current service and interest cost | 903 | 1,052 | 788 |
| Accrued benefit obligation | 12,895 | 14,361 | 11,727 |

## 20. Financial Instruments and Risk Management

a) Financial instruments

As a rate-regulated entity, the nature of the Company's operations are defined and restricted by regulation. Financial operations and risks are also substantially influenced by regulation, limiting the necessity to engage in risk mitigation strategies involving the use of derivatives or hedges. As further defined in Note 13 to these financial statements the Company uses derivative financial instruments, primarily interest rate swaps, to manage its interest rate exposure.

The Company has adopted CICA Handbook Sections 3855 and 3861, *Financial Instruments for disclosure purposes*, as the Company's financial instruments are not subject to the disclosure requirements under Sections 3862 or 3863 of the CICA Handbook.

b) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company primarily assesses credit risk exposure by customer segment. Concentrations of consumption by segment or individual customer, may impact risk due to varying energy consumption patterns and allowable security deposit requirements associated with each segment. The Company is not exposed to a significant concentration of credit risk within any customer segment or individual customer. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related provision for doubtful accounts is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the statement of operations and retained earnings. The balance of the allowance for doubtful accounts at December 31, 2013 is $2.0 million (2012 - $1.8 million). Bad debt expense was $0.4 million (2012 - $0.3 million) during the year ended December 31, 2013. The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers.

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2013, the Company held security deposits in the amount of $5.7 million (2012 - $7.8 million). Additionally, if presented with substantial credit losses, the Company would make application to the regulator for recovery of those losses through distribution rate adjustments in future years.

**Financial Instruments and Risk Management, continued**

*Credit risk, continued*

By regulation, the Company is responsible for collecting both the distribution and energy portions of the electricity bill. On average, the Company earns 20% of amounts billed to customers with the remaining 80% being collected for other parties. The Company is therefore exposed to a credit risk substantially greater than the income that it regularly earns.

c) Liquidity risk

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company has access to a $20.0 million line of credit as well as a committed 364 day extendable operating revolving loan of $15.0 million and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The majority of accounts payable, as reported on the balance sheet, are due within 30 days.

## 21. Capital Disclosures

The main objectives of the Company when managing capital are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Company's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2013 capital amounts are as follows:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Long-term debt | $ | 80,738 | $ | 83,042 |
| Shareholder's equity | | 140,447 | | 129,608 |
| | $ | 221,185 | $ | 212,650 |

The OEB regulates the amount of interest on debt and rate of return that may be earned by the Company, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure for the Company may differ from the OEB deemed structure.

The Company has customary covenants typically associated with long-term debt. The Company is in compliance with all credit agreement covenants and limitations associated with its long-term debt.

## 22. Emerging Accounting Changes

*International Financial Reporting Standards ("IFRS")*

The Canadian Accounting Standards Board (AcSB) has adopted a strategic plan that has converged Canadian GAAP with IFRS effective January 1, 2011, which required entities to restate, for comparative purposes, their interim and annual financial statements and opening financial position.

In October 2010, the AcSB approved the incorporation of IFRS 1 into Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The amendment also requires entities that do not prepare its interim and annual financial statements in accordance with Part 1 of the Handbook during the annual periods beginning on or after January 1, 2011 to disclose that fact.

The AcSB has provided deferrals which allow rate regulated entities to defer the adoption of IFRS until January 1, 2015.

The Corporation has elected to implement IFRS commencing on January 1, 2015.

The impact of the adoption to IFRS on the Corporation's financial position and results of operations is not yet fully determined.

## 23. Commitments

The Company has commitments in connection with Information Systems projects of approximately $0.8 million (2012 - $0.2 million), Infrastructure projects of $0.4 (2012 – $nil) and new vehicle acquisitions of $nil (2012 - $0.6 million).

## 24. Joint Venture Agreement

On January 1, 2013, The Company entered into an agreement with London District Renewable Energy Co-Operative Inc. ("LDREC") to create a joint venture with the legal name "London Renewable Energy Initiative" for the intention of identifying, applying for and constructing solar projects that have been approved under the Feed-in Tariff ("FIT") government program. The Company has a 49% equity interest in LDREC while appointing 60% of the members of the Executive Committee resulting in controlling interest. To date no significant work has been completed.

## 25. Comparative Amounts

Certain prior year's information presented in the financial statements has been reclassified to conform to the current year's presentation.

# London Hydro Inc.

## Financial Statements

For the year ended December 31, 2014

*with comparative amounts for 2013*

# London Hydro Inc.
## Table of Contents to the Financial Statements
**For the year ended December 31, 2014**


| | Page |
|---|---|
| Balance Sheet | 1 |
| Statement of Operations and Retained Earnings | 2 |
| Statement of Cashflows | 3 |
| Notes to the Financial Statements | 4 - 24 |

**London Hydro Inc.**
**Balance Sheet**
**December 31, 2014, with comparative amounts at December 31, 2013**
(in thousands of dollars)

| | Note | 2014 | 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | 4 | $ 6,208 | $ - |
| Accounts receivable | 5 | 71,122 | 71,046 |
| Income tax receivable | | - | 80 |
| Regulatory assets | 7 | 165 | 1,483 |
| Inventories | 6 | 655 | 731 |
| Prepaids | | 1,569 | 1,456 |
| **Total current assets** | | 79,719 | 74,796 |
| **Non-current assets** | | | |
| Regulatory assets | 7 | 7,070 | 854 |
| Property, plant and equipment | 8 | 248,217 | 240,693 |
| Future income tax assets | 18 | 879 | 2,463 |
| **Total non-current assets** | | 256,166 | 244,010 |
| **Total assets** | | $ 335,885 | $ 318,806 |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | |
| **Current liabilities** | | | |
| Bank indebtedness | 4 | $ - | $ 3,012 |
| Accounts payable and accrued liabilities - | | | |
| Due to Independent Electricity System Operator | | 41,193 | 37,447 |
| Other | | 10,805 | 14,003 |
| Income taxes payable | | 1,352 | - |
| Regulatory liabilities | 7 | - | 3,829 |
| Current portion of long-term debt | 13 | 2,304 | 2,304 |
| Customer and other deposits | 10 | 1,728 | 1,626 |
| Due to shareholder | 11 | 7,285 | 6,577 |
| **Total current liabilities** | | 64,667 | 68,798 |
| **Long-term liabilities** | | | |
| Unrealized loss on interest rate swap | 13 | 2,778 | 199 |
| Regulatory liabilities | 7 | 630 | 5,496 |
| Customer and other deposits | 10 | 8,824 | 7,419 |
| Long-term debt | 13 | 93,434 | 10,738 |
| Due to shareholder | 11 | 3,549 | 3,976 |
| Due to related party | 11,13 | - | 70,000 |
| Employee future benefits | 19 | 12,019 | 11,733 |
| **Total long-term liabilities** | | 121,234 | 109,561 |
| **Total liabilities** | | 185,901 | 178,359 |
| **Shareholder's equity** | | | |
| Share capital | 14 | 96,116 | 96,116 |
| Retained earnings | | 53,868 | 44,331 |
| **Total shareholder's equity** | | 149,984 | 140,447 |
| Commitments | 9, 23 | | |
| **Total liabilities and shareholder's equity** | | $ 335,885 | $ 318,806 |

**On behalf of the Board**

Director

Director

**London Hydro Inc.**
**Statement of Operations and Retained Earnings**
**Year ended December 31, 2014, with comparative amounts for 2013**
(in thousands of dollars)

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Revenues** | | | |
| Energy | | $ 363,384 | $ 341,136 |
| Distribution | | 63,367 | 63,795 |
| | | 426,751 | 404,931 |
| Cost of power | | (363,384) | (341,136) |
| **Distribution revenue** | | 63,367 | 63,795 |
| **Operating expenses** | | | |
| Plant operating and maintenance | | 12,174 | 12,613 |
| General and administrative | | 23,979 | 22,955 |
| Amortization of plant and equipment | | 17,655 | 16,938 |
| | | 53,808 | 52,506 |
| Less: Costs recovered | 11 | (3,904) | (3,904) |
| | | 49,904 | 48,602 |
| **Operating income** | | 13,463 | 15,193 |
| **Other income (expense)** | | | |
| Interest and other revenue | 16 | 8,894 | 5,085 |
| Unrealized (loss) gain on interest rate swap | 13 | (2,579) | 209 |
| Interest expense | 17 | (4,838) | (5,082) |
| | | 1,477 | 212 |
| **Earnings before income taxes** | | 14,940 | 15,405 |
| Income tax expense | 18 | 2,403 | 1,566 |
| **Net earnings for the year** | | 12,537 | 13,839 |
| **Retained earnings, beginning of year** | | 44,331 | 33,492 |
| **Dividends** | | (3,000) | (3,000) |
| **Retained earnings, end of year** | | $ 53,868 | $ 44,331 |

The accompanying notes are an integral part of these financial statements.

**London Hydro Inc.**
**Statement of Cashflows**
**Year ended December 31, 2014, with comparative amounts for 2013**
(in thousands of dollars)

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net earnings for the year | | $ 12,537 | $ 13,839 |
| Adjustments for: | | | |
| Depreciation and amortization | | 17,655 | 16,938 |
| Gain on disposal of property, plant and equipment | | (172) | (175) |
| Unrealized loss (gain) on interest rate swap | | 2,579 | (209) |
| | | 32,599 | 30,393 |
| Net change in non-cash working capital related to operations | 15 | 1,867 | 890 |
| Employee future benefits | | 286 | 431 |
| **Net cash provided by operating activities** | | 34,752 | 31,714 |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | | (26,954) | (27,712) |
| Proceeds on disposal of capital assets | | 194 | 231 |
| Future income taxes | 3 (g) | 1,584 | 3,273 |
| Regulatory assets and liabilities | | (13,711) | (9,401) |
| **Net cash used in investing activities** | | (38,887) | (33,609) |
| **Financing activities** | | | |
| Customer and other deposits | | 1,507 | (1,488) |
| Contributions in aid of construction | | 1,871 | 2,419 |
| Shareholder advances | | 281 | 1,590 |
| Dividends paid | | (3,000) | (3,000) |
| Long-term debt | 13 | 82,696 | (2,304) |
| Promissory note due to related party | 11,13 | (70,000) | - |
| **Net cash used in financing activities** | | 13,355 | (2,783) |
| **Net increase / (decrease) in cash and bank indebtedness during the year** | | 9,220 | (4,678) |
| **Cash / (bank indebtedness), beginning of the year** | | (3,012) | 1,666 |
| **Cash / (bank indebtedness), end of the year** | | $ 6,208 | $ (3,012) |
| **Supplemental cashflow information** | | | |
| Interest paid | | $ 4,699 | $ 4,858 |
| Income taxes paid | | $ 1,900 | $ 1,780 |

The accompanying notes are an integral part of these financial statements

## 1. Regulated Business Operations and Distribution Rates

London Hydro Inc. ("the Company") is a wholly owned subsidiary company of the Corporation of the City of London and provides regulated electrical distribution services to the inhabitants of the City of London.

The Company is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the Ontario Energy Board Act (1998). The OEB has responsibility to set just and reasonable distribution rates and thereby approves all of the Company's distribution and ancillary rates. The Company's distribution revenue is determined by applying those regulated rates to customers and their consumption of electricity in the Company's distribution territory, as established by its distribution license granted by the OEB.

## 2. Financial Effects of Distribution Rate Regulation

The financial results presented are in accordance with Canadian generally accepted accounting principles and within that framework the Company accounts for the impact of regulatory actions in the following manner:

a) Regulatory decisions to adjust distribution rates

In the event that a regulatory decision is rendered, providing regulatory approval and certainty to the recognition of an asset, or creation of a liability, and culminating in an adjustment to the Company's distribution rates, such occurrences are immediately reflected in the Company's accounts.

b) Regulatory direction and practice

In the absence of a regulatory decision impacting rates, and where the Company is required by regulatory accounting practice or direction to accumulate balances for future rate recovery or create liabilities for future discharge, those amounts are recorded in accordance with that regulatory direction. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provisions for future uncertainty, are more fully described in Note 7 to the financial statements.

## 3. Summary of Significant Accounting Policies

a) Revenue recognition

The Company is licensed by the OEB to distribute electricity. As a licensed distributor, the Company is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties.

The Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers. The Company is acting as a principal for the electricity distribution and therefore presents electricity revenues on a gross basis.

Revenue attributable to the delivery and consumption of electricity is based upon rates approved by the OEB and the Independent Electricity Systems Operator ("IESO") and includes the cost of electricity supplied, distribution charges and any regulatory charges. Revenue recognized as electricity is delivered and consumed by customers. Revenue is recorded on the basis of regular monthly meter readings and estimates of customer usage since the last meter reading date to the end of the period. Revenue is measured at the value of the consideration received or receivable, net of sales tax.

Amounts billed for Debt Retirement Charges are excluded from revenues, as the Company is acting as an agent for the collection of these amounts. The Company may file to recover uncollected debt retirement charges from the Ontario Electricity Financial Corporation.

b) Financial assets and liabilities

As financial assets and liabilities are initially recognized they are measured at fair value, except for certain related party transactions. After initial recognition, financial assets are categorized as assets held-for-trading, held-to-maturity investments, loans and receivables or, available-for-sale assets, and financial liabilities must be classified as held-for-trading, or other financial liabilities. All financial instruments are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments, and other liabilities, which are measured at amortized cost.

Subsequent measurement and changes in fair value depend on their initial classification as follows: held-for-trading is measured at fair value and changes in fair value are recognized in the statement of operations and retained earnings.

The Company has classified its financial instruments as follows:

| | |
|---|---|
| Cash | Held-for-trading |
| Accounts receivable | Loans and Receivables |
| Income taxes receivable | Loans and Receivables |
| Bank indebtedness | Other Liabilities |
| Accounts payable and accrued liabilities | Other Liabilities |
| Income taxes payable | Other Liabilities |
| Customer and other deposits | Other Liabilities |
| Due to shareholder | Other Liabilities |
| Long-term debt | Other Liabilities |
| Due to related party | Other Liabilities |

**Summary of Significant Accounting Policies, continued**

c) Inventories

Inventories are measured at the lower of average cost and net realizable value. Items considered as major future components of property, plant and equipment are recorded as such in the financial statements.

d) Property, plant and equipment

Property, plant and equipment are amortized over their estimated useful lives using the straight-line method over the following periods:

| | |
|---|---|
| Land rights and buildings | 25 to 75 years |
| Distribution substation equipment | 15 to 45 years |
| Other distribution equipment | 25 to 60 years |
| Other fixed assets | 3 to 35 years |

When an item of property, plant and equipment is sold or otherwise disposed of, the related cost and accumulated amortization are removed from the respective accounts and any gain or loss on disposition is recognized in earnings.

Assets under construction are not subject to depreciation until they are available for service.

Plant and equipment, that by their nature are not readily identifiable as individual assets, are grouped together. Under this method, the related cost and accumulated amortization are removed from their respective grouping account at the end of the asset's estimated useful life, regardless of actual service life. Any proceeds on disposition are recognized in earnings in the year of disposition.

e) Contributions to capital costs

Contributions are received from developers and contractors for capital costs incurred by the Company. These contributions are included as a reduction to the cost of the related plant and equipment when those assets are placed in service.

f) Cash

Cash on hand and on deposit with banks, and short-term investments with maturity of three months or less, are considered cash.

**Summary of Significant Accounting Policies, continued**

g) Future income taxes

CICA Handbook Section 3465 states that where future income taxes may be expected to be included in approved rates charged to customers in the future and to be recovered or returned to future customers, the recognition of a regulatory asset or liability for the increase or reduction in future revenue is required. Furthermore, the regulatory asset or liability established by this requirement is a temporary difference for which an additional future income tax asset or liability is recognized.

h) Employee future benefits

The Company has adopted the following policies for future benefits provided to both active and retired employees:

*Pension benefits*

The Company has a pension agreement with the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer contributory defined benefit plan. Company contributions to the plan are recognized as pension expense in the period that they are incurred. As this is a multi-employer plan, no pension liability for this type of plan is recorded in the Company's financial statements.

*Other post-retirement and post-employment benefits*

The Company provides other benefits to active and retired employees including group life insurance and health-care benefits. Recognition of these benefits are actuarially determined using the projected benefit method pro-rated on service using management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

i) Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the financial statements.

Certain estimates are also required as regulations, which will ultimately determine the actual results, have yet to be finalized and are dependent on the completion of regulatory proceedings or decisions. Due to these uncertainties, actual results might differ from those estimates and the impact will be recorded in the current period when the actual results are known.

## 4. Cash and Bank Indebtedness

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Cash | $ | 6,208 | $ | - |
| Bank indebtedness | $ | - | $ | 3,012 |

## 5. Accounts Receivable

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Trade receivables | $ | 34,121 | $ | 31,295 |
| Allowance for doubtful accounts | | (2,314) | | (1,961) |
| Unbilled revenue | | 35,980 | | 39,731 |
| Other | | 3,335 | | 1,981 |
| | $ | 71,122 | $ | 71,046 |

Included in accounts receivable is approximately $7.7 million (2013 - $8.0 million) of customer receivables for water consumption that the Company bills and collects on behalf of the Corporation of the City of London. As the Company does not assume liability for collection of these amounts, any amount relating to water consumption that is determined to be uncollectible is charged to the Corporation of the City of London.

At December 31, 2014, approximately $0.6 million (2013 - $0.5 million) is included in the allowance for doubtful accounts for uncollectible amounts relating to water consumption.

Also, included in the accounts receivable is $1.7 million (2013 - $1.2 million) of energy, water, and sundry receivables due from the Corporation of the City of London.

## 6. Inventories

Inventories, which consist of parts and supplies acquired for internal construction, consumption, or recoverable work, is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis. Net realizable value is determined by replacement cost.

The amount of inventories consumed by the Company and recognized as an expense during the year ended December 31, 2014 was $0.6 million (2013 - $0.6 million).

## 7. Regulatory Assets and Liabilities

Regulatory assets:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Amounts approved for recovery in distribution rates: | | | | |
| IFRS-CGAAP transitional PP&E recoveries | $ | 275 | $ | 393 |
| LRAM variance recovery | | 47 | | - |
| Stranded meter expenditures in excess of cost recoveries | | - | | 1,366 |
| Amounts to be submitted for future rate approval: | | | | |
| Purchase power cost variances (non-commodity) | | (3,646) | | - |
| Purchase power cost variances (commodity) | | 9,189 | | - |
| Other | | 1,370 | | 578 |
| | | 7,235 | | 2,337 |
| Less: Current portion | | 165 | | 1,483 |
| | $ | 7,070 | $ | 854 |

Regulatory liabilities:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Amounts approved for disposition in distribution rates | $ | - | $ | 3,829 |
| Amounts to be submitted for future rate approval: | | | | |
| Purchase power cost variances (non-commodity) | | - | | 4,496 |
| Purchase power cost variances (commodity) | | - | | (1,567) |
| Future income tax liability | | 142 | | 2,410 |
| Other | | 488 | | 157 |
| | | 630 | | 9,325 |
| Less: Current portion | | - | | 3,829 |
| | $ | 630 | $ | 5,496 |

**Regulatory Assets and Liabilities, continued**

*Regulatory assets*

*a) Stranded meter expenditures*

The Company has been authorized under Ontario Regulation 427/06 to undertake metering activities pursuant to the Provincial Smart Meter Program, and to recover through rates, the funding required for the implementation of this program. This balance represented the stranded meter costs of the Smart Meter Program.

During 2012, the Company filed its 2013 Cost of Service Rate Application which included a request for OEB approval for the disposition of certain authorized regulatory deferral accounts including the stranded meter account. The OEB issued its decision with respect to this Application which authorized recovery of these balances over a one-year period ending April 30, 2014.

*b) IFRS-CGAAP Transitional PP&E recoveries*

Compliant with OEB directives of the Accounting Procedures Handbook, the Company must use this account to record differences arising as a result of accounting policy changes caused by the transition from previous Canadian GAAP to Modified International Financial Reporting Standards ("MIFRS").

During 2012, the Company filed its 2013 Cost of Service Rate Application which included a request for OEB approval for the recovery of certain authorized regulatory deferral accounts including these IFRS-CGAAP Transitional PP&E differences. The OEB issued its decision with respect to this Application which authorizes amortization of the balance into rate base and revenue requirement amounts. Therefore, the approved distribution rates during the four year period commencing May 1, 2013, include the recovery of these IFRS-CGAAP Transitional PP&E account differences.

*c) LRAM Variance recoveries*

During 2013, the Company filed its Incentive Regulation Mechanism (IRM) rate application for the 2014 rate year. The OEB issued its decision with respect to this application which included a request for OEB approval for the recovery of Lost Revenue Adjustment Mechanism Variance (LRAMVA) for amounts as at December 31, 2012. The regulatory decision approved the recovery of these balances over a one-year period commencing May 1, 2014.

**Regulatory Assets and Liabilities, continued**

*Regulatory assets*

*d) Purchased power cost variances*

As a regulated distributor of electricity, the Company is obligated to provide energy supply to all consumers unless they elect to purchase their energy from an energy retailer. The regulatory framework requires that all energy commodity and non-commodity costs be billed at regulated rates to consumers who are on the Regulated Price Plan.

Variances between purchase costs and amounts billed are required to be captured in the Retail Settlement Variance Accounts ("RSVA") for disposition through future rates. The variance accounts have been further defined by the regulator into commodity and non-commodity accounts. Those accounts defined as commodity accounts are eligible for regulatory review on a quarterly basis. All other accounts are defined as non-commodity and are currently eligible for review on an annual basis.

For all variance accounts, the review period does not in itself determine whether any adjustment will be permitted as the regulator will determine when the balances are material enough to warrant an adjustment to rates.

These variances are for future disposition. Variances accumulated in the non-commodity accounts during year 2011 are included in the regulatory amounts that were approved for disposition effective May 1, 2013 through to April 30, 2014, in addition to the variances accumulated prior to January 1, 2011, which are included in the regulatory amounts that were approved in 2012 for disposition effective May 1, 2012 through to April 30, 2014. Variances accumulated in the commodity accounts prior to January 1, 2013 are included in the regulatory amounts that were approved in 2013 for disposition effective May 1, 2013 through to April 30, 2014.

*e) Other cost recoveries*

Other cost recoveries include various deferred amounts in connection with Green Energy programs, Lost Revenue Adjustment Mechanism ("LRAM") Variances, Smart Metering Entity Charge Variances, IFRS transition expenditures and residual balances from previously approved deferral accounts. Green Energy programs authorized by the OEB include renewable enabling improvements and investments towards smart grid. Costs incurred with respect to these various activities have been captured under deferral accounts for future rate recovery.

**Regulatory Assets and Liabilities, continued**

*Regulatory liabilities*

a) Amounts approved for disposition in distribution rates

During 2011, the Company filed its IRM rate application for the 2012 rate year. The OEB issued its decision with respect to this application which included a request for OEB approval for the disposition of certain authorized regulatory deferral accounts and purchased power variance account balances, for amounts as at December 31, 2010. The regulatory decision approved the disposition of these balances over a two-year period ending April 30, 2014.

b) Purchased power cost variances

As a regulated distributor of electricity, the Company is obligated to provide energy supply to all consumers unless they elect to purchase their energy from an energy retailer. The regulatory framework requires that all energy commodity and non-commodity costs be billed at regulated rates to consumers who are on the Regulated Price Plan.

Variances between purchase costs and amounts billed are required to be captured in the RSVA for disposition through future rates. The variance accounts have been further defined by the regulator into commodity related and non-commodity accounts. Those accounts defined as commodity accounts are eligible for regulatory review on a quarterly basis. All other accounts are defined as non-commodity and are currently eligible for review on an annual basis.

For all variance accounts, the review period does not in itself determine whether any adjustment will be permitted as the regulator will determine when the balances are material enough to warrant an adjustment to rates.

These variances are for future disposition. Variances accumulated prior to January 1, 2011 are included in the regulatory amounts that were approved in 2012 for disposition effective May 1, 2012 through to April 30, 2014.

During 2012, the Company filed its 2013 Cost of Service Rate Application which included a request for OEB approval for the disposition of the RSVA Power account and the RSVA Power-Global Adjustment sub accounts. These accounts include amounts accumulated between January 1, 2011 and December 31, 2012. The non-commodity RSVA accounts include amounts accumulated between January 1, 2011 and December 31, 2011. The OEB issued its decision with respect to this Application which authorizes the disposition of these balances over a one-year period commencing May 1, 2013.

c) Other

Other regulatory liabilities consist of the amounts recorded during 2012 as a result of the implementation of the Harmonized Sales Tax, as well as residual balances from accounts previously approved for disposition through rates.

## 8. Property, Plant and Equipment

*Cost:*

| | Land and Buildings | Distribution Substation Equipment | Other Distribution Equipment | Other Fixed Assets | Construction in Progress | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2013 | $ 25,768 | $ 17,031 | $ 321,565 | $ 52,705 | $ 6,720 | $ 423,789 |
| Additions | 437 | 127 | $ 12,402 | $ 8,013 | 4,314 | 25,293 |
| Disposals / Retirements | (2,234) | (35) | $ (12,454) | $ (6,540) | - | (21,263) |
| Balance at December 31, 2013 | $ 23,971 | $ 17,123 | $ 321,513 | $ 54,178 | $ 11,034 | $ 427,819 |
| Balance at January 1, 2014 | $ 23,971 | $ 17,123 | $ 321,513 | $ 54,178 | $ 11,034 | $ 427,819 |
| Additions | 1,140 | 273 | 17,828 | 6,232 | (390) | 25,083 |
| Disposals / Retirements | (435) | - | (9,070) | (1,169) | - | (10,674) |
| Balance at December 31, 2014 | $ 24,676 | $ 17,396 | $ 330,271 | $ 59,241 | $ 10,644 | $ 442,228 |

*Accumulated depreciation:*

| | Land and Buildings | Distribution Substation Equipment | Other Distribution Equipment | Other Fixed Assets | Construction in Progress | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2013 | $ 12,593 | $ 6,466 | $ 148,026 | $ 24,389 | $ - | $ 191,474 |
| Depreciation | 895 | 322 | 8,550 | 7,091 | - | 16,858 |
| Disposals / Retirements | (2,234) | (35) | (12,439) | (6,498) | - | (21,206) |
| Balance at December 31, 2013 | $ 11,254 | $ 6,753 | $ 144,137 | $ 24,982 | $ - | $ 187,126 |
| Balance at January 1, 2014 | $ 11,254 | $ 6,753 | $ 144,137 | $ 24,982 | $ - | $ 187,126 |
| Depreciation | 921 | 316 | 8,530 | 7,770 | - | 17,537 |
| Disposals / Retirements | (435) | - | (9,070) | (1,147) | - | (10,652) |
| Balance at December 31, 2014 | $ 11,740 | $ 7,069 | $ 143,597 | $ 31,605 | $ - | $ 194,011 |

*Net book value:*

| Balance at | Land and Buildings | Distribution Substation Equipment | Other Distribution Equipment | Other Fixed Assets | Construction in Progress | Total |
|---|---|---|---|---|---|---|
| December 31, 2013 | $ 12,717 | $ 10,370 | $ 177,376 | $ 29,196 | $ 11,034 | $ 240,693 |
| December 31, 2014 | $ 12,936 | $ 10,327 | $ 186,674 | $ 27,636 | $ 10,644 | $ 248,217 |

## 9. Letters of Credit

At December 31, 2014, the Company had provided $6.6 million (2013 – $6.6 million) in bank standby letters of credit to the IESO.

## 10. Customer and Other Deposits

Customer and other deposits include security deposits for energy consumption bearing interest at a rate of prime less 2% per annum and developer deposits held in accordance with regulation.

Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB, or upon termination of their electricity distribution service.

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, and dependent upon the final determination of the required capital contribution, these deposits are either refunded to the developer or transferred to contributions in aid of construction.

Customer deposits are comprised of:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Customer deposits | $ | 5,718 | $ | 5,665 |
| Construction deposits | | 4,834 | | 3,380 |
| | | 10,552 | | 9,045 |
| Less: Current portion | | 1,728 | | 1,626 |
| | $ | 8,824 | $ | 7,419 |

## 11. Due to Shareholder and Related Party Transactions

a) Trade balances due to shareholder

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Non-interest bearing trade balance due to shareholder, without stated repayment terms | $ | 6,944 | $ | 6,276 |
| Trade balance due to shareholder, bearing 1% interest per annum, without stated repayment terms | | 3,890 | | 4,277 |
| | | 10,834 | | 10,553 |
| Less: Current portion | | 7,285 | | 6,577 |
| | $ | 3,549 | $ | 3,976 |

During the year ended December 31, 2014, the Company billed customers for water service on behalf of the shareholder and remitted funds to the shareholder in the amount of $143.0 million (2013 – $131.6 million). The shareholder paid $3.9 million (2013 - $3.9 million) for this service.

b) Promissory note due to related party

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Unsecured promissory note, due to related party, bearing interest at 6% per annum, payable on demand with 367 days notice, maturing October 31, 2015 | $ | - | $ | 70,000 |
| | | - | | 70,000 |
| Less: Current portion | | - | | - |
| | $ | - | $ | 70,000 |

The Company repaid the promissory note to the City of London on November 28, 2014. The Company obtained funding in the amount of $85.0 million which was in place on the transfer date (Note 13).

The Company paid interest on the promissory note during the year ended December 31, 2014 in the amount of $3.9 million (2013 - $4.2 million).

## 12. Credit Facilities

The Company has an uncommitted operating revolving line of credit facility of $20.0 million with the Toronto Dominion Bank. As at December 31, 2014, the amount drawn by the Company under this line of credit was $nil million (2013 - $2.0 million). The line of credit is unsecured and interest is at bank prime rate on prime based borrowings minus 0.5%, or at Bankers Acceptances ("B/A") rates plus a 0.75% stamping fee on B/A based borrowings.

At December 31, 2014, the Company had a committed 364 day extendable operating revolving loan facility of $15.0 million with the Toronto Dominion Bank and the amount drawn by the Company under this loan facility was $nil (2013 - $nil). Under the terms of this agreement, the loan has a maturity date of March 31, 2016. The Company has a one year period from the loan maturity date to repay any outstanding balances in the event the lender elects not to extend the loan for an additional 364 day period. Interest is at bank prime rate on prime based borrowings minus 0.5%, or at B/A rates plus a 0.75% stamping fee on B/A based borrowings.

## 13. Long-term Debt

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Non-revolving term instalment loan bearing interest at the 7.58 year Banker's Acceptance rate of 2.46% plus a stamping fee of 0.19%, interest only payments due June 2022 | $ | 85,000 | $ | - |
| Non-revolving term instalment loan bearing interest at the 7.75 year Banker's Acceptance rate of 2.43% plus a stamping fee of 0.9%, payable in monthly instalments of $192,000 principal plus interest due August 2019 | | 10,738 | | 13,042 |
| | | 95,738 | | 13,042 |
| Less: Current portion | | 2,304 | | 2,304 |
| | $ | 93,434 | $ | 10,738 |

The Company has an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan in the amount of $85 million. Interest only payments are due quarterly and commenced December 2014. The principal is due at maturity. The agreement is a fixed rate swap and matures June 2022 which effectively converts variable interest rates on unsecured Bankers Acceptances to an effective interest rate of 2.46%, plus a stamping fee of 0.19%, for an all-in rate of 2.65%.

The Company has an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan in the original amount of $20.5 million to fund its Smart Meter capital expenditure program. Principal repayments on this loan commenced October 2010 and are being amortized over a 9 year period ending August 2019. The agreement is a fixed rate swap and matures August 2019 which effectively converts variable interest rates on unsecured Bankers Acceptances to an effective interest rate of 2.43%, plus a stamping fee of 0.9%, for an all-in rate of 3.33%.

**Long-term Debt, continued**

The swap agreements entered into with Royal Bank of Canada do not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contracts are marked to market at year end with the unrealized gain or loss recorded in the statement of operations and retained earnings. The unrealized loss for the year ended December 31, 2014 was $2.6 million (2013 - $0.2 million gain).

At December 31, 2014, the Company would be required to pay $2.8 million (2013 - $0.2 million) if it wished to cancel the swap agreements.

Additionally, and as described in Note 11 to these financial statements, the Company repaid the promissory note to the City of London on November 28, 2014 in the amount of $70 million.

## 14. Share Capital

Authorized:

An unlimited number of common shares

An unlimited number of non-voting, non-cumulative preference shares, redeemable at the paid-up amount

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Issued: | | | | |
| 1,001 common shares | $ | 96,116 | $ | 96,116 |

## 15. Change in Non-Cash Working Capital Related to Operations

The net change in non-cash working capital related to operations is comprised of:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Accounts receivable | $ | (76) | $ | (8,630) |
| Income taxes receivable | | 80 | | (80) |
| Inventories | | 76 | | 55 |
| Prepaid expenses | | (113) | | (339) |
| Accounts payable and accrued liabilities | | 548 | | 9,884 |
| Income taxes payable | | 1,352 | | - |
| | $ | 1,867 | $ | 890 |

## 16. Interest and Other Revenue

Interest and other revenue is comprised of:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Interest (Note 17) | $ | 175 | $ | 202 |
| Late payment charges | | 1,739 | | 1,454 |
| Collection and occupancy charges | | 1,286 | | 1,256 |
| Customer billing service fees | | 592 | | 593 |
| Pole and other rental income | | 414 | | 394 |
| Sale of scrap | | 508 | | 399 |
| Gain on disposal of property, plant & equipment | | 172 | | 175 |
| Renewable generation revenue | | 308 | | 297 |
| Ontario Power Authority incentives | | 3,234 | | - |
| Sundry | | 466 | | 315 |
| | $ | 8,894 | $ | 5,085 |

## 17. Interest Income and Expense

Interest income and expense is comprised of:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Interest income from: | | | | |
| Bank deposits | $ | 70 | $ | 104 |
| Regulatory assets | | 105 | | 98 |
| Interest income | | 175 | | 202 |
| Interest expense on: | | | | |
| Related party promissory note | | 3,850 | | 4,200 |
| Long-term debt | | 709 | | 507 |
| Short-term debt | | 60 | | 48 |
| Regulatory liabilities | | 113 | | 201 |
| Other | | 106 | | 126 |
| Interest expense | | 4,838 | | 5,082 |
| | $ | 4,663 | $ | 4,880 |

## 18. Income Taxes

a) Income tax status

As a wholly owned subsidiary company of the Corporation of the City of London, the Company is exempt from income taxes under the Income Tax Act (Canada). Pursuant to the Electricity Act (1998) (Ontario), the Company is required to make payments in lieu of tax to the Ontario Electricity Financial Corporation. The amount of payments in lieu of tax will be approximately equivalent to corporate taxes that would have to be paid if the Company was a taxable corporation under the Income Tax Act (Canada).

b) Income tax expense

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Earnings before income taxes | $ | 14,940 | $ | 15,405 |
| Income tax expense based on combined federal and provincial statutory income tax rate of 26.5% (2013 - 26.5%) | $ | 3,959 | $ | 4,082 |
| Tax effect of temporary differences | | (1,666) | | (2,416) |
| Other items | | 110 | | (100) |
| Income tax expense recognized | $ | 2,403 | $ | 1,566 |
| Income tax expense is comprised of the following: | | | | |
| Current income tax | $ | 3,086 | $ | 1,511 |
| Future income tax | | (683) | | 55 |
| | $ | 2,403 | $ | 1,566 |

c) Future income tax balances

CICA 3465.103 recognizes that, as a rate regulated entity, future income tax assets paid on behalf of customers will be returned to customers as they are recovered. As a result, these increases or decreases in future income tax assets are offset by a regulatory liability.

The benefit of certain future income tax assets will be realized by customers by way of a reduction in future distribution rates charged by the Company. The components of future income tax assets are as follows:

**Income Taxes, continued**

Future income tax assets:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Capital assets | $ | (3,080) | $ | (1,338) |
| Employee future benefits | | 3,185 | | 3,109 |
| Other regulatory liabilities | | 38 | | 639 |
| Benefit of future income taxes to be realized by customers | | 143 | | 2,410 |
| Loss on interest rate swap | | 736 | | 53 |
| | $ | 879 | $ | 2,463 |

## 19. Employee Future Benefits

a) Pension plan

The Company has a pension agreement with OMERS, on behalf of its employees. The plan is a contributory defined benefit plan which specifies the amount of retirement benefit to be received by the employees based on the length of service and rates of pay. During the year, the Company contributed $2.6 million (2013 - $2.4 million).

b) Medical and life insurance benefits plan

The Company provides medical and life insurance benefit coverage to certain retirees of the Company. Based on a recent actuarial valuation, the following information has been determined:

Accrued benefit obligation:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Balance, beginning of year | $ | 12,895 | $ | 13,572 |
| Current service costs | | 339 | | 368 |
| Interest cost | | 596 | | 535 |
| Benefits paid | | (571) | | (525) |
| Actuarial loss (gain) | | 472 | | (1,037) |
| Other benefits | | (78) | | (18) |
| Balance, end of year | $ | 13,653 | $ | 12,895 |

**Employee Future Benefits, continued**

Accrued benefit liability:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Accrued benefit obligation | $ | 13,653 | $ | 12,895 |
| Unamortized net actuarial loss | | (1,634) | | (1,162) |
| Accrued benefit liability, end of year | $ | 12,019 | $ | 11,733 |

The Company's net periodic benefit cost is comprised of the following:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Current service cost | $ | 339 | $ | 368 |
| Interest cost | | 596 | | 535 |
| | $ | 935 | $ | 903 |

The excess of the net actuarial loss in excess of ten percent of the accrued benefit obligation is amortized over the average remaining service life of employees, which is estimated to be 14 years (2013 – 13 years).

| | 2014 | 2013 |
|---|---|---|
| Discount rate | 3.9% | 4.7% |
| Initial medical cost rate | 6.2% | 6.5% |
| Ultimate medical cost rate | 4.5% | 4.5% |
| Year ultimate rate reached | 2028 | 2028 |
| Dental cost rate | 4.5% | 4.5% |

The estimated impact on fiscal 2014 reported pension amounts of a one percent increase or decrease in the health care cost assumptions is as follows:

| | Reported | +1.0% | -1.0% |
|---|---|---|---|
| Current service and interest cost | 935 | 1,072 | 828 |
| Accrued benefit obligation | 13,653 | 15,141 | 12,475 |

## 20. Financial Instruments and Risk Management

a) Financial instruments

As a rate-regulated entity, the nature of the Company's operations are defined and restricted by regulation. Financial operations and risks are also substantially influenced by regulation, limiting the necessity to engage in risk mitigation strategies involving the use of derivatives or hedges. As further defined in Note 13 to these financial statements the Company uses derivative financial instruments, primarily interest rate swaps, to manage its interest rate exposure.

The Company has adopted CICA Handbook Sections 3855 and 3861, *Financial Instruments for disclosure purposes*, as the Company's financial instruments are not subject to the disclosure requirements under Sections 3862 or 3863 of the CICA Handbook.

b) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company primarily assesses credit risk exposure by customer segment. Concentrations of consumption by segment or individual customer, may impact risk due to varying energy consumption patterns and allowable security deposit requirements associated with each segment. The Company is not exposed to a significant concentration of credit risk within any customer segment or individual customer. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related provision for doubtful accounts is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the statement of operations and retained earnings. The balance of the allowance for doubtful accounts at December 31, 2014 is $2.3 million (2013 - $2.0 million). Bad debt expense was $0.7 million (2013 - $0.4 million) during the year ended December 31, 2014. The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers.

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. At December 31, 2014, the Company held security deposits in the amount of $5.7 million (2013 - $5.7 million). Additionally, if presented with substantial credit losses, the Company would make an application to the regulator for recovery of those losses through distribution rate adjustments in future years.

**Financial Instruments and Risk Management, continued**

*Credit risk, continued*

By regulation, the Company is responsible for collecting both the distribution and energy portions of the electricity bill. On average, the Company earns 20% of amounts billed to customers with the remaining 80% being collected for other parties. The Company is therefore exposed to a credit risk substantially greater than the income that it regularly earns.

c) Liquidity risk

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company has access to a $20.0 million line of credit as well as a committed 364 day extendable operating revolving loan of $15.0 million and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The majority of accounts payable, as reported on the balance sheet, are due within 30 days.

## 21. Capital Disclosures

The main objectives of the Company when managing capital are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Company's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2014 capital amounts are as follows:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Long-term debt | $ | 93,434 | $ | 80,738 |
| Shareholder's equity | | 149,984 | | 140,447 |
| | $ | 243,418 | $ | 221,185 |

The OEB regulates the amount of interest on debt and rate of return that may be earned by the Company, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure for the Company may differ from the OEB deemed structure.

The Company has customary covenants typically associated with long-term debt. The Company is in compliance with all credit agreement covenants and limitations associated with its long-term debt.

## 22. Emerging Accounting Changes

*International Financial Reporting Standards ("IFRS")*

The Canadian Accounting Standards Board (AcSB) has adopted a strategic plan that has converged Canadian GAAP with IFRS effective January 1, 2011, which required entities to restate, for comparative purposes, their interim and annual financial statements and opening financial position.

In October 2010, the AcSB approved the incorporation of IFRS 1 into Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The amendment also requires entities that do not prepare its interim and annual financial statements in accordance with Part 1 of the Handbook during the annual periods beginning on or after January 1, 2011 to disclose that fact.

However, the AcSB provided deferrals which allowed rate regulated entities to defer the adoption of IFRS until January 1, 2015.

The Corporation has elected to implement IFRS commencing on January 1, 2015.

The impact of the adoption to IFRS on the Corporation's financial position and results of operations is not yet fully determined.

## 23. Commitments

The Company has commitments in connection with Information Systems projects of approximately $0.7 million (2013 - $0.8 million), Infrastructure projects of $nil (2013 – $0.4 million) and new vehicle acquisitions of $0.8 million (2013 - $nil million).

## 24. Joint Venture Agreement

On January 1, 2013, The Company entered into an agreement with London District Renewable Energy Co-Operative Inc. ("LDREC") to create a joint venture with the legal name "London Renewable Energy Initiative" for the intention of identifying, applying for and constructing solar projects that have been approved under the Feed-in Tariff ("FIT") government program. The Company has a 49% equity interest in LDREC while appointing 60% of the members of the Executive Committee resulting in controlling interest. To date no significant work has been completed.

## 25. Subsequent event

On March 31, 2015 the Board of Directors declared a $5.0 million annual dividend and a $5.0 million special dividend both payable to the sole shareholder, the Corporation of the City of London, in quarterly installments in 2015.

# London Hydro Inc.

## Financial Statements

For the years ended December 31, 2015 and 2014

# London Hydro Inc.
## Table of Contents to the Financial Statements
**For the years ended December 31, 2015 and 2014**


| | Page |
|---|---|
| Statements of Financial Position | 1 |
| Statements of Comprehensive Income | 2 |
| Statements of Changes in Equity | 3 |
| Statements of Cash flows | 4 |
| Notes to the Financial Statements | 5 - 44 |

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# INDEPENDENT AUDITORS' REPORT

To the Shareholder of London Hydro Inc.

We have audited the accompanying financial statements of London Hydro Inc. (the "Entity"), which comprise the statements of financial position as at December 31, 2015, December 31, 2014 and January 1, 2014, the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015, and December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of London Hydro Inc. as at December 31, 2015, December 31, 2014 and January 1, 2014, and its financial performance and its cash flows for the years ended December 31, 2015, and December 31, 2014 in accordance with International Financial Reporting Standards**.**



Chartered Professional Accountants, Licensed Public Accountants
April 19, 2016
London, Canada

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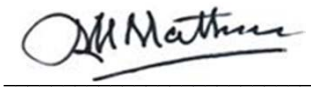
**London Hydro Inc.**
**Statements of Financial Position**
**December 31, 2015, with comparative amounts at December 31, 2014 and January 1, 2014**
(in thousands of dollars)

| | Note | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash | 5 | $ 6,429 | $ 6,208 | $ - |
| Accounts receivable | 6 | 70,495 | 72,432 | 72,294 |
| Income tax receivable | | 416 | - | 80 |
| Materials and supplies | 7 | 749 | 655 | 731 |
| Prepaid expenses | | 1,826 | 1,569 | 1,456 |
| Total current assets | | 79,915 | 80,864 | 74,561 |
| **Non-current assets** | | | | |
| Property, plant and equipment | 8 | 250,739 | 235,287 | 224,482 |
| Intangible assets | 9 | 16,648 | 15,101 | 16,237 |
| Deferred tax assets | 10 | 740 | 1,299 | 2,157 |
| Total non-current assets | | 268,127 | 251,687 | 242,876 |
| **Total assets** | | 348,042 | 332,551 | 317,437 |
| Regulatory balances | 11 | 2,896 | 6,584 | 2,311 |
| **Total assets and regulatory balances** | | $ 350,938 | $ 339,135 | $ 319,748 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Bank indebtedness | 5 | $ - | $ - | $ 3,012 |
| Accounts payable and accrued liabilities | 12 | 53,551 | 53,229 | 52,636 |
| Due to shareholder | 21 | 7,428 | 6,943 | 6,276 |
| Income tax payable | | - | 1,398 | - |
| Current portion of long-term debt | 14 | 7,304 | 2,304 | 2,304 |
| Customer and other deposits | | 594 | 691 | 714 |
| Deferred revenue | 13 | 1,192 | 1,482 | 1,277 |
| Total current liabilities | | 70,069 | 66,047 | 66,219 |
| **Non-current liabilities** | | | | |
| Long-term debt | 14,23 | 91,130 | 93,434 | 10,738 |
| Post-employment benefits | 15 | 13,845 | 13,749 | 12,989 |
| Customer and other deposits | | 5,663 | 5,218 | 5,166 |
| Deferred revenue | 13 | 12,950 | 8,934 | 6,229 |
| Unrealized loss on interest rate swap | 14,23 | 5,935 | 2,778 | 199 |
| Due to related party | 21 | - | - | 70,000 |
| Total non-current liabilities | | 129,523 | 124,113 | 105,321 |
| **Total liabilities** | | 199,592 | 190,160 | 171,540 |
| **Equity** | | | | |
| Share capital | 16 | 96,116 | 96,116 | 96,116 |
| Retained earnings | | 52,784 | 52,609 | 43,075 |
| Accumulated other comprehensive loss | | (292) | (471) | - |
| **Total equity** | | 148,608 | 148,254 | 139,191 |
| **Total liabilities and equity** | | 348,200 | 338,414 | 310,731 |
| Regulatory balances | 11 | 2,738 | 721 | 9,017 |
| **Total liabilities, equity and regulatory balances** | | $ 350,938 | $ 339,135 | $ 319,748 |

*Commitments and contingencies (Note 20), Subsequent event (Note 24)*



Director



Director

The accompanying notes are an integral part of these financial statements.

**London Hydro Inc.**
**Statements of Comprehensive Income**
**For the year ended December 31, 2015, with comparative amounts for 2014**
(in thousands of dollars)

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Revenues** | | | |
| Sale of energy | | $ 387,820 | $ 352,208 |
| Distribution revenue | | 64,042 | 63,662 |
| Other | 17 | 9,920 | 13,373 |
| | | 461,782 | 429,243 |
| **Operating expenses** | | | |
| Cost of power purchased | | 379,937 | 363,384 |
| Operating expenses | 18 | 39,206 | 37,146 |
| Depreciation and amortization | | 17,755 | 17,569 |
| | | 436,898 | 418,099 |
| **Income from operating activities** | | 24,884 | 11,144 |
| **Finance (income) / expense** | | | |
| Finance income | 19 | (101) | (69) |
| Finance expenses | 19 | 5,898 | 7,303 |
| | | 5,797 | 7,234 |
| **Income before income taxes** | | 19,087 | 3,910 |
| Income tax expense | 10 | 3,160 | 4,070 |
| **Net income / (loss) for the year** | | 15,927 | (160) |
| Net movement in regulatory balances, net of tax | 11 | (5,752) | 12,694 |
| **Net income for year and net movement in regulatory balances** | | 10,175 | 12,534 |
| **Other comprehensive income** | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Remeasurements of post-employment benefits | | 179 | (471) |
| Tax on remeasurements | 10 | (47) | 125 |
| Net movement in regulatory balances, net of tax | 11 | 47 | (125) |
| **Other comprehensive income / (loss) for the year** | | 179 | (471) |
| **Total comprehensive income for the year** | | $ 10,354 | $ 12,063 |

The accompanying notes are an integral part of these financial statements.

**London Hydro Inc.**
**Statements of Changes in Equity**
**Year ended December 31, 2015, with comparative amounts for 2014**
(in thousands of dollars)

| | Note | Share Capital | Retained Earnings | Accumulated other comprehensive income / (loss) | Total |
|---|---|---|---|---|---|
| **Balance at January 1, 2014** | | $ 96,116 | $ 43,075 | $ - | $ 139,191 |
| Net income and net movement in regulatory balances | | - | 12,534 | - | 12,534 |
| Other comprehensive income (loss) | | - | - | (471) | (471) |
| Dividends | 16 | - | (3,000) | - | (3,000) |
| **Balance at December 31, 2014** | | $ 96,116 | $ 52,609 | $ (471) | $ 148,254 |
| **Balance at January 1, 2015** | | $ 96,116 | $ 52,609 | $ (471) | $ 148,254 |
| Net income and net movement in regulatory balances | | - | 10,175 | - | 10,175 |
| Other comprehensive income | | - | - | 179 | 179 |
| Dividends | 16 | - | (10,000) | - | (10,000) |
| **Balance at December 31, 2015** | | $ 96,116 | $ 52,784 | $ (292) | $ 148,608 |

The accompanying notes are an integral part of these financial statements.

**London Hydro Inc.**
**Statements of Cash Flows**
**For the year ended December 31, 2015, with comparative amounts for 2014**
(in thousands of dollars)

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income and net movement in regulatory balances | | $ 10,175 | $ 12,534 |
| Adjustments for: | | | |
| Depreciation and amortization | 8,9 | 17,755 | 17,569 |
| Amortization of deferred revenue | 17 | (79) | (21) |
| Post-employment benefits | 15 | 275 | 289 |
| Gain on disposal of property, plant and equipment | 17 | (162) | (172) |
| Net finance expenses | 19 | 5,797 | 7,234 |
| Income tax expense | 10 | 3,160 | 4,070 |
| | | 36,921 | 41,503 |
| Change in non-cash working capital: | | | |
| Accounts receivable | | 1,937 | (138) |
| Materials and supplies | | (94) | 76 |
| Prepaid expenses | | (257) | (113) |
| Accounts payable and accrued liabilities | | 322 | 593 |
| Due to / from shareholder | | 485 | 667 |
| Customer deposits | | 348 | 29 |
| | | 2,741 | 1,114 |
| Other: | | | |
| Regulatory balances | 11 | 5,752 | (12,694) |
| Income tax paid | | (4,639) | (1,900) |
| Income tax received | | 177 | 291 |
| Interest paid | | (2,741) | (4,724) |
| Interest received | | 101 | 69 |
| | | (1,350) | (18,958) |
| **Net cash from operating activities** | | 38,312 | 23,659 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | 8 | (28,099) | (23,108) |
| Purchase of intangible assets | 9 | (6,655) | (4,153) |
| Proceeds on disposal of property, plant, equipment and intangible assets | | 162 | 195 |
| Contributions received from customers | | 3,805 | 2,931 |
| **Net cash from investing activities** | | (30,787) | (24,135) |
| **Financing activities** | | | |
| Dividends paid | 16 | (10,000) | (3,000) |
| Proceeds from long-term debt | 14 | 5,000 | 85,000 |
| Repayment of long-term debt | 14 | (2,304) | (2,304) |
| Repayment of promissory note due to related party | 21 | - | (70,000) |
| **Net cash from financing activities** | | (7,304) | 9,696 |
| Change in cash | | 221 | 9,220 |
| Cash (bank indebtedness), beginning of year | | 6,208 | (3,012) |
| **Cash, end of year** | | $ 6,429 | $ 6,208 |

The accompanying notes are an integral part of these financial statements

## 1. Reporting entity

London Hydro Inc. (“the Company”) is a rate regulated, municipally-owned hydro distribution company located in the City of London. The Company is a wholly-owned subsidiary company of the Corporation of the City of London and was incorporated on April 26, 2000 under the laws of the Province of Ontario, Canada.

The Company delivers electricity and related energy services to inhabitants of the City of London. The address of the Company’s registered office is 111 Horton Street, London, Ontario, Canada.

## 2. Basis of presentation

a) Statement of compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

b) Adoption of IFRS

These are the Company’s first financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 25.

The financial statements were approved by the Board of Directors on April 19, 2016.

c) Basis of measurement

These financial statements have been prepared on the historical cost basis, unless otherwise stated.

d) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

**2. Basis of presentation (continued)**

e) Use of estimates and judgments (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment is included in the following notes:

(i) 3(b) – measurement of unbilled revenue
(ii) 3(d), 3(e), 8, 9 – estimation of useful lives of its property, plant and equipment and intangible assets
(iii) 11 – recognition and measurement of regulatory balances
(iv) 15 – measurement of defined benefit obligations: key actuarial assumptions
(v) 20 – recognition and measurement of provisions and contingencies

f) Rate regulation

The Company is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the *Ontario Energy Board Act, 1998*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that transmission and distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies ("LDCs"), such as the Company, which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

The Company is required to bill customers for the debt retirement charge set by the province. The Company may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation ("OEFC").

**Rate setting**

*Distribution revenue*

For the distribution revenue, the Company files a "Cost of Service" ("COS") rate application with the OEB every four years where rates are determined through a review of the forecasted annual amount of operating and capital expenditures, debt and shareholder's equity required to support the Company's business. The Company estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and interveners and rates are approved based upon this review, including any revisions resulting from that review.

**2. Basis of presentation (continued)**

f) Rate Regulation (continued)

**Rate setting -** *Distribution revenue (continued)*

In the intervening years an Incentive Rate Mechanism ("IRM") application is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year's rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Inflator for Final Domestic Demand ("GDP IPI-FDD") net of a productivity factor and a "stretch factor" determined by the relative efficiency of an electricity distributor.

The Company last filed a COS application in September 2012 for rates effective May 1, 2013 to April 30, 2017. The GDP IPI-FDD for 2015 is 1.6%, the OEB applied productivity factor is 0.0% and the OEB determined stretch factor is (0.15)%, resulting in a net adjustment of 1.45% to the previous year's rates.

As a licensed distributor, the Company is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers.

*Electricity rates*

The OEB sets electricity prices for residential and small commercial consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers, other than consumers with retail contracts who pay a contracted rate plus a global adjustment rate adder, pay the market price for electricity. The Company is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently in all years presented in these financial statements and in preparing the opening IFRS statement of financial position at January 1, 2014, for the purpose of the transition to IFRS.

a) Financial instruments

*Non-derivative*

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(f).

*Derivative*

The Company holds derivative financial instruments to manage its interest rate risk exposures. Derivatives are initially recognized at fair value; any directly attributable transaction costs are recognized in profit and loss as incurred as finance expenses. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

Hedge accounting has not been used in the preparation of these financial statements.

b) Revenue recognition

*Sale and distribution of electricity*

Revenue from the sale and distribution of electricity is recognized as the electricity is delivered to customers on the basis of cyclical meter readings and estimated customer usage since the last meter reading date to the end of the period. Revenue includes the cost of electricity supplied, distribution, and any other regulatory charges. The related cost of power is recorded on the basis of power used.

For customer billings related to electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties, the Company has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Customer billings for debt retirement charges are recorded on a net basis as the Company is acting as an agent for this billing stream.

**3. Significant accounting policies (continued)**

b) Revenue recognition (continued)

*Other revenue*

Revenue earned from the provision of services is recognized as the service is rendered.

Certain customers and developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. Cash contributions are recorded as deferred revenue. Where an asset other than cash is received as a capital contribution, the asset is initially recognized at its fair value, with a corresponding amount recognized as deferred revenue. The deferred revenue, which represents the Company's obligation to continue to provide the customers access to the supply of electricity, is amortized to income on a straight-line basis over the useful life of the related asset.

Government grants and the related performance incentive payments under Conservation Demand Management ("CDM") programs are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

c) Materials and supplies

Materials and supplies, the majority of which are consumed by the Company in the provision of its services, are valued at the lower of cost and net realizable value, with cost being determined on a weighted average basis, and includes expenditures incurred in acquiring the materials and supplies and other costs incurred in bringing them to their existing location and condition.

d) Property, plant and equipment

Items of property, plant and equipment ("PP&E") used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the transition date (see note 25 b) ii), less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes contracted services, materials and transportation costs, direct labour, overhead costs, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the lower of OEB prescribed rates and the weighted average cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take in excess of 12 months to construct.

**3. Significant accounting policies (continued)**

d) Property, plant and equipment (continued)

When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E.

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal, if any, with the carrying amount of the item and is included in profit or loss.

Major spare parts and standby equipment are recognized as items of PP&E.

The cost of replacing a part of an item of PP&E is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. In this event, the replaced part of PP&E is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

The need to estimate the decommissioning costs at the end of the useful lives of certain assets is reviewed periodically. The Company has concluded it does not have any legal or constructive obligation to remove PP&E.

Depreciation is calculated to write off the cost of items of PP&E using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate. Land is not depreciated. Construction-in-progress assets are not depreciated until the project is complete and the asset is available for use.

The estimated useful lives are as follows:

| | Years |
|---|---|
| Distribution system and equipment | 25 - 60 |
| Building structures and components | 12 - 75 |
| Substation equipment | 15 - 45 |
| Metering devices | 15 - 30 |
| System supervisory equipment | 8 - 35 |
| Automotive equipment | 8 - 12 |
| Equipment, tools and furniture | 5 - 8 |
| Computer hardware | 3 |
| Renewable generation assets | 20 |

**3. Significant accounting policies (continued)**

e) Intangible assets

Intangible assets used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the transition date (see note 25 b) ii), less accumulated amortization. All other intangible assets are measured at cost.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of intangible assets includes contracted services, materials and transportation costs, direct labour, overhead costs, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the lower of OEB prescribed rates and the weighted average cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take in excess of 12 months to complete.

Computer software that is acquired or developed by the Company after January 1, 2014, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization.

Payments to obtain rights to access land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Company does not hold title. Land rights are measured at cost less accumulated amortization.

With the market opening in 2002, wholesale market participants, including the Company, were charged with the responsibility of upgrading all their wholesale meter points to "IESO" compliant standards. Since the Company does not hold title to these assets, these expenditures have been classified as intangible assets. Wholesale metering upgrades are measured at cost less accumulated amortization.

Intangible assets in progress consist of application software under development and capital contributions paid towards refurbishment of a transformer station that is not owned by the Company, which is scheduled to be energized during the year ending December 31, 2018.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted prospectively if appropriate. The estimated useful lives are:

| | Years |
|---|---|
| Computer software | 3 - 5 |
| Land rights | 25 |
| Wholesale metering | 30 |

**3. Significant accounting policies (continued)**

f) Impairment

*Financial assets measured at amortized cost*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows from that asset.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount. Losses are recognized in profit or loss. An impairment loss is reversed through profit or loss if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

*Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than materials and supplies and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

g) Customer and other deposits

Customer and other deposits include cash deposits from electricity distribution customers and retailers to guarantee the payment of energy bills. Interest is paid on customer deposits at the rate of prime less 2% per annum.

Deposits from electricity distribution customers are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB, or upon termination of their electricity distribution service.

**3. Significant accounting policies (continued)**

h) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

i) Regulatory balances

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Company.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the deferred cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or Other Comprehensive Income ("OCI"). When the customer is billed at rates approved by the OEB for the recovery of the deferred costs, the customer billings are recognized in revenue. The regulatory debit balance is reduced by the amount of these customer billings with the offset to net movement in regulatory balances in profit or loss or OCI.

The probability of recovery of the regulatory deferral account debit balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover the balance. The assessment of likelihood of recovery is based upon previous decisions made by the OEB for similar circumstances, policies or guidelines issued by the OEB, etc. Any resulting impairment loss is recognized in profit or loss in the year incurred.

When the Company is required to refund amounts to ratepayers in the future, the Company recognizes a regulatory deferral account credit balance. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. The amounts returned to the customers are recognized as a reduction of revenue. The credit balance is reduced by the amount of these customer repayments with the offset to net movement in regulatory balances in profit or loss or OCI.

**3. Significant accounting policies (continued)**

j) Post-employment benefits

*Pension plan*

The Company provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Company to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. The Company is not responsible for any other contractual obligations other than the contributions. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss when they are due.

*Post-employment benefits, other than pension*

The Company provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans.

The obligations for these post-employment benefit plans are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Remeasurements of the net defined benefit obligations, including actuarial gains and losses and the return on plan assets (excluding interest), are recognized immediately in OCI. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

**3. Significant accounting policies (continued)**

k) Finance income and finance expenses

Finance income is recognized as it accrues in profit or loss. Finance income comprises interest earned on cash and cash equivalents.

Finance expenses comprise interest expense on borrowings and customer deposits. Finance expenses are recognized in profit or loss unless they are capitalized as part of the cost of qualifying assets.

l) Income taxes

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

The Company is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts"). Under the Electricity Act, 1998, the Company makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Tax Acts as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Company was not subject to income or capital taxes. Payments in lieu of taxes ("PILs") are referred to as income taxes.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted, at the reporting date.

## 4. Standards issued but not yet adopted

There are new standards, amendments to standards and interpretations which have not been applied in preparing these financial statements. These standards or amendments relate to the measurement and disclosure of financial assets and liabilities.

*Annual Improvements to IFRS (2012-2014) cycle*

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. Each of the amendments has its own specific transition requirements. Amendments were made to clarify the following in their respective standards:

- Changes in method for disposal under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- 'Continuing involvement' for servicing contracts and offsetting disclosures in condensed interim financial statements under IFRS 7 *Financial Instruments: Disclosures;*
- Discount rate in a regional market sharing the same currency under IAS 19 *Employee Benefits;*
- Disclosure of information 'elsewhere in the interim financial report' under IAS 34 *Interim Financial Reporting*;

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the standard has not yet been determined.

*IFRS 9 Financial Instruments*

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

**4. Standards issued not yet adopted (continued)**

*IFRS 15 Revenue from Contracts with Customers*

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services.*

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

*IFRS 16 Leases*

On January 13, 2016 the IASB issued IFRS 16 *Leases*.

The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases*.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

## 5. Cash and bank indebtedness

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Cash | $ 6,429 | $ 6,208 | $ - |
| Bank indebtedness | $ - | $ - | $ 3,012 |

## 6. Accounts receivable

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Trade receivables | $ 25,344 | $ 33,188 | $ 30,628 |
| Unbilled revenue | 42,085 | 35,980 | 39,731 |
| Other | 3,066 | 3,264 | 1,935 |
| | $ 70,495 | $ 72,432 | $ 72,294 |

Included in accounts receivable is approximately $7.9 million (2014 - $7.7 million) of customer receivables for water consumption that the Company bills and collects on behalf of the Corporation of the City of London. As the Company does not assume liability for collection of these amounts, any amount relating to water consumption that is determined to be uncollectible is charged to the Corporation of the City of London.

Also, included in the accounts receivable is $1.8 million (2014 - $1.7 million) of energy, water, and sundry receivables due from the Corporation of the City of London.

## 7. Materials and supplies

Amounts written down due to obsolescence during the year ended December 31, 2015 was $0.1 million (2014 - nil).

## 8. Property, plant and equipment

a) Cost or deemed cost:

| | Land and buildings | Distribution substation equipment | Other distribution equipment | Other fixed assets | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2014 | $ 12,532 | $ 9,285 | $ 177,376 | $ 15,005 | $ 10,284 | 224,482 |
| Additions | 1,123 | 273 | 19,698 | 2,112 | (98) | 23,108 |
| Disposals / retirements | - | - | - | (25) | - | (25) |
| Balance at December 31, 2014 | $ 13,655 | $ 9,558 | $ 197,074 | $ 17,092 | $ 10,186 | $ 247,565 |
| Balance at January 1, 2015 | $ 13,655 | $ 9,558 | $ 197,074 | $ 17,092 | $ 10,186 | $ 247,565 |
| Additions | 673 | 167 | 23,709 | 3,436 | 114 | 28,099 |
| Disposals / retirements | (17) | - | (793) | (801) | - | (1,611) |
| Balance at December 31, 2015 | $ 14,311 | $ 9,725 | $ 219,990 | $ 19,727 | $ 10,300 | $ 274,053 |

b) Accumulated depreciation:

| | Land and buildings | Distribution substation equipment | Other distribution equipment | Other fixed assets | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2014 | $ - | $ - | $ - | $ - | $ - | $ - |
| Depreciation | 904 | 273 | 8,551 | 2,552 | - | 12,280 |
| Disposals / retirements | - | - | - | (2) | - | (2) |
| Balance at December 31, 2014 | $ 904 | $ 273 | $ 8,551 | $ 2,550 | $ - | $ 12,278 |
| Balance at January 1, 2015 | $ 904 | $ 273 | $ 8,551 | $ 2,550 | $ - | $ 12,278 |
| Depreciation | 930 | 280 | 8,803 | 2,634 | - | 12,647 |
| Disposals / retirements | (17) | - | (793) | (801) | - | (1,611) |
| Balance at December 31, 2015 | $ 1,817 | $ 553 | $ 16,561 | $ 4,383 | $ - | $ 23,314 |

c) Carrying amounts:

| Balance at | Land and buildings | Distribution substation equipment | Other distribution equipment | Other fixed assets | Construction in progress | Total |
|---|---|---|---|---|---|---|
| January 1, 2014 | $ 12,532 | $ 9,285 | $ 177,376 | $ 15,005 | $ 10,284 | $ 224,482 |
| December 31, 2014 | $ 12,751 | $ 9,285 | $ 188,523 | $ 14,542 | $ 10,186 | $ 235,287 |
| December 31, 2015 | $ 12,494 | $ 9,172 | $ 203,429 | $ 15,344 | $ 10,300 | $ 250,739 |

## 9. Intangible assets

a) Cost or deemed cost:

| | Land rights | Wholesale metering | Computer software | Intangible work in progress | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2014 | $ 185 | $ 1,085 | $ 14,217 | $ 750 | $ 16,237 |
| Additions | 17 | - | 4,428 | (292) | 4,153 |
| Balance at December 31, 2014 | $ 202 | $ 1,085 | $ 18,645 | $ 458 | $ 20,390 |
| Balance at January 1, 2015 | $ 202 | $ 1,085 | $ 18,645 | $ 458 | $ 20,390 |
| Additions | 31 | - | 5,071 | 1,553 | 6,655 |
| Disposals / retirements | - | - | (2,004) | - | (2,004) |
| Balance at December 31, 2015 | $ 233 | $ 1,085 | $ 21,712 | $ 2,011 | $ 25,041 |

b) Accumulated amortization:

| | Land rights | Wholesale metering | Computer software | Intangible work in progress | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2014 | $ - | $ - | $ - | $ - | $ - |
| Amortization | 17 | 43 | 5,229 | - | 5,289 |
| Disposals / retirements | - | - | - | | - |
| Balance at December 31, 2014 | $ 17 | $ 43 | $ 5,229 | $ - | $ 5,289 |
| Balance at January 1, 2015 | $ 17 | $ 43 | $ 5,229 | $ - | $ 5,289 |
| Amortization | 18 | 43 | 5,047 | - | 5,108 |
| Disposals / retirements | - | - | (2,004) | - | (2,004) |
| Balance at December 31, 2015 | $ 35 | $ 86 | $ 8,272 | $ - | $ 8,393 |

c) Carrying amounts:

| Balance at | Land rights | Wholesale metering | Computer software | Intangible Work in Progress | Total |
|---|---|---|---|---|---|
| January 1, 2014 | $ 185 | $ 1,085 | $ 14,217 | $ 750 | $ 16,237 |
| December 31, 2014 | $ 185 | $ 1,042 | $ 13,416 | $ 458 | $ 15,101 |
| December 31, 2015 | $ 198 | $ 999 | $ 13,440 | $ 2,011 | $ 16,648 |

During the year, borrowing costs of nil (2014 - nil) were capitalized as part of the cost of intangible assets. A capitalization rate of 2.55% (2014 - 0%) was used to determine the amount of borrowing costs to be capitalized.

## 10. Income tax expense

Income tax expense is comprised of:

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Current income tax | | | | |
| Current year | $ | 2,789 | $ | 3,262 |
| Adjustment for prior years | | (140) | | (175) |
| | | 2,649 | | 3,087 |
| Deferred tax | | | | |
| Change in recognized deductible temporary differences: | | | | |
| Loss on interest rate swap | | (837) | | (683) |
| Property, plant, equipment and intangible assets | | 1,479 | | 1,756 |
| Post-employment benefits | | (73) | | (76) |
| Deferred revenue | | (58) | | (14) |
| | | 511 | | 983 |
| Total current and deferred income tax in profit or loss, before before movement of regulatory balance | | 3,160 | | 4,070 |
| Other comprehensive income | | | | |
| Post-employment benefits | | 47 | | (125) |
| Total current and deferred income tax, before movement of regulatory balances | | 3,207 | | 3,945 |
| Net movement in regulatory balances | | (1,396) | | (1,541) |
| Income tax expense recognized in Statement of Comprehensive Income | $ | 1,811 | $ | 2,404 |

Reconciliation of effective tax rate:

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Income before taxes | $ | 12,165 | | 14,469 |
| Canada and Ontario statutory income tax rates | | 26.5% | | 26.5% |
| Expected tax provision on income at statutory rates | | 3,224 | | 3,834 |
| Increase (decrease) in income taxes resulting from: | | | | |
| Net movement in regulatory balances | | (1,396) | | (1,541) |
| Other items | | (17) | | 111 |
| | $ | 1,811 | $ | 2,404 |

Significant components of the Company's deferred tax balances:

| | December 31, 2015 | | December 31, 2014 | | January 1, 2014 |
|---|---|---|---|---|---|
| Property, plant, equipment and intangible assets | $ | (4,573) | $ (3,094) | $ | (1,338) |
| Post-employment benefits | | 3,668 | 3,643 | | 3,442 |
| Deferred revenue | | 72 | 14 | | - |
| Future income taxes to be realized by customers | | (833) | 563 | | 2,104 |
| Loss on interest rate swap | | 1,573 | 736 | | 53 |
| | $ | 740 | $ 1,299 | $ | 2,157 |

## 11. Regulatory balances

Reconciliation of the carrying amount for each class of regulatory balances:

| Regulatory deferral account debit balances | January 1, 2015 | Additions | Recovery/ reversal | December 31, 2015 | Remaining recovery/ reversal years |
|---|---|---|---|---|---|
| Group 1 deferred accounts | $ 5,295 | $ (5,295) | $ - | $ - | |
| IFRS-CGAAP transitional PP&E recoveries | 275 | - | (118) | 157 | 1.3 |
| Regulatory settlement account | 47 | - | (47) | - | - |
| Other regulatory accounts | 967 | 939 | - | 1,906 | |
| Income tax | - | 833 | - | 833 | |
| | $ 6,584 | $ (3,523) | $ (165) | $ 2,896 | |

| Regulatory deferral account debit balances | January 1, 2014 | Additions | Recovery/ reversal | December 31, 2014 | Remaining years |
|---|---|---|---|---|---|
| Group 1 deferred accounts | $ - | $ 5,295 | $ - | $ 5,295 | |
| IFRS-CGAAP transitional PP&E recoveries | 393 | - | (118) | 275 | 2.3 |
| Regulatory settlement account | - | 105 | (58) | 47 | 0.3 |
| Other regulatory accounts | 1,918 | (951) | - | 967 | |
| | $ 2,311 | $ 4,449 | $ (176) | $ 6,584 | |

| Regulatory deferral account credit balances | January 1, 2015 | Additions | Recovery/ reversal | December 31, 2015 | Reversal years |
|---|---|---|---|---|---|
| Group 1 deferred accounts | $ - | $ (2,577) | $ - | $ (2,577) | |
| Regulatory settlement account | - | - | - | - | - |
| Other regulatory accounts | (158) | (3) | - | (161) | |
| Income tax | (563) | 563 | - | - | |
| | $ (721) | $ (2,017) | $ - | $ (2,738) | |

| Regulatory deferral account credit balances | January 1, 2014 | Additions | Recovery/ reversal | December 31, 2014 | Remaining years |
|---|---|---|---|---|---|
| Group 1 deferred accounts | $ (2,929) | $ 2,929 | $ - | $ - | |
| Regulatory settlement account | (3,830) | (17) | 3,847 | - | - |
| Other regulatory accounts | (154) | (4) | - | (158) | |
| Income tax | (2,104) | 1,541 | - | (563) | |
| | $ (9,017) | $ 4,449 | $ 3,847 | $ (721) | |

**11. Regulatory balances (continued)**

The regulatory balances are recovered or settled through fixed and/or volumetric rate riders approved by the OEB. The volumetric rate riders are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Company has received approval from the OEB to establish its regulatory balances. Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. In the first quarter of 2015 the rate was 1.47% and for the balance of the year the rate was set at 1.10%.

a) Group 1 deferred accounts

The Group 1 deferred accounts consist of purchased power cost variances. As a regulated distributor of electricity, the Company is obligated to provide energy supply to all consumers at regulated or spot rates unless they elect to purchase their energy from an energy retailer. The regulatory framework requires that all energy commodity and non-commodity costs be billed at regulated rates to consumers who are on the Regulated Price Plan.

Variances between purchase costs and amounts billed for electricity are required to be captured in the Retail Settlement Variance Accounts (“RSVA”) for disposition through future rate riders. The variance accounts have been further defined by the regulator into commodity and non-commodity accounts. Those accounts defined as commodity accounts are eligible for regulatory review on a quarterly basis. All other accounts are defined as non-commodity and are currently eligible for review on an annual basis.

These variances were credit balances on January 1, 2014. Due to price fluctuations the accumulated variances became debit balances during 2014, then changed back to credit balances in 2015. The 2016 IRM rate application was submitted to the OEB on October 19, 2015, which includes a claim to recover the debit balances at December 31, 2014 via rate riders. The OEB issued its decision with respect to this Application which authorizes the recovery of these balances over a one-year period commencing May 1, 2016.

b) IFRS-CGAAP transitional PP&E recoveries

Compliant with OEB directives of the Accounting Procedures Handbook, the Company must use this account to record differences arising as a result of accounting policy changes caused by the transition from previous Canadian GAAP to Modified International Financial Reporting Standards (“MIFRS”).

During 2012, the Company filed its 2013 Cost of Service Rate Application (“Application”) which included a request for OEB approval for the recovery of certain authorized regulatory deferral accounts including these IFRS-CGAAP transitional PP&E differences. The OEB issued its decision with respect to this Application which authorizes amortization of the balance into rate base and revenue requirement amounts. Therefore, the approved distribution rates during the four year period commencing May 1, 2013, include the recovery of these IFRS-CGAAP Transitional PP&E account differences.

**11. Regulatory balances (continued)**

c) Regulatory settlement account

The regulatory settlement account with debit balance consists of the Lost Revenue Adjustment Mechanism Variance ("LRAMVA") approved for recovery by the OEB. During 2013, the Company filed its Incentive Regulation Mechanism ("IRM") rate application for the 2014 rate year. The OEB issued its decision with respect to this application which included a request for OEB approval for the recovery of LRAMVA for amounts as at December 31, 2012. The regulatory decision approved the recovery of these balances over a one-year period commencing May 1, 2014.

The regulatory settlement account with credit balance consists of purchased power cost variances captured in RSVAs approved for disposition by the OEB. Variances accumulated prior to January 1, 2011 are the amounts that were approved in 2012 for disposition effective May 1, 2012 through to April 30, 2014. During 2012, the Company filed its 2013 Cost of Service Rate Application which included a request for OEB approval for the disposition of the RSVA Power account and the RSVA Power-Global Adjustment sub accounts. These amounts accumulated between January 1, 2011 and December 31, 2012. The non-commodity RSVA amounts accumulated between January 1, 2011 and December 31, 2011. The OEB issued its decision with respect to this Application which authorizes the disposition of these balances over a one-year period commencing May 1, 2013.

d) Other regulatory accounts

Other regulatory debit balances include various deferred costs in connection with Green Energy programs, Lost Revenue Adjustment Mechanism Variances, Smart Metering Entity Charge Variances, IFRS transition expenditures, Retail Cost Variances and the residual balance of Stranded Meter costs previously approved for recovery by the OEB. Green Energy programs authorized by the OEB include renewable enabling improvements and investments towards smart grid. Costs incurred with respect to these various activities have been captured under deferral accounts for future rate recovery.

Other regulatory credit balances consist of amounts resulting from the implementation of the Harmonized Sales Tax.

e) Income tax

As a result, the Company has recognized a regulatory deferral account for the amount of deferred taxes that will ultimately be recovered from/paid back to its customers. This balance will fluctuate as the Company's deferred tax balance fluctuates.

## 12. Accounts payable and accrued liabilities

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Due to Independent Electricity System Operator | $ 39,888 | $ 41,193 | $ 37,447 |
| Debt retirement charge payable to OEFC | 1,603 | 1,845 | 1,771 |
| Harmonized sales tax | 372 | 1,095 | 670 |
| Payroll and benefits payable | 2,264 | 2,006 | 1,747 |
| Other | 9,424 | 7,090 | 11,001 |
| | $ 53,551 | $ 53,229 | $ 52,636 |

## 13. Deferred revenue

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Capital contributions for completed projects | $ 5,560 | $ 1,849 | $ - |
| Deposits held | 8,582 | 8,567 | 7,506 |
| | 14,142 | 10,416 | 7,506 |
| Less: Current portion | 1,192 | 1,482 | 1,277 |
| | $ 12,950 | $ 8,934 | $ 6,229 |

Included in deposits held is $3.8 million (2014 - $3.9 million) received from the Corporation of the City of London as contributions for the construction of capital assets.

## 14. Long-term debt

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Unsecured, committed extendible revolving loan bearing interest at prime, minus 0.5%, interest only payments due March 2016 | $ 5,000 | $ - | $ - |
| Unsecured, non-revolving term instalment loan bearing interest at the 7.58 year Bankers' Acceptance rate of 2.46% plus a stamping fee of 0.19%, interest only payments due June 2022 | 85,000 | 85,000 | - |
| Unsecured, non-revolving term instalment loan bearing interest at the 7.75 year Bankers' Acceptance rate of 2.43% plus a stamping fee of 0.9%, payable in monthly instalments of $192 principal plus interest due August 2019 | 8,434 | 10,738 | 13,042 |
| | 98,434 | 95,738 | 13,042 |
| Less: Current portion | 7,304 | 2,304 | 2,304 |
| | $ 91,130 | $ 93,434 | $ 10,738 |

The Company has an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan in the amount of $85 million. Interest only payments are due quarterly and commenced December 2014. The principal is due at maturity. The agreement is a fixed rate swap and matures June 2022, which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 2.46%, plus a stamping fee of 0.19%, for an all-in rate of 2.65%.

The Company has an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan in the original amount of $20.5 million to fund its Smart Meter capital expenditure program. Principal repayments on this loan commenced October 2010 and are being amortized over a 9 year period ending August 2019. The agreement is a fixed rate swap and matures August 2019 which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 2.43%, plus a stamping fee of 0.9%, for an all-in rate of 3.33%.

The swap agreements entered into with Royal Bank of Canada do not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contracts are recorded at their fair value at the end of the period with the unrealized gain or loss recorded in the Statements of Comprehensive Income as finance expenses. The unrealized loss for the year ended December 31, 2015 was $3.2 million (2014 - $2.6 million).

At December 31, 2015, the Company would be required to pay $5.9 million (2014 - $2.8 million) if it wished to cancel the swap agreements.

## 15. Post-employment benefits

a) OMERS pension plan

The Company provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. During the year ended December 31, 2015, the Company made employer contributions of $2.7 million to OMERS (2014 - $2.6 million), of which $0.7 million (2014 - $0.7 million) has been capitalized as part of PP&E and the remaining amount of $2.0 million (2014 - $1.9 million) has been recognized in operating expenses in the Statement of Comprehensive Income. The Corporation estimates that a contribution of $2.8 million to OMERS will be made during the next fiscal year.

As at December 31, 2015, OMERS had approximately 461,000 members, of whom 320 are employees of the Company. The most recently available OMERS annual report is for the year ended December 31, 2015, which reported that the plan was 91.5% funded, with an unfunded liability of $7.0 billion. This unfunded liability is likely to result in future payments by participating employers and members.

b) Post-employment benefits other than pension

The Company pays certain medical and life insurance benefits on behalf of some of its retired employees. The Company recognizes these post-employment benefits in the year in which employees' services were rendered. The Company is recovering its post-employment benefits in rates based on the expense and remeasurements recognized for post-employment benefit plans. Based on the most recent actuarial valuation as at December 31, 2015, the following information has been determined:

Reconciliation of the obligation:

| | | December 31, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| Defined benefit obligation, beginning of year | $ | 13,749 | $ | 12,989 |
| Included in profit or loss: | | | | |
| Current service costs | | 386 | | 355 |
| Interest cost | | 514 | | 580 |
| Other benefits | | 42 | | (75) |
| | | 942 | | 860 |
| Actuarial (gains) / losses included in OCI: | | | | |
| Changes in demographic assumptions | | - | | (749) |
| Change in financial assumptions | | (192) | | 1,233 |
| Effect of experience adjustments | | 13 | | (13) |
| | | (179) | | 471 |
| Benefits paid | | (667) | | (571) |
| Defined benefit obligation, end of year | $ | 13,845 | $ | 13,749 |

**15. Post-employment benefits (continued)**

b) Post-employment benefits other than pension (continued)

Actuarial assumptions:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Discount (interest) rate | 4.0% | 3.9% |
| Salary levels | 4.0% | 4.0% |
| Immediate medical costs | 6.1% | 6.2% |
| Ultimate medical costs | 4.5% | 4.5% |
| Dental cost rate | 4.5% | 4.5% |
| Year ultimate rate reached | 2028 | 2028 |

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by $2.0 million. A 1% decrease in the assumed discount rate would result in the defined benefits obligation increasing by $1.9 million.

**16. Share capital**

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Authorized: | | | |
| An unlimited number of common shares | | | |
| An unlimited number of non-voting, non-cumulative preference shares, redeemable at the paid-up amount | | | |
| Issued: | | | |
| 1,001 common shares | $ 96,116 | $ 96,116 | $ 96,116 |

*Dividends*

The holders of the common shares are entitled to receive dividends as declared from time to time.

On March 31, 2015 the Board of Directors declared a $5.0 million annual dividend and a $5.0 million special dividend both payable to the sole shareholder, the Corporation of the City of London, in quarterly installments in 2015.

On March 26, 2014 the Board of Directors approved the payment of a dividend in the amount of $3.0 million paid in quarterly instalments in 2014.

## 17. Other revenue

| | | 2015 | | 2014 |
|---|---|---|---|---|
| City of London water services | $ | 3,996 | $ | 3,904 |
| Late payment charges | | 1,816 | | 1,739 |
| Collection charges | | 694 | | 692 |
| Occupancy charges | | 619 | | 594 |
| Customer billing service fees | | 586 | | 592 |
| Pole and other rental income | | 410 | | 414 |
| Other services, recoveries and sundry revenues | | 580 | | 805 |
| Income tax incentive credits | | 319 | | 390 |
| Renewable generation revenue | | 314 | | 308 |
| Sale of scrap | | 298 | | 508 |
| Gain on disposal of capital assets | | 162 | | 172 |
| Amortization of deferred revenue | | 79 | | 21 |
| Ontario Power Authority incentives | | 47 | | 3,234 |
| | $ | 9,920 | $ | 13,373 |

## 18. Operating expenses

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Labour and benefits | $ | 24,213 | $ | 23,428 |
| Professional services | | 5,478 | | 5,067 |
| Office equipment services and maintenance | | 2,011 | | 1,071 |
| Rental, regulatory and other expenses | | 1,649 | | 1,615 |
| Facilities maintenance and repair | | 1,521 | | 1,677 |
| Postage | | 1,250 | | 1,208 |
| Corporate training and employee expenses | | 1,124 | | 1,123 |
| Property tax and insurance | | 1,095 | | 1,137 |
| Materials and supplies | | 983 | | 951 |
| Fleet operations and maintenance | | 952 | | 917 |
| Bad debts | | 650 | | 700 |
| Allocations to capital and billable activities | | (1,720) | | (1,748) |
| | $ | 39,206 | $ | 37,146 |

## 19. Finance (income) and expenses

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Finance income | | | | |
| Interest income on bank deposits | $ | (101) | $ | (69) |
| Finance expenses | | | | |
| Unrealized loss on interest rate swap | | 3,158 | | 2,579 |
| Related party promissory note | | - | | 3,850 |
| Interest on long-term debt | | 2,643 | | 709 |
| Interest on short-term debt | | 27 | | 60 |
| Other | | 70 | | 105 |
| | | 5,898 | | 7,303 |
| **Net finance expense** | $ | 5,797 | $ | 7,234 |

## 20. Commitments and contingencies

*General*

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company has no reason to believe that the outcome of any of these matters could reasonably be expected to have a materially adverse impact on the Company's financial position, results of operations or its ability to carry on any of its business activities.

*General Liability Insurance*

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2015, no assessments have been made.

**20. Commitments and contingencies (continued)**

*Letters of credit*

At December 31, 2015, the Company had provided $6.6 million (2014 – $6.6 million) in bank standby letters of credit to the IESO.

*Vendor commitments*

The Company has commitments in connection with Information Systems projects of approximately $0.8 million (2014 - $0.7 million), Infrastructure projects of $5.3 million (2014 – $3.9 million) and new vehicle acquisitions of $0.5 million (2014 - $0.8 million).

*Operating leases*

The Company is committed to lease agreements for various vehicles, equipment and property rights. The future minimum non-cancellable annual lease payments are as follows:

| | December 31 2015 | December 31 2014 | January 1, 2014 |
|---|---|---|---|
| Less than one year | $ 303 | $ 171 | $ 155 |
| Between one and five years | 1,027 | 588 | 561 |
| More than five years | 193 | 232 | 271 |
| | **$ 1,523** | **$ 991** | **$ 987** |

Operating lease expense incurred during the year ended December 31, 2015 was of $0.3 million (2014 - $0.2 million).

## 21. Related party transactions

a) Trade balances due to shareholder

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Water consumption | $ 6,746 | $ 6,208 | $ 6,315 |
| Non-interest bearing trade balance due to (from) shareholder, without stated repayment terms | 682 | 735 | (39) |
| | $ 7,428 | $ 6,943 | $ 6,276 |

The Company delivers electricity to the City of London throughout the year for the electricity needs of the City of London and its related organizations. Electricity delivery charges are at prices and under terms approved by the OEB. The Company also provides additional services to the City of London, including water and waste water billing and customer care services.

During the year ended December 31, 2015, the Company billed customers for water service on behalf of the shareholder and remitted funds to the shareholder in the amount of $151.1 million (2014 – $143.0 million). The shareholder paid $3.9 million (2014 - $3.9 million) for this service.

b) Promissory note due to related party

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Unsecured promissory note, due to related party, bearing interest at 6% per annum, payable on demand with 367 days notice, maturing October 31, 2015 | $ - | $ - | $ 70,000 |
| | - | - | 70,000 |
| Less: Current portion | - | - | - |
| | $ - | $ - | $ 70,000 |

The Company repaid the promissory note to the Corporation of the City of London on November 28, 2014. The Company obtained funding in the amount of $85.0 million from the Royal Bank of Canada which was in place on the transfer date (note 14).

The Company paid interest on the promissory note during the year ended December 31, 2014 in the amount of $3.9 million.

## 22. Joint venture agreement

On January 1, 2013, The Company entered into an agreement with London District Renewable Energy Co-Operative Inc. ("LDREC") to create a joint venture with the legal name "London Renewable Energy Initiative" for the intention of identifying, applying for and constructing solar projects that have been approved under the Feed-in Tariff ("FIT") government program. The Company has a 49% equity interest in LDREC while appointing 60% of the members of the Executive Committee resulting in controlling interest. To date no significant work has been completed and no amounts have been recorded in these financial statements in connection with this venture.

## 23. Financial instruments and risk management

### Fair value disclosure

The carrying values of cash, accounts receivable, unbilled revenue, due from/to shareholder and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

The fair value of the long-term debt at December 31, 2015 is $95 million (2014 - $96 million). The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at December 31, 2015 was 2.16% (2014 – 2.46%). The fair value of interest rate swaps is recorded based on valuation amounts as provided by RBC Capital Markets on a quarterly basis.

### Financial risks

The Company understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Company's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

a) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company primarily assesses credit risk exposure by customer segment. Concentrations of consumption by segment or individual customer, may impact risk due to varying energy consumption patterns and allowable security deposit requirements associated with each segment. The Company is not exposed to a significant concentration of credit risk within any customer segment or individual customer. No single customer accounts for revenue in excess of 10% of total revenue.

**23. Financial instruments and risk management (continued)**

a) Credit risk (continued)

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in profit and loss as bad debt expense. Subsequent recoveries of receivables previously provisioned are credited to profit and loss. The balance of the allowance for impairment loss at December 31, 2015 is $2.5 million (2014 - $2.3 million). Bad debt expense was $0.7 million (2014 - $0.7 million) during the year ended December 31, 2015.

At December 31, 2015, approximately $0.7 million (2014 - $0.6 million) is included in the allowance for doubtful accounts for uncollectible amounts relating to water consumption. No bad debt expense has been realized in the Statement of Comprehensive Income in connection with water consumption as these amounts are fully recovered from the City of London.

The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2015, approximately $2.0 million (2014 - $1.9 million) is considered 60 days past due. The Company has 154 thousand customers, the majority of whom are residential.

By regulation, the Company is responsible for collecting both the distribution and energy portions of the electricity bill. On average, the Company earns 18% of amounts billed to customers with the remaining 82% being collected for other parties. The Company is therefore exposed to a credit risk substantially greater than the income that it regularly earns.

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. At December 31, 2015, the Company held deposits in the amount of $6.3 million (2014 - $5.9 million). Additionally, if presented with substantial credit losses, the Company would make an application to the regulator for recovery of those losses through distribution rate adjustments in future years.

b) Market risk

Market risks primarily refer to the risk of loss that result from changes in commodity prices, foreign exchange rates, and interest rates. The Company currently does not have significant commodity or foreign exchange risk. The Company is exposed to fluctuations in interest rates as the regulated rate of return for the Company's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

A 1% increase in the interest rate at December 31, 2015 would have increased interest expense on the long-term debt by $ 0.1 million (2014 - nil), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

**23. Financial instruments and risk management (continued)**

c) Liquidity risk

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due. The majority of accounts payable, as reported on the Statement of Financial Position, are due within 30 days.

The Company has an uncommitted operating revolving line of credit facility of $20 million with the Toronto Dominion Bank. At December 31, 2015, the amount drawn by the Company under this line of credit was nil (2014 - nil). The line of credit is unsecured and interest is at bank prime rate on prime based borrowings minus 0.5%, or at Bankers' Acceptances ("B/A") rates plus a 0.75% stamping fee on B/A based borrowings.

At December 31, 2015, the Company had a committed 364 day extendable operating revolving loan facility of $15 million with the Toronto Dominion Bank and the amount drawn by the Company under this loan facility was $5 million (2014 - nil). Under the terms of this agreement, the loan has a maturity date of March 31, 2016. The Company has a one year period from the loan maturity date to repay any outstanding balances in the event the lender elects not to extend the loan for an additional 364 day period. Interest is at bank prime rate on prime based borrowings minus 0.5%, or at B/A rates plus a 0.75% stamping fee on B/A based borrowings.

The Company also has a bilateral facility for $6.6 million for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which nil has been drawn and posted with the IESO (2014 - nil).

**23. Financial instruments and risk management (continued)**

d) Capital disclosures

The main objectives of the Company, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholder's equity and long-term debt.

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Long-term debt | $ 98,434 | $ 95,738 | $ 13,042 |
| Due to related party | - | - | 70,000 |
| Shareholder's equity | 148,608 | 148,254 | 139,191 |
| | $ 247,042 | $ 243,992 | $ 222,233 |

**24. Subsequent event**

On April 19, 2016, the Board of Directors declared a $5.0 million annual dividend and a $5.0 million special dividend both payable to the sole shareholder, the Corporation of the City of London, in quarterly installments in 2016.

## 25. Explanation of transition to IFRS

As stated in note 2(b), these are the Company's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2015, the comparative information presented in these financial statements for the year ended December 31, 2014, and in the preparation of the opening IFRS Statement of Financial Position as at January 1, 2014 (the Company's date of transition).

In preparing its opening IFRS Statement of Financial Position, the Company has adjusted the amounts reported previously in the financial statements prepared in accordance with Canadian general accepted accounting principles ("CGAAP"). An explanation of how the transition from CGAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes accompanying the tables.

a) Regulatory accounts

IFRS14: *Regulatory Deferral Accounts*, permits an entity to continue to account for regulatory deferral account balances in its financial statements in accordance with its previous CGAAP when it adopts IFRS. An entity is permitted to apply the requirements of this standard in its first IFRS financial statements if and only if it conducts rate-regulated activities and recognized amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous CGAAP. This standard exempts an entity from applying paragraph 11 of IAS8: *Accounting policies, changes in accounting estimates and errors*, to its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances.

IFRS 14 is effective from periods beginning on or after January 1, 2016, however, early application is permitted. The Company has elected to apply this Standard in its first IFRS financial statements.

**25. Explanation of transition to IFRS (continued)**

b) IFRS 1 Exemptions

IFRS 1 *First-time adoption of International Financial Reporting Standards* sets out the procedures that the Company must follow when it adopts IFRS for the first time as the basis for preparing its financial statements. The Company is required to establish its IFRS accounting policies as at December 31, 2015 and, in general, apply these retrospectively to determine the IFRS opening Statement of Financial osition as its date of transition, January 1, 2014. This standard provides a number of mandatory and optional exemptions to this general principle. These are set out below, together with a description in each case of the exemption adopted by the Company.

i. Transfer of assets from customers

*IFRIC 18 - "Transfers of assets from customers"* allows for the application of IFRIC 18 with respect to the recognition of capital contributions on the date of transition or earlier adoption is permitted. The Company has elected to apply IFRIC 18 effective January 1, 2014.

ii. Deemed cost

IFRS 1 provides an optional exemption for a first-time adopter with rate-regulated activities to use the carrying amount of PP&E and intangible assets as deemed cost on transition date when the carrying amount includes costs that do not quality for capitalization in accordance with IFRS. The Company elected this exemption and used the carrying amount of the PP&E and intangible assets under CGAAP as deemed cost on transition date. The carrying amount used as deemed cost is $224.5 million for PP&E and $16.2 million for intangible assets.

If an entity applies this exemption, at the date of transition to IFRS, it shall test for impairment each item for which this exemption is used. The assets were tested for impairment at the date of transition and it was determined that the assets were not impaired.

c) Reconciliations between Canadian GAAP and IFRS

In preparing its opening IFRS balance sheet as at January 1, 2014, the Company has adjusted amounts reported previously in financial statements prepared in accordance with CGAAP. An explanation of how the transition from CGAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

## 25. Explanation of transition to IFRS (continued)

### Reconciliation of Statement of Financial Position and Statement of Changes in Equity

| *As at January 1, 2014* | Note | CGAAP | Presentation differences | Measurement & recognition differences | IFRS |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Accounts receivable | | $ 71,046 | $ 1,248 | $ - | $ 72,294 |
| Income tax receivable | | 80 | | | 80 |
| Materials and supplies | | 731 | | | 731 |
| Prepaid expenses | | 1,456 | | | 1,456 |
| Total current assets | | 73,313 | 1,248 | - | 74,561 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | a,b,c | 240,693 | (16,211) | | 224,482 |
| Intangible assets | a,b,c | - | 16,237 | | 16,237 |
| Deferred tax assets | g | 2,463 | (640) | 334 | 2,157 |
| Total non-current assets | | 243,156 | (614) | 334 | 242,876 |
| **Total assets** | | 316,469 | 634 | 334 | 317,437 |
| Regulatory balances | c | 2,337 | (26) | | 2,311 |
| **Total assets and regulatory balances** | | $ 318,806 | $ 608 | $ 334 | $ 319,748 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Bank indebtedness | | $ 3,012 | $ - | $ - | $ 3,012 |
| Accounts payable and accrued liabilities | d | 51,450 | 1,186 | | 52,636 |
| Due to shareholder | d | 6,577 | (301) | | 6,276 |
| Current portion of long-term debt | | 2,304 | | | 2,304 |
| Customer and other deposits | d | 1,626 | (912) | | 714 |
| Deferred revenue | d | - | 1,277 | | 1,277 |
| Total current liabilities | | 64,969 | 1,250 | - | 66,219 |
| **Non-current liabilities** | | | | | |
| Customer and other deposits | d | 7,419 | (2,253) | | 5,166 |
| Long-term debt | | 10,738 | | | 10,738 |
| Post-employment benefits | f | 11,733 | | 1,256 | 12,989 |
| Deferred revenue | d | - | 6,229 | | 6,229 |
| Unrealized loss on interest rate swap | | 199 | | | 199 |
| Due to shareholder | d | 3,976 | (3,976) | | - |
| Due to related party | | 70,000 | | | 70,000 |
| Total non-current liabilities | | 104,065 | - | 1,256 | 105,321 |
| **Total liabilities** | | 169,034 | 1,250 | 1,256 | 171,540 |
| **Equity** | | | | | |
| Share capital | | 96,116 | | | 96,116 |
| Retained earnings | f | 44,331 | | (1,256) | 43,075 |
| Accumulated other comprehensive income (loss) | | - | | | - |
| **Total equity** | | 140,447 | - | (1,256) | 139,191 |
| **Total liabilities and equity** | | 309,481 | 1,250 | - | 310,731 |
| Regulatory balances | g | 9,325 | (642) | 334 | 9,017 |
| **Total liabilities, equity and regulatory balances** | | $ 318,806 | $ 608 | $ 334 | $ 319,748 |

## 25. Explanation of transition to IFRS (continued):

### Reconciliation of Statement of Financial Position and Statement of Changes in Equity

| *As at December 31, 2014* | Note | CGAAP | Presentation differences | Measurement & recognition differences | IFRS |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | | $ 6,208 | $ - | $ - | $ 6,208 |
| Accounts receivable | | 71,122 | 1,310 | | 72,432 |
| Income tax receivable | | - | | | - |
| Materials and supplies | | 655 | | | 655 |
| Prepaid expenses | | 1,569 | | | 1,569 |
| Total current assets | | 79,554 | 1,310 | - | 80,864 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | a,b,c,d | 248,217 | (12,930) | | 235,287 |
| Intangible assets | a,b,c | - | 15,101 | | 15,101 |
| Deferred tax assets | g | 879 | (39) | 459 | 1,299 |
| Total non-current assets | | 249,096 | 2,132 | 459 | 251,687 |
| **Total assets** | | 328,650 | 3,442 | 459 | 332,551 |
| Regulatory balances | c | 7,235 | (651) | | 6,584 |
| **Total assets and regulatory balances** | | $ 335,885 | $ 2,791 | $ 459 | $ 339,135 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable and accrued liabilities | d | $ 51,997 | $ 1,232 | $ - | $ 53,229 |
| Due to shareholder | d | 7,285 | (342) | | 6,943 |
| Income tax payable | | 1,352 | 46 | | 1,398 |
| Current portion of long-term debt | | 2,304 | | | 2,304 |
| Customer and other deposits | d | 1,728 | (1,037) | | 691 |
| Deferred revenue | d | - | 1,482 | | 1,482 |
| Total current liabilities | | 64,666 | 1,381 | - | 66,047 |
| **Non-current liabilities** | | | | | |
| Customer and other deposits | d | 8,824 | (3,606) | | 5,218 |
| Long-term debt | | 93,434 | | | 93,434 |
| Post-employment benefits | f | 12,019 | | 1,730 | 13,749 |
| Deferred revenue | d | - | 8,934 | | 8,934 |
| Unrealized loss on interest rate swap | | 2,778 | | | 2,778 |
| Due to shareholder | d | 3,549 | (3,549) | | - |
| Total non-current liabilities | | 120,604 | 1,779 | 1,730 | 124,113 |
| **Total liabilities** | | 185,270 | 3,160 | 1,730 | 190,160 |
| **Equity** | | | | | |
| Share capital | | 96,116 | | | 96,116 |
| Retained earnings | f | 53,868 | | (1,259) | 52,609 |
| Accumulated other comprehensive income (loss) | f | - | | (471) | (471) |
| **Total equity** | | 149,984 | - | (1,730) | 148,254 |
| **Total liabilities and equity** | | 335,254 | 3,160 | - | 338,414 |
| Regulatory balances | g | 631 | (369) | 459 | 721 |
| **Total liabilities, equity and regulatory balances** | | $ 335,885 | $ 2,791 | $ 459 | $ 339,135 |

## 25. Explanation of transition to IFRS (continued)

### Reconciliation of net income for 2014

| *For the year ended December 31, 2014* | Note | CGAAP | Presentation differences | Measurement & recognition differences | IFRS |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Sales of energy | i | $ 363,384 | $ (11,176) | $ - | $ 352,208 |
| Distribution revenue | j | 63,367 | 295 | | 63,662 |
| Other | j | 8,894 | 4,479 | | 13,373 |
| | | 435,645 | (6,402) | - | 429,243 |
| **Operating Expenses** | | | | | |
| Cost of power purchased | | 363,384 | | | 363,384 |
| Operating expenses | j | 32,249 | 4,895 | 2 | 37,146 |
| Depreciation and amortization | j | 17,655 | (86) | | 17,569 |
| | | 413,288 | 4,809 | 2 | 418,099 |
| **Finance (income) / costs** | | | | | |
| Finance income | j | - | (69) | | (69) |
| Finance costs | j | 7,417 | (114) | | 7,303 |
| | | 7,417 | (183) | - | 7,234 |
| **Income before income taxes** | | 14,940 | (11,028) | (2) | 3,910 |
| Income tax expense | j | 2,403 | 1,666 | 1 | 4,070 |
| **Net income for the year** | | 12,537 | (12,694) | (3) | (160) |
| Net movement in regulatory balances, net of tax | i,j | - | 12,694 | | 12,694 |
| **Net income and net movement in regulatory balance** | | 12,537 | - | (3) | 12,534 |
| **Other comprehensive income** | | | | | |
| Remeasurement of post-employment benefits | f | - | | (471) | (471) |
| Tax on remeasurements | g | - | | 125 | 125 |
| Net movement in regulatory balances, net of tax | | - | | (125) | (125) |
| | | - | - | (471) | (471) |
| **Total comprehensive income for the year** | | $ 12,537 | $ - | $ (474) | $ 12,063 |

**25. Explanation of transition to IFRS (continued)**

**Notes to the reconciliations**

The impact on deferred tax of the adjustments described below is set out in note (g).

a) The Company has elected under IFRS 1 to use the carrying value of items of property, plant and equipment and intangible assets as the deemed cost at the date of transition. Therefore, there has been no change to the net PP&E and intangible assets at January 1, 2014. The effect of this transitional adjustment is a decrease to the original cost and accumulated depreciation of the affected property, plant and equipment and intangible assets by $187.1 million and $187.1 million respectively, representing the CGAAP accumulated depreciation amount on January 1, 2014.

b) The Company has identified certain intangible assets that under CGAAP were recorded with other classes of property, plant and equipment. The Company has reclassified the identified intangible assets to be in accordance with *IAS 38 - Intangible Assets*.

The effect is to increase intangible assets by $16.2 million on January 1, 2014 and $14.8 million on December 31, 2014, and to decrease property, plant and equipment by $16.2 million at January 1, 2014 and $14.8 million at December 31, 2014.

c) The Company has identified certain intangible assets that under CGAAP were recorded under Regulatory balances. The Company has reclassified the identified intangible assets to be in accordance with *IAS 38 - Intangible Assets*.

The effect is to increase intangible assets by nil on January 1, 2014 and $0.3 million on December 31, 2014, and to decrease Regulatory balances by nil at January 1, 2014 and $0.3 million at December 31, 2014.

d) Under CGAAP, customer contributions were netted against the cost of property, plant and equipment and amortized to profit or loss as an offset to depreciation expense, on the same basis as the related assets. Under IFRS, customer contributions are recognized as deferred revenue, not netted against property, plant and equipment, and amortized into profit or loss over the life of the related asset.

There is no impact to property, plant and equipment as at January 1, 2014 as the deemed cost exemption has been used (See Notes to the reconciliations (a)).

**25. Explanation of transition to IFRS (continued)**

**Notes to the reconciliations (continued)**

In accordance with this change, deposits held for capital construction have also been reclassified to deferred revenue.

The reclassification of deposits held for construction at January 1, 2014 had the effect of increasing deferred revenue (current portion) by $1.3 million and decreasing accounts payable and accrued liabilities by $0.1 million, decreasing customer and other deposits by $0.9 million and decreasing due to shareholder by $0.3 million. Deferred revenue (long-term) increased by $6.2 million as a result of this change and decreased customer and other deposits by $2.2 million and due to shareholder by $4.0 million at January 1, 2014.

The reclassification of deposits held for construction at December 31, 2014 had the effect of increasing deferred revenue (current portion) by $1.5 million and increasing property, plant and equipment by $0.1 million, decreasing accounts payable and accrued liabilities by nil, decreasing customer and other deposits by $1.1 million and decreasing due to shareholder by $0.3 million. Deferred revenue (long-term) increased by $8.9 million as a result of this change and increased property, plant and equipment by $1.8 million, decreased customer and other deposits by $3.6 million and due to shareholder by $3.5 million at December 31, 2014.

e) IFRS requires that borrowing costs related to the construction of the qualifying assets be capitalized. The Company has applied IAS 23 to all qualifying assets that were in progress or commenced since January 1, 2014. No qualifying assets were identified and therefore no borrowing costs were capitalized for the year ended December 31, 2014.

f) The Company adopted the revised Employee Benefits standard effective January 1, 2014. This revised standard requires recognition of actuarial gains and losses through other comprehensive income. The effect is to increase the Company's Post-employment benefits liability by $1.3 million at January 1, 2014 and $1.7 million at December 31, 2014 and decrease retained earnings by $1.3 million at January 1, 2014 and December 31, 2014 and decrease accumulated other comprehensive income by $0.4 million at December 31, 2014. This also provided for an increase in employee future benefits expense of nil and an other comprehensive loss of $0.4 million for the year ended December 31, 2014.

**25. Explanation of transition to IFRS (continued)**

**Notes to the reconciliations (continued)**

g) The above changes increased the deferred tax asset as follows:

| | Total<br>$ | December 31, 2014<br>$ | January 1, 2014<br>$ |
|---|---|---|---|
| Post-employment benefits | 1,730 | 474 | 1,256 |
| Tax impact at the enacted rate of 26.5% | 459 | 125 | 334 |
| Increase in deferred tax asset | 459 | 125 | 334 |
| Increase in regulatory liability balances | (459) | (125) | (334) |

h) Explanation of material adjustments to the statement of cash flows for 2014:

There are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under CGAAP.

i) As discussed under Basis of Preparation in connection with rate setting for electricity, rates are set based on either market prices or the OEB regulated amounts. The Company is billed for the cost of the electricity that its customers use and passes this cost directly on to the customer at cost without a mark-up. Under CGAAP, variances between the cost of purchased power and rates set and charged to customers flowed directly to the Statement of Financial Position as regulatory assets or liabilities. IFRS requires that these variances first be reported through profit and loss under net income for the period, and then be reclassified to the Statement of Financial Position as a movement in regulatory balances, net of tax.

j) As discussed under Basis of Preparation regarding distribution revenues, current rates are set based on forecasted annual operating expenditures included in the last Cost of Service Rate Application. Distribution revenues and expenditures not included in the last Cost of Service Rate Application as a result of timing or newly implemented programs are captured under regulatory balances. Under CGAAP, these deferral amounts flowed directly to the Statement of Financial Position. IFRS requires that these items first be reported through profit and loss under net income for the period, and then be reclassified to the Statement of Financial Position as a movement in regulatory balances, net of tax.

File Number:EB-2016-0091

Exhibit: 1
Tab: 8
Schedule: 1

Date Filed:August 26, 2016

# ATTACHMENT 2 OF 4
# RRR FINANCIAL RECONCILIATIONS

**London Hydro Inc. ED-2002-0557**
**RRR 2.1.13 Mapping**

## Part 1: Trial Balance Mapped to Financial Statement Grouping

| OEB Account | Section | Grouping | OEB Account Name | 2013 Trial Balance | Balance Sheet ($000's) | Income Statement ($000's) |
|---|---|---|---|---|---|---|
| **BALANCE SHEET** | | | | | | |
| | **ASSETS** | | | | | |
| 1005 | Current Assets | Cash and Cash Equivalent | Cash | 0.00 | | |
| 1010 | Current Assets | Cash and Cash Equivalent | Cash advances & working funds | 150.00 | | |
| | | | | | | - |
| 1040 | Current Assets | Accounts Receivable | Other Special Deposits | 7,890.00 | | |
| 1100 | Current Assets | Accounts Receivable | Customer accounts receivable | 23,286,214.10 | | |
| 1104 | Current Assets | Accounts Receivable | Accounts receivable - CCRA | 1,767,825.08 | | |
| 1110 | Current Assets | Accounts Receivable | Other accounts receivable | 8,040,531.39 | | |
| 1120 | Current Assets | Accounts Receivable | Accrued utility revenues | 39,730,571.24 | | |
| 1130 | Current Assets | Accounts Receivable | Allowance for doubtful accts | (1,960,785.70) | | |
| 1140 | Current Assets | Accounts Receivable | Interest & dividends receivable | 6,585.07 | | |
| 1150 | Current Assets | Accounts Receivable | Rents receivable | 136,348.00 | | |
| 1100 | Current Assets | Accounts Receivable | Customer accounts receivable credit balances | 260,151.75 | | |
| 1100 | Current Assets | Accounts Receivable | EPP credit balances | (228,934.25) | | |
| | | | | | | 71,046 |
| 1562 | Asset | Other Assets and Deferred Charges | Deferred payments in lieu of taxes | 79,961.00 | | |
| | | | | | | 80 |
| 1555 | Asset | Other Assets and Deferred Charges | Smart Meter Capital and Recovery Offset Variance account | 1,365,482.22 | | |
| 1575 | Asset | Other Assets and Deferred Charges | IFRS-CGAAP Transitional PP&E Amounts | 117,980.50 | | |
| | | | | | | 1,483 |
| 1305 | Current Assets | Inventory | Fuel Stock | 40,718.21 | | |
| 1330 | Current Assets | Inventory | Plant materials & operating supplies | 690,276.76 | | |
| 1350 | Current Assets | Inventory | Other materials and supplies | - | | |
| | | | | | | 731 |
| 1180 | Current Assets | Prepayments | Prepayments | 1,455,353.08 | | |
| | | | | | | 1,455 |
| 1508 | Asset | Other Assets and Deferred Charges | Other regulatory assets | 13,217.32 | | |
| 1518 | Asset | Other Assets and Deferred Charges | RCVA retail | (18,233.52) | | |
| 1521 | Asset | Other Assets and Deferred Charges | Special Purpose Charge Assessment Variance Account | - | | |
| 1531 | Asset | Other Assets and Deferred Charges | Renewable Connection - Capital | 19,181.04 | | |
| 1532 | Asset | Other Assets and Deferred Charges | Renewable Connection - OM&A | 67,107.75 | | |
| 1534 | Asset | Other Assets and Deferred Charges | Smart Grid Capital | 6,798.05 | | |
| 1535 | Asset | Other Assets and Deferred Charges | Smart Grid OM&A | 88,882.52 | | |
| 1548 | Asset | Other Assets and Deferred Charges | RCVA str | 64,121.81 | | |
| 1551 | Asset | Other Assets and Deferred Charges | Smart Metering Entity Charge Variance Account | 102,184.90 | | |
| 1575 | Asset | Other Assets and Deferred Charges | IFRS-CGAAP Transitional PP&E Amounts | 275,287.82 | | |
| 1568 | Asset | Other Assets and Deferred Charges | LRAM Variance Account | 235,047.47 | | |
| | | | | | | 854 |

| OEB Account | Section | Grouping | OEB Account Name | 2013 Trial Balance | Balance Sheet ($000's) | Income Statement ($000's) |
|---|---|---|---|---|---|---|
| 2350 | Liabilities | Non-Current Liabilities | Future income tax - non-current | 2,463,092.92 | | |
| | | | | | 2,463 | |
| 1805 | Asset | Capital Assets | Land - distribution plant | 385,689.89 | | |
| 1806 | Asset | Capital Assets | Land rights - distribution plant | 366,233.35 | | |
| 1808 | Asset | Capital Assets | Building & fixtures - distribution plant | 1,128,335.98 | | |
| 1810 | Asset | Capital Assets | Leasehold improvements | - | | |
| 1820 | Asset | Capital Assets | Distribution station equipment - normally primary below 50 kV | 17,123,889.83 | | |
| 1825 | Asset | Capital Assets | Storage battery equipment | - | | |
| 1830 | Asset | Capital Assets | Poles, towers & fixtures | 39,738,166.82 | | |
| 1835 | Asset | Capital Assets | Overhead conductors & devices | 55,136,845.69 | | |
| 1840 | Asset | Capital Assets | Underground conduit | 35,698,363.19 | | |
| 1845 | Asset | Capital Assets | Underground conductors & devices | 101,576,155.46 | | |
| 1850 | Asset | Capital Assets | Line transformers | 79,632,662.26 | | |
| 1855 | Asset | Capital Assets | Services | 24,720,934.22 | | |
| 1860 | Asset | Capital Assets | Meters | 25,081,481.15 | | |
| 1905 | Asset | Capital Assets | Land - general plant | - | | |
| 1906 | Asset | Capital Assets | Land rights - general plant | - | | |
| 1908 | Asset | Capital Assets | Building & fixtures - general plant | 22,091,652.34 | | |
| 1910 | Asset | Capital Assets | Leasehold improvements | - | | |
| 1915 | Asset | Capital Assets | Office furniture & equipment | 731,858.81 | | |
| 1920 | Asset | Capital Assets | Computer equipment - hardware | 3,200,325.30 | | |
| 1925 | Asset | Capital Assets | Computer software | 28,241,374.92 | | |
| 1930 | Asset | Capital Assets | Transportation equipment | 11,472,906.72 | | |
| 1935 | Asset | Capital Assets | Stores equipment | 278,137.77 | | |
| 1940 | Asset | Capital Assets | Tools, shop & garage equipment | 1,023,408.77 | | |
| 1945 | Asset | Capital Assets | Measurement & testing equipment | 119,613.63 | | |
| 1950 | Asset | Capital Assets | Power operated equipment | 931,471.02 | | |
| 1955 | Asset | Capital Assets | Communication equipment | 3,756,097.61 | | |
| 1960 | Asset | Capital Assets | Miscellaneous equipment | - | | |
| 1970 | Asset | Capital Assets | Load management controls - customer premises | - | | |
| 1980 | Asset | Capital Assets | System supervisory equipment | 2,154,496.60 | | |
| 1995 | Asset | Capital Assets | Contributions & grants - credit | (39,262,042.69) | | |
| 2055 | | | Construction work in progress - electric | 10,226,403.54 | | |
| 2075 | Asset | Capital Assets | Non-utility Property Owned or Under Capital Leases | 2,263,984.78 | | |
| 2105 | Asset | Accumulated Amortization | Accumulated amortization of electric utility plant - property, plant & equipment | (186,924,007.92) | | |
| 2180 | Asset | Accumulated Amortization | Accumulated Amortization of Non-utility Property | (201,447.21) | | |
| | | | | | 240,693 | |
| | **NET ASSETS** | | | | | **318,805** |
| | **LIABILITES AND EQUITY** | | | | | |
| 2225 | Liabilities | Current Liabilities | Notes and Loans Payable | (3,011,704.72) | (3,012) | |
| 2205 | Liabilities | Current Liabilities | Accounts payable | (44,189,485.34) | | |
| 2205 | Liabilities | Current Liabilities | A/R credit balances reclassed to object 3014 | (260,151.75) | | |
| 2220 | Liabilities | Current Liabilities | Miscellaneous current & accrued liabilities | (2,812,389.66) | | |
| 2250 | Liabilities | Current Liabilities | Debt retirement charges (DRC) payable | (1,771,267.02) | | |
| 2290 | Liabilities | Current Liabilities | Commodity taxes | (670,056.74) | | |
| 2292 | Liabilities | Current Liabilities | Payroll deductions / expenses payable | (1,746,233.46) | | |
| | | | | | (51,450) | |

| OEB Account | Section | Grouping | OEB Account Name | 2013 Trial Balance | Balance Sheet ($000's) | Income Statement ($000's) |
|---|---|---|---|---|---|---|
| 1595 | Asset | Other Assets and Deferred Charges | Sub-Account Disposition of Account Balances Approved in 2012 | (1,874,364.95) | | |
| 1595 | Asset | Other Assets and Deferred Charges | Sub-Account Disposition of Account Balances Approved in 2013 | (1,954,766.96) | | |
| | | | | | (3,829) | |
| 2260 | Liabilities | Current Liabilities | Current portion of long term debt | (2,304,000.00) | (2,304) | |
| 2210 | Liabilities | Current Liabilities | Current portion of customer deposits | (1,475,783.95) | | |
| 2220 | Liabilities | Current Liabilities | Miscellaneous current & accrued liabilities | (149,693.81) | | |
| | | | | | (1,625) | |
| 2240 | Liabilities | Current Liabilities | Due to Associated Companies | (6,577,312.38) | (6,577) | |
| 2320 | Liabilities | Non-Current Liabilities | Other Miscellaneous Non-Current Liabilities | (198,853.00) | (199) | |
| 1580 | Asset | Other Assets and Deferred Charges | RSVA WMS | (6,948,396.06) | | |
| 1584 | Asset | Other Assets and Deferred Charges | RSVA NW | 1,449,920.07 | | |
| 1586 | Asset | Other Assets and Deferred Charges | RSVA CN | 1,002,260.23 | | |
| 1588 | Asset | Other Assets and Deferred Charges | RSVA Power | (437,286.66) | | |
| 1589 | Asset | Other Assets and Deferred Charges | RSVA Global Adjustment | 2,004,502.89 | | |
| 1592 | Asset | Other Assets and Deferred Charges | PILs and Tax Variance for 2006 and Subsequent Years | (156,881.86) | | |
| 2350 | Liabilities | Non-Current Liabilities | Future income tax - non-current | (2,410,393.00) | | |
| | | | | | (5,496) | |
| 2335 | Liabilities | Non-Current Liabilities | Long term customer deposits | (7,418,981.95) | (7,419) | |
| 2520 | Liabilities | Long Term Debt | Other Long Term Debt | (10,738,000.00) | (10,738) | |
| 2335 | Liabilities | Non-Current Liabilities | Long term customer deposits | (3,975,938.86) | (3,976) | |
| 2550 | Liabilities | Long Term Debt | Advances from assoc companies | (70,000,000.00) | (70,000) | |
| 2306 | Liabilities | Non-Current Liabilities | Employee future benefits | (11,733,100.00) | (11,733) | |
| 3005 | Shareholder's Equity | Shareholder's Equity | Common Shares Issued | (62,262,550.69) | | |
| 3030 | Shareholder's Equity | Shareholder's Equity | Miscellaneous paid-in capital | (39,254,284.95) | | |
| 3045 | Shareholder's Equity | Shareholder's Equity | Unappropriated retained earnings | (66,019,574.14) | | |
| 3046 | Shareholder's Equity | Shareholder's Equity | Profit / Loss (from Income Statement) | - | (13,839) | (13,839) |
| 3047 | Shareholder's Equity | Shareholder's Equity | Appropriations of Retained Earnings - Current Period | - | | |
| 3049 | Shareholder's Equity | Shareholder's Equity | Dividends payable - common shares | 41,000,000.00 | | |
| 3075 | Shareholder's Equity | Shareholder's Equity | Non-Utility Shareholders` Equity | (72,212.46) | | |
| | | | | | (126,609) | |
| | **NET LIABILITES AND EQUITY** | | | | **(318,806)** | |

| OEB Account | Section | Grouping | OEB Account Name | 2013 Trial Balance | Balance Sheet ($000's) | Income Statement ($000's) |
|---|---|---|---|---|---|---|
| **INCOME STATEMENT** | | | | | | |
| | **REVENUES** | | | | | |
| 4006 | Revenues | Sales of Electricity | Residential energy Sales | (85,167,166.37) | | |
| 4020 | Revenues | Sales of Electricity | Energy Sales to Large Users | (13,118,411.88) | | |
| 4025 | Revenues | Sales of Electricity | Streetlighting Energy Sales | (1,998,942.81) | | |
| 4030 | Revenues | Sales of Electricity | Sentinel Lighting Energy Sales | (62,384.79) | | |
| 4035 | Revenues | Sales of Electricity | General Service Energy Sales | (140,640,389.97) | | |
| 4050 | Revenues | Sales of Electricity | Revenue Adjustment | (8,059,857.79) | | |
| 4055 | Revenues | Sales of Electricity | Energy Sales for Resale | (32,435,303.50) | | |
| 4062 | Revenues | Sales of Electricity | Billed WMS | (17,225,071.46) | | |
| 4066 | Revenues | Sales of Electricity | Billed NW | (23,349,587.72) | | |
| 4068 | Revenues | Sales of Electricity | Billed CN | (18,037,124.54) | | |
| 4076 | Revenues | Sales of Electricity | Billed Smart Metering Entity Charge | (1,041,340.41) | | |
| | | | | | | (341,136) |
| 4080 | Revenues | Revenue from Services - Distribution | Distribution services revenue | (63,795,064.42) | | (63,795) |
| 4705 | Expenses | Other Power Supply Expenses | Power Purchased | 281,482,457.12 | | |
| 4708 | Expenses | Other Power Supply Expenses | Charges WMS | 17,225,071.86 | | |
| 4714 | Expenses | Other Power Supply Expenses | Charges NW | 23,349,587.72 | | |
| 4716 | Expenses | Other Power Supply Expenses | Charges CN | 18,037,124.53 | | |
| 4751 | Expenses | Other Power Supply Expenses | Charges Smart Metering Entity Charge | 1,041,340.44 | | |
| | | | | | | 341,136 |
| | **EXPENSES** | | | | | |
| 5005 | Expenses | Distribution Expenses - Operation | Operation supervision & engineering | 1,614,774.41 | | |
| 5010 | Expenses | Distribution Expenses - Operation | Load dispatching | 1,493,872.84 | | |
| 5012 | Expenses | Distribution Expenses - Operation | Station buildings & fixtures expense | 204,038.34 | | |
| 5016 | Expenses | Distribution Expenses - Operation | Distribution station equipment - operation labour | 130,035.23 | | |
| 5017 | Expenses | Distribution Expenses - Operation | Distribution station equipment - operation supplies & expenses | 213,190.30 | | |
| 5020 | Expenses | Distribution Expenses - Operation | Overhead distribution lines & feeders - operation labour | 66,580.72 | | |
| 5025 | Expenses | Distribution Expenses - Operation | Overhead distribution lines & feeders - operation supplies & expenses | 220,258.83 | | |
| 5035 | Expenses | Distribution Expenses - Operation | Overhead distribution transformers - operation | 47,177.80 | | |
| 5040 | Expenses | Distribution Expenses - Operation | Underground distribution lines & feeders - operation labour | 43,350.20 | | |
| 5045 | Expenses | Distribution Expenses - Operation | Underground distribution lines & feeders - operation supplies & expenses | 38,545.30 | | |
| 5055 | Expenses | Distribution Expenses - Operation | Underground distribution transformers - operation | 385,174.89 | | |
| 5065 | Expenses | Distribution Expenses - Operation | Meter expense | 964,935.68 | | |
| 5085 | Expenses | Distribution Expenses - Operation | Miscellaneous distribution expense | 2,568,057.78 | | |
| 5095 | Expenses | Distribution Expenses - Operation | Overhead Distribution Lines and Feeders - Rental Paid | 70,744.10 | | |
| 5105 | Expenses | Distribution Expenses - Maintenance | Maintenance supervision & engineering | 1,455,511.92 | | |
| 5110 | Expenses | Distribution Expenses - Maintenance | Maintenance of buildings & fixtures - distribution stations | 57,645.96 | | |
| 5114 | Expenses | Distribution Expenses - Maintenance | Maintenance of distribution station equipment | 284,974.08 | | |
| 5120 | Expenses | Distribution Expenses - Maintenance | Maintenance of poles, towers & fixtures | 468,785.04 | | |
| 5125 | Expenses | Distribution Expenses - Maintenance | Maintenance of overhead conductors & devices | 1,519,106.03 | | |
| 5130 | Expenses | Distribution Expenses - Maintenance | Maintenance of overhead services | 164,041.44 | | |
| 5135 | Expenses | Distribution Expenses - Maintenance | Overhead distribution lines & feeders - right of way | 867,894.98 | | |
| 5145 | Expenses | Distribution Expenses - Maintenance | Maintenance of underground conduit | 265,906.15 | | |
| 5150 | Expenses | Distribution Expenses - Maintenance | Maintenance of underground conductors & devices | 1,077,939.89 | | |
| 5155 | Expenses | Distribution Expenses - Maintenance | Maintenance of underground services | 641,416.93 | | |
| 5160 | Expenses | Distribution Expenses - Maintenance | Maintenance of line transformers | 302,066.44 | | |
| 5175 | Expenses | Distribution Expenses - Maintenance | Maintenance of meters | 160,430.65 | | |

| OEB Account | Section | Grouping | OEB Account Name | 2013 Trial Balance | Balance Sheet ($000's) | Income Statement ($000's) |
|---|---|---|---|---|---|---|
| 5000 & 5100s | Expenses | Operating Expenses | Amortization expense - V&E equipment | (726,900.00) | | |
| 5305 | Expenses | Billing and Collecting | Supervision | 139,001.91 | | |
| 5310 | Expenses | Billing and Collecting | Meter reading expense | 1,460,693.55 | | |
| 5315 | Expenses | Billing and Collecting | Customer billing | 1,941,879.92 | | |
| 5320 | Expenses | Billing and Collecting | Collecting | 1,332,074.93 | | |
| 5335 | Expenses | Billing and Collecting | Bad debt expense | 400,000.00 | | |
| 5410 | Expenses | Community Relations | Community relations - sundry | 56,192.44 | | |
| 5415 | Expenses | Community Relations | Energy conservation | (0.00) | | |
| 5420 | Expenses | Community Relations | Community safety program | 91,757.09 | | |
| 5605 | Expenses | Administrative and General Expenses | Executive salaries & expenses | 1,225,535.03 | | |
| 5610 | Expenses | Administrative and General Expenses | Management salaries & expenses | 1,154,950.84 | | |
| 5615 | Expenses | Administrative and General Expenses | General administrative salaries & expenses | 3,014,764.22 | | |
| 5620 | Expenses | Administrative and General Expenses | Office supplies & expenses | 1,129,416.89 | | |
| 5630 | Expenses | Administrative and General Expenses | Outside services employed | 1,127,896.41 | | |
| 5635 | Expenses | Administrative and General Expenses | Property insurance | 456,678.97 | | |
| 5640 | Expenses | Administrative and General Expenses | Injuries & damages | 227,978.85 | | |
| 5645 | Expenses | Administrative and General Expenses | Employee pensions & benefits | 216,726.72 | | |
| 5655 | Expenses | Administrative and General Expenses | Regulatory expenses | 530,227.51 | | |
| 5660 | Expenses | Administrative and General Expenses | General advertising expenses | 457,357.94 | | |
| 5665 | Expenses | Administrative and General Expenses | Miscellaneous general expenses | 1,521,839.22 | | |
| 5675 | Expenses | Administrative and General Expenses | Maintenance of general plant | 458,212.76 | | |
| 4330 | Expenses | Operating Expenses | Costs and Expenses of Merchandising, Jobbing, etc. | (2,030.62) | | |
| 6205 | Expenses | Other Deductions | Donations - re: assistance to customers for paying electricity bills | 100,000.00 | | |
| 6205 | Expenses | Other Deductions | Donations - other | 16,563.96 | | |
| 4380 | Revenues | Other Income / Deductions | Expenses of non-utility operations - Reg asset interest re: RP-2004-0064 | 35,644.00 | | |
| 5300-5600s | Expenses | Operating Expenses | Billing & Collecting and Administrative Expenses | 3,875,800.00 | | |
| | | | | | | 35,568 |
| 5705 | Expenses | Depreciation and Amortization Expense | Amortization expense - property, plant & equipment | 16,098,091.37 | | |
| 5000 & 5100s | Expenses | Amortization of capital assets | Amortization expense - V&E equipment (operating & maintenance) | 726,900.00 | | |
| 5725 | Expenses | Depreciation and Amortization Expense | Amortization expense - generation equipment | 112,586.92 | | |
| | | | | | | 16,938 |
| 4210 | Expenses | Costs Recovered | Rent from electric property | (29,100.00) | | |
| 5300-5600s | Expenses | Costs Recovered | Billing & Collecting and Administrative Expenses | (3,875,800.00) | | |
| | | | | | | (3,904) |
| 4080b | Revenues | Revenue from Services - Distribution | (4235) Miscellaneous service revenues - SSS Customer Charges | (422,537.08) | | |
| 4082 | Revenues | Revenue from Services - Distribution | Retail Services Revenue | (119,352.80) | | |
| 4084 | Revenues | Revenue from Services - Distribution | Service Transaction Requests STR Revenue | (4,180.00) | | |
| 4210 | Revenues | Other Operating Revenues | Rent from electric property | (394,149.82) | | |
| 4225 | Revenues | Other Operating Revenues | Late payment charges | (1,454,009.28) | | |
| 4235 | Revenues | Other Operating Revenues | Miscellaneous service revenues | (804,822.79) | | |
| 4355 | Revenues | Other Income / Deductions | Gain on disposition of utility & other property | (174,516.29) | | |
| 4375 | Revenues | Other Income / Deductions | Revenues from Non-Utility Operations | (1,942,971.35) | | |
| 4380 | Expenses | Interest and other revenue | Expenses of non-utility operations | 1,699,362.78 | | |
| 4390 | Expenses | Interest and other revenue | Miscellaneous non-operating income | (499,888.72) | | |
| 5330 | Expenses | Interest and other revenue | Billing and Collecting - Collection Charges | (681,509.66) | | |
| 4405 | Revenues | Investment Income | Interest & dividend income | (286,419.48) | | |
| | | | | | | (5,085) |

| OEB Account | Section | Grouping | OEB Account Name | 2013 Trial Balance | Balance Sheet ($000's) | Income Statement ($000's) |
|---|---|---|---|---|---|---|
| 4335 | Revenues | Other Income / Deductions | Profits and Losses from Financial Instrument Hedges | (208,986.00) | | (208) |
| 6005 | Expenses | Interest Expense | Interest on long term debt | 4,706,750.97 | | |
| 6035 | Expenses | Interest Expense | Other interest expense | 375,615.57 | | |
| | | | | | | 5,082 |
| 6110 | Expenses | Taxes | Income taxes | 1,566,264.00 | | 1,566 |
| | | | | | | **(13,838)** |
| **TOTALS** | | | | **(0.00)** | | |

## Part 2: Trial Balance by Account

| OEB Account | Section | Grouping | OEB Account Name | 2013 Trial Balance |
|---|---|---|---|---|
| 1005 | Current Assets | Cash and Cash Equivalent | Cash | 0.00 |
| 1010 | Current Assets | Cash and Cash Equivalent | Cash advances & working funds | 150.00 |
| 1040 | Current Assets | Accounts Receivable | Other Special Deposits | 7,890.00 |
| 1100 | Current Assets | Accounts Receivable | Customer accounts receivable | 23,286,214.10 |
| 1100 | Current Assets | Accounts Receivable | Customer accounts receivable credit balances | 260,151.75 |
| 1100 | Current Assets | Accounts Receivable | EPP credit balances | (228,934.25) |
| 1104 | Current Assets | Accounts Receivable | Accounts receivable - CCRA | 1,767,825.08 |
| 1110 | Current Assets | Accounts Receivable | Other accounts receivable | 8,040,531.39 |
| 1120 | Current Assets | Accounts Receivable | Accrued utility revenues | 39,730,571.24 |
| 1130 | Current Assets | Accounts Receivable | Allowance for doubtful accts | (1,960,785.70) |
| 1140 | Current Assets | Accounts Receivable | Interest & dividends receivable | 6,585.07 |
| 1150 | Current Assets | Accounts Receivable | Rents receivable | 136,348.00 |
| 1180 | Current Assets | Prepayments | Prepayments | 1,455,353.08 |
| 1305 | Current Assets | Inventory | Fuel Stock | 40,718.21 |
| 1330 | Current Assets | Inventory | Plant materials & operating supplies | 690,276.76 |
| 1350 | Current Assets | Inventory | Other materials and supplies | - |
| 1508 | Asset | Other Assets and Deferred Charges | Other regulatory assets | 13,217.32 |
| 1518 | Asset | Other Assets and Deferred Charges | RCVA retail | (18,233.52) |
| 1521 | Asset | Other Assets and Deferred Charges | Special Purpose Charge Assessment Variance Account | - |
| 1531 | Asset | Other Assets and Deferred Charges | Renewable Connection - Capital | 19,181.04 |
| 1532 | Asset | Other Assets and Deferred Charges | Renewable Connection - OM&A | 67,107.75 |
| 1534 | Asset | Other Assets and Deferred Charges | Smart Grid Capital | 6,798.05 |
| 1535 | Asset | Other Assets and Deferred Charges | Smart Grid OM&A | 88,882.52 |
| 1548 | Asset | Other Assets and Deferred Charges | RCVA str | 64,121.81 |
| 1551 | Asset | Other Assets and Deferred Charges | Smart Metering Entity Charge Variance Account | 102,184.90 |
| 1555 | Asset | Other Assets and Deferred Charges | Smart Meter Capital and Recovery Offset Variance account | 1,365,482.22 |
| 1562 | Asset | Other Assets and Deferred Charges | Deferred payments in lieu of taxes | 79,961.00 |
| 1568 | Asset | Other Assets and Deferred Charges | LRAM Variance Account | 235,047.47 |
| 1575 | Asset | Other Assets and Deferred Charges | IFRS-CGAAP Transitional PP&E Amounts | 117,980.50 |
| 1575 | Asset | Other Assets and Deferred Charges | IFRS-CGAAP Transitional PP&E Amounts | 275,287.82 |
| 1580 | Asset | Other Assets and Deferred Charges | RSVA WMS | (6,948,396.06) |
| 1584 | Asset | Other Assets and Deferred Charges | RSVA NW | 1,449,920.07 |

| OEB Account | Section | Grouping | OEB Account Name | 2013 Trial Balance |
|---|---|---|---|---|
| 1586 | Asset | Other Assets and Deferred Charges | RSVA CN | 1,002,260.23 |
| 1588 | Asset | Other Assets and Deferred Charges | RSVA Power | (437,286.66) |
| 1589 | Asset | Other Assets and Deferred Charges | RSVA Global Adjustment | 2,004,502.89 |
| 1592 | Asset | Other Assets and Deferred Charges | PILs and Tax Variance for 2006 and Subsequent Years | (156,881.86) |
| 1595 | Asset | Other Assets and Deferred Charges | Sub-Account Disposition of Account Balances Approved in 2012 | (1,874,364.95) |
| 1595 | Asset | Other Assets and Deferred Charges | Sub-Account Disposition of Account Balances Approved in 2013 | (1,954,766.96) |
| 1805 | Asset | Capital Assets | Land - distribution plant | 385,689.89 |
| 1806 | Asset | Capital Assets | Land rights - distribution plant | 366,233.35 |
| 1808 | Asset | Capital Assets | Building & fixtures - distribution plant | 1,128,335.98 |
| 1810 | Asset | Capital Assets | Leasehold improvements | - |
| 1820 | Asset | Capital Assets | Distribution station equipment - normally primary below 50 kV | 17,123,889.83 |
| 1825 | Asset | Capital Assets | Storage battery equipment | - |
| 1830 | Asset | Capital Assets | Poles, towers & fixtures | 39,738,166.82 |
| 1835 | Asset | Capital Assets | Overhead conductors & devices | 55,136,845.69 |
| 1840 | Asset | Capital Assets | Underground conduit | 35,698,363.19 |
| 1845 | Asset | Capital Assets | Underground conductors & devices | 101,576,155.46 |
| 1850 | Asset | Capital Assets | Line transformers | 79,632,662.26 |
| 1855 | Asset | Capital Assets | Services | 24,720,934.22 |
| 1860 | Asset | Capital Assets | Meters | 25,081,481.15 |
| 1905 | Asset | Capital Assets | Land - general plant | - |
| 1906 | Asset | Capital Assets | Land rights - general plant | - |
| 1908 | Asset | Capital Assets | Building & fixtures - general plant | 22,091,652.34 |
| 1910 | Asset | Capital Assets | Leasehold improvements | - |
| 1915 | Asset | Capital Assets | Office furniture & equipment | 731,858.81 |
| 1920 | Asset | Capital Assets | Computer equipment - hardware | 3,200,325.30 |
| 1925 | Asset | Capital Assets | Computer software | 28,241,374.92 |
| 1930 | Asset | Capital Assets | Transportation equipment | 11,472,906.72 |
| 1935 | Asset | Capital Assets | Stores equipment | 278,137.77 |
| 1940 | Asset | Capital Assets | Tools, shop & garage equipment | 1,023,408.77 |
| 1945 | Asset | Capital Assets | Measurement & testing equipment | 119,613.63 |
| 1950 | Asset | Capital Assets | Power operated equipment | 931,471.02 |
| 1955 | Asset | Capital Assets | Communication equipment | 3,756,097.61 |
| 1960 | Asset | Capital Assets | Miscellaneous equipment | - |
| 1970 | Asset | Capital Assets | Load management controls - customer premises | - |
| 1980 | Asset | Capital Assets | System supervisory equipment | 2,154,496.60 |
| 1995 | Asset | Capital Assets | Contributions & grants - credit | (39,262,042.69) |

| OEB Account | Section | Grouping | OEB Account Name | 2013 Trial Balance |
|---|---|---|---|---|
| 2055 | | | Construction work in progress - electric | 10,226,403.54 |
| 2075 | Asset | Capital Assets | Non-utility Property Owned or Under Capital Leases | 2,263,984.78 |
| 2105 | Asset | Accumulated Amortization | Accumulated amortization of electric utility plant - property, plant & equipment | (186,924,007.92) |
| 2180 | Asset | Accumulated Amortization | Accumulated Amortization of Non-utility Property | (201,447.21) |
| 2205 | Liabilities | Current Liabilities | Accounts payable | (44,189,485.34) |
| 2205 | Liabilities | Current Liabilities | A/R credit balances reclassed to object 3014 | (260,151.75) |
| 2210 | Liabilities | Current Liabilities | Current portion of customer deposits | (1,475,783.95) |
| 2220 | Liabilities | Current Liabilities | Miscellaneous current & accrued liabilities | (2,812,389.66) |
| 2220 | Liabilities | Current Liabilities | Miscellaneous current & accrued liabilities | (149,693.81) |
| 2225 | Liabilities | Current Liabilities | Notes and Loans Payable | (3,011,704.72) |
| 2240 | Liabilities | Current Liabilities | Due to Associated Companies | (6,577,312.38) |
| 2250 | Liabilities | Current Liabilities | Debt retirement charges (DRC) payable | (1,771,267.02) |
| 2260 | Liabilities | Current Liabilities | Current portion of long term debt | (2,304,000.00) |
| 2290 | Liabilities | Current Liabilities | Commodity taxes | (670,056.74) |
| 2292 | Liabilities | Current Liabilities | Payroll deductions / expenses payable | (1,746,233.46) |
| 2306 | Liabilities | Non-Current Liabilities | Employee future benefits | (11,733,100.00) |
| 2320 | Liabilities | Non-Current Liabilities | Other Miscellaneous Non-Current Liabilities | (198,853.00) |
| 2335 | Liabilities | Non-Current Liabilities | Long term customer deposits | (7,418,981.95) |
| 2335 | Liabilities | Non-Current Liabilities | Long term customer deposits | (3,975,938.86) |
| 2350 | Liabilities | Non-Current Liabilities | Future income tax - non-current | 2,463,092.92 |
| 2350 | Liabilities | Non-Current Liabilities | Future income tax - non-current | (2,410,393.00) |
| 2520 | Liabilities | Long Term Debt | Other Long Term Debt | (10,738,000.00) |
| 2550 | Liabilities | Long Term Debt | Advances from assoc companies | (70,000,000.00) |
| 3005 | Shareholder's Equity | Shareholder's Equity | Common Shares Issued | (62,262,550.69) |
| 3030 | Shareholder's Equity | Shareholder's Equity | Miscellaneous paid-in capital | (39,254,284.95) |
| 3045 | Shareholder's Equity | Shareholder's Equity | Unappropriated retained earnings | (66,019,574.14) |
| 3046 | Shareholder's Equity | Shareholder's Equity | Profit / Loss (from Income Statement) | - |
| 3047 | Shareholder's Equity | Shareholder's Equity | Appropriations of Retained Earnings - Current Period | - |
| 3049 | Shareholder's Equity | Shareholder's Equity | Dividends payable - common shares | 41,000,000.00 |
| 3075 | Shareholder's Equity | Shareholder's Equity | Non-Utility Shareholders` Equity | (72,212.46) |
| 4006 | Revenues | Sales of Electricity | Residential energy Sales | (85,167,166.37) |
| 4020 | Revenues | Sales of Electricity | Energy Sales to Large Users | (13,118,411.88) |
| 4025 | Revenues | Sales of Electricity | Streetlighting Energy Sales | (1,998,942.81) |
| 4030 | Revenues | Sales of Electricity | Sentinel Lighting Energy Sales | (62,384.79) |
| 4035 | Revenues | Sales of Electricity | General Service Energy Sales | (140,640,389.97) |
| 4050 | Revenues | Sales of Electricity | Revenue Adjustment | (8,059,857.79) |

| OEB Account | Section | Grouping | OEB Account Name | 2013 Trial Balance |
|---|---|---|---|---|
| 4055 | Revenues | Sales of Electricity | Energy Sales for Resale | (32,435,303.50) |
| 4062 | Revenues | Sales of Electricity | Billed WMS | (17,225,071.46) |
| 4066 | Revenues | Sales of Electricity | Billed NW | (23,349,587.72) |
| 4068 | Revenues | Sales of Electricity | Billed CN | (18,037,124.54) |
| 4076 | Revenues | Sales of Electricity | Billed Smart Metering Entity Charge | (1,041,340.41) |
| 4080 | Revenues | Revenue from Services - Distribution | Distribution services revenue | (63,795,064.42) |
| 4082 | Revenues | Revenue from Services - Distribution | Retail Services Revenue | (119,352.80) |
| 4084 | Revenues | Revenue from Services - Distribution | Service Transaction Requests STR Revenue | (4,180.00) |
| 4210 | Expenses | Costs Recovered | Rent from electric property | (29,100.00) |
| 4210 | Revenues | Other Operating Revenues | Rent from electric property | (394,149.82) |
| 4225 | Revenues | Other Operating Revenues | Late payment charges | (1,454,009.28) |
| 4235 | Revenues | Other Operating Revenues | Miscellaneous service revenues | (804,822.79) |
| 4330 | Expenses | Operating Expenses | Costs and Expenses of Merchandising, Jobbing, etc. | (2,030.62) |
| 4335 | Revenues | Other Income / Deductions | Profits and Losses from Financial Instrument Hedges | (208,986.00) |
| 4355 | Revenues | Other Income / Deductions | Gain on disposition of utility & other property | (174,516.29) |
| 4375 | Revenues | Other Income / Deductions | Revenues from Non-Utility Operations | (1,942,971.35) |
| 4380 | Revenues | Other Income / Deductions | Expenses of non-utility operations - Reg asset interest re: RP-2004-0064 | 35,644.00 |
| 4380 | Expenses | Interest and other revenue | Expenses of non-utility operations | 1,699,362.78 |
| 4390 | Expenses | Interest and other revenue | Miscellaneous non-operating income | (499,888.72) |
| 4405 | Revenues | Investment Income | Interest & dividend income | (286,419.48) |
| 4705 | Expenses | Other Power Supply Expenses | Power Purchased | 281,482,457.12 |
| 4708 | Expenses | Other Power Supply Expenses | Charges WMS | 17,225,071.86 |
| 4714 | Expenses | Other Power Supply Expenses | Charges NW | 23,349,587.72 |
| 4716 | Expenses | Other Power Supply Expenses | Charges CN | 18,037,124.53 |
| 4751 | Expenses | Other Power Supply Expenses | Charges Smart Metering Entity Charge | 1,041,340.44 |
| 5005 | Expenses | Distribution Expenses - Operation | Operation supervision & engineering | 1,614,774.41 |
| 5010 | Expenses | Distribution Expenses - Operation | Load dispatching | 1,493,872.84 |
| 5012 | Expenses | Distribution Expenses - Operation | Station buildings & fixtures expense | 204,038.34 |
| 5016 | Expenses | Distribution Expenses - Operation | Distribution station equipment - operation labour | 130,035.23 |
| 5017 | Expenses | Distribution Expenses - Operation | Distribution station equipment - operation supplies & expenses | 213,190.30 |
| 5020 | Expenses | Distribution Expenses - Operation | Overhead distribution lines & feeders - operation labour | 66,580.72 |
| 5025 | Expenses | Distribution Expenses - Operation | Overhead distribution lines & feeders - operation supplies & expenses | 220,258.83 |
| 5035 | Expenses | Distribution Expenses - Operation | Overhead distribution transformers - operation | 47,177.80 |
| 5040 | Expenses | Distribution Expenses - Operation | Underground distribution lines & feeders - operation labour | 43,350.20 |
| 5045 | Expenses | Distribution Expenses - Operation | Underground distribution lines & feeders - operation supplies & expenses | 38,545.30 |
| 5055 | Expenses | Distribution Expenses - Operation | Underground distribution transformers - operation | 385,174.89 |

| OEB Account | Section | Grouping | OEB Account Name | 2013 Trial Balance |
|---|---|---|---|---|
| 5065 | Expenses | Distribution Expenses - Operation | Meter expense | 964,935.68 |
| 5085 | Expenses | Distribution Expenses - Operation | Miscellaneous distribution expense | 2,568,057.78 |
| 5095 | Expenses | Distribution Expenses - Operation | Overhead Distribution Lines and Feeders - Rental Paid | 70,744.10 |
| 5105 | Expenses | Distribution Expenses - Maintenance | Maintenance supervision & engineering | 1,455,511.92 |
| 5110 | Expenses | Distribution Expenses - Maintenance | Maintenance of buildings & fixtures - distribution stations | 57,645.96 |
| 5114 | Expenses | Distribution Expenses - Maintenance | Maintenance of distribution station equipment | 284,974.08 |
| 5120 | Expenses | Distribution Expenses - Maintenance | Maintenance of poles, towers & fixtures | 468,785.04 |
| 5125 | Expenses | Distribution Expenses - Maintenance | Maintenance of overhead conductors & devices | 1,519,106.03 |
| 5130 | Expenses | Distribution Expenses - Maintenance | Maintenance of overhead services | 164,041.44 |
| 5135 | Expenses | Distribution Expenses - Maintenance | Overhead distribution lines & feeders - right of way | 867,894.98 |
| 5145 | Expenses | Distribution Expenses - Maintenance | Maintenance of underground conduit | 265,906.15 |
| 5150 | Expenses | Distribution Expenses - Maintenance | Maintenance of underground conductors & devices | 1,077,939.89 |
| 5155 | Expenses | Distribution Expenses - Maintenance | Maintenance of underground services | 641,416.93 |
| 5160 | Expenses | Distribution Expenses - Maintenance | Maintenance of line transformers | 302,066.44 |
| 5175 | Expenses | Distribution Expenses - Maintenance | Maintenance of meters | 160,430.65 |
| 5305 | Expenses | Billing and Collecting | Supervision | 139,001.91 |
| 5310 | Expenses | Billing and Collecting | Meter reading expense | 1,460,693.55 |
| 5315 | Expenses | Billing and Collecting | Customer billing | 1,941,879.92 |
| 5320 | Expenses | Billing and Collecting | Collecting | 1,332,074.93 |
| 5330 | Expenses | Interest and other revenue | Billing and Collecting - Collection Charges | (681,509.66) |
| 5335 | Expenses | Billing and Collecting | Bad debt expense | 400,000.00 |
| 5410 | Expenses | Community Relations | Community relations - sundry | 56,192.44 |
| 5415 | Expenses | Community Relations | Energy conservation | (0.00) |
| 5420 | Expenses | Community Relations | Community safety program | 91,757.09 |
| 5605 | Expenses | Administrative and General Expenses | Executive salaries & expenses | 1,225,535.03 |
| 5610 | Expenses | Administrative and General Expenses | Management salaries & expenses | 1,154,950.84 |
| 5615 | Expenses | Administrative and General Expenses | General administrative salaries & expenses | 3,014,764.22 |
| 5620 | Expenses | Administrative and General Expenses | Office supplies & expenses | 1,129,416.89 |
| 5630 | Expenses | Administrative and General Expenses | Outside services employed | 1,127,896.41 |
| 5635 | Expenses | Administrative and General Expenses | Property insurance | 456,678.97 |
| 5640 | Expenses | Administrative and General Expenses | Injuries & damages | 227,978.85 |
| 5645 | Expenses | Administrative and General Expenses | Employee pensions & benefits | 216,726.72 |
| 5655 | Expenses | Administrative and General Expenses | Regulatory expenses | 530,227.51 |
| 5660 | Expenses | Administrative and General Expenses | General advertising expenses | 457,357.94 |
| 5665 | Expenses | Administrative and General Expenses | Miscellaneous general expenses | 1,521,839.22 |
| 5675 | Expenses | Administrative and General Expenses | Maintenance of general plant | 458,212.76 |

| OEB Account | Section | Grouping | OEB Account Name | 2013 Trial Balance |
|---|---|---|---|---|
| 5705 | Expenses | Depreciation and Amortization Expense | Amortization expense - property, plant & equipment | 16,098,091.37 |
| 5725 | Expenses | Depreciation and Amortization Expense | Amortization expense - generation equipment | 112,586.92 |
| 6005 | Expenses | Interest Expense | Interest on long term debt | 4,706,750.97 |
| 6035 | Expenses | Interest Expense | Other interest expense | 375,615.57 |
| 6110 | Expenses | Taxes | Income taxes | 1,566,264.00 |
| 6205 | Expenses | Other Deductions | Donations - re: assistance to customers for paying electricity bills | 100,000.00 |
| 6205 | Expenses | Other Deductions | Donations - other | 16,563.96 |
| 4080b | Revenues | Revenue from Services - Distribution | (4235) Miscellaneous service revenues - SSS Customer Charges | (422,537.08) |
| 5000 & 5100s | Expenses | Operating Expenses | Amortization expense - V&E equipment | (726,900.00) |
| 5000 & 5100s | Expenses | Amortization of capital assets | Amortization expense - V&E equipment (operating & maintenance) | 726,900.00 |
| 5300-5600s | Expenses | Operating Expenses | Billing & Collecting and Administrative Expenses | 3,875,800.00 |
| 5300-5600s | Expenses | Costs Recovered | Billing & Collecting and Administrative Expenses | (3,875,800.00) |
| **TOTALS** | | | | **(0.00)** |

## Report Summary

| | | |
|---|---|---|
| Filing Due Year: 2015 | Filing Form Name: 2.1.13 | RRR Filing No: 8,636 |
| Reporting Period and Company Name: April- 2015London Hydro Inc., London: Corporation; ED-2002-0557; ; | Licence Type: Distributor | Status: Submitted |
| Report Version: 0 | Extension Granted: | Extension Deadline: |
| Filing Due Date: April 30, 2015 | Reporting From: January 1, 2014 | Reporting To: December 31, 2014 |
| Submitted On: April 30, 2015 | Submitter Name: Judith Nagy | Expiry Date: May 1, 2015 |

## Instructions

Clicking Save will not automatically submit this filing. To SUBMIT this filing, scroll to the end of the page, select Yes in the Submit drop down then click the SAVE button.

## Mapping Document

A distributor shall provide in the form and manner required by the Board, annually, by April 30, the uniform system of account balances mapped and reconciled to the audited financial statements.

Please attach an Excel spreadsheet of the Mapping Document. (Maximum size 2gb)

| | Attachment Binary | Attachment_Name | |
|---|---|---|---|
| ➪ | London_Hydro_ED_2002-0557_RRR_2.1.13_ Requirement - Year 2014.xlsx | London_Hydro_ED_2002-0557_RRR_2.1.13_ Requirement - Year 2014.xlsx | ✕ |

- Maximum length of filename should be less than 255 characters including filepath.
- Only Excel spreadsheet can be attached.
- Only one version is submitted to the Board. If multiple uploads are made, the latest version will override previously uploaded versions. Alternatively, to remove an attached file, click on the “x” to delete the row and click save.

## Submit?

* Submit Form: No

## Report Summary

| | | |
|---|---|---|
| Filing Due Year: 2016 | Filing Form Name: 2.1.13 | RRR Filing No: 11,309 |
| Reporting Period and Company Name: April- 2016London Hydro Inc., Londo | Licence Type: Distributor | Status: Revised |
| Report Version: 1 | Extension Granted: | Extension Deadline: |
| Filing Due Date: May 2, 2016 | Reporting From: January 1, 2015 | Reporting To: December 31, 2015 |
| Submitted On: May 2, 2016 | Submitter Name: Judith Nagy | Expiry Date: May 3, 2016 |

## Instructions

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## Mapping Document

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Please attach an Excel spreadsheet of the Mapping Document. (Maximum size 2gb)

| | Attachment | Attachment Name | |
|---|---|---|---|
| ➪ | London_Hydro_ED_2002-0557_RRR_2.1.13_Requirement - Year 2015 CGAAP.xlsx | London_Hydro_ED_2002-0557_RRR_2.1.13_Requirement - Year 2015 CGAAP.xlsx | ✕ |

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## Submit?

* Submit Form: No

File Number:EB-2016-0091

Exhibit: 1
Tab: 8
Schedule: 1

Date Filed:August 26, 2016

# ATTACHMENT 3 OF 4
# ANNUAL REPORTS

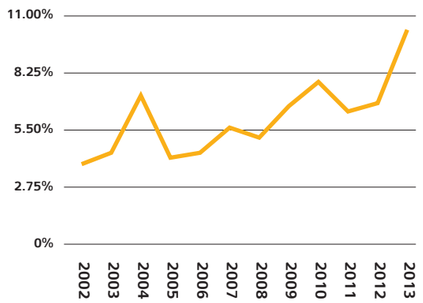



# ANNUAL REPORT 2013

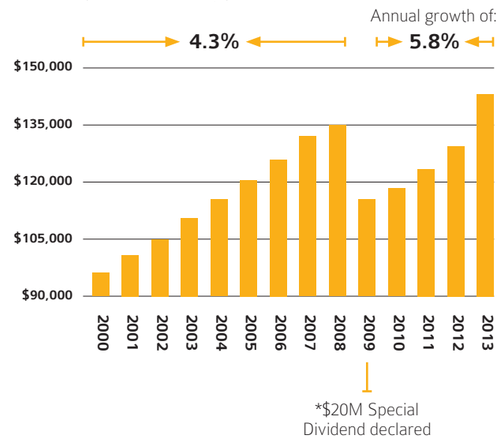
*2013 has shown us that when teamwork, focus and dedication are employed, there is no limit to what can be accomplished.*



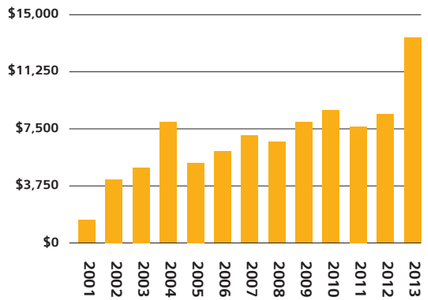
Value to Shareholder
Return on Equity



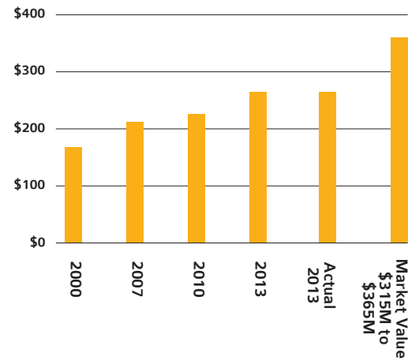

Growth in Shareholder Equity
( in thousands $ )




Value to Shareholder ( in thousands $ )
Historical Net Earnings




Financial Stewardship
( in Millions $ )




London Hydro provides value to Shareholder:

1. Annual interest on Promissory Note of $4.2 million
2. Annual dividend payment of $3 million
3. Capital gains expressed as increase in rate base – like shares, the market value is realized only upon sale



## THIS YEAR


Letter to Stakeholders

It was a very good year

Outage Management System (OMS)

Ice Storm

Customer Service

Information Technology

Solar Continues to Shine

Meter Services

Lighting up London for all the World to See

Conservation & Demand Management Team

Enterprise Risk Management (ERM)


## OUR PEOPLE


Professional Awards

Safety

Technical Achievement

Community Support

Recognition


## FINANCIALS


Discussion and Analysis

Overview

Revenues

Capital Resources

Liquidity and Cashflow

Emerging Accounting Issues

Significant Risks

Independent Auditors' Report

Management's Report

Financial Statements




# Letter to Stakeholders



Chair: Peter Johnson



C.E.O.: Vinay Sharma

*It is our pleasure to submit our Annual Report for 2013, and we welcome the opportunity it brings to share the continued success of London Hydro Inc. The numerous and varied achievements described in this report testify to the hard work, dedication and commitment of the 308 women and men who work here.*

London Hydro enjoyed a good year in 2013, delivering strong financial and operational results, and receiving industry recognition for our efforts. Our commitment to increasing the morale and engagement of our employees is a major factor in our success. Our continued investment in infrastructure and our focused investments in technology, specifically in our Geographical Information System (GIS) and Outage Management System (OMS), position us as leaders in the industry. The technology deployed in 2013 will provide us with the tools we need to continue improving our service, efficiency and the reliability of our network.

London Hydro's mission is to distribute electricity safely, reliably and at competitive rates. We have lived this mission in 2013, and true to it, the corporation successfully achieved all of its objectives for the year with some of the notable highlights described briefly below and in more detail in this report.

London Hydro posted a strong year in 2013 with net earnings of $13.8 million and an above average return on equity of 10.2%. Much of this success was achieved by careful cost management. Our costs per customer are third lowest among the neighbouring and peer utilities and the fifth lowest among all utilities in Ontario. In addition, an industry-wide change in accounting standards resulted in a one-time increase in our net earnings. In 2013, London Hydro once again received a strong 'A - Stable' credit rating from Standard & Poor's.



We were able to achieve this financial success while keeping our customers rates among the lowest in the province. Our rates have been below average for residential customers as well as for small commercial customers.

Electricity distribution is a capital intensive industry and our net income and depreciation is re-invested in our infrastructure so we can continuously improve service to our customers. Our steady investment in distribution infrastructure, including $27.7 million in capital additions in 2013, has contributed directly to the continuous improvement of our reliability indices. In 2013, we had the third best performance in Ontario in frequency of outages, with 1.4 per customer (SAIFI) and fourth best performance in duration of outages with .92 hours per customer (SAIDI). These results represent improvement over the previous year, which were 1.6 and .96, respectively.

In 2013, we also invested in technology to enhance our customers' experience while delivering services more efficiently. Specifically, we launched "MyLondonHydro" - a new "Cloud-based" website, which is portable across all platforms including smart phones, laptops, desktops and iPads. By year end, 48,474 customers had registered on the website for "MyLondonHydro" account services and 22,237 customers had registered for paperless billing. Customers expressed their satisfaction with London Hydro's performance as we scored a 92% overall in the annual, third-party customer satisfaction survey. This result is among the best of our peer utilities.

Energy conservation programs and services are a key focus of London Hydro. In 2013, we implemented 430 energy-efficiency projects in commercial businesses representing $3.6 million in incentive payments and $8.2 million in economic activity within the community. The cumulative impact of our conservation programs has resulted in distributing $20 million dollars of incentives to our customers. Since 2011, these programs have led to a 156,640,000 kWh reduction of energy in London – the equivalent of taking approximately 18,000 homes off the grid.

London Hydro's contribution to the community extends well beyond the services it provides.

Through our ongoing partnership with local colleges and universities, we continue to invest in innovation through research projects with Western University and the University of Waterloo. In 2013, we renewed our 5-year commitment for joint research with Fanshawe College. In addition, London Hydro's collaboration with s2e Technologies Inc. enabled 85 students and researchers to work in our offices and focus their skills and attention on energy management, smart communities and micro grids.

London Hydro also demonstrated its commitment to being a generous and responsible corporate citizen through its ongoing charitable involvement with the THAW program and with the fundraising events that are enthusiastically supported by employees at all levels and in all departments. In 2013, employees raised over $29,000 through the Employee Community Charity Organization to benefit over 35 charities, most of which are local. In addition, employees enthusiastically participated in over a dozen charitable events throughout the year, including the Salvation Army's Christmas Hamper Program.

As a community leader, London Hydro had an especially exciting year as it was proud to be a founding sponsor of World Figure Skating Championships, helping to bring this international event to the City of London in March 2013. This event was a huge success with 79% of customers surveyed agreeing that London Hydro's sponsorship of the World Skating Championships helped showcase the City to the world, as it was seen by over 150 million television viewers.

Board Members:

Peter Johnson – CHAIRMAN, Mohan Mathur – VICE CHAIR
Bernard Borschke, Connie Graham, Gabe Valente, Marilyn Sinclair,
Mayor Joe Fontana, EXECUTIVE Vinay Sharma – CEO,
Ken Walsh, Syed Mir, David Arnold

London Hydro hired 23 new full-time employees last year, including seven apprentices, demonstrating our commitment to building our workforce with a younger demographic for the future. London Hydro values its employees and has worked diligently to create a culture of safety. Our efforts were recognized with several safety awards, including the ESA Powerline Safety Award for excellence in safety communication and the IHSA President's Award for operating for 750,000 hours without a lost time injury. Both of these represent first-time achievements for London Hydro.

Although we have had an excellent year, we cannot let ourselves become complacent. The electricity utility industry in Ontario is facing significant strategic and structural changes, and London Hydro remains mindful of the potential effects these changes might bring. We will continue to evolve and adapt to any changes the utility sector experiences and to explore and evaluate any and all strategic options, while respecting the shareholder's goals and objectives.

London Hydro's primary goal will always be to distribute electricity to our customers, whether they are residential, businesses, institutions or industry in a safe, reliable and cost effective manner and at competitive rates. These goals are the cornerstones of our mission and vision; they are what motivate all London Hydro employees to be innovative and pursue excellence, day in and day out. London Hydro's success, last year and every year, is a direct result of the dedication and commitment that the women and men of London Hydro exhibit every day.

On behalf of the Board of Directors and the Executives of London Hydro, we sincerely express our appreciation to our employees and our stakeholders whose continued support has brought London Hydro such notable success.

**Vinay Sharma**
Chief Executive Officer

**Peter C. Johnson**
Chair



# Our People

## *It was a very good year*

*London Hydro collected numerous awards throughout 2013, with each department being recognized for outstanding achievement.*

**Nancy Hutton** is the proud recipient of the Bill Cockman Memorial Award for Excellence in Public Relations

- Awarded at the 2013 CPRS – Hamilton Pinnacle Awards for outstanding contributions to the field of PR in Hamilton & Southwestern Ontario





**Vinay Sharma** accepts the 2013 President's Award for 750, 000 consecutive hours with no lost-time injuries.

**Eko Suharto** named 5th out of 40 top developers at this year's SAP TechEd Conference in Las Vegas. He was a part of team #ESTAR

Won 4 awards, among them:

- Most rapid Mobile App Development
- Best Mobile App Design
- Best Mobile App on the Blackberry platform



**Gloria Newcombe** Human Resources accepted the 2013 Women's Community House Silver Award in June in recognition of London Hydro's ECCO donation of $3,200. The Employees Charity Chest Organization donated $29,080 to various charities in 2013.









## *Safety Awards*

The 2013 President's award was awarded for 750,000 consecutive hours worked with no lost-time injuries – the first time London Hydro has reached this milestone.

In addition, as part of the IHSA's Zero Quest program London Hydro achieved the Outcomes (GOLD) level 2 Award and plans to move through the levels with the goal of reaching level 5 (Platinum).

The "2013 Powerline Safety Award", was awarded by the Electricity Safety Authority (ESA) for London Hydro's ongoing commitment to the safety of its workers and the public through the creation of their Incident Safety Bulletin as well as the design of a Safe and Ready Connection tag that provides additional assurance, after ESA inspection, that the service has been left in a safe condition and is ready to be energized.

## *Outstanding Technical Achievement Award*

OACETT Outstanding Technical Achievement Award for Innovative ring-bus design for the downtown core. This award is given in recognition for outstanding technical achievement in engineering/applied science technology. The nomination was made by peers to the OACETT Honours and Awards 2011/2012 Committee for "the development and implementation of a new technique". The award was centred on a recent innovative application of high voltage relay technology to the protection of low-voltage distribution systems. The technology was applied to the 13.8 kV network system supplying London's core area. The award was presented to London Hydro in Toronto, ON, on October 4, 2013.

## *Recognition*

- We are one of the provincial leaders in Green Button initiative; as such, we are receiving Ministry of Energy smart grid funding for this project.
- London Hydro was recognized nationally for our on-site wellness program for the second year in a row. We were a finalist in the category of Health and Wellness Program of the Year at the 2013 Health Benefits Awards through Benefits Canada.
- In partnership with two vendors, we have successfully collaborated on applications to the smart grid fund on two innovative projects.

# Outage Management System (OMS)



London Hydro has a strong history of investing in infrastructure and innovation, and our motivation for these investments is centred on our commitment to the **continuous pursuit of excellence** in reliability and customer care. Last year we launched a number of related infrastructure enhancements that not only improved our service levels but also positioned us as leaders in our industry.

After many years of planning, London Hydro launched its computerized Outage Management System (OMS). This OMS system integrates data from our Geographic Information System (GIS) and SCADA databases to provide real time electrical mapping data in order to greatly improve customer service during outages.

Today, OMS not only provides the Control Room with a real time view of all electric circuits that are without power, but it also integrates with a new Interactive Voice Response (IVR) phone system. The new IVR system can field over a thousand calls simultaneously, and, if it recognizes the customer's phone number, it connects to OMS to automatically advise the customer if London Hydro is aware of the outage and, if so, to provide the estimated restoration time. If London Hydro is not aware of the outage, the customer can register the outage in OMS without needing to speak to a customer service representative. If a customer's phone number is registered on London Hydro's billing system, the customer is less likely to get a busy signal even during the worst storm.




To elevate customer care to another level, London Hydro became one of the first utilities in North America, if not the first, to offer Automated Outbound, or "push," Outage Notifications to our customers using multiple communication channels. By signing up on our website, customers are given the opportunity to receive notifications by phone, email, or text that an outage has occurred at their address as well as updates informing them of the estimated power restoration time.

# Ice Storm



London Hydro's continued investment in its infrastructure has positioned it well to hold up to most severe weather and ice storms. London was lucky to be spared the worst of the storm that hit southern Ontario in December, and, as a result, London Hydro crews were able to travel to other communities throughout southern Ontario to help with the restoration efforts. Twenty-five London Hydro crew members helped Hydro One with power restoration for the Aylmer, Stratford and Woodstock area; in addition London Hydro helped both Oakville Hydro and Halton Hills Hydro in their restoration efforts. Affected utilities expressed their appreciation to London Hydro in a newspaper advertisement and through letters.

*The team of dedicated Powerline Maintainers who participated in restoring power to surrounding communities has brought pride not only to London Hydro but also to the London community.*

# Customer Service

## *What our Customers are telling us*

Results from the 15th Annual Electric Utility Customer Satisfaction Survey reinforces that our customers like what we're doing – a few examples:
Customer Care Rating = A,
Credibility and Trust = 85%,
Customer Experience Performance Rating = 85%.
As well, the 2013 customer satisfaction survey highlighted the desire to have better communications during outages.

## *Improving the Customer Experience*

A new redesigned Corporate website bundled with powerful, secure, self-service functionality is giving customers a rich environment in which to self-perform many of the most common transactions that are important to them.

## *MyLondonHydro*

**Top 10 key features** with the new **MyLondonHydro** delivered in 2013 include:

1. Dynamic and engaging new look and feel
2. Support for most common mobile devices
3. Live outage map
4. Ability for customers to select their preferred communication channel - phone, email, or SMS/text message
5. Enhanced "customer portal" for bill viewing, payment history and Time of Use analysis
6. First in Ontario to deliver "Green Button" download functionality
7. Now 24/7 hour availability to access the web site and TOU data
8. Easier sign-on to paperless billing
9. Increased the capability to handle 1,000 concurrent calls with new automated phone system
10. Ability to deliver new features seamlessly in 2014

As a result, we have increased the number of customers enrolled in MyLondonHydro by 20% and paperless billing by 10%. London Hydro continues to enhance the customer experience based on annual customer surveys and advances in the technology.






# Information Technology



## *Cloud Computing*

London Hydro believes that delivering services through the cloud is not only efficient but a prerequisite for being an innovation leader in the LDC industry.

London Hydro was one of the first utilities in Canada to migrate to the Google Enterprise platform delivering Mail, Calendar, application development, and any time, any device customer access to web applications in the "cloud". This transformation has allowed us to shed some growing costs associated with maintaining an on-premise infrastructure while providing a responsive, stable, secure environment for our customers that is virtually immune to physical disaster events.

Cloud computing allows us to dynamically scale our operations as we grow to meet customer performance expectations and our alignment with a major player such as Google, positions us to deliver energy solutions to our customers in a more multi-channel, consumer based business model.



## *The "Green Button" Initiative*

Representing the next wave in energy management empowerment for our customers, London Hydro was one of the first LDCs to implement the Green Button (GB) "Download My Data" application and is one of two LDCs selected by the provincial government to implement the GB standard for "Connect My Data". This secure access to customer data combined with certified 3rd party energy management applications will be at the forefront of giving consumers the ability to understand and ultimately manage their consumption behaviour through innovative software applications.

## *London Hydro's mandate:*

- To build and operationalize with our partners, a successful Green Button pilot
- To provide a springboard for GB solutions that will meet the Province's goals and potentially for other utilities to leverage the London Hydro platform including ODS & Cloud
- To position the GB pilot with other London Hydro Strategic initiatives (MyLondonHydro and CDM programs)



# Solar continues to shine

Since the introduction of the Green Energy Act, Londoners have actively participated in solar generation. To date in London there are 169 solar installations under Micro FIT (small) and FIT (large) solar generation projects. These projects represent a total of 3,235 kW of renewable generation. London Hydro has also invested $3.3 million in 10 solar projects, which are producing an average of 8% to 10% return on investment. Overall, all solar projects in London generated about 3,489,900 kWh of energy – enough to power approximately 5,000 homes for one month - out of this, London Hydro's 10 projects were responsible for producing approximately 656,800 kWh (19%) of total production in 2013. In addition, there are six gas fired embedded generators in London for a total installed capacity of 50,225 kW.



# Meter Services

## *Meter Shop Accreditation*

2013 produced a major milestone for our meter shop with receiving ISO 9001:2008 accreditation from Measurement Canada. This important accomplishment means that we are now an accredited meter sealing shop (which includes new smart meters and the high-end Schnieder ION meters), as well as a shop accredited to perform the Measurement Canada Compliance Sample procedures to ensure the fleet of smart meters maintain their accuracy.

During 2013 , along with verifying and sealing 1,687 meters, we also installed over 500 new meters, replaced 1,256 meters and inspected and tested over 3,700 metering installations.

## *Electrical Contractor and Communications Support*

Throughout 2013 London Hydro continued to work with Electrical Contractors in support of new electrical installations and created 146 backplates. Operations were also expanded to include troubleshooting smart meter wireless communications; over 3,000 site visits were made to meters and over 260 visits to cellular base stations all in an effort to keep the metering data flowing for our customers.

## *Meter Data Management*

In 2013, the Meter Data Management Group focused on Operational Data Store (ODS) and smart meter head-end systems performance improvements. System enhancements were made to be able to automatically process data, increase the speed that data would be available and reduce web-access downtime of the new MyLondonHydro mobile application for customers. The Meter Data Management Group handled over a half-million (500,000) data exceptions in 2013 which ensured accurate and timely billing for our customers.





Respondents that agreed that sponsorships demonstrate London Hydro's commitment to the community. **79%**



# Lighting up London for all the world to see.

London Hydro has completed a number of outreach projects in our community in 2013 that have strengthened our position in the community while enhancing our brand.

One of the most notable opportunities began with the City of London hosting the 2013 World Figure Skating Championships. London Hydro worked with the organizing committee to ensure that the event was indeed world class and London Hydro was recognized as a significant partner.

The engineering department worked closely with Budweiser Gardens to ensure that the infrastructure within the building would support the requirements of the event and that our system would be able to quickly respond in the event of equipment failure to make sure the show goes on!

The show did go on and was considered to be a huge success on many levels.

London Hydro embraced the tag line "Lighting up London for all the world to see", which resonated beyond our expectations with Londoners.








*Our involvement began in the early planning stages, with London Hydro installing energy efficient lighting at the gateway to the City near the airport and on numerous buildings throughout the city - including our own building. The buildings were lit up each night and reminded Londoners and visitors of the exciting event happening in the downtown area.*

The organizers gave London Hydro top billing in all their advertising and promotions and full recognition of our contribution and support.

We negotiated a great sponsorship package that provided London Hydro with even more opportunities to give our employees and customers a chance to win tickets to the events and at the same time provided much needed food supplies for the London FoodBank. Tickets that were received as part of the sponsorship package were raffled off to employees with the proceeds going to purchasing food for the London FoodBank. Other tickets were given away "on-air" through a promotion sponsored by London Hydro and a local radio station providing an opportunity for listeners to win tickets to one of the events.

All London Hydro's radio ads promoting paperless billing and other services ended with the tagline "Lighting up London for all the world to see" again helping to create more awareness for the events along with some of our other promotions.

**76%** of respondents agreed that the sponsorship tagline: "Lighting up London for all the world to see," captured the spirit of London Hydro.

# Give the Conservation & Demand Management team a target and they hit the bullseye every time.

*In 2013, London Hydro continued to demonstrate it's right on the mark when it comes to energy conservation program delivery.*

Recognized as an energy conservation leader (not just in Ontario but also across North America), London Hydro continued to exceed expectations in 2013. Mandated by the provincial government to meet specific demand and energy reduction targets by the end of 2014, London Hydro met its energy goals a year early by implementing highly successful conservation programs. More than 156,640,000 kWh in reductions have been accomplished, equivalent to taking more than 18,000 homes off the grid.

Consistent with its core philosophy of maximizing value to its customers, London Hydro continued to deliver the saveONenergy HOME ASSISTANCE PROGRAM (HAP) to qualifying residents. Close to 1,000 homes have now been professionally assessed and upgraded with features including energy efficient lighting, weather stripping and fridges – all at no cost to participants.

To extend HAPs reach into the community, London Hydro partnered with the Salvation Army, the London FoodBank and a community resource centre to access eligible residents who are pre-qualified through emergency financial assistance programs like Low-income Energy Assistance Program (LEAP). Associating with these trusted organizations puts a "friendly" face on the program. It also furthers outreach and engagement and means that London Hydro's HAP effectively reaches more customers than any other LDC program in the province.

London Hydro's conservation programs also focus on medium to large businesses with the saveONenergy RETROFIT PROGRAM. In 2013, targets were exceeded by a remarkable 30 percent with 430 projects funded for a total of $3,647,000 in financial incentives. The saveONenergy SMALL BUSINESS LIGHTING direct-install program for small business was re-launched near the end of the year for 171 participants and included exciting new LED lighting equipment that garners significant economic and energy savings benefits. Since 2007, London Hydro has distributed over $20 Million in energy efficiency incentives to over 5,800 business customers.

The saveONenergy PROCESS & SYSTEMS initiative has provisions for paying a sizable portion of the salaries of Embedded Energy Managers provided such individuals achieve defined energy conservation targets within their respective organizations. Funded Embedded Energy Managers are in place within 3M Canada, the City of London and Fanshawe College to provide continuous expertise and support that drives energy management excellence for these corporations.

Impressive year-end results and a commitment to excellence in conservation demand management ensure that London Hydro will continue to lead the Province in this important sector.



**430 medium to large business projects completed** under the saveONenergy RETROFIT PROGRAM that included **$3,647,000 in financial incentives** and **exceeded targets by 30%.**

**930 qualified homes** to date provided with free energy upgrades under the saveONenergy HOME ASSISTANCE PROGRAM – the **highest number of residential retrofits in the Province**.

**171 small businesses** provided with financial incentives and support to upgrade lighting under the saveONenergy SMALL BUSINESS LIGHTING direct-install program. **Over 5,800 small businesses** have **benefited from the program since 2007**, with over **$20 million in energy efficiency incentives.**

**156,640,000 kWh in energy savings** under provincially mandated conservation requirements accomplished **a year ahead of schedule**.



# Enterprise Risk Management (ERM)

London Hydro adopted an Enterprise Risk Management Program (ERM) to provide a disciplined and consistent methodology that facilitates "best practices" and contributes to strong governance processes. With the significant contributions of a wide segment of London Hydro Staff, as well as Management and the Board, London Hydro has an ERM report that initiates a formal risk management framework for the identification, assessment, mitigation, and communication of risks applicable to London Hydro.

To further, the ERM appropriately adopts a rigorous top-down and bottom-up approach to integrate risk management into London Hydro's strategic plan, as well as to manage strategic, operational, financial, employee, health and safety, environmental, legal, regulatory compliance, and external risks. The intention is that, through the ERM, risks are identified and reduced in conjunction with London Hydro strategies and objectives.

In 2013, London Hydro's ERM Program resulted in the final issuance of the "London Hydro Inc. Enterprise Risk Management" report which delivers the top eleven risks of London Hydro. The report contains the detailed explanation of the risk, the assessment and prioritization of the risks, and London Hydro's approach to managing these key risks. By focusing our strategic plan on the high priority risks such as safety, infrastructure outages, IT and employee succession/retention, we enhance our potential for greater success.

# Management's Discussion and Analysis

The following discussion and analysis is of London Hydro Inc.'s ("the Company's") financial position, results from operations, and cashflow, dated March 26, 2014 should be read in conjunction with the audited Financial Statements for the year ended December 31, 2013.

The results reported herein have been prepared in accordance with accounting principles generally accepted in Canada and are expressed in Canadian dollars. Certain regulatory practices and direction may result in deviations from generally accepted accounting principles. The Company's process for assessing the impact of such regulatory direction and the resultant impact on reported financial results are more fully described in notes 2, 3 and 7 to the audited Financial Statements for the year ended December 31, 2013.

This analysis contains forward-looking statements regarding management's future expectations of performance and liquidity. Such statements are subject to general risks and uncertainties, such as general economic conditions, regulatory and government decisions, and the successful development and operation of the electricity market. Forward-looking statements are not guarantees of performance and future results may differ materially from those expressed by these statements.







# Overview

## *The Company and its Strategy*

The Company is a wholly owned subsidiary Company of the Corporation of the City of London established under the Electricity Act (1998) Ontario, providing electrical distribution services to the inhabitants of the City of London, as regulated by the Ontario Energy Board ("OEB"). London Hydro is one of the larger distribution companies in Ontario with a workforce of 308 personnel servicing 150,918 customers and a population base of approximately 367,000.

The City of London has directed the Company's Board of Directors to oversee the operation of the business on a basis that addresses several specific objectives which include: to enhance the quality and reliability of electrical supply; maintain the corporate value of the distribution assets and ensure that distribution rates are fair and competitive with rates charged in the industry.

## *Corporate Vision & Strategy*

The Company's vision and strategy is to be a leading energy services provider through the aggressive and innovative pursuit of customer focus, social and environmental responsibility, and financial health, which adds value to the corporation. This vision and strategy will be achieved through the implementation of viable and economical technology and renewable generation projects that are valued by our customers, and through the expanded application of green technologies in the community.

## *Strategic Priorities*

In pursuit of its vision and strategy, the Company has determined that it will place its focus on the areas of technology, human resources, customer services, financial/regulatory and green energy.

The Strategic Plan identifies the impending and recently implemented business changes due to smart meters, time-of-use ("TOU") billing, green energy, and smart grid as placing significant requirements on the Company to make strategic investments in new technology. These investments will continue to be paramount over the next 3 year period. The Company is an engineering and technology driven corporation, and as such must bring greater focus on deploying increased automation in the areas of the distribution system and energy management to improve reliability/contingency, customer care, retailer engagement and settlements.

To succeed in its plan, the Company will continue to invest in employee training and development, and its focus on the development of a high performance corporate culture that promotes creativity and innovation in the workplace.

The plan focuses on improvements to customer service, customer communications and enhanced customer interactions with the Company, with due regard for controlling customer costs and other financial and regulatory constraints.

Additionally, the Company will continue to support the Ontario Green Energy plan that has already resulted in the installation of new generation capacity in London over the last few years. A similar amount of new generation, most of it from renewable energy sources, is expected to be connected to London's distribution system over the coming years.

## Fiscal 2013 Operations Overview

The Company's 2013 results in comparison to historical and planned performance are summarized in the following table:

| Financial Highlights ($Millions) | 2012 Actual | 2013 Planned | 2013 Actual | 2014 Planned |
|---|---|---|---|---|
| **Energy Quantity - Distributed - Gigawatt Hours** | 3,351.4 | 3,509.6 | 3,346.5 | 3,286.4 |
| **Revenue:** | | | | |
| Energy and Distribution | 378.5 | 411.1 | 404.9 | 415.6 |
| Cost of Power | -316.7 | -343.2 | -341.1 | -353.2 |
| Distribution of Revenue | 61.8 | 67.9 | 63.8 | 62.4 |
| Net Earnings | 8.6 | 9.5 | 13.8 | 9.3 |
| Average Return on Shareholder Equity | 6.7% | 7.1% | 10.2% | 6.5% |
| **Annual Investments:** | | | | |
| Capital Assets | 28.7 | 29.7 | 27.7 | 28.4 |
| Regulatory Capital Initiatives | 0.8 | 0.0 | 0.0 | 0.4 |
| **Financial Position:** | | | | |
| Total Assets | 308.2 | 312.3 | 318.8 | 320.9 |
| Shareholders Equity | 129.6 | 136.1 | 140.4 | 146.2 |
| **Distributions to the City of London:** | | | | |
| Interest Paid | 4.2 | 4.2 | 4.2 | 4.2 |
| Dividends declared/paid | 3.0 | 3.0 | 3.0 | 3.0 |
| **S&P Credit Rating:** | A/Stable | A/Stable | A/Stable | A/Stable |



## Energy Quantities Distributed

Total energy distributed on the system remained relatively consistent decreasing by 0.1% to 3,346.5 gigawatt hours (2012 – 3,351.4 gigawatt hours). Factors contributing to the decrease in energy consumption in 2013 were the impacts of ongoing customer conservation initiatives. Offsetting the reduction of the CDM initiatives were the increase in customer base of 0.8%.

# Revenues

## Energy Revenue and Cost of Power

Energy revenue and cost of power increased during the year to $341.1 million (2012 - $316.7 million). The overall increase of $24.4 million or 7.7% (2012 – 6.3%) is attributable to increases in commodity and non-commodity pricing, fluctuations in the spot market price and global adjustment rates determined by the Independent Electricity System Operator ("IESO"). In accordance with regulations, purchased power costs are billed to customers on a flow-through cost recovery basis. All variances due to timing of customer billing or regulated pricing are recorded in retail settlement variance accounts which are recovered from or returned to customers in accordance with regulatory directives.

## Distribution Revenues

The Company is compensated by a regulated distribution tariff based on the number of customers connected to the distribution system and customer energy consumption and demand levels. Approximately 52% of revenues are derived from a monthly fixed customer charge, with the remaining 48% being dependent upon the customer's energy consumption or system demand levels.

Total customers as at December 31, 2013 was 150,918 (2012 – 149,747) and distribution revenue composition remained relatively unchanged from the prior year with approximately 62% from residential customers (2012 – 64%), 32% from general service customers (2012 – 31%), and the remaining 6% from large users and other customers (2012 – 5%).

Total distribution revenues for the year increased by $2.0 million (3.2%) to $63.8 million (2012 – $61.8 million) due primarily to the fact that the Company successfully completed a Cost of Service in 2013. The Cost of Service is a process where the Company applies for the revenue requirement in order to cover the costs of the operating expenditures, amortization of capital assets and a regulated profit. This process occurs once every four years and therefore the next cost of service application is expected to occur in 2017. The rates as part of the cost of service application were effective as of May 1, 2013.

Approved distribution rates after the cost of service remained relatively consistent with the rates prior to the approval as the increase in operating costs were offset by the reduction of amortization expenses when the useful life estimates were adjusted in 2012. As the new rates did not come into effect until May 1, a one time pick-up of $1.6 million in distribution revenue was realized relating to the old amortization amounts which are recovered through rates. The residual increase in distribution revenue was primarily a result of the increased number of customers.

## *Operating Expense and Amortization (Excluding Cost of Power)*

Total operating expenses, excluding interest, amortization and cost recoveries, increased during the year to $35.5 million (2012 - $34.5 million). The overall increase of $1.0 million or 2.9% is attributable to increased labour and benefits costs, information systems maintenance contracts, facilities repairs and maintenance and bad debts expense.

Amortization expense decreased significantly in 2013 to $16.9 million (2012 - $20.6 million) due primarily to the adjusted useful life estimates implemented in 2012. In 2012, there were a number of one time expenditures which totaled approximately $4.0 million so that the amortization expense in 2012 remained consistent with the previous years. The $16.9 million in 2013 reflects the impact of the new useful lives.

Cost recoveries for billable services including City of London customer billing services increased to $3.9 million (2012 – $3.1 million). During the year, London Hydro signed a revised service agreement with the City of London effective January 1, 2013 which was the cause for the increased recoveries.

## *Interest and Other Revenue*

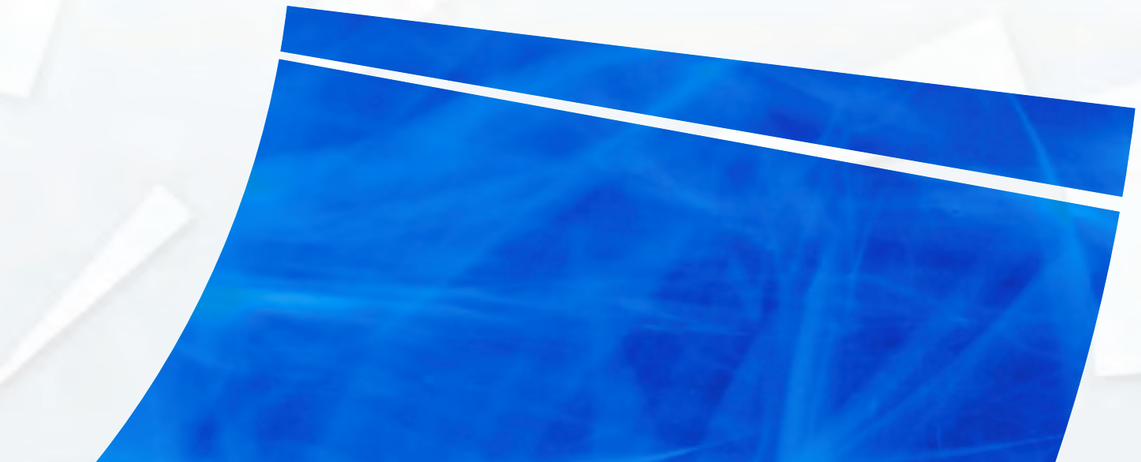
Interest and other revenue increased to $5.1 million (2012 - $4.7 million). Revenues from Late Payment charges and renewable (solar) generation both increased by $0.2 million.

## *Interest Expense*

Interest expense for the year decreased slightly to $4.9 million (2012 - $5.0 million) due primarily to the fact that the principal balance on third party debt continues to decline and therefore there is less interest expense.

Interest expense is composed of interest payable on customer security and developer deposits, regulatory liabilities, smart meter financing and interest of $4.2 million payable to The Public Utility Commission of the City of London ("PUC") on the promissory note.

The Company recorded an unrealized gain on interest rate swap of $0.2 million (2012 - $0.1 million), on a 7 year interest rate swap agreement maturing on March 31, 2020, having an all-in rate of 3.33%. The unrealized loss of $0.2 million represents what the Company's cost would be to unwind this agreement as at December 31, 2013. Currently, the Company's plan is to maintain this agreement to its March 31, 2020 maturity date.





## *Income Tax Expense*

The Company is required to make payments in lieu of tax to the Ontario Electricity Financial Corporation. The amount of payments in lieu of tax ("PILs") is approximately equivalent to the income taxes that would be paid if the Company was a taxable corporation under the Income Tax Act (Canada). Income tax expense for the year ended December 31, 2013 was $1.6 million (2012 - $0.9 million).

The Company has accumulated future tax assets of $2.5 million (2012 - $5.7 million) principally as a result of temporary differences related to tax values of property, plant and equipment in excess of their carrying amount for financial reporting purposes and also expenses incurred for accounting purposes for employee future benefits but not yet deducted for tax.

CICA 3465.103 recognizes that, as a rate regulated entity, Future Income Tax Assets paid on behalf of customers will be returned to customers as they are recovered and therefore increases or decreases in Future Income Tax Assets are offset by a Regulatory Liability.

## *Net Earnings*

Net earnings increased by $5.2 million to $13.8 million (2012 – $8.6 million). The increase in net earnings results primarily from increases in distribution revenues of $2.0 million while the total expenditures net of recoveries reduced by $3.4 million. The change in operating expenditures is mostly impacted by the reduction of amortization expenses of $3.7 million while the other operating expenditure levels increased by a total of $0.3 million after cost recoveries.

# Capital Resources

## *Capital Structure and Dividend Policy*

The PUC holds a promissory note from the Company in the amount of $70.0 million, bearing interest at 6% per annum, payable on demand with 367 days' notice, and maturing on October 31, 2015. The note provides that upon reassignment to the Corporation of the City of London, the note will be converted to shareholder contributed capital on account of the Corporation of the City of London.

The Company's 2013 distribution rates are based on a regulatory deemed capital structure of 60% debt and 40% equity. To the extent that the Company's existing capital structure and debt rates do not reflect the deemed structure included in distribution rates, the economic performance of the Company will be suboptimal.

The Company's dividend policy provides for an annual dividend amount equivalent to 40% of the Company's prior year's net earnings, subject to satisfactory cashflow. In accordance with that policy, during the year the Board of Directors declared a dividend in the amount of $3.0 million which was paid quarterly in fiscal 2013.

Subsequent to the year-end, the Board of Directors declared an annual dividend payment in the amount of $3.0 million payable quarterly, in fiscal 2014.

## *External Credit Facilities and Credit Rating*

The Company has an uncommitted operating revolving bank credit facility of $20.0 million, a committed 364 day extendable operating revolving bank loan facility of $15.0 million maturing on March 31, 2016 and $6.6 million in Standby Letters of Credit issued to the IESO as security. In the event that the maturity date of the committed extendable operating loan facility is not extended, the due date for repayment of this loan facility is 1 year from the date of maturity.

As at December 31, 2013, the Company has drawn down $nil (2012 - $nil) on its committed loan facility and $2.0 million (2013 - $nil) on the uncommitted facility.

In addition to its operating line and committed facility, the Company has entered into an interest rate swap agreement for an unsecured loan to fund its Smart Meter capital expenditure program. The outstanding principal balance on this loan at December 31, 2013 was $13.0 million (2012 – $15.3 million). Principal repayments on this loan commenced in October 2010 and are being amortized over a 10 year period ending March 31, 2020. The swap agreement is a 7.75 year agreement maturing on March 31, 2020 with an effective interest rate of 3.33%.

The Company's 'A/stable' long-term corporate credit rating was reaffirmed by Standard & Poor's on March 28, 2013. This rating reflects the Company's low-risk as a distribution company with regulated cashflows. The Company's current credit rating provides for a reduction in the IESO prudential requirement by approximately $59.0 million.

**Net earnings for 2014**, based upon Canadian Generally Accepted Accounting Principles, are **projected to be $9.3 million**.

# Liquidity and Cashflow

Cash generated by operating activities increased to $31.7 million (2012 - $30.3 million). Cashflows primarily relate to amounts of $13.8 million from net income and $16.9 million from amortization expenses. The remaining $1.0 million relate primarily to changes in non-cash working capital balances.

Cash used in investing activities increased to $33.6 million (2012 - $25.2 million) as a result of a change in the regulatory liability balance between 2012 and 2013 due primarily to the disposition of regulatory balances back to customers.

Cash used in financing activities decreased to $2.8 million (2012 – $3.8 million) due primarily to changes in the deposit balances for construction and various customers.



# Fiscal 2014 Outlook

Net earnings for 2014, based upon Canadian Generally Accepted Accounting Principles, are projected to be $9.3 million.

The plan for 2014 includes a forecasted decrease of $1.4 million in distribution revenues for the year. Controllable expenses are expected to increase by approximately $2.0 million as continued focus is placed on customer service initiatives. Amortization expenses are expected to be approximately $1.0 million higher in 2014 due to continued investments in plant and equipment.

Fiscal 2014 capital spending is forecasted to be $29.5 million. Investments required in distribution infrastructure ($22.0 million) and continued upgrading of information technology and capabilities ($5.0 million) are the primary components of the 2014 plan.

To facilitate the necessary capital investment and repayment of regulatory balances, the Company expects to borrow approximately $15.0 million during the course of the year.

## *Regulatory Developments*

During the year, there continued to be ongoing energy policy and regulatory developments in the industry that affected the Company's fiscal 2013 results and will have a financial impact on future year operations. The following summarizes these developments and their impact:

## *Ontario Clean Energy Benefit*

The Province introduced the Ontario Clean Energy Benefit Act, 2010, to assist Ontario electricity consumers in transitioning to a cleaner electricity system. Commencing January 1, 2011, eligible residential, farm and small business consumers began receiving financial assistance for a five year period on the costs of their electricity through the Ontario Clean Energy Benefit (OCEB) program. The program is designed to pass some of the benefits of green energy investments onto the consumers in the form of a credit and to transition and mitigate the impact of rising electricity supply costs. Eligible consumers receive a 10% credit on the total cost of electricity on their bills, including tax. During 2013, the Company's customers received an aggregate reduction of more than $40 million off their electricity bills under the OCEB program.



## *Time-of-Use Billing ("TOU")*

During 2012, the Company successfully began billing customers under the mandated TOU billing program. There were a number of system advancements and developments over the past two to three years that were required for this initiative to be possible. Nevertheless, the system is operating appropriately and the bills have been issued with no significant issues since the program was launched in the spring of 2012.

## *Renewed Regulatory Framework for Electricity Distributors and Transmitters ("RRFE")*

In 2012, the OEB finalized a process to review the regulatory framework for distributors. The OEB's objective is to encourage and facilitate greater efficiency through a focus on performance-based outcomes and a disciplined, long-term approach to network investment planning.

In addition, three options have been presented relating to future cost of service applications to provide local distribution company's ("LDC's") some flexibility. Firstly, one option is that cost of service applications are to be filed on a five year cycle compared to the current four year cycle. Secondly, LDC's have the option to file an application which sets rates for the future five years, rather than the standard process for rates to be set for a single year and then updated through the IRM process until the next full cost of service. The third option available is for "stable" utilities experiencing insignificant growth to file a cost of service application which essentially provides an inflationary increase rather than going through the process to "rejustify" the appropriate revenue requirement.



# Emerging Accounting Issues

## *International Financial Reporting Standards ("IFRS")*

The Canadian Accounting Standards Board ("AcSB") has adopted a strategic plan that has Canadian GAAP converged with IFRS, effective January 1, 2011 which will require entities to restate, for comparative purposes, their interim and annual financial statements and their opening financial position.

In October 2010, the AcSB approved the incorporation of IFRS 1 into Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The amendment also requires entities that do not prepare its interim and annual financial statements in accordance with Part 1 of the Handbook during the annual periods beginning on or after January 1, 2011 to disclose that fact.

The AcSB has provided multiple deferrals and the most recent announcement indicates that rate regulated entities can wait until January 1, 2015 before being required to adopt IFRS.

The Company has elected to implement IFRS commencing on January 1, 2015.

The primary reason for the continued deferrals of the IFRS adoption date is due to the Internal Accounting Standard Board's ("IASB") agreement to examine rate regulated accounting. In the meantime, the IASB approved an interim standard that allows a rate regulated entity, who has yet to adopt IFRS, to follow their current framework for reporting rate regulated items. This interim standard allows regulatory assets and liabilities to remain on the balance sheet as they are currently treated under CGAAP, rather than be recorded through the income statement as the current IFRS rules require.

The Company continues to assess the impact of the conversion to IFRS on its operating results.

# Significant Risks

## *Rate Regulation and Regulatory Uncertainty*

The Company's operating and capital spending programs are required to be submitted to the OEB for regulatory review and approval, to allow for recovery of these costs through approved distribution rates. There is an ongoing risk that certain amounts could be determined to be ineligible for collection from the ratepayer and would subsequently be borne by the Company thereby adversely impacting future results.

Since the initial Provincial Government electricity market reforms roughly 300 Ontario distribution entities have been reduced to approximately 75, through corporate consolidation efforts. In 2012, a report was produced which suggested that utilities work together to form a total of 10 "shoulder-to-shoulder" utilities throughout Ontario. While the report proposed voluntarily mergers, it is also suggested that if utilities do not merge voluntarily, then the government impose mandated amalgamations. No legislation currently exists that would mandate amalgamations.

It is expected that there will continue to be a compression and consolidation of the distribution sector driven by the need to achieve economies of scale and produce lower tariffs to the ratepayer. Should this continue as expected, and in conjunction with the regulator's growing appreciation for and focus on cost regulation by peer group benchmarking, entities that do not achieve cost economies of scale will see future financial performance suffer and the ability to maintain the reliability of the distribution system may be affected.

## *Credit Risk*

Distribution companies are primarily responsible for collecting both the distribution and energy portions of the electricity bill. Unless the retailer elects to bill the customer directly for the energy portion of the bill, LDC's are exposed to a credit risk greater than their portion of the electricity bill. Unlike an unregulated company, the Company cannot adjust pricing as a method of mitigating credit risk nor can it establish customer security requirements or collection policies exceeding those allowed by regulation. Hence, the Company could experience non-payment by customers that materially exceeds normalized levels of credit losses.





## *Information Technology*

The Company's ability to operate effectively and to comply with regulatory requirements is dependent upon the development and maintenance of a complex information technology systems infrastructure. Computer systems are employed to operate the Company's distribution system, financial and billing systems and business systems to capture data and to produce timely and accurate information. A failure of the Company's financial, business and operating systems could have a material adverse effect on the Company's business, operating results and financial condition.

## *Electricity Consumption*

The Company's distribution rates are comprised of a fixed monthly charge and a variable charge based on the volume of electricity consumed by the customer. The volume of electricity consumed by the customer during any period may be significantly impacted by sustained periods of hot or cold weather patterns, conservation initiatives and general economic conditions. Accordingly, there is no assurance that the Company will achieve the revenue requirement approved by the regulator.



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# INDEPENDENT AUDITORS' REPORT

To the Shareholder of London Hydro Inc.

We have audited the accompanying financial statements of London Hydro Inc. (the "Entity"), which comprise the balance sheet as at December 31, 2013 and the statements of earnings and retained earnings, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of London Hydro Inc. as at December 31, 2013, and the results of its earnings and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 26, 2014

London, Canada

**KPMG Confidential**

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KPMG Canada provides services to KPMG LLP.



**London Hydro Inc.**
**Balance Sheet**
**December 31, 2013, with comparative amounts for 2012**
(in thousands of dollars)

| | Note | 2013 | 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | 4 | $ - | $ 1,666 |
| Accounts receivable | 5 | 71,046 | 62,416 |
| Income tax receivable | | 80 | - |
| Regulatory assets | 7 | 1,483 | 2,329 |
| Inventories | 6 | 731 | 786 |
| Prepaids | | 1,456 | 1,117 |
| **Total current assets** | | 74,796 | 68,314 |
| Regulatory assets | 7 | 854 | 1,812 |
| Property, plant and equipment | 8 | 240,693 | 232,315 |
| Future income tax assets | 18 | 2,463 | 5,736 |
| **Total non-current assets** | | 244,010 | 239,863 |
| **Total assets** | | $ 318,806 | $ 308,177 |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | |
| **Current liabilities** | | | |
| Bank indebtedness | 4 | $ 3,012 | $ - |
| Accounts payable and accrued liabilities - | | | |
| Due to Independent Electricity System Operator | | 37,447 | 28,824 |
| Other | | 14,003 | 12,742 |
| Regulatory liabilities | 7 | 3,829 | 6,248 |
| Current portion of long-term debt | 13 | 2,304 | 2,304 |
| Customer and other deposits | 10 | 1,626 | 4,123 |
| Due to shareholder | 11 | 6,577 | 4,721 |
| **Total current liabilities** | | 68,798 | 58,962 |
| **Long-term liabilities** | | | |
| Unrealized loss on interest rate swap | 13 | 199 | 408 |
| Regulatory liabilities | 7 | 5,496 | 14,203 |
| Customer and other deposits | 10 | 7,419 | 6,410 |
| Long-term debt | 13 | 10,738 | 13,042 |
| Due to shareholder | 11 | 3,976 | 4,242 |
| Due to related party | 11,13 | 70,000 | 70,000 |
| Employee future benefits | 19 | 11,733 | 11,302 |
| **Total long-term liabilities** | | 109,561 | 119,607 |
| **Total liabilities** | | 178,359 | 178,569 |
| **Shareholder's equity** | | | |
| Share capital | 14 | 96,116 | 96,116 |
| Retained earnings | | 44,331 | 33,492 |
| **Total shareholder's equity** | | 140,447 | 129,608 |
| Commitments | 9, 23 | | |
| **Total liabilities and shareholder's equity** | | $ 318,806 | $ 308,177 |

**On behalf of the Board**

Director

Director

**London Hydro Inc.**
**Statement of Operations and Retained Earnings**
**Year Ended December 31, 2013, with comparative amounts for 2012**
(in thousands of dollars)

| | Note | 2013 | 2012 |
|---|---|---|---|
| **Revenues** | | | |
| Energy | | $ 341,136 | $ 316,677 |
| Distribution | | 63,795 | 61,780 |
| | | 404,931 | 378,457 |
| Cost of power | | (341,136) | (316,677) |
| **Distribution revenue** | | 63,795 | 61,780 |
| **Operating expenses** | | | |
| Plant operating and maintenance | | 12,613 | 12,087 |
| General and administrative | | 22,955 | 22,403 |
| Amortization of plant and equipment | | 16,938 | 20,603 |
| | | 52,506 | 55,093 |
| Less: Costs recovered | 11 | (3,904) | (3,088) |
| | | 48,602 | 52,005 |
| **Operating income** | | 15,193 | 9,775 |
| **Other income (expense)** | | | |
| Interest and other revenue | 16 | 5,085 | 4,684 |
| Unrealized gain on interest rate swap | 13 | 209 | 140 |
| Interest expense | 17 | (5,082) | (5,189) |
| | | 212 | (365) |
| **Earnings before income taxes** | | 15,405 | 9,410 |
| Income tax expense | 18 | 1,566 | 857 |
| **Net earnings for the year** | | 13,839 | 8,553 |
| **Retained earnings, beginning of year** | | 33,492 | 27,939 |
| **Dividends** | | (3,000) | (3,000) |
| **Retained earnings, end of year** | | $ 44,331 | $ 33,492 |

The accompanying notes are an integral part of these financial statements.



**London Hydro Inc.**
**Statement of Cashflows**
**Year Ended December 31, 2013, with comparative amounts for 2012**
(in thousands of dollars)

| | Note | 2013 | 2012 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net earnings for the year | | $ 13,839 | $ 8,553 |
| Adjustments for: | | | |
| Depreciation and amortization | | 16,938 | 20,603 |
| Gain on disposal of property, plant and equipment | | (175) | (117) |
| Unrealized (gain)/loss on interest rate swap | | (209) | (140) |
| | | 30,393 | 28,899 |
| Net change in non-cash working capital related to operations | 15 | 890 | 769 |
| Employee future benefits | | 431 | 662 |
| **Net cash provided by operating activities** | | 31,714 | 30,330 |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | | (27,712) | (28,666) |
| Proceeds on disposal of capital assets | | 231 | (272) |
| Regulatory assets and liabilities - future income taxes | 3 (g) | 3,273 | 1,554 |
| Other regulatory assets and liabilities, including smart meters | | (9,401) | 2,182 |
| **Net cash used in investing activities** | | (33,609) | (25,202) |
| **Financing activities** | | | |
| Customer and other deposits | | (1,488) | (181) |
| Contributions in aid of construction | | 2,419 | 3,781 |
| Shareholder advances / (repayments) | | 1,590 | (2,071) |
| Dividends paid | | (3,000) | (3,000) |
| Long-term debt repaid | 13 | (2,304) | (2,304) |
| **Net cash used in financing activities** | | (2,783) | (3,775) |
| **Net increase / (decrease) in cash and bank indebtedness during the year** | | (4,678) | 1,353 |
| **Cash, beginning of the year** | | 1,666 | 313 |
| **Cash / (bank indebtedness), end of the year** | | $ (3,012) | $ 1,666 |
| **Supplemental cashflow information** | | | |
| Interest paid | | $ 4,858 | $ 4,896 |
| Income taxes paid | | $ 1,780 | $ 635 |

The accompanying notes are an integral part of these financial statements

London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

**1. Regulated Business Operations and Distribution Rates**

London Hydro Inc. ("the Company") is a wholly owned subsidiary company of the Corporation of the City of London and provides regulated electrical distribution services to the inhabitants of the City of London.

The Company is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the Ontario Energy Board Act (1998). The OEB has responsibility to set just and reasonable distribution rates and thereby approves all of the Company's distribution and ancillary rates. The Company's distribution revenue is determined by applying those regulated rates to customers and their consumption of electricity in the Company's distribution territory, as established by its distribution license granted by the OEB.

**2. Financial Effects of Distribution Rate Regulation**

The financial results presented are in accordance with Canadian generally accepted accounting principles and within that framework the Company accounts for the impact of regulatory actions in the following manner:

a) Regulatory decisions to adjust distribution rates

In the event that a regulatory decision is rendered, providing regulatory approval and certainty to the recognition of an asset, or creation of a liability, and culminating in an adjustment to the Company's distribution rates, such occurrences are immediately reflected in the Company's accounts.

b) Regulatory direction and practice

In the absence of a regulatory decision impacting rates, and where the Company is required by regulatory accounting practice or direction to accumulate balances for future rate recovery or create liabilities for future discharge, those amounts are recorded in accordance with that regulatory direction. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provisions for future uncertainty, are more fully described in Note 7 to the financial statements.



London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

**3. Summary of Significant Accounting Policies**

a) Revenue recognition

The Company is licensed by the OEB to distribute electricity. As a licensed distributor, the Company is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties.

The Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers. The Company is acting as a principal for the electricity distribution and therefore present electricity revenues on a gross basis.

Revenue attributable to the delivery and consumption of electricity is based upon rates approved by the OEB and the Independent Electricity Systems Operator ("IESO") and includes the cost of electricity supplied, distribution charges and any regulatory charges. Revenue recognized as electricity is delivered and consumed by customers. Revenue is recorded on the basis of regular monthly meter readings and estimates of customer usage since the last meter reading date to the end of the period. Revenue is measured at the value of the consideration received or receivable, net of sales tax.

Amounts billed for Debt Retirement Charges are excluded from revenues, as the Company is acting as an agent for the collection of these amounts. The Company may file to recover uncollected debt retirement charges from the Ontario Electricity Financial Corporation.

b) Financial assets and liabilities

The standards require that as financial assets and liabilities are initially recognized that they be measured at fair value, except for certain related party transactions. After initial recognition, financial assets are categorized as assets held-for-trading, held-to-maturity investments, loans and receivables or, available-for-sale assets, and financial liabilities must be classified as held-for-trading, or other financial liabilities. All financial instruments are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments, and other liabilities, which are measured at amortized cost.

Subsequent measurement and changes in fair value depend on their initial classification as follows: held-for-trading is measured at fair value and changes in fair value are recognized in the statement of operations and retained earnings.

The Company has classified its financial instruments as follows:

| | |
|---|---|
| Cash | Held-for-trading |
| Accounts receivable | Loans and Receivables |
| Income taxes receivable | Loans and Receivables |
| Bank indebtedness | Other Liabilities |
| Accounts payable and accrued liabilities | Other Liabilities |
| Customer and other deposits | Other Liabilities |
| Due to shareholder | Other Liabilities |
| Long-term debt | Other Liabilities |
| Due to related party | Other Liabilities |

**Summary of Significant Accounting Policies, continued**

c) Inventories

Inventories are required to be measured at the lower of average cost and net realizable value. Items considered to be major future components of property, plant and equipment are recorded as such in the financial statements.

d) Property, plant and equipment

Property, plant and equipment are amortized over their estimated useful lives using the straight-line method over the following periods:

| | |
|---|---|
| Land rights and buildings | 25 to 75 years |
| Distribution substation equipment | 15 to 45 years |
| Other distribution equipment | 25 to 60 years |
| Other fixed assets | 3 to 35 years |

When an item of property, plant and equipment is sold or otherwise disposed of, the related cost and accumulated amortization are removed from the respective accounts and any gain or loss on disposition is recognized in earnings.

Assets under construction are not subject to depreciation until they are put into service.

Plant and equipment, that by their nature are not readily identifiable as individual assets, are grouped together. Under this method, the related cost and accumulated amortization are removed from their respective grouping account at the end of the asset's estimated useful life, regardless of actual service life. Any proceeds on disposition are recognized in earnings in the year of disposition.

e) Contributions to capital costs

Contributions are received from developers and contractors for capital costs incurred by the Company. These contributions are included as a reduction to the cost of the related plant and equipment when those assets are placed in service.

f) Cash

Cash on hand and on deposit with banks, and short-term investments with maturity of three months or less, are considered cash.



London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

**Summary of Significant Accounting Policies, continued**

g) Future income taxes

CICA Handbook Section 3465 states that where future income taxes may be expected to be included in approved rates charged to customers in the future and to be recovered or returned to future customers, the recognition of a regulatory asset or liability for the increase or reduction in future revenue is required. Furthermore, the regulatory asset or liability established by this requirement is a temporary difference for which an additional future income tax asset or liability is recognized.

h) Employee future benefits

The Company has adopted the following policies for future benefits provided to both active and retired employees:

*Pension benefits*

The Company has a pension agreement with the Ontario Municipal Employees Retirement System, which is a multi-employer contributory defined benefit plan. Company contributions to the plan are recognized as pension expense in the period that they are incurred. As this is a multi-employer plan, no pension liability for this type of plan is recorded in the Company's financial statements.

*Other post-retirement and post-employment benefits*

The Company provides other benefits to active and retired employees including group life insurance and health-care benefits. Recognition of these benefits are actuarially determined using the projected benefit method pro-rated on service using management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

i) Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the financial statements.

Certain estimates are also required as regulations, which will ultimately determine the actual results, have yet to be finalized and are dependent on the completion of regulatory proceedings or decisions. Due to these uncertainties, actual results might differ from those estimates and the impact will be recorded in the current period when the actual results are known.

London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

## 4. Cash and Bank Indebtedness

| | 2013 | 2012 |
|---|---|---|
| **Cash** | $ - | $ 1,666 |
| **Bank indebtedness** | $ 3,012 | $ - |

## 5. Accounts Receivable

| | 2013 | 2012 |
|---|---|---|
| Trade receivables | $ 31,295 | $ 27,414 |
| Allowance for doubtful accounts | (1,961) | (1,837) |
| Unbilled revenue | 39,731 | 33,158 |
| Other | 1,981 | 3,681 |
| | $ 71,046 | $ 62,416 |

Included in accounts receivable is approximately $8.0 million (2012 - $5.8 million) of customer receivables for water consumption that the Company bills and collects on behalf of the Corporation of the City of London. As the Company does not assume liability for collection of these amounts, any amount relating to water consumption that is determined to be uncollectible is charged to the Corporation of the City of London.

At year end, approximately $0.5 million (2012 - $0.4 million) is included in the allowance for doubtful accounts for uncollectible amounts relating to water consumption.

Also, included in the accounts receivable is $1.2 million (2012 - $1.0 million) of energy, water, and sundry receivables due from the Corporation of the City of London.

## 6. Inventories

Inventories, which consist of parts and supplies acquired for internal construction, consumption, or recoverable work, is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis. Net realizable value is determined by replacement cost.

The amount of inventories consumed by the Company and recognized as an expense during the year ended December 31, 2013 was $0.6 million (2012 - $0.7 million).

London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

## 7. Regulatory Assets and Liabilities

Regulatory assets:

| | 2013 | 2012 |
|---|---|---|
| Amounts approved for recovery in distribution rates: | | |
| Stranded meter expenditures in excess of recoveries | $ 1,366 | $ 3,154 |
| IFRS-CGAAP Transitional PP&E recoveries | 393 | 472 |
| Amounts to be submitted for future rate approval: | | |
| Other | 578 | 515 |
| | 2,337 | 4,141 |
| Less: Current portion | 1,483 | 2,329 |
| | $ 854 | $ 1,812 |

Regulatory liabilities:

| | 2013 | 2012 |
|---|---|---|
| Amounts approved for disposition in distribution rates | $ 3,829 | $ 6,766 |
| Purchase power cost variances (non-commodity) | 4,496 | 6,599 |
| Purchase power cost variances (commodity) | (1,567) | 827 |
| Future income tax liability | 2,410 | 5,628 |
| Other | 157 | 631 |
| | 9,325 | 20,451 |
| Less: Current portion | 3,829 | 6,248 |
| | $ 5,496 | $ 14,203 |

London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

**Regulatory Assets and Liabilities, continued**

*Regulatory assets*

a) Stranded meter expenditures

The Company has been authorized under Ontario Regulation 427/06 to undertake metering activities pursuant to the Provincial Smart Meter Program, and to recover through rates, the funding required for the implementation of this program. This balance represents the stranded meter costs of the Smart Meter Program.

During 2012, the Company filed its 2013 Cost of Service Rate Application which included a request for OEB approval for the disposition of certain authorized regulatory deferral accounts including the stranded meter account. The OEB issued its decision with respect to this Application which authorizes recovery of these balances over a one-year period commencing May 1, 2013.

*b) IFRS-CGAAP Transitional PP&E recoveries*

Compliant with OEB directives of the Accounting Procedures Handbook, the Company must use this account to record differences arising as a result of accounting policy changes caused by the transition from previous Canadian GAAP to Modified International Financial Reporting Standards ("MIFRS").

During 2012, the Company filed its 2013 Cost of Service Rate Application which included a request for OEB approval for the recovery of certain authorized regulatory deferral accounts including these IFRS-CGAAP Transitional PP&E differences. The OEB issued its decision with respect to this Application which authorizes amortization of the balance into rate base and revenue requirement amounts. Therefore, the approved distribution rates during the four year period commencing May 1, 2013, include the recovery of these IFRS-CGAAP Transitional PP&E account differences.

*c) Other cost recoveries*

Other cost recoveries include various deferred amounts in connection with Green Energy programs, Lost Revenue Adjustment Mechanism ("LRAM") Variances, Smart Metering Entity Charge Variances and IFRS transition expenditures. Green Energy programs authorized by the OEB include renewable generation facilities, renewable enabling improvements and investments towards smart grid. Costs incurred with respect to these various activities have been captured under deferral accounts for future rate recovery $0.6 million (2012 - $0.5 million)

London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

**Regulatory Assets and Liabilities, continued**

*Regulatory liabilities*

a) Amounts approved for disposition in distribution rates

During 2011, the Company filed its IRM rate application for the 2012 rate year. The OEB issued its decision with respect to this application which included a request for OEB approval for the disposition of certain authorized regulatory deferral accounts and purchased power variance account balances, for amounts as at December 31, 2010. The regulatory decision approved the disposition of these balances over a two-year period ending April 30, 2014.

b) Purchased power cost variances

As a regulated distributor of electricity, the Company is obligated to provide energy supply to all consumers unless they elect to purchase their energy from an energy retailer. The regulatory framework requires that all energy commodity and non-commodity costs be billed at regulated rates to consumers who are on the Regulated Price Plan.

Variances between purchase costs and amounts billed are required to be captured in the Retail Settlement Variance Accounts for disposition through future rates. The variance accounts have been further defined by the regulator into commodity related and non-commodity accounts. Those accounts defined as commodity accounts are eligible for regulatory review on a quarterly basis. All other accounts are defined as non-commodity and are currently eligible for review on an annual basis.

For all variance accounts, the review period does not in itself determine whether any adjustment will be permitted as the regulator will determine when the balances are material enough to warrant an adjustment to rates.

These variances are for future disposition. Variances accumulated prior to January 1, 2011 are included in the regulatory amounts that were approved in 2012 for disposition effective May 1, 2012 through to April 30, 2014.

During 2012, the Company filed its 2013 Cost of Service Rate Application which included a request for OEB approval for the disposition of the RSVA Power account and the RSVA Power-Global Adjustment sub accounts. These accounts include amounts accumulated between January 1, 2011 and December 31, 2012. The non-commodity RSVA accounts include amounts accumulated between January 1, 2011 and December 31, 2011. The OEB issued its decision with respect to this Application which authorizes the disposition of these balances over a one-year period commencing May 1, 2013.

c) Other

The other regulatory liabilities consist primarily of the amounts recorded during 2012 as a result of the implementation of the Harmonized Sales Tax – $0.2 million.

London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

## 8. Property, Plant and Equipment

*Cost:*

| | Land and Buildings | Distribution Substation Equipment | Other Distribution Equipment | Other Fixed Assets | Construction in Progress | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2012 | $ 24,315 | $ 16,379 | $ 298,598 | $ 36,637 | $ 10,618 | $ 386,547 |
| Additions | 1,453 | 652 | $ 16,169 | $ 10,510 | (3,898) | 24,886 |
| Regulatory Asset Transfer | - | - | 16,653 | 7,989 | - | 24,642 |
| Disposals / Retirements | - | - | $ (9,855) | $ (2,431) | - | (12,286) |
| Balance at December 31, 2012 | $ 25,768 | $ 17,031 | $ 321,565 | $ 52,705 | $ 6,720 | $ 423,789 |
| Balance at January 1, 2013 | $ 25,768 | $ 17,031 | $ 321,565 | $ 52,705 | $ 6,720 | $ 423,789 |
| Additions | 437 | 127 | 12,402 | 8,013 | 4,314 | 25,293 |
| Disposals / Retirements | (2,234) | (35) | (12,454) | (6,540) | - | (21,263) |
| Balance at December 31, 2013 | $ 23,971 | $ 17,123 | $ 321,513 | $ 54,178 | $ 11,034 | $ 427,819 |

*Accumulated depreciation:*

| | Land and Buildings | Distribution Substation Equipment | Other Distribution Equipment | Other Fixed Assets | Construction in Progress | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2012 | $ 10,671 | $ 6,133 | $ 145,102 | $ 19,045 | $ - | $ 180,951 |
| Depreciation | 1,922 | 333 | 11,493 | 6,448 | - | 20,196 |
| Regulatory Asset Transfer | - | - | 1,267 | 1,327 | - | 2,594 |
| Disposals / Retirements | - | - | (9,836) | (2,431) | - | (12,267) |
| Balance at December 31, 2012 | $ 12,593 | $ 6,466 | $ 148,026 | $ 24,389 | $ - | $ 191,474 |
| Balance at January 1, 2013 | $ 12,593 | $ 6,466 | $ 148,026 | $ 24,389 | $ - | $ 191,474 |
| Depreciation | 895 | 322 | 8,550 | 7,091 | - | 16,858 |
| Disposals / Retirements | (2,234) | (35) | (12,439) | (6,498) | - | (21,206) |
| Balance at December 31, 2013 | $ 11,254 | $ 6,753 | $ 144,137 | $ 24,982 | $ - | $ 187,126 |

*Net book value:*

| Balance at | Land and Buildings | Distribution Substation Equipment | Other Distribution Equipment | Other Fixed Assets | Construction in Progress | Total |
|---|---|---|---|---|---|---|
| December 31, 2012 | $ 13,175 | $ 10,565 | $ 173,539 | $ 28,316 | $ 6,720 | $ 232,315 |
| December 31, 2013 | $ 12,717 | $ 10,370 | $ 177,376 | $ 29,196 | $ 11,034 | $ 240,693 |



London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

## 9. Letters of Credit

At December 31, 2013, the Company had provided $6.6 million (2012 – $6.6 million) in bank standby letters of credit to the IESO.

## 10. Customer and Other Deposits

Customer and other deposits include security deposits for energy consumption bearing interest at a rate of prime less 2% per annum and developer deposits held in accordance with regulation.

Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB, or upon termination of their electricity distribution service.

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, and dependent upon the final determination of the required capital contribution, these deposits are either refunded to the developer or transferred to contributions in aid of construction.

Customer deposits are comprised of:

| | 2013 | 2012 |
|---|---|---|
| Customer deposits | $ 5,665 | $ 7,765 |
| Construction deposits | 3,380 | 2,768 |
| | 9,045 | 10,533 |
| Less: Current portion | 1,626 | 4,123 |
| | $ 7,419 | $ 6,410 |

London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

## 11. Related Party Balances and Transactions

a) Trade balances due to shareholder

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Non-interest bearing trade balance due to shareholder, without stated repayment terms | $ | 6,276 | $ | 4,202 |
| Trade balance due to shareholder, bearing 1% interest per annum, without stated repayment terms | $ | 4,277 | $ | 4,761 |
| | | 10,553 | | 8,963 |
| Less: Current portion | | 6,577 | | 4,721 |
| | $ | 3,976 | $ | 4,242 |

During the year ended December 31, 2013, the Company billed customers for water service on behalf of the shareholder and remitted funds to the shareholder in the amount of $131.6 million (2012 – $127.5 million). The shareholder paid $3.9 million (2012 - $3.1 million) for this service.

b) Promissory note due to related party

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Unsecured promissory note, due to related party, bearing interest at 6% per annum, payable on demand with 367 days notice, maturing October 31, 2015 | | 70,000 | | 70,000 |
| | | 70,000 | | 70,000 |
| Less: Current portion | | - | | - |
| | $ | 70,000 | $ | 70,000 |

The Company paid interest on the promissory note above during the year ended December 31, 2013 in the amount of $4.2 million (2012 - $4.2 million).



London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

## 12. Credit Facilities

The Company has an uncommitted operating revolving line of credit facility of $20.0 million with the Toronto Dominion Bank. As at December 31, 2013, the amount drawn by the Company under this line of credit was $2.0 million (2012 - $nil). The line of credit is unsecured and interest is at bank prime rate on prime based borrowings minus 0.5%, or at Bankers Acceptances ("B/A") rates plus a 0.75% stamping fee on B/A based borrowings.

At December 31, 2013, the Company had a committed 364 day extendable operating revolving loan facility of $15.0 million with the Toronto Dominion Bank and the amount drawn by the Company under this loan facility was $nil (2012 - $nil). Under the terms of this agreement, the loan has a maturity date of March 31, 2016. The Company has a one year period from the loan maturity date to repay any outstanding balances in the event the lender elects not to extend the loan for an additional 364 day period. Interest is at bank prime rate on prime based borrowings minus 0.50%, or at B/A rates plus a 0.75% stamping fee on B/A based borrowings.

## 13. Long-term Debt

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Non-revolving term instalment loan bearing interest at the 7.75 year Banker's Acceptance rate of 2.43% plus a stamping fee of 0.9% payable in monthly instalments of $192,000 principal plus interest due on March 31, 2020 | $ | 13,042 | $ | 15,346 |
| | | 13,042 | | 15,346 |
| Less: Current portion | | 2,304 | | 2,304 |
| | $ | 10,738 | $ | 13,042 |

The Company has an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan in the original amount of $20.5 million to fund its Smart Meter capital expenditure program. Principal repayments on this loan commenced in October 2010 and are being amortized over a 10 year period ending March 31, 2020. The agreement is a fixed rate swap and matures March 31, 2020 which effectively converts variable interest rates on unsecured Bankers Acceptances to an effective interest rate of 2.43%, plus a stamping fee of 0.9%, for an all-in rate of 3.33%.

The swap agreement entered into with Royal Bank of Canada does not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contract is marked to market at year end with the unrealized gain or loss recorded in the statement of operations and retained earnings. The unrealized gain for the year ended December 31, 2013 was $0.2 million (2012 - $0.1 million).

London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

**Long-term Debt, continued**

At December 31, 2013, the Company would be required to pay $0.2 million (2012 - $0.4 million) if it wished to cancel the swap agreement.

Additionally, and as described in Note 11 to these financial statements, the Company has issued a promissory note to the Public Utility Commission of the City of London in the amount of $70.0 million bearing interest at 6% per annum. Interest is paid at the end of each quarter. The note is unsecured and payable on demand with 367 days notice, and matures on October 31, 2015.

## 14. Share Capital

Authorized:

An unlimited number of common shares

An unlimited number of non-voting, non-cumulative preference shares, redeemable at the paid-up amount.

| | 2013 | 2012 |
|---|---|---|
| Issued: | | |
| 1,001 common shares | $ 96,116 | $ 96,116 |

## 15. Change in Non-Cash Working Capital Related to Operations

The net change in non-cash working capital related to operations is comprised of:

| | 2013 | 2012 |
|---|---|---|
| Accounts receivable | $ (8,630) | $ (1,385) |
| Income taxes receivable | (80) | 254 |
| Inventories | 55 | 94 |
| Prepaid expenses | (339) | (296) |
| Accounts payable and accrued liabilities | 9,884 | 2,102 |
| | $ 890 | $ 769 |

London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

## 16. Interest and Other Revenue

Interest and other revenue is comprised of:

| | 2013 | 2012 |
|---|---|---|
| Interest (Note 17) | $ 202 | $ 383 |
| Late payment charges | 1,454 | 1,289 |
| Collection and occupancy charges | 1,256 | 1,335 |
| Customer billing service fees | 593 | 602 |
| Pole and other rental income | 394 | 387 |
| Sale of scrap | 399 | 289 |
| Gain (loss) on disposal of property, plant & equipment | 175 | 117 |
| Renewable generation revenue | 297 | 144 |
| Sundry | 315 | 138 |
| | $ 5,085 | $ 4,684 |

## 17. Interest Income and Expense

Interest income and expense is comprised of:

| | 2013 | 2012 |
|---|---|---|
| Interest income from: | | |
| Bank deposits | $ 104 | $ 115 |
| Regulatory assets | 98 | 268 |
| Interest income | 202 | 383 |
| Interest expense on: | | |
| Due to related party | 4,200 | 4,200 |
| Long- term debt | 507 | 595 |
| Short-term debt | 48 | 25 |
| Regulatory liabilities | 201 | 254 |
| Other | 126 | 115 |
| Interest expense | 5,082 | 5,189 |
| | $ 4,880 | $ 4,806 |

London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

## 18. Income Taxes

a) Income tax status

As a wholly owned subsidiary company of the Corporation of the City of London, the Company is exempt from income taxes under the Income Tax Act (Canada). Pursuant to the Electricity Act (1998) (Ontario), the Company is required to make payments in lieu of tax to the Ontario Electricity Financial Corporation. The amount of payments in lieu of tax will be approximately equivalent to corporate taxes that would have to be paid if the Company was a taxable corporation under the Income Tax Act (Canada).

b) Income tax expense

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Earnings before income taxes | $ | 15,405 | $ | 9,410 |
| Income tax expense based on combined federal and provincial statutory income tax rate of 26.5% (2012 - 26.5%) | $ | 4,082 | $ | 2,494 |
| Tax effect of temporary differences | | (2,416) | | (1,644) |
| Other items | | (100) | | 7 |
| Income tax expense recognized | $ | 1,566 | $ | 857 |
| Income tax expense is comprised of the following: | | | | |
| Current income tax | $ | 1,511 | $ | 828 |
| Future income tax | | 55 | | 29 |
| | $ | 1,566 | $ | 857 |

c) Future income tax balances

CICA 3465.103 recognizes that, as a rate regulated entity, future income tax assets paid on behalf of customers will be returned to customers as they are recovered. As a result, these increases or decreases in future income tax assets are offset by a regulatory liability.

The benefit of certain future income tax assets will be realized by customers by way of a reduction in future distribution rates charged by the Company. The components of future income tax assets are as follows:



London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

**Income Taxes, continued**

Future income tax assets:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Capital assets | $ | (1,338) | $ | 780 |
| Employee future benefits | | 3,109 | | 3,137 |
| Smart Meter net recoveries | | - | | 270 |
| Other regulatory liabilities | | 639 | | 1,441 |
| Benefit of future income taxes to be realized by customers | | 2,410 | | 5,628 |
| Loss on interest rate swap | | 53 | | 108 |
| | $ | 2,463 | $ | 5,736 |

## 19. Employee Future Benefits

a) Pension plan

The Company has a pension agreement with OMERS, on behalf of its employees. The plan is a contributory defined benefit plan which specifies the amount of retirement benefit to be received by the employees based on the length of service and rates of pay. During the year, the Company contributed $2.4 million (2012 - $2.1 million).

b) Medical and life insurance benefits plan

The Company provides medical and life insurance benefit coverage to certain retirees of the Company. Based on a recent actuarial valuation, the following information has been determined:

Accrued benefit obligation:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Balance, beginning of year | $ | 13,572 | $ | 11,479 |
| Current service costs | | 368 | | 283 |
| Interest cost | | 535 | | 573 |
| Benefits paid | | (525) | | (438) |
| Actuarial loss (gain) | | (1,037) | | 1,431 |
| Other benefits | | (18) | | 244 |
| Balance, end of year | $ | 12,895 | $ | 13,572 |

London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

**Employee Future Benefits, continued**

Accrued benefit liability:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Accrued benefit obligation | $ | 12,895 | $ | 13,572 |
| Unamortized net actuarial loss | | (1,162) | | (2,270) |
| Accrued benefit liability, end of year | $ | 11,733 | $ | 11,302 |

The Company's net periodic benefit cost is comprised of the following:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Current service cost | $ | 368 | $ | 283 |
| Interest cost | | 535 | | 573 |
| | $ | 903 | $ | 856 |

The excess of the net actuarial loss in excess of ten percent of the accrued benefit obligation is amortized over the average remaining service life of employees, which is estimated to be 13 years.

| | 2013 | 2012 |
|---|---|---|
| Discount rate | 4.7% | 4.0% |
| Initial medical cost rate | 6.5% | 6.6% |
| Ultimate medical cost rate | 4.5% | 4.5% |
| Year ultimate rate reached | 2028 | 2028 |
| Dental cost rate | 4.5% | 4.5% |

The estimated impact on fiscal 2013 reported pension amounts of a one percent increase or decrease in the health care cost assumptions is as follows:

| | Reported | +1.0% | -1.0% |
|---|---|---|---|
| Current service and interest cost | 903 | 1,052 | 788 |
| Accrued benefit obligation | 12,895 | 14,361 | 11,727 |



London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

**20. Financial Instruments and Risk Management**

a) Financial instruments

As a rate-regulated entity, the nature of the Company's operations are defined and restricted by regulation. Financial operations and risks are also substantially influenced by regulation, limiting the necessity to engage in risk mitigation strategies involving the use of derivatives or hedges. As further defined in Note 13 to these financial statements the Company uses derivative financial instruments, primarily interest rate swaps, to manage its interest rate exposure.

The Company has adopted CICA Handbook Sections 3855 and 3861, *Financial Instruments for disclosure purposes*, as the Company's financial instruments are not subject to the disclosure requirements under Sections 3862 or 3863 of the CICA Handbook.

b) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company primarily assesses credit risk exposure by customer segment. Concentrations of consumption by segment or individual customer, may impact risk due to varying energy consumption patterns and allowable security deposit requirements associated with each segment. The Company is not exposed to a significant concentration of credit risk within any customer segment or individual customer. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related provision for doubtful accounts is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the statement of operations and retained earnings. The balance of the allowance for doubtful accounts at December 31, 2013 is $2.0 million (2012 - $1.8 million). Bad debt expense was $0.4 million (2012 - $0.3 million) during the year ended December 31, 2013. The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers.

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2013, the Company held security deposits in the amount of $5.7 million (2012 - $7.8 million). Additionally, if presented with substantial credit losses, the Company would make application to the regulator for recovery of those losses through distribution rate adjustments in future years.

**Financial Instruments and Risk Management, continued**

*Credit risk, continued*

By regulation, the Company is responsible for collecting both the distribution and energy portions of the electricity bill. On average, the Company earns 20% of amounts billed to customers with the remaining 80% being collected for other parties. The Company is therefore exposed to a credit risk substantially greater than the income that it regularly earns.

c) Liquidity risk

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company has access to a $20.0 million line of credit as well as a committed 364 day extendable operating revolving loan of $15.0 million and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The majority of accounts payable, as reported on the balance sheet, are due within 30 days.

## 21. Capital Disclosures

The main objectives of the Company when managing capital are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Company's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2013 capital amounts are as follows:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Long-term debt | $ | 80,738 | $ | 83,042 |
| Shareholder's equity | | 140,447 | | 129,608 |
| | $ | 221,185 | $ | 212,650 |

The OEB regulates the amount of interest on debt and rate of return that may be earned by the Company, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure for the Company may differ from the OEB deemed structure.

The Company has customary covenants typically associated with long-term debt. The Company is in compliance with all credit agreement covenants and limitations associated with its long-term debt.



London Hydro Inc.
Notes to the Financial Statements
*(tabular amounts in thousands of dollars)*
For the year ended December 31, 2013

## 22. Emerging Accounting Changes

*International Financial Reporting Standards ("IFRS")*

The Canadian Accounting Standards Board (AcSB) has adopted a strategic plan that has converged Canadian GAAP with IFRS effective January 1, 2011, which required entities to restate, for comparative purposes, their interim and annual financial statements and opening financial position.

In October 2010, the AcSB approved the incorporation of IFRS 1 into Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The amendment also requires entities that do not prepare its interim and annual financial statements in accordance with Part 1 of the Handbook during the annual periods beginning on or after January 1, 2011 to disclose that fact.

The AcSB has provided deferrals which allow rate regulated entities to defer the adoption of IFRS until January 1, 2015.

The Corporation has elected to implement IFRS commencing on January 1, 2015.

The impact of the adoption to IFRS on the Corporation's financial position and results of operations is not yet fully determined.

## 23. Commitments

The Company has commitments in connection with Information Systems projects of approximately $0.8 million (2012 - $0.2 million), Infrastructure projects of $0.4 (2012 – $nil) and new vehicle acquisitions of $nil (2012 - $0.6 million).

## 24. Joint Venture Agreement

On January 1, 2013, The Company entered into an agreement with London District Renewable Energy Co-Operative Inc. ("LDREC") to create a joint venture with the legal name "London Renewable Energy Initiative" for the intention of identifying, applying for and constructing solar projects that have been approved under the Feed-in Tariff ("FIT") government program. The Company has a 49% equity interest in LDREC while appointing 60% of the members of the Executive Committee resulting in controlling interest. To date no significant work has been completed.

## 25. Comparative Amounts

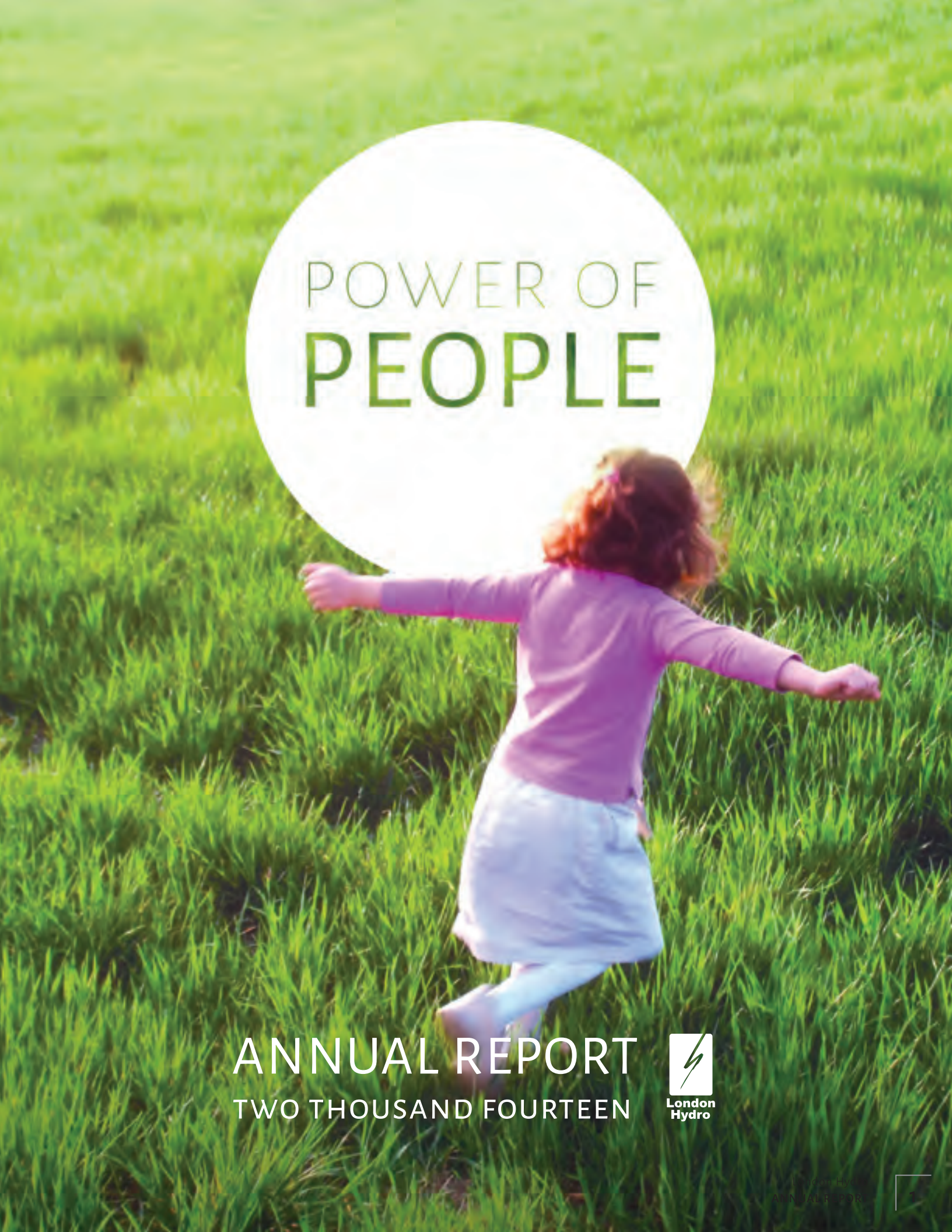
Certain prior year's information presented in the financial statements has been reclassified to conform to the current year's presentation.



London Hydro

Powering London.
**Empowering You.**

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Canada N6A 4H6
(519) 661-5503
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# ANNUAL REPORT

## TWO THOUSAND FOURTEEN

London Hydro

Letter to Stakeholders
Leadership
2014 Achievements
Customer Engagement & Customer Services
Top Self-Serve Features of MyLondonHydro
Information Technology
Management's Discussion & Analysis
Capital Resources
Fiscal 2015 Outlook
Emerging Accounting Issues
Significant Risks
In the Community
Independent Auditors' Report
Balance Sheet
Statement of Operations & Retained Earnings
Statement of Cashflows
Notes to the Financial Statements




Through the pursuit of innovation & growth, we will provide leadership in customer services and add value to the corporation & community.

# LETTER TO OUR STAKEHOLDERS

## A YEAR OF NATIONAL RECOGNITION

Building upon our past success, our 2014 Annual Report is a story of celebration of numerous awards London Hydro won for its extraordinary performance. Without a doubt, these awards and achievements are evidence to the perseverance, dedication and sincerity of the 300 plus men and women of London Hydro.



We are a local distributor of electricity. We take our service to our customers seriously and are thankful to them for their appreciation of our services. We achieve great results and attain strong financial performance for our customers, who are our owners as well. In 2014, London Hydro was nationally recognized for safety and employee health and wellness. As an electricity distributor, the safety of all of our employees and the public is paramount to us; and, achieving national recognition for our safety procedure, protocol and processes is a testament to our commitment to safety. "Safety Starts with ME" is our emblem of safe practices; and, our continuous recognition by the Infrastructure Health and Safety Association for safe operation without a lost time injury is a manifestation of our employees' commitment to safety.

### STRONG FINANCIAL PERFORMANCE

London Hydro's earnings for 2014 are $12.5 million with an above average return on equity of 8.6%. This performance is a result of focused management, prudent cost control and innovation. Among the 16 benchmarks established by the regulator, London Hydro ranked among the most efficient in 13 of the 16 benchmarks; our cost remains among the lowest and our performance among the best. Historically, our cost and our rates to our customers have increased at a rate much below the Ontario average.

Electricity distribution is a capital intensive industry and we reinvest more than 250% of our net income back into our infrastructure to continuously improve service.

Our steady investment in distribution infrastructure, including $27 million in capital additions in 2014, has contributed directly to the continuous improvement of our reliability performance. In 2014, we had the third best performance in Ontario in frequency of outages, with 1.23 per customer (SAIFI) and fourth best performance in duration of outages with 1.05 hours per customer (SAIDI). These results represent improvement over the previous years and are much better than the regulator's benchmark.




## MEMBERS:

Peter Johnson - *BOARD MEMBER*, Gabe Valente - *BOARD MEMBER*,
City Councillor Michael van Holst - *BOARD MEMBER*,
Mohan Mathur - *CHAIR*, Marilyn Sinclair - *BOARD MEMBER*,
Bernard Borschke - *VICE-CHAIR*, Vinay Sharma - *CHIEF EXECUTIVE OFFICER*,
Connie Graham - *BOARD MEMBER*

Elizabeth Carswell - *SENIOR DIRECTOR HR*,
Ken Walsh - *CHIEF ENGINEER & VP OPERATIONS*,
David Arnold - *CFO, VP FINANCE & CORPORATE SECRETARY*,
Syed Mir - *CIO & VP CORPORATE SERVICES*

# LEADERS

## RECOGNIZED FOR TECHNOLOGICAL LEADERSHIP

The digital age and the internet of everything are revolutionizing an otherwise staid electricity distribution business. From smart meters to smart grid to smart devices, we have embraced the deployment of technology to enhance our operation and efficiency. Starting in 2014, we vigorously adopted a standard based approach to technology. London Hydro became a leading North American utility in founding the Green Button Alliance and deploying Green Button standard technologies. We did this with a view to provide customers universal solutions – our "Passport to Innovation." Our Green Button standard approach was recognized by Ontario's Ministry of Energy, Medical and Related Sciences (MaRS) Discovery District as well as the U.S. Department of Energy and the U.S. National Institute of Standards and Technologies. As such, the U.S. Department of Energy tweeted London Hydro as "the only utility with cloud based Green Button application."

The standard based approach to technology accords London Hydro to develop cost effective services and universal, innovative and user friendly programs for customers. London Hydro takes pride in having almost 57,000 of its customers – more than one-third – interact electronically with MyLondonHydro and nearly 30,000 customers using e-billing. As well, nearly 7,000 customers are using our online outage management portal, and 176 property owners/managers of 14,150 rental units are using our online property management portal. These outcomes reflect the innovation of London Hydro's employees, which is a core value of the corporation.

## READY TO FACE CHALLENGES

As detailed in this annual report, London Hydro's success in 2014 is unparalleled. Much of this can be credited to a corporate culture change which has been underway for the past several years. This cultural change reflects employees' commitment to respect each other, trust each other and be cooperatively competitive. We are tremendously proud of our employees whose dedication helps us deliver the promises of our Mission and Vision. London Hydro's family of employees also value our community. In 2014, employees contributed $30,650 through the Employee Charity Chest Organization to benefit over 30 charities, the majority of them local. On behalf of our community, London Hydro increased its commitment by 50% to $150,000 towards the erstwhile THAW program, now called the Housing Stability Bank. As a local corporation, London Hydro provides significant employment opportunities. In 2014, we hired 18 new full time employees, 3 apprentices as well as provided 32 summer/co-op students, temporary and contract jobs. This demonstrates our intent on developing the younger generation for the future.

2014 was an excellent year; however, greater changes and challenges are in the offing. The electricity utility industry in Ontario is facing significant strategic and structural changes and London Hydro remains mindful of the potential effects these changes might bring. We will continue to evolve and adapt to any changes the utility sector experiences and to explore and evaluate any and all strategic options, while respecting the Shareholder's goals and objectives.

In summary, the accompanying audited financial statements for the period ending December 31, 2014 reflect the outstanding performance of London Hydro in 2014. This is a direct result of the contribution of London Hydro's employees. On behalf of our Board of Directors and the Executives of London Hydro, we recognize our employees, our customers and our stakeholders whose continued support underpins London Hydro's success.

*"The only utility with cloud based Green Button application."*

U.S. Department of Energy



*Mohan Mathur*
Chair

*Vinay Sharma*
Chief Executive Officer

# 2014 ACHIEVEMENTS

## PRESIDENT'S AWARD




Once again, London Hydro was the recipient of the Infrastructure Health and Safety Association's President's Award for milestones achieved in working without a compensable injury. In 2014 we received two of these awards: for 250,000 and 500,000 hours. This year marks the 10th year that we have achieved an extended period with no lost time accidents and received a President's Award in recognition of our efforts. Although we have received these awards regularly, we do not take them lightly. This award reminds us of the importance of working safely every day. When we do have a lost time incident, it is natural to feel that we have failed in our efforts to work safely. However, it is important to remember that in the last 10 years, despite the occasional incident, London Hydro employees have worked over 5,000,000 hours safely, and we are proud of their continued focus on their own safety and the safety of their co-workers.




CANADA'S SAFEST EMPLOYER

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Early in 2014, London Hydro published a "Statement of Corporate Governance Practices," which outlines the Board's activities and the role it plays in fostering the success of the corporation, as well as the qualifications required to serve on the Board. The governance document also outlines the Enterprise Risk Management framework developed by London Hydro to chronicle the corporation's risk management policies and practices as well as the ways we mitigate and/or manage significant risks. These changes to corporate governance and oversight have led to the achievement of the best financial performance ever, in spite of the fact that 2014 was an Incentive Rate Making (IRM) year, which causes a regulatory lag in the recovery of costs.




ELECTRICAL & UTILITIES SAFETY ASSOCIATION OF ONTARIO




CANADA'S SAFETY CHAMPION

## MENTAL HEALTH AWARENESS INITIATIVE

In 2014, London Hydro completed a needs assessment of the Mental Health Awareness of our organization to introduce a comprehensive program for all employees. With the help of a mental health consultant, we have embarked on a three-year plan to create a program through which we can demonstrate that we **CARE**:

- We will build a **C**ommunication plan that builds trust.
- We will **A**ccommodate mental health challenges.
- We will learn to **R**ecognize the signs and symptoms of mental wellness issues.
- We will **E**ducate our employees in order to build an organization that promotes positive mental wellness and support at all levels.

London Hydro also delivered leadership training to all supervisory staff that focuses on dispelling myths and reducing the stigma associated with mental illness. Supervisors learned what mental illness is and is not, learned about the resources that are available within the organization and the community to help employees who may be experiencing difficulties, and understanding how the CARE model will apply within the organization.

## EDA'S CUSTOMER SERVICE EXCELLENCE AWARD

London Hydro's property management portal won the Electricity Distributors' Association Customer Service Excellence Award. Working with the Property Management Association in London and property owners, London Hydro designed a self–service program available through the website. This program allows property managers to gain secure access to their accounts around the clock and manage their moves from old tenant to new tenant. Using this portal, property managers can elect to receive emails regarding move requests and service disconnections for each of their properties in real time. Many of these property managers are managing over 1,000 properties, by receiving these notifications and to have all this information in one place where it is easy to find and interpret is very helpful. In addition, these customers have full control to sign up, assign and remove access to designated delegates, such as superintendents or office staff, allowing them to view all the information related to the delegated properties. When property managers have questions, our customer service representatives can see exactly what the customer sees on their screen to answer questions and quickly resolve any issues. The portal is directly linked to our website where customers can access all of their account information.

## BENEFITS CANADA — GOLD AWARD

Third time's a charm. After winning Silver for two years in a row (2012-13), London Hydro was awarded Gold for Best Wellness Programming by Benefits Canada Magazine for organizations with fewer than 1,000 employees. The award recognizes organizations that have demonstrated leadership and innovation in wellness programming and, in so doing, have made a noticeable difference in the benefits industry. For London Hydro, reducing absenteeism and improving productivity is a tangible result of our ever-growing wellness offerings, ranging from activities to information resources. Equally important are the increases in job satisfaction, engagement and morale experienced by employees who participate. Our success in this area is only possible because of the active involvement of London Hydro employees, who serve on the Wellness Committee and those who participate in the wellness initiatives offered.





## COMMUNITY RECOGNITION — FIRE MARSHAL'S AWARD

London Hydro was recognized for providing fire safety upgrades to Home Assistance Program (HAP) customers with the 2014 Fire Marshal's Safety Award for its "outstanding contribution to fire protection and prevention in Ontario." London Hydro's involvement results in enhancements to both the Fire Department's Educational program as well as the Home Assistance Program.

As a result of this collaboration,

- Over **1,500 homes were assessed** in London
- **371** customers received **smoke detectors**
- Installed **2,100 batteries**

## GREEN4GOOD

In addition to the Conservation and Demand Management initiatives listed above, London Hydro's IT Department participates in the Green4Good program, which helps Canadian companies dispose of their unused IT devices such as printers, phones and old computers. One hundred percent of the items are recycled and the raw materials that are yielded from the process are used for new products. To date London Hydro has sent out over 1,527 kg of e-waste, including 171 phones, 57 cell phones, 55 CPUs and many other electronic devices.

## SUSTAINABILITY

London Hydro is committed to the triple bottom line of environmental, social and economic sustainability. In 2014, we submitted our first Sustainability Report based on the protocols set out by the Global Reporting Initiative (GRI). We are proud to report that the GRI organization agreed with our self-assessed application level "A."

The report highlights London Hydro's

- Investments in new technologies and renewable projects that minimize our environmental impact,
- Waste diversion and management program that has resulted in only 9% of waste leaving London Hydro going to landfill, and our
- Comprehensive Environmental Management System.

## RECOGNITION FOR GREEN BUTTON: WHITE HOUSE & MEDIA COVERAGE

In 2014, London Hydro was invited to attend the White House Energy event to recognize our leadership role in advancing the Green Button standard. The day-long event highlighted innovators, such as London Hydro, who are working on harnessing the power of data to build a clean energy economy.



## 2014 LPGA SPONSORSHIP

London Hydro's sponsorship of the LPGA Canadian Pacific Women's Open, held at the Hunt Club from August 18-24, provided some unique opportunities for London Hydro to connect with many volunteers and spectators. As a corporate sponsor, London Hydro provided electricity throughout the tournament using silent generator, representing a donation of $20,000. At the event, customers viewed demonstrations of the new Green Button programs and mobile apps to help customers learn how to use new technology to manage their electricity usage.

## EDA WESTERN DISTRICT "POWER OF GOLF FORE CHARITY"

London Hydro was pleased to host the 2014 annual EDA Western District (Local Electric Distribution Companies) charity golf tournament. The "Power of Golf Fore Charity" event provided London Hydro with an exciting way to recognize the collective efforts of Local Distribution Companies and Industry Partners in support of a common goal – to improve and enhance the communities we serve.

The event was a tremendous success and raised over $50,000 for Wellspring London and Region. Wellspring is a community-based cancer support centre that offers over 20 different programs and services to help cancer patients, their families and caregivers cope with the emotional, social, psychological and spiritual impact of cancer at no cost and without need of a referral.




# HANDS-ON

## LONDON REGIONAL CHILDREN'S MUSEUM

In 2014, London Hydro worked closely with the exhibit development team at the Ontario Science Centre to build an interactive electricity education exhibit for the London Regional Children's Museum. The exhibit gives children the hands-on opportunity to learn about the differences between incandescent light bulbs and the more efficient LED and CFL varieties, as they are asked to pedal to light rooms in a six-room model house: the same amount of energy is required to light one room using an incandescent bulb as is used to light the whole house using the higher efficiency lighting. This exhibit is the first of three that London Hydro is developing to educate children, parents, teachers and visitors about effective electricity conservation.

# CUSTOMER ENGAGEMENT & CUSTOMER SERVICES

**37% OF OUR CUSTOMERS HAVE MYLONDONHYDRO ONLINE BILLING PORTALS**

## CUSTOMER SATISFACTION SURVEY –

Each year, London Hydro participates in a survey that benchmarks London against other electric utilities in Ontario and Canada. The survey helps us to understand and identify any issues that customers may have, new self-serve options on our website they feel may be helpful and their level of satisfaction with their interactions with London Hydro, the quality of our service, the reliability of service and many other areas. The information derived from the survey is then reviewed and action plans are developed to respond to any issues and develop enhancements to our service. As always our goal is to ensure customers have the best service available and have the flexibility to select self-service options that can be accessed when it is convenient for them, 24 hours a day, 7 days a week from wherever they have access to the internet. We are pleased to report that London Hydro received an overall score of 'A' on the survey.

## CUSTOMER ENGAGEMENT –

As customer expectations continue to change and the demand on self-service features and convenience rises, London Hydro is empowering its customers with powerful self-serve functionality within its dynamic and mobile friendly website. MyLondonHydro's online billing portal provides customers with the tools they need to perform their most common transactions. 37% have MyLondonHydro online billing portals and 19% of our customers have enrolled in paperless billing.





# TOP SELF-SERVE FEATURES OF MYLONDONHYDRO IN 2014 INCLUDED:

## AEROPLAN REWARDS –

The first of its kind for a utility in Canada, London Hydro introduced its customers to the Aeroplan Rewards loyalty program. Customers who register for paperless billing through MyLondonHydro receive 100 Miles. Account holders who receive invoices electronically through paperless billing receive five rewards points for every invoice delivered.



## DELEGATE ACCESS –

Customers may assign delegate access to their billing and energy usage information. Delegate access helps residential consumers who may be aging parents who prefer to have their children manage their account information, or businesses that contract their financial accounts or energy management services to third parties.

## PAYMENT ARRANGEMENTS AND NOTIFICATIONS –

Customers may notify London Hydro's customer services department instantly of a payment or the intention to make a payment. The online billing portal automatically determines the payment amount and enables the customer to record the bank transaction number quickly and conveniently.

## INTERVAL & DEMAND CUSTOMER ENERGY USAGE –

MyLondonHydro's My Energy Use portal now includes graphical energy demand information for London Hydro's interval metered and demand customers. This feature complements the more detailed and powerful Interval Data Centre 2 site, that provides greater power factor analysis tools and energy usage statistics and reports.

## BUDGET BILLING –

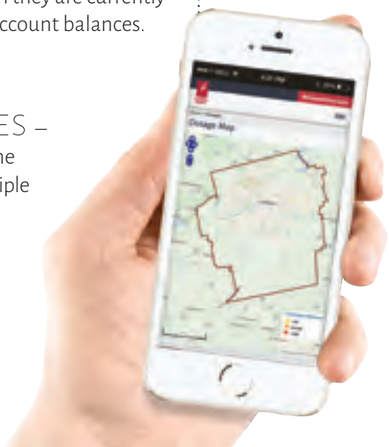
Payment arrangements and amounts may be created by customers and adjusted at any time to a higher amount if they feel that they are using more energy than they are currently paying to help them manage their account balances.

## ACCOUNT NICKNAMES –

MyLondonHydro's Account Nickname feature enables customers with multiple properties or service addresses to nickname their accounts for greater clarity and convenience.

## OUTAGE NOTIFICATIONS & ESTIMATED RESTORATION TIMES –

A sophisticated notifications system within MyLondonHydro's portal enables customers to choose whether they want to be notified of an outage at their service address by phone, text or email. Additionally, a live outage map displays instant updates on the state of the distribution system and estimated restoration times if they are available.



# INNOVATION

## "MOBILIZING" OUR CUSTOMERS

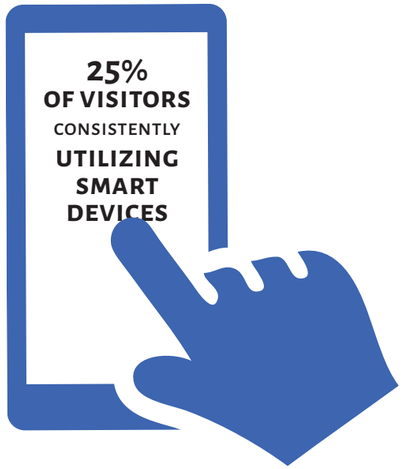
As we anticipated, in 2014 we started to see our customers increasing their use of mobile devices to access our self service features. Our "responsive design" which automatically reformats our website depending on the smart device used e.g. smartphone, tablets etc., creates an engaging, easy to use application right in our customer's hands. Use of mobile devices averaged 19% in the first half of the year and increased to 25% in the last half of the year. We will continue to focus on mobile app development as we anticipate this trend to continue.

## EMERGING TECHNOLOGY

London Hydro has been recognized in its unique approach to extending Smart Meter/Grid Infrastructure to enable Customer Engagements by industry leaders.

## POWER TO THE PEOPLE

London Hydro is opening the door to a number of new programs that will allow customers to get real-time information on energy usage, email alerts if their air conditioner is using too much energy and the ability to remotely turn off lights and appliances.




*"London Hydro has been leading the way with innovative solutions to engage customers. One of the advantages of smart meters is that they can permit homeowners to download their home's electricity usage data using Green Button. This can help homeowners manage their electricity bill…*

Bob Chiarelli, *ONTARIO MINISTER OF ENERGY*

## COMMERCIAL – IDC2

*"Providing us the ability to create custom groups of schools and view their aggregated data or compare one school to another enables us to see what's working well or needs improvement and dig deeper into how we can improve our energy portfolio at that school.*

*Mike Colquhoun, ENERGY MANAGEMENT COORDINATOR, THAMES VALLEY DISTRICT SCHOOL BOARD*




## CONTINUING JOURNEY OF CUSTOMER ENGAGEMENT

### PEAK SAVER PROGRAM SUPPORT

Our recent experience demonstrates that our customers enjoy tools that help them manage their energy consumption. We believe that the more timely the data, the more valuable this information. During 2014, London Hydro piloted a number of Green Button related initiatives to determine the level of interest and ease of use from our cutomers' perspective. The early results from these pilot programs suggest that customers enjoy taking control of their energy use. They quickly adapt to applications that allow them to remotely control simple tasks such as turning on lights and adjusting the thermostat through their smart devices.

### THE "GREEN BUTTON" INITIATIVE

London Hydro continues to be recognized for its leadership role in the development and adoption of the Green Button Standard not only in Ontario but throughout North America. Among the many conferences and speaking engagements that London Hydro was invited to during 2014, was an invitation to participate in the 2014 White House 'Datapolooza' in Washington D.C.

## CUSTOMER SERVICE INITIATIVES

There are many reasons why our customers call London Hydro as part of daily business activities, but we always see an increase in those calls during inclement weather when frequent power outages are imminent. In power outage situations, London Hydro is reaching its customers before they contact us, and we are accomplishing this in several ways: using a complex Outage Management System, a new Interactive Voice Response phone system, customer solution software and social media.

## INTERACTIVE VOICE RESPONSE (IVR)



In 2014, we implemented a new 'cloud based' IVR service that provides 115 concurrent inbound lines with a burst capability of up to 1000. The objective is to never give our customers a busy signal. The automated IVR system will sort the incoming call by either confirming that an outage event is occurring based on the incoming customer phone number; by allowing customers to notify London Hydro of the outage event; or by connecting the customer to a London Hydro representative. The IVR system aligns with London Hydro's Outage Management System, which has reduced the number of outage related calls, enabling customer service representatives to focus on billing related issues or services. London Hydro created a Customer Relationship Manager program to compliment its SAP billing system to ensure quicker and improved handling of incoming phone calls.

## INTERVAL DATA CENTRE 2

London Hydro believes in providing customers with the tools they need to put them in control of their energy usage. Through our dedication to the pursuit of excellence in efficiency and reliability, London Hydro continues to be a driving force in the development of energy monitoring applications. In August 2014 London Hydro launched the Interval Data Centre 2 web-based data analysis and display system. The system was designed for commercial and industrial use with features that include a simple dashboard, consumption reports, meter grouping, annotations, facility comparisons and power factor analysis.

This system is accessible through MyLondonHydro's online customer portal and provides users the option to display several reports and select their desired level of detail. Some of the available reports include a 24-hour profile, daily peaks and totals and load duration graphs.

The functions of this system are made possible through the advancements that London Hydro has made with Green Button technology. By giving customers secure access to their energy usage information, they are able to use systems such as Interval Data Centre 2 to monitor their energy usage and make educated choices on where and how they can save on their electricity costs.

> *"The knowledge we can gain from the data is enormous and having it online is a great asset for us.* *Mary Quintana*, COMPLIANCE COORDINATOR, ENERGY & WATER PROJECTS, FACILITIES MANAGEMENT, WESTERN UNIVERSITY

## LONDON HYDRO'S SMARTMETER VALIDATION TEST BENCH

London Hydro's Validation Test Bench for smart meter-to-customer end-to-end functionality testing is now fully operational. As new versions of smart meter firmware, wireless system hardware and IT system software emerge, this facility provides an environment to find defects before the new technology impacts customers. Today there are more than 70 different meter software technologies deployed in London. The Test Bench is designed for safety and is fully automated to conduct repeated testing and features real loads. Also the Test Bench uses variable power transformers to control the voltages and power outages. In the future this Test Bench will be used for Interoperability and Energy Management standards (i.e. Green Button, OpenADR) industry, academic and utility collaboration.



***503,178 total visits***
**TO THE WEBSITE** *(JAN. 27—DECEMBER 31, 2014)*

***256,468 new visitors***
**TO THE WEBSITE** *(JAN. 27—DECEMBER 31, 2014)*

***284,143 returning visitors***
**TO THE WEBSITE** *(JAN. 27—DECEMBER 31, 2014)*

***587 Twitter***
**FOLLOWERS**
*(AS OF DECEMBER 31, 2014)*

## TWITTER

On Nov 15th, 2014, London Hydro implemented its automated Twitter notification for unplanned outages. London Hydro now sends automated tweets for any unplanned outage that impacts more than 50 customers. These tweets identify affected neighbourhoods and customers with a link to our website's live outage map.



*"Our partnership with the London Fire Department is unique. It helps to expand our service from energy conservation to ensuring customers are well protected and we are delighted to receive the Fire Marshal's award."*

*Vinay Sharma*, CEO LONDON HYDRO

# PARTNERS

*London Fire Department*
Captain Brent Shea
Brad Tanner
Simon Mackintosh

*Salvation Army Centre of Hope*
Martha Ludlow
Nancy Power

*London Hydro*
Brad Sipila
Shawn Wehring
Jeff Orchard
Jason Forster
Karen Stewart
Jeff Floyd

London residents are safer thanks to a unique and forward thinking community partnership between London Hydro and the London Fire Department. London Hydro and the Ontario Power Authority jointly manage the Home Assistance Program to help Ontario residents make their homes more energy efficient and comfortable. The program focuses on assisting less fortunate individuals and families in the community by providing free and safer appliances and, in some cases, rewiring electrical services.

A few years ago, London Hydro contacted the London Fire Department to propose including a fire safety assessment as part of the Home Assistance Program (HAP). The fire department thought it was a great opportunity and partnered in this venture by training the assessors in basic fire safety education, including installing and maintaining smoke alarms.

In 2014, London Hydro assessed over 1,500 homes in the City. It was discovered that more than 61% of those homes were not adequately protected by working smoke alarms. As a result, the Home Assistance teams installed 371 smoke alarms and 2,100 batteries and provided fire safety brochures and materials supplied by London Fire Department and supported by the Salvation Army.

London's Home Assistance Program is an excellent example of three customer-focused organizations joining forces to enhance safety and quality of life in the community.

Recognizing outstanding contributions to fire protection and prevention in Ontario, London Hydro was the recipient of the Fire Marshal's Public Fire Safety Council's, Fire Safety Award.

*"Given the amount of resources available, it is important for the London Fire Department to have community partnerships such as this one with London Hydro. These partnerships allow the Department to enhance our ability to educate the public about fire safety, and ensure a greater number of homes have the fire detection systems installed in the event of a fire."*

*Gary Bridge*, DEPUTY FIRE CHIEF LONDON FIRE DEPARTMENT

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is of London Hydro Inc.'s ("the Company's") financial position, results from operations, and cashflow and should be read in conjunction with the audited Financial Statements for the year ended December 31, 2014.

The results reported herein have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are expressed in Canadian dollars. Certain regulatory practices and direction may result in deviations from generally accepted accounting principles. The Company's process for assessing the impact of such regulatory practices and direction on reported financial results are more fully described in notes 2, 3 and 7 to the audited Financial Statements for the year ended December 31, 2014.

This analysis contains forward-looking statements regarding management's future expectations of performance. Such statements are subject to general risks and uncertainties, such as economic conditions, regulatory and government decisions. Forward-looking statements are not guarantees of performance; the future results may differ materially from those expressed by these statements.



# OVERVIEW

## THE COMPANY & ITS STRATEGY

The Company is a wholly owned subsidiary of The Corporation of the City of London ("City of London") and provides regulated electrical distribution services to the inhabitants of the City of London.

The Company is regulated by the Ontario Energy Board ("OEB"), and operates under the authority granted by the Ontario Energy Board Act (1988). London Hydro is one of the larger distribution companies in Ontario, with a workforce of 314 personnel servicing 152,549 customers and a population base of approximately 367,000.

The City of London has directed the Company's Board of Directors to oversee the operation of the business addressing several objectives of which include: to enhance the quality and reliability of electrical supply, maintain the corporate value of the distribution assets and ensure that distribution rates are fair and competitive with those charged in the industry.

## CORPORATE VISION & STRATEGY

The Company's vision is to provide leadership in customer services through the pursuit of innovation and growth, while adding value to the corporation and community. The Company's strategy is to be a leading energy services provider through the aggressive and innovative pursuit of customer focus, social and environmental responsibility, and financial health. Through the implementation of viable and economical technology, renewable generation projects and expanding application of green technologies in the community, the Company achieves its vision and strategy and adds value for its customers.

## MISSION & VALUES

The Company's mission is to be an electricity distributor dedicated to the pursuit of excellence in safety, reliability, customer service, and competitive rates.

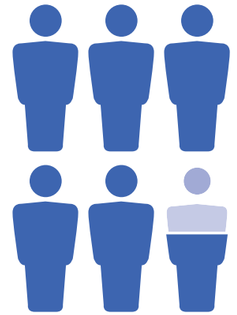
The Company achieves its mission by operating within a set of core values, including

***Integrity:*** to exhibit trust in all relationships by acting openly and honestly in all matters and by treating people fairly and respectfully.

***Innovation:*** to foster an exciting working environment that inspires employees to think creatively.

***Accountability:*** to be truly accountable to our customers, our employees, our shareholder, and our community.

***Social and Environmental Responsibility***: to act as a positive influence on our employees, society and the environment.



***56,484***
***MyLondonHydro***
**SUBSCRIBERS**

## STRATEGIC PRIORITIES

In pursuit of its vision and strategy, the Company continues to focus on the areas of distribution systems and technology, human resources, customer services, financial/regulatory, communications and community leadership and green energy.

The Strategic Plan continues to focus on strategic investments in technology due to smart meters, time-of-use ("TOU") billing, green energy, and upcoming smart grid initiatives. The Company is an engineering and technology driven corporation and as such, continues to focus on deploying increased automation in the areas of the distribution system and energy management to improve reliability/contingency, customer care, retailer engagement and settlements.

To succeed in its plan, the Company will continue to invest in employee training and development, and its focus on the development of a high performance corporate culture that promotes creativity and innovation in the workplace.

The Strategic Plan focuses on improvements to customer service, customer communications and customer interactions with the Company, with due regard for controlling customer costs and other financial and regulatory constraints. The Company plans to further increase communication with its customers as it prepares the Distribution System Plan for the year as required by the OEB.

Additionally, the Company will continue to support the Ontario Green Energy Plan that has already resulted in the installation of new generation capacity in London over the last few years. New generation, mostly from renewable energy sources, is expected to be connected to London's distribution system over the coming years.

## FISCAL 2014 OPERATIONS OVERVIEW *($ millions)*

*THE COMPANY'S 2014 RESULTS IN COMPARISON TO HISTORICAL AND PLANNED PERFORMANCE ARE SUMMARIZED IN THE FOLLOWING TABLE:*

| Financial Highlights | 2013 Actual | 2014 Planned | 2014 Actual | 2015 Planned |
|---|---|---|---|---|
| **Energy Quantity - Distributed - Gigawatt Hours** | 3,346.5 | 3,286.4 | 3,286.8 | 3,312 |
| **Revenue:** | | | | |
| Energy and Distribution | 404.9 | 415.6 | 426.8 | 458.2 |
| Cost of Power | -341.1 | -353.2 | -363.4 | -393.5 |
| Distribution Revenue | 63.8 | 62.4 | 63.4 | 64.7 |
| Net Earnings | 13.8 | 9.3 | 12.5 | 11.4 |
| Average Return on Shareholder's Equity | 10.2% | 6.5% | 8.6% | 7.3% |
| **Annual Investments:** | | | | |
| Capital Assets | 27.7 | 28.4 | 27.0 | 30.2 |
| Regulatory Capital Initiatives | 0.0 | 0.4 | 0.3 | 0.6 |
| **Financial Position:** | | | | |
| Total Assets | 318.8 | 320.9 | 335.9 | 357.4 |
| Shareholder's Equity | 140.4 | 146.2 | 150.0 | 158.1 |
| **Distributions to the City of London:** | | | | |
| Interest Paid | 4.2 | 4.2 | 3.9 | 0.0 |
| Dividends Declared/Paid | 3.0 | 3.0 | 3.0 | 5.0 |
| **S&P Credit Rating** | A/Stable | A/Stable | A/Stable | A/Stable |

**THE COMPANY SUCCESSFULLY COMPLETED ITS LAST COST OF SERVICE IN 2013.**

## ENERGY QUANTITIES DISTRIBUTED

Total energy distributed on the system decreased by 1.8% to 3,286.8 gigawatt hours (2013 – 3,346.5 gigawatt hours). Although the population grew by 1.1% over the course of the year, customers are continuing to conserve electricity through active conservation efforts. The other contributing factor to the decrease was the reduced consumption per customer as a result of the unusually cool summer.

## ENERGY REVENUE & COST OF POWER

The cost of power increased during the year to $363.4 million (2013 - $341.1 million). The overall increase of $22.3 million or 6.5% (2013 – 7.7%) is attributable to increases in commodity and non-commodity pricing, fluctuations in the spot market price and global adjustment rates determined by the Independent Electricity System Operator ("IESO"). In accordance with regulations, purchased power costs are billed to customers on a flow-through cost recovery basis. All variances due to timing of customer billing or regulated pricing are recorded in retail settlement variance accounts ("RSVA"), which are recovered from or returned to customers in accordance with regulatory directives.

## DISTRIBUTION REVENUES

The Company is compensated by a regulated distribution rate based on the number of customers connected to the distribution system and their energy consumption and demand levels. Approximately 49% of revenues are derived from a monthly fixed customer charge, while the remaining 51% is dependent upon the customers' energy consumption and demand levels.

Total customers as at December 31, 2014 were 152,549 (2013 – 150,918). Distribution revenue composition remained relatively unchanged from the prior year with approximately 62% from residential customers (2013 – 62%), 33% from general service customers (2013 – 32%), and the remaining 5% from large users and other customers (2013 – 6%).

**CUSTOMERS ARE CONTINUING TO CONSERVE ELECTRICITY**

Total distribution revenues for the year decreased by $0.4 million (0.7%) to $63.4 million (2013 – $63.8 million) due primarily to the reduction of energy consumption in 2014.

The Company successfully completed its last Cost of Service in 2013. The Cost of Service is a process where the Company applies for the revenue requirement in order to cover the costs of the operating expenditures, amortization of capital assets and a regulated profit. This process occurs once every four years and therefore the next Cost of Service application is expected to occur in 2017. The current rates are a result of the last cost of service application and were effective as of May 1, 2013.

## OPERATING EXPENSE & AMORTIZATION *(Excluding Cost of Power)*

Total operating expenses, excluding interest, amortization and cost recoveries, increased during the year to $36.2 million (2013 - $35.5 million). The overall increase of $0.7 million or 2.0% is primarily attributable to increased labour and benefits costs and bad debt expenses.

Amortization expense increased significantly to $17.7 million (2013 - $16.9 million) due to the continued investments in both distribution system assets as well as technology. As capital asset expenditures continue to increase at a rate higher than amortization, it is expected that the future amortization expenses will also continue to increase.

Cost recoveries for billable services, including City of London customer billing services, remained consistent at $3.9 million (2013 – $3.9 million) as there were no changes to the service agreement with the City of London. The agreement was last modified January 1, 2013.

## INTEREST AND OTHER REVENUE

Interest and other revenue increased to $8.9 million (2013 - $5.1 million). The most significant reason for the increase relates to one-time funding received, in the amount of $2.6 million, relating to Conservation Demand Management projects from 2009 to 2011 which were approved in 2014 and paid by the Ontario Power Authority ("OPA") during the year.

## INTEREST EXPENSE

Interest expense for the year decreased slightly to $4.8 million (2013 - $5.1 million) for two reasons; firstly, the principal balance on third party debt continues to decline and therefore there is less interest expense paid; and secondly, on November 30, 2014 the Company revised their long-term debt arrangement with the City of London from a rate of 6% to a swap agreement at an all-in rate of 2.65%.

Interest expense is composed of interest payable on customer security and developer deposits, regulatory liabilities, smart meter financing and interest of $3.85 million (2013 – $4.2 million) payable to The Public Utility Commission of the City of London ("PUC") on the promissory note.

A total unrealized loss on the interest rate swap of $2.6 million (2013 - $0.2 million gain) was recorded on the statement of operations between the two swap agreements held by the Company.

The first agreement is a 7 year interest rate swap agreement maturing on March 31, 2020, having an all-in rate of 3.33%. The total outstanding as of December 31, 2014 on this agreement is $10.7 million (2013 - $13.0 million) with monthly installments of $192,000 plus interest.

The second agreement is a 7.5 year interest rate swap agreement maturing on June 30, 2022 having an all-in rate of 2.65%. The total outstanding as of December 31, 2014 on this agreement is $85 million (2013 - $nil) with interest only payments made on a quarterly basis.

The unrealized loss of $2.8 million, recorded on the balance sheet, represents what the Company's cost would be to unwind these agreements as at December 31, 2014. Currently, the Company plans to maintain these agreements until the maturity dates.



## INCOME TAX EXPENSE

The Company is required to make payments in lieu of tax ("PILs") to the Ontario Electricity Financial Corporation. The amount of PILs is approximately equivalent to the income taxes that would be paid if the Company was a taxable corporation under the Income Tax Act (Canada). Income tax expense for the year ended December 31, 2014 was $2.4 million (2013 - $1.6 million).

The Company has accumulated future tax assets of $0.9 million (2013 - $2.5 million) as a result of temporary differences related to tax values of property, plant and equipment in excess of their carrying amount for financial reporting purposes, and also expenses incurred for accounting purposes for employee future benefits but not yet deducted for tax.

CICA 3465.103 recognizes that, as a rate regulated entity, Future Income Tax Assets paid on behalf of customers will be returned to customers as they are recovered and therefore increases or decreases in Future Income Tax Assets are offset by a Regulatory Liability.

## REGULATORY ASSETS/LIABILITIES

As a regulated distributor of electricity, the Company is obligated to provide energy to all customers at the Regulated Price Plan ("RPP") or at the Hourly Ontario Energy Price ("HOEP"), unless they elect to purchase their energy from an energy retailer. The regulatory framework requires that all energy commodity and non-commodity costs be billed at regulated rates to consumers who are on the RPP.

**28,795**
**PAPERLESS BILLING SUBSCRIBERS**

Variances between purchased costs and amounts billed are required to be captured in the RSVA for disposition through future rates.

At December 31, 2014, the Company had regulatory assets of $7.2 million (December 31, 2013 - $2.3 million), representing an increase of $4.9 million, the majority of which relates to the increase associated with power cost variances as the cost of energy continues to rise.

The Company also had regulatory liabilities of $0.6 million at December 31, 2014, compared to $9.3 million as of December 31, 2013. This reduction is a combination of decreasing RSVA liabilities (becoming assets) as well as the settlement of RSVA liabilities back to customers through approved rates.

## NET EARNINGS

Net earnings decreased by $1.3M to $12.5M compared to the prior year as a result of various factors, some of which are one-time in nature.

The two most significant one-time items relate to the OPA revenue received which increased from the prior year by approximately $3.4M, as well as the unrealized loss on the interest rate swap of $2.6M which decreased net earnings.

While other revenue increased by $0.3M as late payment charges increased during the year, this was offset by increased operating expenses of approximately $0.6M due to payroll costs, increased amortization expenses of $0.7M due to continued investment in infrastructure, and increased income tax expenses of $0.8M for the year.

# CAPITAL RESOURCES

## CAPITAL STRUCTURE & DIVIDEND POLICY

The Company has two debt agreements which account for total debt of $95.7 million.

The Company's distribution rates are based on a regulatory deemed capital structure of 60% debt and 40% equity. To the extent that the Company's existing capital structure and debt rates do not reflect the deemed structure included in distribution rates, the economic performance of the Company will be suboptimal.

The Company's dividend policy provides for an annual dividend amount equivalent to 40% of the Company's prior year's net earnings, subject to satisfactory cashflow. In accordance with that policy, during the year the Board of Directors declared a dividend in the amount of $3.0 million which was paid in quarterly installments during fiscal 2014.

Subsequent to the year end, the Board of Directors declared a dividend in the amount of $5.0 million payable quarterly, in fiscal 2015.

## EXTERNAL CREDIT FACILITIES & CREDIT RATING

The Company has an uncommitted revolving bank credit facility of $20.0 million, a committed 364 day extendable revolving bank loan facility of $15.0 million maturing on March 31, 2017 and $6.6 million in Standby Letters of Credit issued to the IESO as security. In the event that the maturity date of the committed extendable operating loan facility is not extended, the due date for repayment of this loan facility is 1 year from the date of maturity.

As at December 31, 2014, the Company has drawn down nil (2013 - nil) on its committed loan facility and $nil (2013 - $2.0 million) on the uncommitted facility.

The Company's 'A/stable' long-term corporate credit rating was reaffirmed by Standard & Poor's in May 2014. This rating reflects the Company's low-risk as a distribution company with regulated cashflows. The Company's current credit rating provides for a reduction in the IESO prudential requirement by approximately $59.0 million.

## LIQUIDITY & CASHFLOW

Cash generated by operating activities increased to $34.8 million (2013 - $31.7 million). Cashflows primarily relate to amounts of $12.5 million from net income, $17.7 million from amortization expenses and $2.6 million from the non-cash loss on the interest rate swap. The remaining $2.0 million relates primarily to changes in non-cash working capital balances.

Cash used in investing activities increased to $38.9 million (2013 - $33.6 million) as a result of a change in the regulatory liability balance between 2013 and 2014. The change is due to the increases to regulatory purchased power variances as the cost of energy was higher than the regulated price charged to customers.

Cash generated from financing activities increased to $13.4 million (2013 – $2.8 million used) due primarily to the debt acquired in 2014.




**CASH PROVIDED BY OPERATING ACTIVITIES**
**INCREASED TO $34.8 MILLION**



# 2015 OUTLOOK

NET EARNINGS FOR 2015, BASED UPON INTERNATIONAL FINANCIAL REPORTING STANDARDS, ARE PROJECTED TO BE $11.4 MILLION AFTER REGULATORY ADJUSTMENTS.

THE PLAN FOR 2015 INCLUDES A FORECASTED INCREASE OF $1.3 MILLION IN DISTRIBUTION REVENUES FOR THE YEAR WHILE INTEREST EXPENSES ARE PROJECTED TO DECREASE BY $1.5 MILLION AS A RESULT OF THE REVISED DEBT AGREEMENT. CONTROLLABLE EXPENSES ARE EXPECTED TO INCREASE BY APPROXIMATELY $1.5 MILLION AS CONTINUED FOCUS IS PLACED ON CUSTOMER SERVICE INITIATIVES. AMORTIZATION EXPENSES ARE EXPECTED TO BE APPROXIMATELY $0.4 MILLION HIGHER IN 2015 DUE TO CONTINUED INVESTMENTS IN PLANT AND EQUIPMENT.

FISCAL 2015 CAPITAL SPENDING IS FORECASTED TO BE $30.2 MILLION. INVESTMENTS REQUIRED IN DISTRIBUTION INFRASTRUCTURE ($22.2 MILLION), CONTINUED UPGRADING OF INFORMATION TECHNOLOGY AND CAPABILITIES ($5.0 MILLION) AND OTHER CAPITAL EXPENDITURES ($3.9 MILLION) ARE THE PRIMARY COMPONENTS OF THE 2015 PLAN.

TO FACILITATE THE NECESSARY CAPITAL INVESTMENT AND REPAYMENT OF REGULATORY BALANCES, THE COMPANY EXPECTS TO BORROW APPROXIMATELY $11.0 MILLION DURING THE COURSE OF THE YEAR.





## REGULATORY DEVELOPMENTS

During fiscal 2014, there were ongoing energy policy and regulatory developments in the industry that affected the Company's financial results and will continue to have an impact on future year operations. The following summarizes these developments and their impact:

## ONTARIO CLEAN ENERGY BENEFIT

The Province introduced the Ontario Clean Energy Benefit Act, 2010, to assist Ontario electricity consumers in transitioning to a cleaner electricity system. Commencing January 1, 2011, eligible residential, farm and small business consumers began receiving financial assistance for a five year period on the costs of their electricity through the Ontario Clean Energy Benefit ("OCEB") program. The program is designed to pass some of the benefits of green energy investments onto the consumers in the form of a credit and to transition and mitigate the impact of rising electricity supply costs. Eligible consumers receive a 10% credit on the total cost of electricity on their bills, including tax. During 2014, the Company's customers received an aggregate reduction of more than $42 million off their electricity bills under the OCEB program.

## TIME-OF-USE BILLING ("TOU")

During 2012, the Company successfully began billing customers under the mandated TOU billing program. There were a number of system advancements and developments over the past two to three years that were required for this initiative to be possible. Nevertheless, the system is operating appropriately and the bills have been issued with no significant issues since the program was launched in the spring of 2012.

**ELIGIBLE RESIDENTIAL, FARM AND SMALL BUSINESS CONSUMERS BEGAN RECEIVING FINANCIAL ASSISTANCE FOR A FIVE YEAR PERIOD ON THE COSTS OF THEIR ELECTRICITY THROUGH THE ONTARIO CLEAN ENERGY BENEFIT ("OCEB") PROGRAM.**



## RENEWED REGULATORY FRAMEWORK FOR ELECTRICITY DISTRIBUTORS & TRANSMITTERS ("RRFE")

In 2012, the OEB finalized a process to review the regulatory framework for distributors. The OEB's objective is to encourage and facilitate greater efficiency through a focus on performance-based outcomes and a disciplined, long-term approach to network investment planning.

In addition, three options for future cost of service applications have been presented to provide local distribution company's ("LDC's") some flexibility. First option is that cost of service applications are to be filed on a five year cycle compared to the current four year cycle.

Second, LDC's have the option to file an application that sets rates for each year of the future five years, rather than the existing process in which rates are set for a single year and subsequently adjusted through the incentive rate making ("IRM") process until the next full cost of service.

Third option is for "stable" utilities experiencing insignificant growth to file a cost of service application which provides for an inflationary increase rather than going through the process to "rejustify" the appropriate revenue requirement.




# EMERGING ACCOUNTING ISSUES

## INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Canadian Accounting Standards Board ("AcSB") has adopted a strategic plan that has Canadian GAAP converged with IFRS, effective January 1, 2011, which will require entities to restate, for comparative purposes, their interim and annual financialstatements and their opening financial position.

In October 2010, the AcSB approved the incorporation of IFRS 1 into Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The amendment also requires entities that do not prepare its interim and annual financial statements in accordance with Part 1 of the Handbook during the annual periods beginning on or after January 1, 2011 to disclose that fact.

The AcSB has provided multiple deferrals and the most recent announcement indicates that rate regulated entities can wait until January 1, 2015 before being required to adopt IFRS.

The Company has elected to implement IFRS commencing on January 1, 2015.

The primary reason for the continued deferrals of the IFRS adoption date is due to the International Accounting Standard Board's ("IASB") agreement to examine rate regulated accounting. In the meantime, the IASB approved an interim standard that allows a rate regulated entity, who has yet to adopt IFRS, to follow their current framework for reporting rate regulated items. This interim standard allows regulatory assets and liabilities to remain on the balance sheet as they are currently treated under CGAAP, rather than be recorded through the income statement as the current IFRS rules require.

The Company continues to assess the impact of the conversion to IFRS on its operating results.



# SIGNIFICANT RISKS

## RATE REGULATION & REGULATORY UNCERTAINTY

The Company's operating and capital spending programs are required to be submitted to the OEB for regulatory review and approval, allowing for recovery of these costs through approved distribution rates. There is an ongoing risk that certain amounts could be deemed ineligible for recovery from the ratepayer and would subsequently be borne by the Company, thereby adversely impacting future results.

Since the initial Provincial Government electricity market reforms, roughly 300 Ontario distribution entities have been reduced to approximately 77 through corporate consolidation efforts. In 2012, a report was published which suggested that utilities work together to form a total of 10 "shoulder-to-shoulder" utilities throughout Ontario. While the report proposed voluntary mergers, it is also suggested that if utilities do not merge voluntarily, then the government would impose mandated amalgamations. No legislation currently exists that would mandate amalgamations.

It is expected that there will continue to be a compression and consolidation of the distribution sector, driven by the need to achieve economies of scale and produce lower rates for customers. Should this continue as expected, and in conjunction with the regulator's focus on cost regulation by peer group benchmarking, utilities who do not achieve economies of scale may see future financial performance suffer and the ability to maintain the reliability of their distribution system may be affected.

## CREDIT RISK

Distribution companies are responsible for collecting both the distribution and energy portions of the electricity bill. Unless the retailer elects to bill the customer directly for the energy portion of the bill, LDC's are exposed to a credit risk greater than the distribution portion of the electricity bill. Unlike an unregulated company, the Company cannot adjust pricing as a method of mitigating credit risk nor can it establish customer security requirements or collection policies exceeding those allowed by regulation. Hence, the Company could experience non-payment by customers that materially exceeds normalized levels of credit losses.

## INFORMATION TECHNOLOGY

The Company's ability to operate effectively and comply with regulatory requirements is dependent upon the development and maintenance of a complex information technology systems infrastructure. Computer systems are employed to operate the Company's distribution system, financial and billing systems and business systems to capture data and produce timely and accurate information. Failure of the Company's financial, business and operating systems could have a material adverse effect on the Company's business, operating results and financial condition.



## ELECTRICITY CONSUMPTION

The Company's distribution rates are comprised of a fixed monthly charge and variable charge based on the volume of electricity consumed by the customer. Electricity consumption by the customer may be significantly impacted by sustained periods of hot or cold weather patterns, conservation initiatives and general economic conditions. Accordingly, there is no assurance that the Company will achieve the revenue requirement approved by the regulator.

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To the Shareholder of London Hydro Inc.

We have audited the accompanying financial statements of London Hydro Inc. (the "Entity"), which comprise the balance sheet as at December 31, 2014 and the statements of operations and retained earnings, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of London Hydro Inc. as at December 31, 2014, and the results of its earnings and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Chartered Professional Accountants, Licensed Public Accountants
March 31, 2015
London, Canada



| | Note | 2014 | 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | 4 | $ 6,208 | $ - |
| Accounts receivable | 5 | 71,122 | 71,046 |
| Income tax receivable | | - | 80 |
| Regulatory assets | 7 | 165 | 1,483 |
| Inventories | 6 | 655 | 731 |
| Prepaids | | 1,569 | 1,456 |
| **Total current assets** | | 79,719 | 74,796 |
| **Non-current assets** | | | |
| Regulatory assets | 7 | 7,070 | 854 |
| Property, plant and equipment | 8 | 248,217 | 240,693 |
| Future income tax assets | 18 | 879 | 2,463 |
| **Total non-current assets** | | 256,166 | 244,010 |
| **Total assets** | | $ 335,885 | $ 318,806 |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | |
| **Current liabilities** | | | |
| Bank indebtedness | 4 | $ - | $ 3,012 |
| Accounts payable and accrued liabilities - | | | |
| Due to Independent Electricity System Operator | | 41,193 | 37,447 |
| Other | | 10,805 | 14,003 |
| Income taxes payable | | 1,352 | - |
| Regulatory liabilities | 7 | - | 3,829 |
| Current portion of long-term debt | 13 | 2,304 | 2,304 |
| Customer and other deposits | 10 | 1,728 | 1,626 |
| Due to shareholder | 11 | 7,285 | 6,577 |
| **Total current liabilities** | | 64,667 | 68,798 |
| **Long-term liabilities** | | | |
| Unrealized loss on interest rate swap | 13 | 2,778 | 199 |
| Regulatory liabilities | 7 | 630 | 5,496 |
| Customer and other deposits | 10 | 8,824 | 7,419 |
| Long-term debt | 13 | 93,434 | 10,738 |
| Due to shareholder | 11 | 3,549 | 3,976 |
| Due to related party | 11,13 | - | 70,000 |
| Employee future benefits | 19 | 12,019 | 11,733 |
| **Total long-term liabilities** | | 121,234 | 109,561 |
| **Total liabilities** | | 185,901 | 178,359 |
| **Shareholder's equity** | | | |
| Share capital | 14 | 96,116 | 96,116 |
| Retained earnings | | 53,868 | 44,331 |
| **Total shareholder's equity** | | 149,984 | 140,447 |
| Commitments | 9, 23 | | |
| **Total liabilities and shareholder's equity** | | $ 335,885 | $ 318,806 |

**On behalf of the Board**

Director

Director

## Statement of Operations and Retained Earnings

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Revenues** | | | |
| Energy | | $ 363,384 | $ 341,136 |
| Distribution | | 63,367 | 63,795 |
| | | 426,751 | 404,931 |
| Cost of power | | (363,384) | (341,136) |
| **Distribution revenue** | | 63,367 | 63,795 |
| **Operating expenses** | | | |
| Plant operating and maintenance | | 12,174 | 12,613 |
| General and administrative | | 23,979 | 22,955 |
| Amortization of plant and equipment | | 17,655 | 16,938 |
| | | 53,808 | 52,506 |
| Less: Costs recovered | 11 | (3,904) | (3,904) |
| | | 49,904 | 48,602 |
| **Operating income** | | 13,463 | 15,193 |
| **Other income (expense)** | | | |
| Interest and other revenue | 16 | 8,894 | 5,085 |
| Unrealized (loss) gain on interest rate swap | 13 | (2,579) | 209 |
| Interest expense | 17 | (4,838) | (5,082) |
| | | 1,477 | 212 |
| **Earnings before income taxes** | | 14,940 | 15,405 |
| Income tax expense | 18 | 2,403 | 1,566 |
| **Net earnings for the year** | | 12,537 | 13,839 |
| **Retained earnings, beginning of year** | | 44,331 | 33,492 |
| **Dividends** | | (3,000) | (3,000) |
| **Retained earnings, end of year** | | $ 53,868 | $ 44,331 |

## Statement of Cashflows



| | Note | 2014 | 2013 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net earnings for the year | | $ 12,537 | $ 13,839 |
| Adjustments for: | | | |
| Depreciation and amortization | | 17,655 | 16,938 |
| Gain on disposal of property, plant and equipment | | (172) | (175) |
| Unrealized loss (gain) on interest rate swap | | 2,579 | (209) |
| | | 32,599 | 30,393 |
| Net change in non-cash working capital related to operations | 15 | 1,867 | 890 |
| Employee future benefits | | 286 | 431 |
| **Net cash provided by operating activities** | | 34,752 | 31,714 |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | | (26,954) | (27,712) |
| Proceeds on disposal of capital assets | | 194 | 231 |
| Future income taxes | 3 (g) | 1,584 | 3,273 |
| Regulatory assets and liabilities | | (13,711) | (9,401) |
| **Net cash used in investing activities** | | (38,887) | (33,609) |
| **Financing activities** | | | |
| Customer and other deposits | | 1,507 | (1,488) |
| Contributions in aid of construction | | 1,871 | 2,419 |
| Shareholder advances | | 281 | 1,590 |
| Dividends paid | | (3,000) | (3,000) |
| Long-term debt | 13 | 82,696 | (2,304) |
| Promissory note due to related party | 11,13 | (70,000) | - |
| **Net cash used in financing activities** | | 13,355 | (2,783) |
| **Net increase / (decrease) in cash and bank indebtedness during the year** | | 9,220 | (4,678) |
| **Cash / (bank indebtedness), beginning of the year** | | (3,012) | 1,666 |
| **Cash / (bank indebtedness), end of the year** | | $ 6,208 | $ (3,012) |
| **Supplemental cashflow information** | | | |
| Interest paid | | $ 4,699 | $ 4,858 |
| Income taxes paid | | $ 1,900 | $ 1,780 |

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

## 1. Regulated Business Operations and Distribution Rates

London Hydro Inc. ("the Company") is a wholly owned subsidiary company of the Corporation of the City of London and provides regulated electrical distribution services to the inhabitants of the City of London.

The Company is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the Ontario Energy Board Act (1998). The OEB has responsibility to set just and reasonable distribution rates and thereby approves all of the Company's distribution and ancillary rates. The Company's distribution revenue is determined by applying those regulated rates to customers and their consumption of electricity in the Company's distribution territory, as established by its distribution license granted by the OEB.

## 2. Financial Effects of Distribution Rate Regulation

The financial results presented are in accordance with Canadian generally accepted accounting principles and within that framework the Company accounts for the impact of regulatory actions in the following manner:

a) Regulatory decisions to adjust distribution rates

In the event that a regulatory decision is rendered, providing regulatory approval and certainty to the recognition of an asset, or creation of a liability, and culminating in an adjustment to the Company's distribution rates, such occurrences are immediately reflected in the Company's accounts.

b) Regulatory direction and practice

In the absence of a regulatory decision impacting rates, and where the Company is required by regulatory accounting practice or direction to accumulate balances for future rate recovery or create liabilities for future discharge, those amounts are recorded in accordance with that regulatory direction. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provisions for future uncertainty, are more fully described in Note 7 to the financial statements.



Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

## 3. Summary of Significant Accounting Policies

a) Revenue recognition

The Company is licensed by the OEB to distribute electricity. As a licensed distributor, the Company is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties.

The Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers. The Company is acting as a principal for the electricity distribution and therefore presents electricity revenues on a gross basis.

Revenue attributable to the delivery and consumption of electricity is based upon rates approved by the OEB and the Independent Electricity Systems Operator ("IESO") and includes the cost of electricity supplied, distribution charges and any regulatory charges. Revenue recognized as electricity is delivered and consumed by customers. Revenue is recorded on the basis of regular monthly meter readings and estimates of customer usage since the last meter reading date to the end of the period. Revenue is measured at the value of the consideration received or receivable, net of sales tax.

Amounts billed for Debt Retirement Charges are excluded from revenues, as the Company is acting as an agent for the collection of these amounts. The Company may file to recover uncollected debt retirement charges from the Ontario Electricity Financial Corporation.

b) Financial assets and liabilities

As financial assets and liabilities are initially recognized they are measured at fair value, except for certain related party transactions. After initial recognition, financial assets are categorized as assets held-for-trading, held-to-maturity investments, loans and receivables or, available-for-sale assets, and financial liabilities must be classified as held-for-trading, or other financial liabilities. All financial instruments are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments, and other liabilities, which are measured at amortized cost.

Subsequent measurement and changes in fair value depend on their initial classification as follows: held-for trading is measured at fair value and changes in fair value are recognized in the statement of operations and retained earnings.

The Company has classified its financial instruments as follows:

| | | | |
|---|---|---|---|
| Cash | Held-for-trading | Income taxes payable | Other Liabilities |
| Accounts receivable | Loans and Receivables | Customer and other deposits | Other Liabilities |
| Income taxes receivable | Loans and Receivables | Due to shareholder | Other Liabilities |
| Bank indebtedness | Other Liabilities | Long-term debt | Other Liabilities |
| Accounts payable and accrued liabilities | Other Liabilities | Due to related party | Other Liabilities |

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

## Summary of Significant Accounting Policies, continued

c) Inventories

Inventories are measured at the lower of average cost and net realizable value. Items considered as major future components of property, plant and equipment are recorded as such in the financial statements.

d) Property, plant and equipment

Property, plant and equipment are amortized over their estimated useful lives using the straight-line method over the following periods:

| | |
|---|---|
| Land rights and buildings | 25 to 75 years |
| Distribution substation equipment | 15 to 45 years |
| Other distribution equipment | 25 to 60 years |
| Other fixed assets | 3 to 35 years |

When an item of property, plant and equipment is sold or otherwise disposed of, the related cost and accumulated amortization are removed from the respective accounts and any gain or loss on disposition is recognized in earnings.

Assets under construction are not subject to depreciation until they are available for service.

Plant and equipment, that by their nature are not readily identifiable as individual assets, are grouped together. Under this method, the related cost and accumulated amortization are removed from their respective grouping account at the end of the asset's estimated useful life, regardless of actual service life. Any proceeds on disposition are recognized in earnings in the year of disposition.

e) Contributions to capital costs

Contributions are received from developers and contractors for capital costs incurred by the Company. These contributions are included as a reduction to the cost of the related plant and equipment when those assets are placed in service.

f) Cash

Cash on hand and on deposit with banks, and short-term investments with maturity of three months or less, are considered cash.



Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

## Summary of Significant Accounting Policies

g) Future income taxes

CICA Handbook Section 3465 states that where future income taxes may be expected to be included in approved rates charged to customers in the future and to be recovered or returned to future customers, the recognition of a regulatory asset or liability for the increase or reduction in future revenue is required. Furthermore, the regulatory asset or liability established by this requirement is a temporary difference for which an additional future income tax asset or liability is recognized.

h) Employee future benefits

The Company has adopted the following policies for future benefits provided to both active and retired employees:

*Pension benefits*

The Company has a pension agreement with the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer contributory defined benefit plan. Company contributions to the plan are recognized as pension expense in the period that they are incurred. As this is a multi-employer plan, no pension liability for this type of plan is recorded in the Company's financial statements.

*Other post-retirement and post-employment benefits*

The Company provides other benefits to active and retired employees including group life insurance and health care benefits. Recognition of these benefits are actuarially determined using the projected benefit method pro rated on service using management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

i) Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the financial statements.

Certain estimates are also required as regulations, which will ultimately determine the actual results, have yet to be finalized and are dependent on the completion of regulatory proceedings or decisions. Due to these uncertainties, actual results might differ from those estimates and the impact will be recorded in the current period when the actual results are known.

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

## 4. Cash and Bank Indebtedness

| | 2014 | 2013 |
|---|---|---|
| Cash | $ 6,208 | $ - |
| Bank indebtedness | $ - | $ 3,012 |

## 5. Accounts Receivable

| | 2014 | 2013 |
|---|---|---|
| Trade receivables | $ 34,121 | $ 31,295 |
| Allowance for doubtful accounts | (2,314) | (1,961) |
| Unbilled revenue | 35,980 | 39,731 |
| Other | 3,335 | 1,981 |
| | $ 71,122 | $ 71,046 |

Included in accounts receivable is approximately $7.7 million (2013 - $8.0 million) of customer receivables for water consumption that the Company bills and collects on behalf of the Corporation of the City of London. As the Company does not assume liability for collection of these amounts, any amount relating to water consumption that is determined to be uncollectible is charged to the Corporation of the City of London.

At December 31, 2014, approximately $0.6 million (2013 - $0.5 million) is included in the allowance for doubtful accounts for uncollectible amounts relating to water consumption.

Also, included in the accounts receivable is $1.7 million (2013 - $1.2 million) of energy, water, and sundry receivables due from the Corporation of the City of London.

## 6. Inventories

Inventories, which consist of parts and supplies acquired for internal construction, consumption, or recoverable work, is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis. Net realizable value is determined by replacement cost.

The amount of inventories consumed by the Company and recognized as an expense during the year ended December 31, 2014 was $0.6 million (2013 - $0.6 million).



Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

## 7. Regulatory Assets and Liabilities

Regulatory assets:

| | 2014 | 2013 |
|---|---|---|
| Amounts approved for recovery in distribution rates: | | |
| IFRS-CGAAP transitional PP&E recoveries | $ 275 | $ 393 |
| LRAM variance recovery | 47 | - |
| Stranded meter expenditures in excess of cost recoveries | - | 1,366 |
| Amounts to be submitted for future rate approval: | | |
| Purchase power cost variances (non-commodity) | (3,646) | - |
| Purchase power cost variances (commodity) | 9,189 | - |
| Other | 1,370 | 578 |
| | 7,235 | 2,337 |
| Less: Current portion | 165 | 1,483 |
| | $ 7,070 | $ 854 |

Regulatory liabilities:

| | 2014 | 2013 |
|---|---|---|
| Amounts approved for disposition in distribution rates | $ - | $ 3,829 |
| Amounts to be submitted for future rate approval: | | |
| Purchase power cost variances (non-commodity) | - | 4,496 |
| Purchase power cost variances (commodity) | - | (1,567) |
| Future income tax liability | 142 | 2,410 |
| Other | 488 | 157 |
| | 630 | 9,325 |
| Less: Current portion | - | 3,829 |
| | $ 630 | $ 5,496 |

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

## Regulatory Assets and Liabilities, continued

*Regulatory assets*

*a) Stranded meter expenditures*

The Company has been authorized under Ontario Regulation 427/06 to undertake metering activities pursuant to the Provincial Smart Meter Program, and to recover through rates, the funding required for the implementa tion of this program. This balance represented the stranded meter costs of the Smart Meter Program.

During 2012, the Company filed its 2013 Cost of Service Rate Application which included a request for OEB approval for the disposition of certain authorized regulatory deferral accounts including the stranded meter account. The OEB issued its decision with respect to this Application which authorized recovery of these balances over a one-year period ending April 30, 2014.

*b) IFRS-CGAAP Transitional PP&E recoveries*

Compliant with OEB directives of the Accounting Procedures Handbook, the Company must use this account to record differences arising as a result of accounting policy changes caused by the transition from previous Canadian GAAP to Modified International Financial Reporting Standards ("MIFRS").

During 2012, the Company filed its 2013 Cost of Service Rate Application which included a request for OEB approval for the recovery of certain authorized regulatory deferral accounts including these IFRS-CGAAP Transitional PP&E differences. The OEB issued its decision with respect to this Application which authorizes amortization of the balance into rate base and revenue requirement amounts. Therefore, the approved distribution rates during the four year period commencing May 1, 2013, include the recovery of these IFRS-CGAAP Transitional PP&E account differences.

*c) LRAM Variance recoveries*

During 2013, the Company filed its Incentive Regulation Mechanism (IRM) rate application for the 2014 rate year. The OEB issued its decision with respect to this application which included a request for OEB approval for the recovery of Lost Revenue Adjustment Mechanism Variance (LRAMVA) for amounts as at December 31, 2012. The regulatory decision approved the recovery of these balances over a one-year period commencing May 1, 2014.



Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

## Regulatory Assets and Liabilities, continued

*Regulatory assets*

*d) Purchased power cost variances*

As a regulated distributor of electricity, the Company is obligated to provide energy supply to all consumers unless they elect to purchase their energy from an energy retailer. The regulatory framework requires that all energy commodity and non-commodity costs be billed at regulated rates to consumers who are on the Regulated Price Plan.

Variances between purchase costs and amounts billed are required to be captured in the Retail Settlement Variance Accounts ("RSVA") for disposition through future rates. The variance accounts have been further defined by the regulator into commodity and non-commodity accounts. Those accounts defined as commodity accounts are eligible for regulatory review on a quarterly basis. All other accounts are defined as non-commodity and are currently eligible for review on an annual basis.

For all variance accounts, the review period does not in itself determine whether any adjustment will be permitted as the regulator will determine when the balances are material enough to warrant an adjustment to rates.

These variances are for future disposition. Variances accumulated in the non-commodity accounts during year 2011 are included in the regulatory amounts that were approved for disposition effective May 1, 2013 through to April 30, 2014, in addition to the variances accumulated prior to January 1, 2011, which are included in the regulatory amounts that were approved in 2012 for disposition effective May 1, 2012 through to April 30, 2014. Variances accumulated in the commodity accounts prior to January 1, 2013 are included in the regulatory amounts that were approved in 2013 for disposition effective May 1, 2013 through to April 30, 2014.

*e) Other cost recoveries*

Other cost recoveries include various deferred amounts in connection with Green Energy programs, Lost Revenue Adjustment Mechanism ("LRAM") Variances, Smart Metering Entity Charge Variances, IFRS transition expenditures and residual balances from previously approved deferral accounts. Green Energy programs authorized by the OEB include renewable enabling improvements and investments towards smart grid. Costs incurred with respect to these various activities have been captured under deferral accounts for future rate recovery.

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

## Regulatory Assets and Liabilities, continued

*Regulatory liabilities*

a) Amounts approved for disposition in distribution rates

During 2011, the Company filed its IRM rate application for the 2012 rate year. The OEB issued its decision with respect to this application which included a request for OEB approval for the disposition of certain authorized regulatory deferral accounts and purchased power variance account balances, for amounts as at December 31, 2010. The regulatory decision approved the disposition of these balances over a two-year period ending April 30, 2014.

b) Purchased power cost variances

As a regulated distributor of electricity, the Company is obligated to provide energy supply to all consumers unless they elect to purchase their energy from an energy retailer. The regulatory framework requires that all energy commodity and non-commodity costs be billed at regulated rates to consumers who are on the Regulated Price Plan.

Variances between purchase costs and amounts billed are required to be captured in the RSVA for disposition through future rates. The variance accounts have been further defined by the regulator into commodity related and non-commodity accounts. Those accounts defined as commodity accounts are eligible for regulatory review on a quarterly basis. All other accounts are defined as non-commodity and are currently eligible for review on an annual basis.

For all variance accounts, the review period does not in itself determine whether any adjustment will be permitted as the regulator will determine when the balances are material enough to warrant an adjustment to rates.

These variances are for future disposition. Variances accumulated prior to January 1, 2011 are included in the regulatory amounts that were approved in 2012 for disposition effective May 1, 2012 through to April 30, 2014.

During 2012, the Company filed its 2013 Cost of Service Rate Application which included a request for OEB approval for the disposition of the RSVA Power account and the RSVA Power-Global Adjustment sub accounts. These accounts include amounts accumulated between January 1, 2011 and December 31, 2012. The non-commodity RSVA accounts include amounts accumulated between January 1, 2011 and December 31, 2011. The OEB issued its decision with respect to this Application which authorizes the disposition of these balances over a one-year period commencing May 1, 2013.

c) Other

Other regulatory liabilities consist of the amounts recorded during 2012 as a result of the implementation of the Harmonized Sales Tax, as well as residual balances from accounts previously approved for disposition through rates.



Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

## 8. Property, Plant and Equipment

*Cost:*

| | Land and Buildings | Distribution Substation Equipment | Other Distribution Equipment | Other Fixed Assets | Construction in Progress | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2013 | $ 25,768 | $ 17,031 | $ 321,565 | $ 52,705 | $ 6,720 | $ 423,789 |
| Additions | 437 | 127 | $ 12,402 | $ 8,013 | 4,314 | 25,293 |
| Disposals / Retirements | (2,234) | (35) | $ (12,454) | $ (6,540) | - | (21,263) |
| Balance at December 31, 2013 | $ 23,971 | $ 17,123 | $ 321,513 | $ 54,178 | $ 11,034 | $ 427,819 |
| Balance at January 1, 2014 | $ 23,971 | $ 17,123 | $ 321,513 | $ 54,178 | $ 11,034 | $ 427,819 |
| Additions | 1,140 | 273 | 17,828 | 6,232 | (390) | 25,083 |
| Disposals / Retirements | (435) | - | (9,070) | (1,169) | - | (10,674) |
| Balance at December 31, 2014 | $ 24,676 | $ 17,396 | $ 330,271 | $ 59,241 | $ 10,644 | $ 442,228 |

*Accumulated depreciation:*

| | Land and Buildings | Distribution Substation Equipment | Other Distribution Equipment | Other Fixed Assets | Construction in Progress | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2013 | $ 12,593 | $ 6,466 | $ 148,026 | $ 24,389 | $ - | $ 191,474 |
| Depreciation | 895 | 322 | 8,550 | 7,091 | - | 16,858 |
| Disposals / Retirements | (2,234) | (35) | (12,439) | (6,498) | - | (21,206) |
| Balance at December 31, 2013 | $ 11,254 | $ 6,753 | $ 144,137 | $ 24,982 | $ - | $ 187,126 |
| Balance at January 1, 2014 | $ 11,254 | $ 6,753 | $ 144,137 | $ 24,982 | $ - | $ 187,126 |
| Depreciation | 921 | 316 | 8,530 | 7,770 | - | 17,537 |
| Disposals / Retirements | (435) | - | (9,070) | (1,147) | - | (10,652) |
| Balance at December 31, 2014 | $ 11,740 | $ 7,069 | $ 143,597 | $ 31,605 | $ - | $ 194,011 |

*Net book value:*

| Balance at | Land and Buildings | Distribution Substation Equipment | Other Distribution Equipment | Other Fixed Assets | Construction in Progress | Total |
|---|---|---|---|---|---|---|
| December 31, 2013 | $ 12,717 | $ 10,370 | $ 177,376 | $ 29,196 | $ 11,034 | $ 240,693 |
| December 31, 2014 | $ 12,936 | $ 10,327 | $ 186,674 | $ 27,636 | $ 10,644 | $ 248,217 |

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

## 9. Letters of Credit

At December 31, 2014, the Company had provided $6.6 million (2013 – $6.6 million) in bank standby letters of credit to the IESO.

## 10. Customer and Other Deposits

Customer and other deposits include security deposits for energy consumption bearing interest at a rate of prime less 2% per annum and developer deposits held in accordance with regulation.

Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB, or upon termination of their electricity distribution service.

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, and dependent upon the final determination of the required capital contribution, these deposits are either refunded to the developer or transferred to contributions in aid of construction.

Customer deposits are comprised of:

| | 2014 | 2013 |
|---|---|---|
| Customer deposits | $ 5,718 | $ 5,665 |
| Construction deposits | 4,834 | 3,380 |
| | 10,552 | 9,045 |
| Less: Current portion | 1,728 | 1,626 |
| | $ 8,824 | $ 7,419 |



Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

## 11. Due to Shareholder and Related Party Transactions

a) Trade balances due to shareholder

| | 2014 | 2013 |
|---|---|---|
| Non-interest bearing trade balance due to shareholder, without stated repayment terms | $ 6,944 | $ 6,276 |
| Trade balance due to shareholder, bearing 1% interest per annum, without stated repayment terms | 3,890 | 4,277 |
| | 10,834 | 10,553 |
| Less: Current portion | 7,285 | 6,577 |
| | $ 3,549 | $ 3,976 |

During the year ended December 31, 2014, the Company billed customers for water service on behalf of the shareholder and remitted funds to the shareholder in the amount of $143.0 million (2013 – $131.6 million). The shareholder paid $3.9 million (2013 - $3.9 million) for this service.

b) Promissory note due to related party

| | 2014 | 2013 |
|---|---|---|
| Unsecured promissory note, due to related party, bearing interest at 6% per annum, payable on demand with 367 days notice, maturing October 31, 2015 | $ - | $ 70,000 |
| | - | 70,000 |
| Less: Current portion | - | - |
| | $ - | $ 70,000 |

The Company repaid the promissory note to the City of London on November 28, 2014. The Company obtained funding in the amount of $85.0 million which was in place on the transfer date (Note 13).

The Company paid interest on the promissory note during the year ended December 31, 2014 in the amount of $3.9 million (2013 - $4.2 million).

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

**12. Credit Facilities**

The Company has an uncommitted operating revolving line of credit facility of $20.0 million with the Toronto Dominion Bank. As at December 31, 2014, the amount drawn by the Company under this line of credit was $nil million (2013 - $2.0 million). The line of credit is unsecured and interest is at bank prime rate on prime based borrowings minus 0.5%, or at Bankers Acceptances ("B/A") rates plus a 0.75% stamping fee on B/A based borrowings.

At December 31, 2014, the Company had a committed 364 day extendable operating revolving loan facility of $15.0 million with the Toronto Dominion Bank and the amount drawn by the Company under this loan facility was $nil (2013 - $nil). Under the terms of this agreement, the loan has a maturity date of March 31, 2016. The Company has a one year period from the loan maturity date to repay any outstanding balances in the event the lender elects not to extend the loan for an additional 364 day period. Interest is at bank prime rate on prime based borrowings minus 0.5%, or at B/A rates plus a 0.75% stamping fee on B/A based borrowings.

**13. Long-term Debt**

| | 2014 | 2013 |
|---|---|---|
| Non-revolving term instalment loan bearing interest at the 7.58 year Banker's Acceptance rate of 2.46% plus a stamping fee of 0.19%, interest only payments due June 2022 | $ 85,000 | $ - |
| Non-revolving term instalment loan bearing interest at the 7.75 year Banker's Acceptance rate of 2.43% plus a stamping fee of 0.9%, payable in monthly instalments of $192,000 principal plus interest due August 2019 | 10,738 | 13,042 |
| | 95,738 | 13,042 |
| Less: Current portion | 2,304 | 2,304 |
| | $ 93,434 | $ 10,738 |

The Company has an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan in the amount of $85 million. Interest only payments are due quarterly and commenced December 2014. The principal is due at maturity. The agreement is a fixed rate swap and matures June 2022 which effectively converts variable interest rates on unsecured Bankers Acceptances to an effective interest rate of 2.46%, plus a stamping fee of 0.19%, for an all-in rate of 2.65%.

The Company has an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan in the original amount of $20.5 million to fund its Smart Meter capital expenditure program. Principal repayments on this loan commenced October 2010 and are being amortized over a 9 year period ending August 2019. The agreement is a fixed rate swap and matures August 2019 which effectively converts variable interest rates on unsecured Bankers Acceptances to an effective interest rate of 2.43%, plus a stamping fee of 0.9%, for an all-in rate of 3.33%.



Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

**Long-term Debt, continued**

The swap agreements entered into with Royal Bank of Canada do not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contracts are marked to market at year end with the unrealized gain or loss recorded in the statement of operations and retained earnings. The unrealized loss for the year ended December 31, 2014 was $2.6 million (2013 - $0.2 million gain).

At December 31, 2014, the Company would be required to pay $2.8 million (2013 - $0.2 million) if it wished to cancel the swap agreements.

Additionally, and as described in Note 11 to these financial statements, the Company repaid the promissory note to the City of London on November 28, 2014 in the amount of $70 million.

**14. Share Capital**

Authorized:

An unlimited number of common shares

An unlimited number of non-voting, non-cumulative preference shares, redeemable at the paid-up amount

| | 2014 | 2013 |
|---|---|---|
| Issued: | | |
| 1,001 common shares | $ 96,116 | $ 96,116 |

**15. Change in Non-Cash Working Capital Related to Operations**

The net change in non-cash working capital related to operations is comprised of:

| | 2014 | 2013 |
|---|---|---|
| Accounts receivable | $ (76) | $ (8,630) |
| Income taxes receivable | 80 | (80) |
| Inventories | 76 | 55 |
| Prepaid expenses | (113) | (339) |
| Accounts payable and accrued liabilities | 548 | 9,884 |
| Income taxes payable | 1,352 | - |
| | $ 1,867 | $ 890 |

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

## 16. Interest and Other Revenue

Interest and other revenue is comprised of:

| | 2014 | 2013 |
|---|---|---|
| Interest (Note 17) | $ 175 | $ 202 |
| Late payment charges | 1,739 | 1,454 |
| Collection and occupancy charges | 1,286 | 1,256 |
| Customer billing service fees | 592 | 593 |
| Pole and other rental income | 414 | 394 |
| Sale of scrap | 508 | 399 |
| Gain on disposal of property, plant & equipment | 172 | 175 |
| Renewable generation revenue | 308 | 297 |
| Ontario Power Authority incentives | 3,234 | - |
| Sundry | 466 | 315 |
| | $ 8,894 | $ 5,085 |

## 17. Interest Income and Expense

Interest income and expense is comprised of:

| | 2014 | 2013 |
|---|---|---|
| Interest income from: | | |
| Bank deposits | $ 70 | $ 104 |
| Regulatory assets | 105 | 98 |
| Interest income | 175 | 202 |
| Interest expense on: | | |
| Related party promissory note | 3,850 | 4,200 |
| Long-term debt | 709 | 507 |
| Short-term debt | 60 | 48 |
| Regulatory liabilities | 113 | 201 |
| Other | 106 | 126 |
| Interest expense | 4,838 | 5,082 |
| | $ 4,663 | $ 4,880 |



Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

## 18. Income Taxes

a) Income tax status

As a wholly owned subsidiary company of the Corporation of the City of London, the Company is exempt from income taxes under the Income Tax Act (Canada). Pursuant to the Electricity Act (1998) (Ontario), the Company is required to make payments in lieu of tax to the Ontario Electricity Financial Corporation. The amount of payments in lieu of tax will be approximately equivalent to corporate taxes that would have to be paid if the Company was a taxable corporation under the Income Tax Act (Canada).

b) Income tax expense

| | 2014 | 2013 |
|---|---|---|
| Earnings before income taxes | $ 14,940 | $ 15,405 |
| Income tax expense based on combined federal and provincial statutory income tax rate of 26.5% (2013 - 26.5%) | $ 3,959 | $ 4,082 |
| Tax effect of temporary differences | (1,666) | (2,416) |
| Other items | 110 | (100) |
| Income tax expense recognized | $ 2,403 | $ 1,566 |
| Income tax expense is comprised of the following: | | |
| Current income tax | $ 3,086 | $ 1,511 |
| Future income tax | (683) | 55 |
| | $ 2,403 | $ 1,566 |

c) Future income tax balances

CICA 3465.103 recognizes that, as a rate regulated entity, future income tax assets paid on behalf of customers will be returned to customers as they are recovered. As a result, these increases or decreases in future income tax assets are offset by a regulatory liability.

The benefit of certain future income tax assets will be realized by customers by way of a reduction in future distribution rates charged by the Company. The components of future income tax assets are as follows:

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

**Income Taxes, continued**

Future income tax assets:

| | 2014 | 2013 |
|---|---|---|
| Capital assets | $ (3,080) | $ (1,338) |
| Employee future benefits | 3,185 | 3,109 |
| Other regulatory liabilities | 38 | 639 |
| Benefit of future income taxes to be realized by customers | 143 | 2,410 |
| Loss on interest rate swap | 736 | 53 |
| | $ 879 | $ 2,463 |

## 19. Employee Future Benefits

a) Pension plan

The Company has a pension agreement with OMERS, on behalf of its employees. The plan is a contributory defined benefit plan which specifies the amount of retirement benefit to be received by the employees based on the length of service and rates of pay. During the year, the Company contributed $2.6 million (2013 - $2.4 million).

b) Medical and life insurance benefits plan

The Company provides medical and life insurance benefit coverage to certain retirees of the Company. Based on a recent actuarial valuation, the following information has been determined:

Accrued benefit obligation:

| | 2014 | 2013 |
|---|---|---|
| Balance, beginning of year | $ 12,895 | $ 13,572 |
| Current service costs | 339 | 368 |
| Interest cost | 596 | 535 |
| Benefits paid | (571) | (525) |
| Actuarial loss (gain) | 472 | (1,037) |
| Other benefits | (78) | (18) |
| Balance, end of year | $ 13,653 | $ 12,895 |



Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

**Employee Future Benefits, continued**

Accrued benefit liability:

| | 2014 | 2013 |
|---|---|---|
| Accrued benefit obligation | $ 13,653 | $ 12,895 |
| Unamortized net actuarial loss | (1,634) | (1,162) |
| Accrued benefit liability, end of year | $ 12,019 | $ 11,733 |

The Company's net periodic benefit cost is comprised of the following:

| | 2014 | 2013 |
|---|---|---|
| Current service cost | $ 339 | $ 368 |
| Interest cost | 596 | 535 |
| | $ 935 | $ 903 |

The excess of the net actuarial loss in excess of ten percent of the accrued benefit obligation is amortized over the average remaining service life of employees, which is estimated to be 14 years (2013 – 13 years).

| | 2014 | 2013 |
|---|---|---|
| Discount rate | 3.9% | 4.7% |
| Initial medical cost rate | 6.2% | 6.5% |
| Ultimate medical cost rate | 4.5% | 4.5% |
| Year ultimate rate reached | 2028 | 2028 |
| Dental cost rate | 4.5% | 4.5% |

The estimated impact on fiscal 2014 reported pension amounts of a one percent increase or decrease in the health care cost assumptions is as follows:

| | Reported | +1.0% | -1.0% |
|---|---|---|---|
| Current service and interest cost | 935 | 1,072 | 828 |
| Accrued benefit obligation | 13,653 | 15,141 | 12,475 |

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

## 20. Financial Instruments and Risk Management

a) Financial instruments

As a rate-regulated entity, the nature of the Company's operations are defined and restricted by regulation. Financial operations and risks are also substantially influenced by regulation, limiting the necessity to engage in risk mitigation strategies involving the use of derivatives or hedges. As further defined in Note 13 to these financial statements the Company uses derivative financial instruments, primarily interest rate swaps, to manage its interest rate exposure.

The Company has adopted CICA Handbook Sections 3855 and 3861, *Financial Instruments for disclosure purposes*, as the Company's financial instruments are not subject to the disclosure requirements under Sections 3862 or 3863 of the CICA Handbook.

b) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company primarily assesses credit risk exposure by customer segment. Concentrations of consumption by segment or individual customer, may impact risk due to varying energy consumption patterns and allowable security deposit requirements associated with each segment. The Company is not exposed to a significant concentration of credit risk within any customer segment or individual customer. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related provision for doubtful accounts is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the statement of operations and retained earnings. The balance of the allowance for doubtful accounts at December 31, 2014 is $2.3 million (2013 - $2.0 million). Bad debt expense was $0.7 million (2013 - $0.4 million) during the year ended December 31, 2014. The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers.

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. At December 31, 2014, the Company held security deposits in the amount of $5.7 million (2013 - $5.7 million). Additionally, if presented with substantial credit losses, the Company would make an application to the regulator for recovery of those losses through distribution rate adjustments in future years.



Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

**Financial Instruments and Risk Management, continued**

*Credit risk, continued*

By regulation, the Company is responsible for collecting both the distribution and energy portions of the electricity bill. On average, the Company earns 20% of amounts billed to customers with the remaining 80% being collected for other parties. The Company is therefore exposed to a credit risk substantially greater than the income that it regularly earns.

c) Liquidity risk

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company has access to a $20.0 million line of credit as well as a committed 364 day extendable operating revolving loan of $15.0 million and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The majority of accounts payable, as reported on the balance sheet, are due within 30 days.

## 21. Capital Disclosures

The main objectives of the Company when managing capital are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Company's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2014 capital amounts are as follows:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Long-term debt | $ | 93,434 | $ | 80,738 |
| Shareholder's equity | | 149,984 | | 140,447 |
| | $ | 243,418 | $ | 221,185 |

The OEB regulates the amount of interest on debt and rate of return that may be earned by the Company, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure for the Company may differ from the OEB deemed structure.

The Company has customary covenants typically associated with long-term debt. The Company is in compliance with all credit agreement covenants and limitations associated with its long-term debt.

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

## 22. Emerging Accounting Changes

*International Financial Reporting Standards ("IFRS")*
The Canadian Accounting Standards Board (AcSB) has adopted a strategic plan that has converged Canadian GAAP with IFRS effective January 1, 2011, which required entities to restate, for comparative purposes, their interim and annual financial statements and opening financial position.

In October 2010, the AcSB approved the incorporation of IFRS 1 into Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The amendment also requires entities that do not prepare its interim and annual financial statements in accordance with Part 1 of the Handbook during the annual periods beginning on or after January 1, 2011 to disclose that fact.

However, the AcSB provided deferrals which allowed rate regulated entities to defer the adoption of IFRS until January 1, 2015.

The Corporation has elected to implement IFRS commencing on January 1, 2015.

The impact of the adoption to IFRS on the Corporation's financial position and results of operations is not yet fully determined.

## 23. Commitments

The Company has commitments in connection with Information Systems projects of approximately $0.7 million (2013 - $0.8 million), Infrastructure projects of $nil (2013 – $0.4 million) and new vehicle acquisitions of $0.8 million (2013 - $nil million).

## 24. Joint Venture Agreement

On January 1, 2013, The Company entered into an agreement with London District Renewable Energy Co-Operative Inc. ("LDREC") to create a joint venture with the legal name "London Renewable Energy Initiative" for the intention of identifying, applying for and constructing solar projects that have been approved under the Feedin Tariff ("FIT") government program. The Company has a 49% equity interest in LDREC while appointing 60% of the members of the Executive Committee resulting in controlling interest. To date no significant work has been completed

## 25. Subsequent event

On March 31, 2015 the Board of Directors declared a $5.0 million annual dividend and a $5.0 million special dividend both payable to the sole shareholder, the Corporation of the City of London, in quarterly installments in 2015.




Powering London.
**Empowering You.**

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Financial Position | 08
Comprehensive Income | 09
Changes in Equity | 10
Cash Flows | 11
Notes to the Financial Statements | 12



*CEO & Chairs' Message*

All the best from 2015

02

# *Report on* **Finance**

# ***CEO*** *and* ***Chairs'*** *Message:*

The advent of new technologies, customer expectations of on-demand services and new service delivery models confer disruption and new opportunities alike to the century old business of electricity distribution. The future business paradigm for the industry could hold many possibilities; however, the passion of innovation and strategic positioning has brought opportunities to London Hydro. Over the past several years we have been carefully authoring a story of innovation and community leadership at London Hydro. 2015 was a landmark year for deploying many innovative solutions to our customers.



These well recognized and awarded efforts are a testament to London Hydro's strategic differentiation, positioning and readiness for the future. These efforts have culminated in global and national recognition with London Hydro winning several national and international awards for many of our customer-centric solutions, environmental stewardship and customer satisfaction. Our leadership and innovation spans all functions of distributing electricity: customer services, employee services, outage management, reliability reporting, smart Apps, and Twitter feeds.

As a champion of public and employee safety, London Hydro has been innovative in adopting new, safe practices and work protection code. "***Safety Starts with ME***" has been the core recognition of our safe practices and in 2015, we are all proud of reaching a major safety milestone of one million person hours without a lost time injury. This is a significant achievement and it is the first time this milestone has been reached in the company's 100 year history.

We celebrate 2015 as a year of the beginning of innovation in technology, service to our customers as well as in developing a strong corporate safety culture. The level of innovation and the quality of service, our core pillars, elevates the corporate performance and enhances our competencies to ensure success in our financial performance as well.

**1,000,000 HOURS** Without a lost time injury

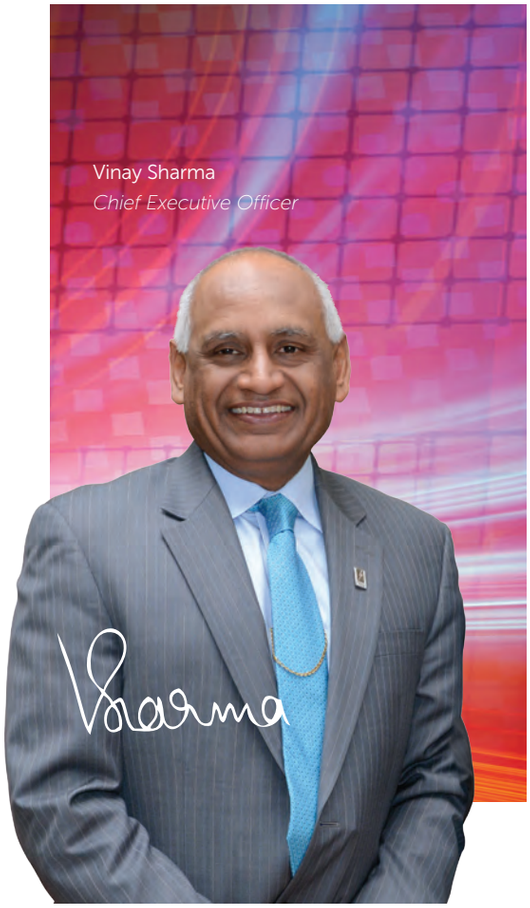
# Board Members



Ken Walsh - *Chief Engineer & VP Operations*
David Arnold - *Chief Financial Officer*
*VP Finance & Corporate Secretary*
Elizabeth Carswell - *Senior Director HR*
Vinay Sharma - *Chief Executive Officer*
Syed Mir - *CIO & VP Corporate Services*
Connie Graham - *Board Member*
Marilyn Sinclair - *Board Member*
Mohan Mathur - *Chair*
Gabe Valente - *Board Member*
Michael van Holst - *City Councillor,*
*Board Member*
Peter Johnson - *Board Member*
Bernard Borschke - *Vice-Chair*

## *Financial Performance*

Earnings for 2015 are $10.2 million resulting in an average Return on Shareholder Equity of 6.8%; however, this includes an unrealized loss of $3.2 million on an interest swap arrangement for a bank loan. Excluding this unrealized loss, the Net Income for 2015 is $13.4 million providing an average Return on Equity of 8.9%. In concert, our rate base grew by $11 million from $282 million in 2014 to $293 million in 2015 reflecting strong corporate growth. In a performance benchmark review by the Ontario Energy Board, London Hydro is ranked as one of the most efficient utilities with costs among the lowest and performance among the best. Furthermore, London Hydro's historical costs and rates to customers have increased at a rate much lower than the Ontario average. Prudent cost and cash management has enabled London Hydro to declare a special dividend of $5 million in addition to the annual dividend of $5 million payable to the City. Additionally, London Hydro has maintained a steady investment of $31 million in capital assets and yet maintained a strong balance sheet with 41% leverage and an A/stable credit rating.




## *Customer Solutions*

London Hydro introduced innovative solutions for our customers, from a loyalty program to new Apps for customers and employees alike. Our customer loyalty program of awarding Aeroplan® Miles is unique among utilities and perhaps is the only utility program in North America. In partnership with Aeroplan, we reward our customers with benefits for using our online, self-service customer service tools from bill payment, to signing up for services as well as managing their energy consumption. MyLondonHydro is an award winning online tool with many innovative features such as "Delegate" wherein a customer can delegate authority to a third party to manage their service – this unique feature provides additional convenience for our customers. Another award winning innovation in 2015 is our Property Management Portal which assists property owners and managers to manage all of their rental properties effectively and efficiently, this new design is a significant update to our previous version.

In 2015, London Hydro developed and launched many smart Apps for commercial customers such as Event Assist for arenas and sports facilities to manage their utilities; this tool helps arenas analyze and forecast the costs associated with events. Our smart Apps are also helping the Thames Valley District School Board, Western University as well as other industrial customers in analyzing and managing their utility usage and costs. These Apps, including MyLondonHydro, run uniformly across all platforms from iPad to laptop to smart phone. Proof of these innovations is in the pudding and it is tremendously satisfying to receive customer validation of our services, some examples of customers' testimonials:

*...enables our School Board to view the electricity usage data for over 150 schools across seven LDCs. This service saves time and money...*

*MICHAEL COLQUHOUN,*
*Energy Management Coordinator,*
*Thames Valley District School Board*

*Thank you as always... I am always proud to tell my Energy colleagues that Western has the best LDC in the Province*

*PAUL MARTIN, Director Business Operations, Western Universtiy*




In 2015, we strengthened our commitment to the Housing Stability Bank by increasing our funding **33%**

## *Looking Forward*

London Hydro's technological innovation and accomplishments in 2015 are a strategic foundation for future success; and, of course, this achievement is driven by the extraordinary people that work at London Hydro. With a corporate culture that respects employees and a safety culture that empowers employees, London Hydro can only look forward to many successes in the future. Our pride in our employees is rooted in their dedication and commitment to constantly live out London Hydro's Mission and Vision.

London Hydro is a valuable corporation and is committed to the community of London. In 2015, we strengthened our commitment to the Housing Stability Bank by increasing our funding by 33% from $150,000 to $200,000 per year. As a local employer, we also hired 15 new full-time, 6 apprentices and 25 co-op/summer employees in 2015. With disruption on the way and innovation as our strategic focus, the challenges will be abound in the future. London Hydro remains mindful of these challenges and will continue to evolve and adopt through our agile workforce of 300+ employees, while respecting the Shareholder's goals and objectives. The accompanying financial statements for the period ending December 31, 2015, are an expression of the outstanding performance of London Hydro, its Board of Directors and its employees. Equally important are our customers and stakeholders who in their own way contribute to London Hydro's success.

*We thank one and all.*

Independent Auditors' Report ..... 07
Statements of Financial Position ..... 08
Statements of Comprehensive Income ..... 09
Statements of Changes in Equity ..... 10
Statements of Cash Flows ..... 11
Notes to the Financial Statements ..... 12

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# INDEPENDENT AUDITORS' REPORT

To the Shareholder of London Hydro Inc.

We have audited the accompanying financial statements of London Hydro Inc. (the "Entity"), which comprise the statements of financial position as at December 31, 2015, December 31, 2014 and January 1, 2014, the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015, and December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

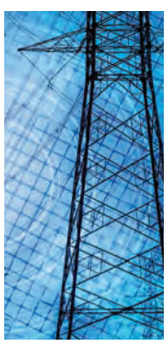
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of London Hydro Inc. as at December 31, 2015, December 31, 2014 and January 1, 2014, and its financial performance and its cash flows for the years ended December 31, 2015, and December 31, 2014 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
April 19, 2016
London, Canada



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KPMG Canada provides services to KPMG LLP.



# London Hydro Inc.
## Statements of Financial Position

December 31, 2015, with comparative amounts at December 31, 2014 and January 1, 2014
(*in thousands of dollars*)

| | Note | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash | 5 | $ 6,429 | $ 6,208 | $ - |
| Accounts receivable | 6 | 70,495 | 72,432 | 72,294 |
| Income tax receivable | | 416 | - | 80 |
| Materials and supplies | 7 | 749 | 655 | 731 |
| Prepaid expenses | | 1,826 | 1,569 | 1,456 |
| Total current assets | | 79,915 | 80,864 | 74,561 |
| **Non-current assets** | | | | |
| Property, plant and equipment | 8 | 250,739 | 235,287 | 224,482 |
| Intangible assets | 9 | 16,648 | 15,101 | 16,237 |
| Deferred tax assets | 10 | 740 | 1,299 | 2,157 |
| Total non-current assets | | 268,127 | 251,687 | 242,876 |
| **Total assets** | | 348,042 | 332,551 | 317,437 |
| Regulatory balances | 11 | 2,896 | 6,584 | 2,311 |
| **Total assets and regulatory balances** | | $ 350,938 | $ 339,135 | $ 319,748 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Bank indebtedness | 5 | $ - | $ - | $ 3,012 |
| Accounts payable and accrued liabilities | 12 | 53,551 | 53,229 | 52,636 |
| Due to shareholder | 21 | 7,428 | 6,943 | 6,276 |
| Income tax payable | | - | 1,398 | - |
| Current portion of long-term debt | 14 | 7,304 | 2,304 | 2,304 |
| Customer and other deposits | | 594 | 691 | 714 |
| Deferred revenue | 13 | 1,192 | 1,482 | 1,277 |
| Total current liabilities | | 70,069 | 66,047 | 66,219 |
| **Non-current liabilities** | | | | |
| Long-term debt | 14,23 | 91,130 | 93,434 | 10,738 |
| Post-employment benefits | 15 | 13,845 | 13,749 | 12,989 |
| Customer and other deposits | | 5,663 | 5,218 | 5,166 |
| Deferred revenue | 13 | 12,950 | 8,934 | 6,229 |
| Unrealized loss on interest rate swap | 14,23 | 5,935 | 2,778 | 199 |
| Due to related party | 21 | - | - | 70,000 |
| Total non-current liabilities | | 129,523 | 124,113 | 105,321 |
| **Total liabilities** | | 199,592 | 190,160 | 171,540 |
| **Equity** | | | | |
| Share capital | 16 | 96,116 | 96,116 | 96,116 |
| Retained earnings | | 52,784 | 52,609 | 43,075 |
| Accumulated other comprehensive loss | | (292) | (471) | - |
| **Total equity** | | 148,608 | 148,254 | 139,191 |
| **Total liabilities and equity** | | 348,200 | 338,414 | 310,731 |
| Regulatory balances | 11 | 2,738 | 721 | 9,017 |
| **Total liabilities, equity and regulatory balances** | | $ 350,938 | $ 339,135 | $ 319,748 |

*Commitments and contingencies (Note 20), Subsequent event (Note 24)*

Director

Director

The accompanying notes are an integral part of these financial statements.

London Hydro Inc.
Statements of Comprehensive Income

For the year ended December 31, 2015, with comparative amounts for 2014
(*in thousands of dollars*)

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Revenues** | | | |
| Sale of energy | | $ 387,820 | $ 352,208 |
| Distribution revenue | | 64,042 | 63,662 |
| Other | 17 | 9,920 | 13,373 |
| | | 461,782 | 429,243 |
| **Operating expenses** | | | |
| Cost of power purchased | | 379,937 | 363,384 |
| Operating expenses | 18 | 39,206 | 37,146 |
| Depreciation and amortization | | 17,755 | 17,569 |
| | | 436,898 | 418,099 |
| **Income from operating activities** | | 24,884 | 11,144 |
| **Finance (income) / expense** | | | |
| Finance income | 19 | (101) | (69) |
| Finance expenses | 19 | 5,898 | 7,303 |
| | | 5,797 | 7,234 |
| **Income before income taxes** | | 19,087 | 3,910 |
| Income tax expense | 10 | 3,160 | 4,070 |
| **Net income / (loss) for the year** | | 15,927 | (160) |
| Net movement in regulatory balances, net of tax | 11 | (5,752) | 12,694 |
| **Net income for year and net movement in regulatory balances** | | 10,175 | 12,534 |
| **Other comprehensive income** | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Remeasurements of post-employment benefits | | 179 | (471) |
| Tax on remeasurements | 10 | (47) | 125 |
| Net movement in regulatory balances, net of tax | 11 | 47 | (125) |
| **Other comprehensive income / (loss) for the year** | | 179 | (471) |
| **Total comprehensive income for the year** | | $ 10,354 | $ 12,063 |



The accompanying notes are an integral part of these financial statements.

London Hydro Inc.
Statements of Changes in Equity

Year ended December 31, 2015, with comparative amounts of 2014
(*in thousands of dollars*)

| | Note | Share Capital | Retained Earnings | Accumulated other comprehensive income / (loss) | Total |
|---|---|---|---|---|---|
| **Balance at January 1, 2014** | | $ 96,116 | $ 43,075 | $ - | $ 139,191 |
| Net income and net movement in regulatory balances | | - | 12,534 | - | 12,534 |
| Other comprehensive income (loss) | | - | - | (471) | (471) |
| Dividends | 16 | - | (3,000) | - | (3,000) |
| **Balance at December 31, 2014** | | $ 96,116 | $ 52,609 | $ (471) | $ 148,254 |
| **Balance at January 1, 2015** | | $ 96,116 | $ 52,609 | $ (471) | $ 148,254 |
| Net income and net movement in regulatory balances | | - | 10,175 | - | 10,175 |
| Other comprehensive income | | - | - | 179 | 179 |
| Dividends | 16 | - | (10,000) | - | (10,000) |
| **Balance at December 31, 2015** | | $ 96,116 | $ 52,784 | $ (292) | $ 148,608 |

The accompanying notes are an integral part of these financial statements.



# London Hydro Inc.
## Statements of Cash Flows

For the year ended December 31, 2015, with comparative amounts for 2014
(*in thousands of dollars*)

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income and net movement in regulatory balances | | $ 10,175 | $ 12,534 |
| Adjustments for: | | | |
| Depreciation and amortization | 8,9 | 17,755 | 17,569 |
| Amortization of deferred revenue | 17 | (79) | (21) |
| Post-employment benefits | 15 | 275 | 289 |
| Gain on disposal of property, plant and equipment | 17 | (162) | (172) |
| Net finance expenses | 19 | 5,797 | 7,234 |
| Income tax expense | 10 | 3,160 | 4,070 |
| | | 36,921 | 41,503 |
| Change in non-cash working capital: | | | |
| Accounts receivable | | 1,937 | (138) |
| Materials and supplies | | (94) | 76 |
| Prepaid expenses | | (257) | (113) |
| Accounts payable and accrued liabilities | | 322 | 593 |
| Due to / from shareholder | | 485 | 667 |
| Customer deposits | | 348 | 29 |
| | | 2,741 | 1,114 |
| Other: | | | |
| Regulatory balances | 11 | 5,752 | (12,694) |
| Income tax paid | | (4,639) | (1,900) |
| Income tax received | | 177 | 291 |
| Interest paid | | (2,741) | (4,724) |
| Interest received | | 101 | 69 |
| | | (1,350) | (18,958) |
| **Net cash from operating activities** | | 38,312 | 23,659 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | 8 | (28,099) | (23,108) |
| Purchase of intangible assets | 9 | (6,655) | (4,153) |
| Proceeds on disposal of property, plant, equipment and intangible assets | | 162 | 195 |
| Contributions received from customers | | 3,805 | 2,931 |
| **Net cash from investing activities** | | (30,787) | (24,135) |
| **Financing activities** | | | |
| Dividends paid | 16 | (10,000) | (3,000) |
| Proceeds from long-term debt | 14 | 5,000 | 85,000 |
| Repayment of long-term debt | 14 | (2,304) | (2,304) |
| Repayment of promissory note due to related party | 21 | - | (70,000) |
| **Net cash from financing activities** | | (7,304) | 9,696 |
| Change in cash | | 221 | 9,220 |
| Cash (bank indebtedness), beginning of year | | 6,208 | (3,012) |
| **Cash, end of year** | | $ 6,429 | $ 6,208 |

The accompanying notes are an integral part of these financial statements.

London Hydro Inc.
Notes to the Financial Statements
(*in thousands of dollars*)
For the years ended December 31, 2015 and 2014

**1. Reporting entity**

London Hydro Inc. ("the Company") is a rate regulated, municipally-owned hydro distribution company located in the City of London. The Company is a wholly-owned subsidiary company of the Corporation of the City of London and was incorporated on April 26, 2000 under the laws of the Province of Ontario, Canada.

The Company delivers electricity and related energy services to inhabitants of the City of London. The address of the Company's registered office is 111 Horton Street, London, Ontario, Canada.

**2. Basis of presentation**

a) Statement of compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

b) Adoption of IFRS

These are the Company's first financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 25.

The financial statements were approved by the Board of Directors on April 19, 2016.

c) Basis of measurement

These financial statements have been prepared on the historical cost basis, unless otherwise stated.

d) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.





**2. Basis of presentation (continued)**

e) Use of estimates and judgments (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment is included in the following notes:

(i) 3(b) – measurement of unbilled revenue
(ii) 3(d), 3(e), 8, 9 – estimation of useful lives of its property, plant and equipment and intangible assets
(iii) 11 – recognition and measurement of regulatory balances
(iv) 15 – measurement of defined benefit obligations: key actuarial assumptions
(v) 20 – recognition and measurement of provisions and contingencies

f) Rate regulation

The Company is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the *Ontario Energy Board Act, 1998*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that transmission and distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies ("LDCs"), such as the Company, which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

The Company is required to bill customers for the debt retirement charge set by the province. The Company may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation ("OEFC").

**Rate setting**

*Distribution revenue*

For the distribution revenue, the Company files a "Cost of Service" ("COS") rate application with the OEB every four years where rates are determined through a review of the forecasted annual amount of operating and capital expenditures, debt and shareholder's equity required to support the Company's business. The Company estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and interveners and rates are approved based upon this review, including any revisions resulting from that review.



**2. Basis of presentation (continued)**

f) Rate Regulation (continued)

**Rate setting -** *Distribution revenue (continued)*

In the intervening years an Incentive Rate Mechanism ("IRM") application is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year's rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Inflator for Final Domestic Demand ("GDP IPI-FDD") net of a productivity factor and a "stretch factor" determined by the relative efficiency of an electricity distributor.

The Company last filed a COS application in September 2012 for rates effective May 1, 2013 to April 30, 2017. The GDP IPI-FDD for 2015 is 1.6%, the OEB applied productivity factor is 0.0% and the OEB determined stretch factor is (0.15)%, resulting in a net adjustment of 1.45% to the previous year's rates.

As a licensed distributor, the Company is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers.

*Electricity rates*

The OEB sets electricity prices for residential and small commercial consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers, other than consumers with retail contracts who pay a contracted rate plus a global adjustment rate adder, pay the market price for electricity. The Company is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.



London Hydro Inc.
Notes to the Financial Statements
(*in thousands of dollars*)
For the years ended December 31, 2015 and 2014

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently in all years presented in these financial statements and in preparing the opening IFRS statement of financial position at January 1, 2014, for the purpose of the transition to IFRS.

a) Financial instruments

*Non-derivative*

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(f).

*Derivative*

The Company holds derivative financial instruments to manage its interest rate risk exposures. Derivatives are initially recognized at fair value; any directly attributable transaction costs are recognized in profit and loss as incurred as finance expenses. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

Hedge accounting has not been used in the preparation of these financial statements.

b) Revenue recognition

*Sale and distribution of electricity*

Revenue from the sale and distribution of electricity is recognized as the electricity is delivered to customers on the basis of cyclical meter readings and estimated customer usage since the last meter reading date to the end of the period. Revenue includes the cost of electricity supplied, distribution, and any other regulatory charges. The related cost of power is recorded on the basis of power used.

For customer billings related to electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties, the Company has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Customer billings for debt retirement charges are recorded on a net basis as the Company is acting as an agent for this billing stream.

**3. Significant accounting policies (continued)**

b) Revenue recognition (continued)

*Other revenue*

Revenue earned from the provision of services is recognized as the service is rendered.

Certain customers and developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. Cash contributions are recorded as deferred revenue. Where an asset other than cash is received as a capital contribution, the asset is initially recognized at its fair value, with a corresponding amount recognized as deferred revenue. The deferred revenue, which represents the Company's obligation to continue to provide the customers access to the supply of electricity, is amortized to income on a straight-line basis over the useful life of the related asset.

Government grants and the related performance incentive payments under Conservation Demand Management ("CDM") programs are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

c) Materials and supplies

Materials and supplies, the majority of which are consumed by the Company in the provision of its services, are valued at the lower of cost and net realizable value, with cost being determined on a weighted average basis, and includes expenditures incurred in acquiring the materials and supplies and other costs incurred in bringing them to their existing location and condition.

d) Property, plant and equipment

Items of property, plant and equipment ("PP&E") used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the transition date (see note 25 b) ii), less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes contracted services, materials and transportation costs, direct labour, overhead costs, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the lower of OEB prescribed rates and the weighted average cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take in excess of 12 months to construct.



**3. Significant accounting policies (continued)**

d) Property, plant and equipment (continued)

When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E.

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal, if any, with the carrying amount of the item and is included in profit or loss.

Major spare parts and standby equipment are recognized as items of PP&E.

The cost of replacing a part of an item of PP&E is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. In this event, the replaced part of PP&E is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

The need to estimate the decommissioning costs at the end of the useful lives of certain assets is reviewed periodically. The Company has concluded it does not have any legal or constructive obligation to remove PP&E.

Depreciation is calculated to write off the cost of items of PP&E using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate. Land is not depreciated. Construction-in-progress assets are not depreciated until the project is complete and the asset is available for use.

The estimated useful lives are as follows:

| | Years |
|---|---|
| Distribution system and equipment | 25 - 60 |
| Building structures and components | 12 - 75 |
| Substation equipment | 15 - 45 |
| Metering devices | 15 - 30 |
| System supervisory equipment | 8 - 35 |
| Automotive equipment | 8 - 12 |
| Equipment, tools and furniture | 5 - 8 |
| Computer hardware | 3 |
| Renewable generation assets | 20 |

**3. Significant accounting policies (continued)**

e) Intangible assets

Intangible assets used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the transition date (see note 25 b) ii), less accumulated amortization. All other intangible assets are measured at cost.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of intangible assets includes contracted services, materials and transportation costs, direct labour, overhead costs, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the lower of OEB prescribed rates and the weighted average cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take in excess of 12 months to complete.

Computer software that is acquired or developed by the Company after January 1, 2014, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization.

Payments to obtain rights to access land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Company does not hold title. Land rights are measured at cost less accumulated amortization.

With the market opening in 2002, wholesale market participants, including the Company, were charged with the responsibility of upgrading all their wholesale meter points to "IESO" compliant standards. Since the Company does not hold title to these assets, these expenditures have been classified as intangible assets. Wholesale metering upgrades are measured at cost less accumulated amortization.

Intangible assets in progress consist of application software under development and capital contributions paid towards refurbishment of a transformer station that is not owned by the Company, which is scheduled to be energized during the year ending December 31, 2018.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted prospectively if appropriate. The estimated useful lives are:

| | Years |
|---|---|
| Computer software | 3 - 5 |
| Land rights | 25 |
| Wholesale metering | 30 |

London Hydro Inc.
Notes to the Financial Statements
(*in thousands of dollars*)
For the years ended December 31, 2015 and 2014

**3. Significant accounting policies (continued)**

f) Impairment

*Financial assets measured at amortized cost*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows from that asset.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount. Losses are recognized in profit or loss. An impairment loss is reversed through profit or loss if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

*Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than materials and supplies and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

g) Customer and other deposits

Customer and other deposits include cash deposits from electricity distribution customers and retailers to guarantee the payment of energy bills. Interest is paid on customer deposits at the rate of prime less 2% per annum.

Deposits from electricity distribution customers are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB, or upon termination of their electricity distribution service.



**3. Significant accounting policies (continued)**

h) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

i) Regulatory balances

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Company.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the deferred cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or Other Comprehensive Income ("OCI"). When the customer is billed at rates approved by the OEB for the recovery of the deferred costs, the customer billings are recognized in revenue. The regulatory debit balance is reduced by the amount of these customer billings with the offset to net movement in regulatory balances in profit or loss or OCI.

The probability of recovery of the regulatory deferral account debit balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover the balance. The assessment of likelihood of recovery is based upon previous decisions made by the OEB for similar circumstances, policies or guidelines issued by the OEB, etc. Any resulting impairment loss is recognized in profit or loss in the year incurred.

When the Company is required to refund amounts to ratepayers in the future, the Company recognizes a regulatory deferral account credit balance. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. The amounts returned to the customers are recognized as a reduction of revenue. The credit balance is reduced by the amount of these customer repayments with the offset to net movement in regulatory balances in profit or loss or OCI.



**3. Significant accounting policies (continued)**

j) Post-employment benefits

*Pension plan*

The Company provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Company to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. The Company is not responsible for any other contractual obligations other than the contributions. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss when they are due.

*Post-employment benefits, other than pension*

The Company provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans.

The obligations for these post-employment benefit plans are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Remeasurements of the net defined benefit obligations, including actuarial gains and losses and the return on plan assets (excluding interest), are recognized immediately in OCI. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.



**3. Significant accounting policies (continued)**

k) Finance income and finance expenses

Finance income is recognized as it accrues in profit or loss. Finance income comprises interest earned on cash and cash equivalents.

Finance expenses comprise interest expense on borrowings and customer deposits. Finance expenses are recognized in profit or loss unless they are capitalized as part of the cost of qualifying assets.

l) Income taxes

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

The Company is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts"). Under the Electricity Act, 1998, the Company makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Tax Acts as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Company was not subject to income or capital taxes. Payments in lieu of taxes ("PILs") are referred to as income taxes.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted, at the reporting date.



London Hydro Inc.
Notes to the Financial Statements
(*in thousands of dollars*)
For the years ended December 31, 2015 and 2014



**4. Standards issued but not yet adopted**

There are new standards, amendments to standards and interpretations which have not been applied in preparing these financial statements. These standards or amendments relate to the measurement and disclosure of financial assets and liabilities.

*Annual Improvements to IFRS (2012-2014) cycle*

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. Each of the amendments has its own specific transition requirements. Amendments were made to clarify the following in their respective standards:

- Changes in method for disposal under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- 'Continuing involvement' for servicing contracts and offsetting disclosures in condensed interim financial statements under IFRS 7 *Financial Instruments: Disclosures;*
- Discount rate in a regional market sharing the same currency under IAS 19 *Employee Benefits;*
- Disclosure of information 'elsewhere in the interim financial report' under IAS 34 *Interim Financial Reporting*;

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the standard has not yet been determined.

*IFRS 9 Financial Instruments*

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.







**4. Standards issued not yet adopted (continued)**

*IFRS 15 Revenue from Contracts with Customers*

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services.*

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

*IFRS 16 Leases*

On January 13, 2016 the IASB issued IFRS 16 *Leases*.

The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases*.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

## 5. Cash and bank indebtedness

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Cash | $ 6,429 | $ 6,208 | $ - |
| Bank indebtedness | $ - | $ - | $ 3,012 |

## 6. Accounts receivable

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Trade receivables | $ 25,344 | $ 33,188 | $ 30,628 |
| Unbilled revenue | 42,085 | 35,980 | 39,731 |
| Other | 3,066 | 3,264 | 1,935 |
| | $ 70,495 | $ 72,432 | $ 72,294 |

Included in accounts receivable is approximately $7.9 million (2014 - $7.7 million) of customer receivables for water consumption that the Company bills and collects on behalf of the Corporation of the City of London. As the Company does not assume liability for collection of these amounts, any amount relating to water consumption that is determined to be uncollectible is charged to the Corporation of the City of London.

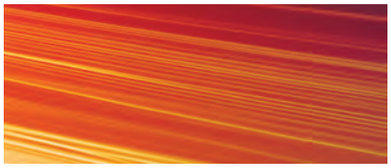
Also, included in the accounts receivable is $1.8 million (2014 - $1.7 million) of energy, water, and sundry receivables due from the Corporation of the City of London.

## 7. Materials and supplies

Amounts written down due to obsolescence during the year ended December 31, 2015 was $0.1 million (2014 - nil).









## 8. Property, plant and equipment

a) Cost or deemed cost:

| | Land and buildings | Distribution substation equipment | Other distribution equipment | Other fixed assets | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2014 | $ 12,532 | $ 9,285 | $ 177,376 | $ 15,005 | $ 10,284 | 224,482 |
| Additions | 1,123 | 273 | 19,698 | 2,112 | (98) | 23,108 |
| Disposals / retirements | - | - | - | (25) | - | (25) |
| Balance at December 31, 2014 | $ 13,655 | $ 9,558 | $ 197,074 | $ 17,092 | $ 10,186 | $ 247,565 |
| Balance at January 1, 2015 | $ 13,655 | $ 9,558 | $ 197,074 | $ 17,092 | $ 10,186 | $ 247,565 |
| Additions | 673 | 167 | 23,709 | 3,436 | 114 | 28,099 |
| Disposals / retirements | (17) | - | (793) | (801) | - | (1,611) |
| Balance at December 31, 2015 | $ 14,311 | $ 9,725 | $ 219,990 | $ 19,727 | $ 10,300 | $ 274,053 |

b) Accumulated depreciation:

| | Land and buildings | Distribution substation equipment | Other distribution equipment | Other fixed assets | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2014 | $ - | $ - | $ - | $ - | $ - | $ - |
| Depreciation | 904 | 273 | 8,551 | 2,552 | - | 12,280 |
| Disposals / retirements | - | - | - | (2) | - | (2) |
| Balance at December 31, 2014 | $ 904 | $ 273 | $ 8,551 | $ 2,550 | $ - | $ 12,278 |
| Balance at January 1, 2015 | $ 904 | $ 273 | $ 8,551 | $ 2,550 | $ - | $ 12,278 |
| Depreciation | 930 | 280 | 8,803 | 2,634 | - | 12,647 |
| Disposals / retirements | (17) | - | (793) | (801) | - | (1,611) |
| Balance at December 31, 2015 | $ 1,817 | $ 553 | $ 16,561 | $ 4,383 | $ - | $ 23,314 |

c) Carrying amounts:

| Balance at | Land and buildings | Distribution substation equipment | Other distribution equipment | Other fixed assets | Construction in progress | Total |
|---|---|---|---|---|---|---|
| January 1, 2014 | $ 12,532 | $ 9,285 | $ 177,376 | $ 15,005 | $ 10,284 | $ 224,482 |
| December 31, 2014 | $ 12,751 | $ 9,285 | $ 188,523 | $ 14,542 | $ 10,186 | $ 235,287 |
| December 31, 2015 | $ 12,494 | $ 9,172 | $ 203,429 | $ 15,344 | $ 10,300 | $ 250,739 |



London Hydro Inc.
Notes to the Financial Statements
(*in thousands of dollars*)
For the years ended December 31, 2015 and 2014



## 9. Intangible assets

a) Cost or deemed cost:

| | Land rights | Wholesale metering | Computer software | Intangible work in progress | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2014 | $ 185 | $ 1,085 | $ 14,217 | $ 750 | $ 16,237 |
| Additions | 17 | - | 4,428 | (292) | 4,153 |
| Balance at December 31, 2014 | $ 202 | $ 1,085 | $ 18,645 | $ 458 | $ 20,390 |
| Balance at January 1, 2015 | $ 202 | $ 1,085 | $ 18,645 | $ 458 | $ 20,390 |
| Additions | 31 | - | 5,071 | 1,553 | 6,655 |
| Disposals / retirements | - | - | (2,004) | - | (2,004) |
| Balance at December 31, 2015 | $ 233 | $ 1,085 | $ 21,712 | $ 2,011 | $ 25,041 |

b) Accumulated amortization:

| | Land rights | Wholesale metering | Computer software | Intangible work in progress | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2014 | $ - | $ - | $ - | $ - | $ - |
| Amortization | 17 | 43 | 5,229 | - | 5,289 |
| Disposals / retirements | - | - | - | | - |
| Balance at December 31, 2014 | $ 17 | $ 43 | $ 5,229 | $ - | $ 5,289 |
| Balance at January 1, 2015 | $ 17 | $ 43 | $ 5,229 | $ - | $ 5,289 |
| Amortization | 18 | 43 | 5,047 | - | 5,108 |
| Disposals / retirements | - | - | (2,004) | - | (2,004) |
| Balance at December 31, 2015 | $ 35 | $ 86 | $ 8,272 | $ - | $ 8,393 |

c) Carrying amounts:

| Balance at | Land rights | Wholesale metering | Computer software | Intangible Work in Progress | Total |
|---|---|---|---|---|---|
| January 1, 2014 | $ 185 | $ 1,085 | $ 14,217 | $ 750 | $ 16,237 |
| December 31, 2014 | $ 185 | $ 1,042 | $ 13,416 | $ 458 | $ 15,101 |
| December 31, 2015 | $ 198 | $ 999 | $ 13,440 | $ 2,011 | $ 16,648 |

During the year, borrowing costs of nil (2014 - nil) were capitalized as part of the cost of intangible assets. A capitalization rate of 2.55% (2014 - 0%) was used to determine the amount of borrowing costs to be capitalized.



London Hydro Inc.
Notes to the Financial Statements
(*in thousands of dollars*)
For the years ended December 31, 2015 and 2014

## 10. Income tax expense

Income tax expense is comprised of:

| | 2015 | 2014 |
|---|---|---|
| Current income tax | | |
| Current year | $ 2,789 | $ 3,262 |
| Adjustment for prior years | (140) | (175) |
| | 2,649 | 3,087 |
| Deferred tax | | |
| Change in recognized deductible temporary differences: | | |
| Loss on interest rate swap | (837) | (683) |
| Property, plant, equipment and intangible assets | 1,479 | 1,756 |
| Post-employment benefits | (73) | (76) |
| Deferred revenue | (58) | (14) |
| | 511 | 983 |
| Total current and deferred income tax in profit or loss, before before movement of regulatory balance | 3,160 | 4,070 |
| Other comprehensive income | | |
| Post-employment benefits | 47 | (125) |
| Total current and deferred income tax, before movement of regulatory balances | 3,207 | 3,945 |
| Net movement in regulatory balances | (1,396) | (1,541) |
| Income tax expense recognized in Statement of Comprehensive Income | $ 1,811 | $ 2,404 |

Reconciliation of effective tax rate:

| | 2015 | 2014 |
|---|---|---|
| Income before taxes | $ 12,165 | 14,469 |
| Canada and Ontario statutory income tax rates | 26.5% | 26.5% |
| Expected tax provision on income at statutory rates | 3,224 | 3,834 |
| Increase (decrease) in income taxes resulting from: | | |
| Net movement in regulatory balances | (1,396) | (1,541) |
| Other items | (17) | 111 |
| | $ 1,811 | $ 2,404 |

Significant components of the Company's deferred tax balances:

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Property, plant, equipment and intangible assets | $ (4,573) | $ (3,094) | $ (1,338) |
| Post-employment benefits | 3,668 | 3,643 | 3,442 |
| Deferred revenue | 72 | 14 | - |
| Future income taxes to be realized by customers | (833) | 563 | 2,104 |
| Loss on interest rate swap | 1,573 | 736 | 53 |
| | $ 740 | $ 1,299 | $ 2,157 |

## 11. Regulatory balances

Reconciliation of the carrying amount for each class of regulatory balances:

| Regulatory deferral account debit balances | January 1, 2015 | Additions | Recovery/ reversal | December 31, 2015 | Remaining recovery/ reversal years |
|---|---|---|---|---|---|
| Group 1 deferred accounts | $ 5,295 | $ (5,295) | $ - | $ - | |
| IFRS-CGAAP transitional PP&E recoveries | 275 | - | (118) | 157 | 1.3 |
| Regulatory settlement account | 47 | - | (47) | - | - |
| Other regulatory accounts | 967 | 939 | - | 1,906 | |
| Income tax | - | 833 | - | 833 | |
| | $ 6,584 | $ (3,523) | $ (165) | $ 2,896 | |

| Regulatory deferral account debit balances | January 1, 2014 | Additions | Recovery/ reversal | December 31, 2014 | Remaining years |
|---|---|---|---|---|---|
| Group 1 deferred accounts | $ - | $ 5,295 | $ - | $ 5,295 | |
| IFRS-CGAAP transitional PP&E recoveries | 393 | - | (118) | 275 | 2.3 |
| Regulatory settlement account | - | 105 | (58) | 47 | 0.3 |
| Other regulatory accounts | 1,918 | (951) | - | 967 | |
| | $ 2,311 | $ 4,449 | $ (176) | $ 6,584 | |

| Regulatory deferral account credit balances | January 1, 2015 | Additions | Recovery/ reversal | December 31, 2015 | Reversal years |
|---|---|---|---|---|---|
| Group 1 deferred accounts | $ - | $ (2,577) | $ - | $ (2,577) | |
| Regulatory settlement account | - | - | - | - | - |
| Other regulatory accounts | (158) | (3) | - | (161) | |
| Income tax | (563) | 563 | - | - | |
| | $ (721) | $ (2,017) | $ - | $ (2,738) | |

| Regulatory deferral account credit balances | January 1, 2014 | Additions | Recovery/ reversal | December 31, 2014 | Remaining years |
|---|---|---|---|---|---|
| Group 1 deferred accounts | $ (2,929) | $ 2,929 | $ - | $ - | |
| Regulatory settlement account | (3,830) | (17) | 3,847 | - | - |
| Other regulatory accounts | (154) | (4) | - | (158) | |
| Income tax | (2,104) | 1,541 | - | (563) | |
| | $ (9,017) | $ 4,449 | $ 3,847 | $ (721) | |



**11. Regulatory balances (continued)**

The regulatory balances are recovered or settled through fixed and/or volumetric rate riders approved by the OEB. The volumetric rate riders are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Company has received approval from the OEB to establish its regulatory balances. Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. In the first quarter of 2015 the rate was 1.47% and for the balance of the year the rate was set at 1.10%.

a) Group 1 deferred accounts

The Group 1 deferred accounts consist of purchased power cost variances. As a regulated distributor of electricity, the Company is obligated to provide energy supply to all consumers at regulated or spot rates unless they elect to purchase their energy from an energy retailer. The regulatory framework requires that all energy commodity and non-commodity costs be billed at regulated rates to consumers who are on the Regulated Price Plan.

Variances between purchase costs and amounts billed for electricity are required to be captured in the Retail Settlement Variance Accounts ("RSVA") for disposition through future rate riders. The variance accounts have been further defined by the regulator into commodity and non-commodity accounts. Those accounts defined as commodity accounts are eligible for regulatory review on a quarterly basis. All other accounts are defined as non-commodity and are currently eligible for review on an annual basis.

These variances were credit balances on January 1, 2014. Due to price fluctuations the accumulated variances became debit balances during 2014, then changed back to credit balances in 2015. The 2016 IRM rate application was submitted to the OEB on October 19, 2015, which includes a claim to recover the debit balances at December 31, 2014 via rate riders. The OEB issued its decision with respect to this Application which authorizes the recovery of these balances over a one-year period commencing May 1, 2016.

b) IFRS-CGAAP transitional PP&E recoveries

Compliant with OEB directives of the Accounting Procedures Handbook, the Company must use this account to record differences arising as a result of accounting policy changes caused by the transition from previous Canadian GAAP to Modified International Financial Reporting Standards ("MIFRS").

During 2012, the Company filed its 2013 Cost of Service Rate Application ("Application") which included a request for OEB approval for the recovery of certain authorized regulatory deferral accounts including these IFRS-CGAAP transitional PP&E differences. The OEB issued its decision with respect to this Application which authorizes amortization of the balance into rate base and revenue requirement amounts. Therefore, the approved distribution rates during the four year period commencing May 1, 2013, include the recovery of these IFRS-CGAAP Transitional PP&E account differences.





**11. Regulatory balances (continued)**

c) Regulatory settlement account

The regulatory settlement account with debit balance consists of the Lost Revenue Adjustment Mechanism Variance ("LRAMVA") approved for recovery by the OEB. During 2013, the Company filed its Incentive Regulation Mechanism ("IRM") rate application for the 2014 rate year. The OEB issued its decision with respect to this application which included a request for OEB approval for the recovery of LRAMVA for amounts as at December 31, 2012. The regulatory decision approved the recovery of these balances over a one-year period commencing May 1, 2014.

The regulatory settlement account with credit balance consists of purchased power cost variances captured in RSVAs approved for disposition by the OEB. Variances accumulated prior to January 1, 2011 are the amounts that were approved in 2012 for disposition effective May 1, 2012 through to April 30, 2014. During 2012, the Company filed its 2013 Cost of Service Rate Application which included a request for OEB approval for the disposition of the RSVA Power account and the RSVA Power-Global Adjustment sub accounts. These amounts accumulated between January 1, 2011 and December 31, 2012. The non-commodity RSVA amounts accumulated between January 1, 2011 and December 31, 2011. The OEB issued its decision with respect to this Application which authorizes the disposition of these balances over a one-year period commencing May 1, 2013.

d) Other regulatory accounts

Other regulatory debit balances include various deferred costs in connection with Green Energy programs, Lost Revenue Adjustment Mechanism Variances, Smart Metering Entity Charge Variances, IFRS transition expenditures, Retail Cost Variances and the residual balance of Stranded Meter costs previously approved for recovery by the OEB. Green Energy programs authorized by the OEB include renewable enabling improvements and investments towards smart grid. Costs incurred with respect to these various activities have been captured under deferral accounts for future rate recovery.

Other regulatory credit balances consist of amounts resulting from the implementation of the Harmonized Sales Tax.

e) Income tax

As a result, the Company has recognized a regulatory deferral account for the amount of deferred taxes that will ultimately be recovered from/paid back to its customers. This balance will fluctuate as the Company's deferred tax balance fluctuates.

London Hydro Inc.
Notes to the Financial Statements
(*in thousands of dollars*)
For the years ended December 31, 2015 and 2014

## 12. Accounts payable and accrued liabilities

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Due to Independent Electricity System Operator | $ 39,888 | $ 41,193 | $ 37,447 |
| Debt retirement charge payable to OEFC | 1,603 | 1,845 | 1,771 |
| Harmonized sales tax | 372 | 1,095 | 670 |
| Payroll and benefits payable | 2,264 | 2,006 | 1,747 |
| Other | 9,424 | 7,090 | 11,001 |
| | $ 53,551 | $ 53,229 | $ 52,636 |

## 13. Deferred revenue

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Capital contributions for completed projects | $ 5,560 | $ 1,849 | $ - |
| Deposits held | 8,582 | 8,567 | 7,506 |
| | 14,142 | 10,416 | 7,506 |
| Less: Current portion | 1,192 | 1,482 | 1,277 |
| | $ 12,950 | $ 8,934 | $ 6,229 |

Included in deposits held is $3.8 million (2014 - $3.9 million) received from the Corporation of the City of London as contributions for the construction of capital assets.







## 14. Long-term debt

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Unsecured, committed extendible revolving loan bearing interest at prime, minus 0.5%, interest only payments due March 2016 | $ 5,000 | $ - | $ - |
| Unsecured, non-revolving term instalment loan bearing interest at the 7.58 year Bankers' Acceptance rate of 2.46% plus a stamping fee of 0.19%, interest only payments due June 2022 | 85,000 | 85,000 | - |
| Unsecured, non-revolving term instalment loan bearing interest at the 7.75 year Bankers' Acceptance rate of 2.43% plus a stamping fee of 0.9%, payable in monthly instalments of $192 principal plus interest due August 2019 | 8,434 | 10,738 | 13,042 |
| | 98,434 | 95,738 | 13,042 |
| Less: Current portion | 7,304 | 2,304 | 2,304 |
| | $ 91,130 | $ 93,434 | $ 10,738 |

The Company has an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan in the amount of $85 million. Interest only payments are due quarterly and commenced December 2014. The principal is due at maturity. The agreement is a fixed rate swap and matures June 2022, which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 2.46%, plus a stamping fee of 0.19%, for an all-in rate of 2.65%.

The Company has an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan in the original amount of $20.5 million to fund its Smart Meter capital expenditure program. Principal repayments on this loan commenced October 2010 and are being amortized over a 9 year period ending August 2019. The agreement is a fixed rate swap and matures August 2019 which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 2.43%, plus a stamping fee of 0.9%, for an all-in rate of 3.33%.

The swap agreements entered into with Royal Bank of Canada do not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contracts are recorded at their fair value at the end of the period with the unrealized gain or loss recorded in the Statements of Comprehensive Income as finance expenses. The unrealized loss for the year ended December 31, 2015 was $3.2 million (2014 - $2.6 million).

At December 31, 2015, the Company would be required to pay $5.9 million (2014 - $2.8 million) if it wished to cancel the swap agreements.



**15. Post-employment benefits**

a) OMERS pension plan

The Company provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. During the year ended December 31, 2015, the Company made employer contributions of $2.7 million to OMERS (2014 - $2.6 million), of which $0.7 million (2014 - $0.7 million) has been capitalized as part of PP&E and the remaining amount of $2.0 million (2014 - $1.9 million) has been recognized in operating expenses in the Statement of Comprehensive Income. The Corporation estimates that a contribution of $2.8 million to OMERS will be made during the next fiscal year.

As at December 31, 2015, OMERS had approximately 461,000 members, of whom 320 are employees of the Company. The most recently available OMERS annual report is for the year ended December 31, 2015, which reported that the plan was 91.5% funded, with an unfunded liability of $7.0 billion. This unfunded liability is likely to result in future payments by participating employers and members.

b) Post-employment benefits other than pension

The Company pays certain medical and life insurance benefits on behalf of some of its retired employees. The Company recognizes these post-employment benefits in the year in which employees' services were rendered. The Company is recovering its post-employment benefits in rates based on the expense and remeasurements recognized for post-employment benefit plans. Based on the most recent actuarial valuation as at December 31, 2015, the following information has been determined:

Reconciliation of the obligation:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Defined benefit obligation, beginning of year | $ 13,749 | $ 12,989 |
| Included in profit or loss: | | |
| Current service costs | 386 | 355 |
| Interest cost | 514 | 580 |
| Other benefits | 42 | (75) |
| | 942 | 860 |
| Actuarial (gains) / losses included in OCI: | | |
| Changes in demographic assumptions | - | (749) |
| Change in financial assumptions | (192) | 1,233 |
| Effect of experience adjustments | 13 | (13) |
| | (179) | 471 |
| Benefits paid | (667) | (571) |
| Defined benefit obligation, end of year | $ 13,845 | $ 13,749 |

**15. Post-employment benefits (continued)**

b) Post-employment benefits other than pension (continued)

Actuarial assumptions:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Discount (interest) rate | 4.0% | 3.9% |
| Salary levels | 4.0% | 4.0% |
| Immediate medical costs | 6.1% | 6.2% |
| Ultimate medical costs | 4.5% | 4.5% |
| Dental cost rate | 4.5% | 4.5% |
| Year ultimate rate reached | 2028 | 2028 |

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by $2.0 million. A 1% decrease in the assumed discount rate would result in the defined benefits obligation increasing by $1.9 million.

**16. Share capital**

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Authorized: | | | |
| An unlimited number of common shares | | | |
| An unlimited number of non-voting, non-cumulative preference shares, redeemable at the paid-up amount | | | |
| Issued: | | | |
| 1,001 common shares | $ 96,116 | $ 96,116 | $ 96,116 |

*Dividends*

The holders of the common shares are entitled to receive dividends as declared from time to time.

On March 31, 2015 the Board of Directors declared a $5.0 million annual dividend and a $5.0 million special dividend both payable to the sole shareholder, the Corporation of the City of London, in quarterly installments in 2015.

On March 26, 2014 the Board of Directors approved the payment of a dividend in the amount of $3.0 million paid in quarterly instalments in 2014.





## 17. Other revenue

| | 2015 | 2014 |
|---|---|---|
| City of London water services | $ 3,996 | $ 3,904 |
| Late payment charges | 1,816 | 1,739 |
| Collection charges | 694 | 692 |
| Occupancy charges | 619 | 594 |
| Customer billing service fees | 586 | 592 |
| Pole and other rental income | 410 | 414 |
| Other services, recoveries and sundry revenues | 580 | 805 |
| Income tax incentive credits | 319 | 390 |
| Renewable generation revenue | 314 | 308 |
| Sale of scrap | 298 | 508 |
| Gain on disposal of capital assets | 162 | 172 |
| Amortization of deferred revenue | 79 | 21 |
| Ontario Power Authority incentives | 47 | 3,234 |
| | $ 9,920 | $ 13,373 |

## 18. Operating expenses

| | 2015 | 2014 |
|---|---|---|
| Labour and benefits | $ 24,213 | $ 23,428 |
| Professional services | 5,478 | 5,067 |
| Office equipment services and maintenance | 2,011 | 1,071 |
| Rental, regulatory and other expenses | 1,649 | 1,615 |
| Facilities maintenance and repair | 1,521 | 1,677 |
| Postage | 1,250 | 1,208 |
| Corporate training and employee expenses | 1,124 | 1,123 |
| Property tax and insurance | 1,095 | 1,137 |
| Materials and supplies | 983 | 951 |
| Fleet operations and maintenance | 952 | 917 |
| Bad debts | 650 | 700 |
| Allocations to capital and billable activities | (1,720) | (1,748) |
| | $ 39,206 | $ 37,146 |

## 19. Finance (income) and expenses

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Finance income | | | | |
| Interest income on bank deposits | $ | (101) | $ | (69) |
| Finance expenses | | | | |
| Unrealized loss on interest rate swap | | 3,158 | | 2,579 |
| Related party promissory note | | - | | 3,850 |
| Interest on long-term debt | | 2,643 | | 709 |
| Interest on short-term debt | | 27 | | 60 |
| Other | | 70 | | 105 |
| | | 5,898 | | 7,303 |
| **Net finance expense** | $ | 5,797 | $ | 7,234 |

## 20. Commitments and contingencies

*General*

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company has no reason to believe that the outcome of any of these matters could reasonably be expected to have a materially adverse impact on the Company's financial position, results of operations or its ability to carry on any of its business activities.

*General Liability Insurance*

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2015, no assessments have been made.



**20. Commitments and contingencies (continued)**

*Letters of credit*

At December 31, 2015, the Company had provided $6.6 million (2014 – $6.6 million) in bank standby letters of credit to the IESO.

*Vendor commitments*

The Company has commitments in connection with Information Systems projects of approximately $0.8 million (2014 - $0.7 million), Infrastructure projects of $5.3 million (2014 – $3.9 million) and new vehicle acquisitions of $0.5 million (2014 - $0.8 million).

*Operating leases*

The Company is committed to lease agreements for various vehicles, equipment and property rights. The future minimum non-cancellable annual lease payments are as follows:

| | December 31 2015 | December 31 2014 | January 1, 2014 |
|---|---|---|---|
| Less than one year | $ 303 | $ 171 | $ 155 |
| Between one and five years | 1,027 | 588 | 561 |
| More than five years | 193 | 232 | 271 |
| | **$ 1,523** | **$ 991** | **$ 987** |

Operating lease expense incurred during the year ended December 31, 2015 was of $0.3 million (2014 - $0.2 million).





London Hydro Inc.
Notes to the Financial Statements
(*in thousands of dollars*)
For the years ended December 31, 2015 and 2014

**21. Related party transactions**

a) Trade balances due to shareholder

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Water consumption | $ 6,746 | $ 6,208 | $ 6,315 |
| Non-interest bearing trade balance due to (from) shareholder, without stated repayment terms | 682 | 735 | (39) |
| | $ 7,428 | $ 6,943 | $ 6,276 |

The Company delivers electricity to the City of London throughout the year for the electricity needs of the City of London and its related organizations. Electricity delivery charges are at prices and under terms approved by the OEB. The Company also provides additional services to the City of London, including water and waste water billing and customer care services.

During the year ended December 31, 2015, the Company billed customers for water service on behalf of the shareholder and remitted funds to the shareholder in the amount of $151.1 million (2014 – $143.0 million). The shareholder paid $3.9 million (2014 - $3.9 million) for this service.

b) Promissory note due to related party

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Unsecured promissory note, due to related party, bearing interest at 6% per annum, payable on demand with 367 days notice, maturing October 31, 2015 | $ - | $ - | $ 70,000 |
| | - | - | 70,000 |
| Less: Current portion | - | - | - |
| | $ - | $ - | $ 70,000 |

The Company repaid the promissory note to the Corporation of the City of London on November 28, 2014. The Company obtained funding in the amount of $85.0 million from the Royal Bank of Canada which was in place on the transfer date (note 14).

The Company paid interest on the promissory note during the year ended December 31, 2014 in the amount of $3.9 million.

## 22. Joint venture agreement

On January 1, 2013, The Company entered into an agreement with London District Renewable Energy Co-Operative Inc. ("LDREC") to create a joint venture with the legal name "London Renewable Energy Initiative" for the intention of identifying, applying for and constructing solar projects that have been approved under the Feed-in Tariff ("FIT") government program. The Company has a 49% equity interest in LDREC while appointing 60% of the members of the Executive Committee resulting in controlling interest. To date no significant work has been completed and no amounts have been recorded in these financial statements in connection with this venture.

## 23. Financial instruments and risk management

### Fair value disclosure

The carrying values of cash, accounts receivable, unbilled revenue, due from/to shareholder and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

The fair value of the long-term debt at December 31, 2015 is $95 million (2014 - $96 million). The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at December 31, 2015 was 2.16% (2014 – 2.46%). The fair value of interest rate swaps is recorded based on valuation amounts as provided by RBC Capital Markets on a quarterly basis.

### Financial risks

The Company understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Company's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

a) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company primarily assesses credit risk exposure by customer segment. Concentrations of consumption by segment or individual customer, may impact risk due to varying energy consumption patterns and allowable security deposit requirements associated with each segment. The Company is not exposed to a significant concentration of credit risk within any customer segment or individual customer. No single customer accounts for revenue in excess of 10% of total revenue.



**23. Financial instruments and risk management (continued)**

a) Credit risk (continued)

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in profit and loss as bad debt expense. Subsequent recoveries of receivables previously provisioned are credited to profit and loss. The balance of the allowance for impairment loss at December 31, 2015 is $2.5 million (2014 - $2.3 million). Bad debt expense was $0.7 million (2014 - $0.7 million) during the year ended December 31, 2015.

At December 31, 2015, approximately $0.7 million (2014 - $0.6 million) is included in the allowance for doubtful accounts for uncollectible amounts relating to water consumption. No bad debt expense has been realized in the Statement of Comprehensive Income in connection with water consumption as these amounts are fully recovered from the City of London.

The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2015, approximately $2.0 million (2014 - $1.9 million) is considered 60 days past due. The Company has 154 thousand customers, the majority of whom are residential.

By regulation, the Company is responsible for collecting both the distribution and energy portions of the electricity bill. On average, the Company earns 18% of amounts billed to customers with the remaining 82% being collected for other parties. The Company is therefore exposed to a credit risk substantially greater than the income that it regularly earns.

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. At December 31, 2015, the Company held deposits in the amount of $6.3 million (2014 - $5.9 million). Additionally, if presented with substantial credit losses, the Company would make an application to the regulator for recovery of those losses through distribution rate adjustments in future years.

b) Market risk

Market risks primarily refer to the risk of loss that result from changes in commodity prices, foreign exchange rates, and interest rates. The Company currently does not have significant commodity or foreign exchange risk. The Company is exposed to fluctuations in interest rates as the regulated rate of return for the Company's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

A 1% increase in the interest rate at December 31, 2015 would have increased interest expense on the long-term debt by $ 0.1 million (2014 - nil), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

**23. Financial instruments and risk management (continued)**

c) Liquidity risk

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due. The majority of accounts payable, as reported on the Statement of Financial Position, are due within 30 days.

The Company has an uncommitted operating revolving line of credit facility of $20 million with the Toronto Dominion Bank. At December 31, 2015, the amount drawn by the Company under this line of credit was nil (2014 - nil). The line of credit is unsecured and interest is at bank prime rate on prime based borrowings minus 0.5%, or at Bankers' Acceptances ("B/A") rates plus a 0.75% stamping fee on B/A based borrowings.

At December 31, 2015, the Company had a committed 364 day extendable operating revolving loan facility of $15 million with the Toronto Dominion Bank and the amount drawn by the Company under this loan facility was $5 million (2014 - nil). Under the terms of this agreement, the loan has a maturity date of March 31, 2016. The Company has a one year period from the loan maturity date to repay any outstanding balances in the event the lender elects not to extend the loan for an additional 364 day period. Interest is at bank prime rate on prime based borrowings minus 0.5%, or at B/A rates plus a 0.75% stamping fee on B/A based borrowings.

The Company also has a bilateral facility for $6.6 million for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which nil has been drawn and posted with the IESO (2014 - nil).





**23. Financial instruments and risk management (continued)**

d) Capital disclosures

The main objectives of the Company, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholder's equity and long-term debt.

| | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|
| Long-term debt | $ 98,434 | $ 95,738 | $ 13,042 |
| Due to related party | - | - | 70,000 |
| Shareholder's equity | 148,608 | 148,254 | 139,191 |
| | $ 247,042 | $ 243,992 | $ 222,233 |

**24. Subsequent event**

On April 19, 2016, the Board of Directors declared a $5.0 million annual dividend and a $5.0 million special dividend both payable to the sole shareholder, the Corporation of the City of London, in quarterly installments in 2016.





**25. Explanation of transition to IFRS**

As stated in note 2(b), these are the Company's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2015, the comparative information presented in these financial statements for the year ended December 31, 2014, and in the preparation of the opening IFRS Statement of Financial Position as at January 1, 2014 (the Company's date of transition).

In preparing its opening IFRS Statement of Financial Position, the Company has adjusted the amounts reported previously in the financial statements prepared in accordance with Canadian general accepted accounting principles ("CGAAP"). An explanation of how the transition from CGAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes accompanying the tables.

a) Regulatory accounts

IFRS14: *Regulatory Deferral Accounts*, permits an entity to continue to account for regulatory deferral account balances in its financial statements in accordance with its previous CGAAP when it adopts IFRS. An entity is permitted to apply the requirements of this standard in its first IFRS financial statements if and only if it conducts rate-regulated activities and recognized amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous CGAAP. This standard exempts an entity from applying paragraph 11 of IAS8: *Accounting policies, changes in accounting estimates and errors*, to its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances.

IFRS 14 is effective from periods beginning on or after January 1, 2016, however, early application is permitted. The Company has elected to apply this Standard in its first IFRS financial statements.

**25. Explanation of transition to IFRS (continued)**

b) IFRS 1 Exemptions

IFRS 1 *First-time adoption of International Financial Reporting Standards* sets out the procedures that the Company must follow when it adopts IFRS for the first time as the basis for preparing its financial statements. The Company is required to establish its IFRS accounting policies as at December 31, 2015 and, in general, apply these retrospectively to determine the IFRS opening Statement of Financial osition as its date of transition, January 1, 2014. This standard provides a number of mandatory and optional exemptions to this general principle. These are set out below, together with a description in each case of the exemption adopted by the Company.

i. Transfer of assets from customers

*IFRIC 18 - "Transfers of assets from customers"* allows for the application of IFRIC 18 with respect to the recognition of capital contributions on the date of transition or earlier adoption is permitted. The Company has elected to apply IFRIC 18 effective January 1, 2014.

ii. Deemed cost

IFRS 1 provides an optional exemption for a first-time adopter with rate-regulated activities to use the carrying amount of PP&E and intangible assets as deemed cost on transition date when the carrying amount includes costs that do not quality for capitalization in accordance with IFRS. The Company elected this exemption and used the carrying amount of the PP&E and intangible assets under CGAAP as deemed cost on transition date. The carrying amount used as deemed cost is $224.5 million for PP&E and $16.2 million for intangible assets.

If an entity applies this exemption, at the date of transition to IFRS, it shall test for impairment each item for which this exemption is used. The assets were tested for impairment at the date of transition and it was determined that the assets were not impaired.

c) Reconciliations between Canadian GAAP and IFRS

In preparing its opening IFRS balance sheet as at January 1, 2014, the Company has adjusted amounts reported previously in financial statements prepared in accordance with CGAAP. An explanation of how the transition from CGAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.







## 25. Explanation of transition to IFRS (continued)

### Reconciliation of Statement of Financial Position and Statement of Changes in Equity

| *As at January 1, 2014* | Note | CGAAP | Presentation differences | Measurement & recognition differences | IFRS |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Accounts receivable | | $ 71,046 | $ 1,248 | $ - | $ 72,294 |
| Income tax receivable | | 80 | | | 80 |
| Materials and supplies | | 731 | | | 731 |
| Prepaid expenses | | 1,456 | | | 1,456 |
| Total current assets | | 73,313 | 1,248 | - | 74,561 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | a,b,c | 240,693 | (16,211) | | 224,482 |
| Intangible assets | a,b,c | - | 16,237 | | 16,237 |
| Deferred tax assets | g | 2,463 | (640) | 334 | 2,157 |
| Total non-current assets | | 243,156 | (614) | 334 | 242,876 |
| **Total assets** | | 316,469 | 634 | 334 | 317,437 |
| Regulatory balances | c | 2,337 | (26) | | 2,311 |
| **Total assets and regulatory balances** | | $ 318,806 | $ 608 | $ 334 | $ 319,748 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Bank indebtedness | | $ 3,012 | $ - | $ - | $ 3,012 |
| Accounts payable and accrued liabilities | d | 51,450 | 1,186 | | 52,636 |
| Due to shareholder | d | 6,577 | (301) | | 6,276 |
| Current portion of long-term debt | | 2,304 | | | 2,304 |
| Customer and other deposits | d | 1,626 | (912) | | 714 |
| Deferred revenue | d | - | 1,277 | | 1,277 |
| Total current liabilities | | 64,969 | 1,250 | - | 66,219 |
| **Non-current liabilities** | | | | | |
| Customer and other deposits | d | 7,419 | (2,253) | | 5,166 |
| Long-term debt | | 10,738 | | | 10,738 |
| Post-employment benefits | f | 11,733 | | 1,256 | 12,989 |
| Deferred revenue | d | - | 6,229 | | 6,229 |
| Unrealized loss on interest rate swap | | 199 | | | 199 |
| Due to shareholder | d | 3,976 | (3,976) | | - |
| Due to related party | | 70,000 | | | 70,000 |
| Total non-current liabilities | | 104,065 | - | 1,256 | 105,321 |
| **Total liabilities** | | 169,034 | 1,250 | 1,256 | 171,540 |
| **Equity** | | | | | |
| Share capital | | 96,116 | | | 96,116 |
| Retained earnings | f | 44,331 | | (1,256) | 43,075 |
| Accumulated other comprehensive income (loss) | | - | | | - |
| **Total equity** | | 140,447 | - | (1,256) | 139,191 |
| **Total liabilities and equity** | | 309,481 | 1,250 | - | 310,731 |
| Regulatory balances | g | 9,325 | (642) | 334 | 9,017 |
| **Total liabilities, equity and regulatory balances** | | $ 318,806 | $ 608 | $ 334 | $ 319,748 |

London Hydro Inc.
Notes to the Financial Statements
(*in thousands of dollars*)
For the years ended December 31, 2015 and 2014

**25. Explanation of transition to IFRS (continued):**

**Reconciliation of Statement of Financial Position and Statement of Changes in Equity**

| *As at December 31, 2014* | Note | CGAAP | Presentation differences | Measurement & recognition differences | IFRS |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | | $ 6,208 | $ - | $ - | $ 6,208 |
| Accounts receivable | | 71,122 | 1,310 | | 72,432 |
| Income tax receivable | | - | | | - |
| Materials and supplies | | 655 | | | 655 |
| Prepaid expenses | | 1,569 | | | 1,569 |
| Total current assets | | 79,554 | 1,310 | - | 80,864 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | a,b,c,d | 248,217 | (12,930) | | 235,287 |
| Intangible assets | a,b,c | - | 15,101 | | 15,101 |
| Deferred tax assets | g | 879 | (39) | 459 | 1,299 |
| Total non-current assets | | 249,096 | 2,132 | 459 | 251,687 |
| **Total assets** | | 328,650 | 3,442 | 459 | 332,551 |
| Regulatory balances | c | 7,235 | (651) | | 6,584 |
| **Total assets and regulatory balances** | | $ 335,885 | $ 2,791 | $ 459 | $ 339,135 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable and accrued liabilities | d | $ 51,997 | $ 1,232 | $ - | $ 53,229 |
| Due to shareholder | d | 7,285 | (342) | | 6,943 |
| Income tax payable | | 1,352 | 46 | | 1,398 |
| Current portion of long-term debt | | 2,304 | | | 2,304 |
| Customer and other deposits | d | 1,728 | (1,037) | | 691 |
| Deferred revenue | d | - | 1,482 | | 1,482 |
| Total current liabilities | | 64,666 | 1,381 | - | 66,047 |
| **Non-current liabilities** | | | | | |
| Customer and other deposits | d | 8,824 | (3,606) | | 5,218 |
| Long-term debt | | 93,434 | | | 93,434 |
| Post-employment benefits | f | 12,019 | | 1,730 | 13,749 |
| Deferred revenue | d | - | 8,934 | | 8,934 |
| Unrealized loss on interest rate swap | | 2,778 | | | 2,778 |
| Due to shareholder | d | 3,549 | (3,549) | | - |
| Total non-current liabilities | | 120,604 | 1,779 | 1,730 | 124,113 |
| **Total liabilities** | | 185,270 | 3,160 | 1,730 | 190,160 |
| **Equity** | | | | | |
| Share capital | | 96,116 | | | 96,116 |
| Retained earnings | f | 53,868 | | (1,259) | 52,609 |
| Accumulated other comprehensive income (loss) | f | - | | (471) | (471) |
| **Total equity** | | 149,984 | - | (1,730) | 148,254 |
| **Total liabilities and equity** | | 335,254 | 3,160 | - | 338,414 |
| Regulatory balances | g | 631 | (369) | 459 | 721 |
| **Total liabilities, equity and regulatory balances** | | $ 335,885 | $ 2,791 | $ 459 | $ 339,135 |



London Hydro Inc.
Notes to the Financial Statements
(*in thousands of dollars*)
For the years ended December 31, 2015 and 2014

**25. Explanation of transition to IFRS (continued)**

**Reconciliation of net income for 2014**

| *For the year ended December 31, 2014* | Note | CGAAP | Presentation differences | Measurement & recognition differences | IFRS |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Sales of energy | i | $ 363,384 | $ (11,176) | $ - | $ 352,208 |
| Distribution revenue | j | 63,367 | 295 | | 63,662 |
| Other | j | 8,894 | 4,479 | | 13,373 |
| | | 435,645 | (6,402) | - | 429,243 |
| **Operating Expenses** | | | | | |
| Cost of power purchased | | 363,384 | | | 363,384 |
| Operating expenses | j | 32,249 | 4,895 | 2 | 37,146 |
| Depreciation and amortization | j | 17,655 | (86) | | 17,569 |
| | | 413,288 | 4,809 | 2 | 418,099 |
| **Finance (income) / costs** | | | | | |
| Finance income | j | - | (69) | | (69) |
| Finance costs | j | 7,417 | (114) | | 7,303 |
| | | 7,417 | (183) | - | 7,234 |
| **Income before income taxes** | | 14,940 | (11,028) | (2) | 3,910 |
| Income tax expense | j | 2,403 | 1,666 | 1 | 4,070 |
| **Net income for the year** | | 12,537 | (12,694) | (3) | (160) |
| Net movement in regulatory balances, net of tax | i,j | - | 12,694 | | 12,694 |
| **Net income and net movement in regulatory balance** | | 12,537 | - | (3) | 12,534 |
| **Other comprehensive income** | | | | | |
| Remeasurement of post-employment benefits | f | - | | (471) | (471) |
| Tax on remeasurements | g | - | | 125 | 125 |
| Net movement in regulatory balances, net of tax | | - | | (125) | (125) |
| | | - | - | (471) | (471) |
| **Total comprehensive income for the year** | | $ 12,537 | $ - | $ (474) | $ 12,063 |





**25. Explanation of transition to IFRS (continued)**

**Notes to the reconciliations**

The impact on deferred tax of the adjustments described below is set out in note (g).

a) The Company has elected under IFRS 1 to use the carrying value of items of property, plant and equipment and intangible assets as the deemed cost at the date of transition. Therefore, there has been no change to the net PP&E and intangible assets at January 1, 2014. The effect of this transitional adjustment is a decrease to the original cost and accumulated depreciation of the affected property, plant and equipment and intangible assets by $187.1 million and $187.1 million respectively, representing the CGAAP accumulated depreciation amount on January 1, 2014.

b) The Company has identified certain intangible assets that under CGAAP were recorded with other classes of property, plant and equipment. The Company has reclassified the identified intangible assets to be in accordance with *IAS 38 - Intangible Assets*.

   The effect is to increase intangible assets by $16.2 million on January 1, 2014 and $14.8 million on December 31, 2014, and to decrease property, plant and equipment by $16.2 million at January 1, 2014 and $14.8 million at December 31, 2014.

c) The Company has identified certain intangible assets that under CGAAP were recorded under Regulatory balances. The Company has reclassified the identified intangible assets to be in accordance with *IAS 38 - Intangible Assets*.

   The effect is to increase intangible assets by nil on January 1, 2014 and $0.3 million on December 31, 2014, and to decrease Regulatory balances by nil at January 1, 2014 and $0.3 million at December 31, 2014.

d) Under CGAAP, customer contributions were netted against the cost of property, plant and equipment and amortized to profit or loss as an offset to depreciation expense, on the same basis as the related assets. Under IFRS, customer contributions are recognized as deferred revenue, not netted against property, plant and equipment, and amortized into profit or loss over the life of the related asset.

   There is no impact to property, plant and equipment as at January 1, 2014 as the deemed cost exemption has been used (See Notes to the reconciliations (a)).

**25. Explanation of transition to IFRS (continued)**

**Notes to the reconciliations (continued)**

In accordance with this change, deposits held for capital construction have also been reclassified to deferred revenue.

The reclassification of deposits held for construction at January 1, 2014 had the effect of increasing deferred revenue (current portion) by $1.3 million and decreasing accounts payable and accrued liabilities by $0.1 million, decreasing customer and other deposits by $0.9 million and decreasing due to shareholder by $0.3 million. Deferred revenue (long-term) increased by $6.2 million as a result of this change and decreased customer and other deposits by $2.2 million and due to shareholder by $4.0 million at January 1, 2014.

The reclassification of deposits held for construction at December 31, 2014 had the effect of increasing deferred revenue (current portion) by $1.5 million and increasing property, plant and equipment by $0.1 million, decreasing accounts payable and accrued liabilities by nil, decreasing customer and other deposits by $1.1 million and decreasing due to shareholder by $0.3 million. Deferred revenue (long-term) increased by $8.9 million as a result of this change and increased property, plant and equipment by $1.8 million, decreased customer and other deposits by $3.6 million and due to shareholder by $3.5 million at December 31, 2014.

e) IFRS requires that borrowing costs related to the construction of the qualifying assets be capitalized. The Company has applied IAS 23 to all qualifying assets that were in progress or commenced since January 1, 2014. No qualifying assets were identified and therefore no borrowing costs were capitalized for the year ended December 31, 2014.

f) The Company adopted the revised Employee Benefits standard effective January 1, 2014. This revised standard requires recognition of actuarial gains and losses through other comprehensive income. The effect is to increase the Company's Post-employment benefits liability by $1.3 million at January 1, 2014 and $1.7 million at December 31, 2014 and decrease retained earnings by $1.3 million at January 1, 2014 and December 31, 2014 and decrease accumulated other comprehensive income by $0.4 million at December 31, 2014. This also provided for an increase in employee future benefits expense of nil and an other comprehensive loss of $0.4 million for the year ended December 31, 2014.





**25. Explanation of transition to IFRS (continued)**

**Notes to the reconciliations (continued)**

g) The above changes increased the deferred tax asset as follows:

| | Total<br>$ | December 31, 2014<br>$ | January 1, 2014<br>$ |
|---|---|---|---|
| Post-employment benefits | 1,730 | 474 | 1,256 |
| Tax impact at the enacted rate of 26.5% | 459 | 125 | 334 |
| Increase in deferred tax asset | 459 | 125 | 334 |
| Increase in regulatory liability balances | (459) | (125) | (334) |

h) Explanation of material adjustments to the statement of cash flows for 2014:

There are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under CGAAP.

i) As discussed under Basis of Preparation in connection with rate setting for electricity, rates are set based on either market prices or the OEB regulated amounts. The Company is billed for the cost of the electricity that its customers use and passes this cost directly on to the customer at cost without a mark-up. Under CGAAP, variances between the cost of purchased power and rates set and charged to customers flowed directly to the Statement of Financial Position as regulatory assets or liabilities. IFRS requires that these variances first be reported through profit and loss under net income for the period, and then be reclassified to the Statement of Financial Position as a movement in regulatory balances, net of tax.

j) As discussed under Basis of Preparation regarding distribution revenues, current rates are set based on forecasted annual operating expenditures included in the last Cost of Service Rate Application. Distribution revenues and expenditures not included in the last Cost of Service Rate Application as a result of timing or newly implemented programs are captured under regulatory balances. Under CGAAP, these deferral amounts flowed directly to the Statement of Financial Position. IFRS requires that these items first be reported through profit and loss under net income for the period, and then be reclassified to the Statement of Financial Position as a movement in regulatory balances, net of tax.



London Hydro

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File Number:EB-2016-0091

Exhibit: 1
Tab: 8
Schedule: 1

Date Filed:August 26, 2016

# ATTACHMENT 4 OF 4
# RATING AGENCY REPORT

S&P Global
Ratings

RatingsDirect®

**Summary:**

# London Hydro Inc.

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## Table Of Contents

Rationale

Outlook

S&P Global Ratings' Base-Case Scenario

Business Risk

Financial Risk

Liquidity

Other Modifiers

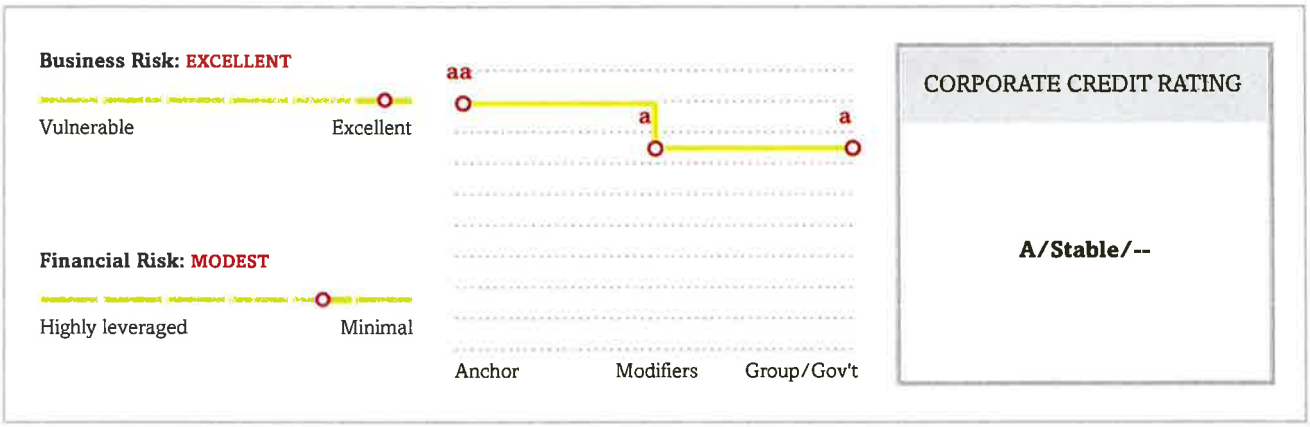
Government Influence

Ratings Score Snapshot

Related Criteria And Research

## Summary:

# London Hydro Inc.




## Rationale

| Business Risk: Excellent | Financial Risk: Modest |
|---|---|
| • Relatively stable regulatory regime<br>• Commodity costs that are pass-through<br>• The ability to recover all fixed and variable operating costs | • Stable, regulated cash flow<br>• Low likelihood of extraordinary government support |

**Outlook: Stable**

The stable outlook reflects what S&P Global Ratings consider to be consistent, predictable cash-flow generation, which London Hydro Inc.'s (LHI) low-risk regulated distribution business supports.

### Downside scenario

We believe a downgrade during the next two years is highly unlikely. However, a material, adverse regulatory ruling or a significant increase in leverage leading to a sustained deterioration in forecast adjusted funds from operations (AFFO)-to-debt below 13% could lead to a downgrade.

### Upside scenario

We believe an upgrade during the next two years is highly unlikely. However, we would consider one if the company were to implement a well-articulated financial and dividend policy aligned with a shareholder agreement, which enshrined the current modest balance sheet leverage. As well, we would have to be satisfied that there was negligible potential for alignment with a more highly levered deemed capital structure used by the Ontario regulator for setting rates. In that case, we could reduce the impact of the financial policy modifier, raising the ratings.

## S&P Global Ratings' Base-Case Scenario

London Hydro is a local electricity distribution company (LDC) operating in the City of London. One of the key rating considerations continues to be the Ontario Energy Board's (OEB) regulatory framework and the utility's performance within it.

**Assumptions**

- Stable regulatory regime allowing energy cost pass-through
- Distribution rate revenue to increase 1.45% (1.60% inflation rate minus a 0.15% stretch factor) for 2016 and 2017
- LHI will continue to earn its allowed return on equity of 9.00%
- The company will not make any material, debt-financed unregulated investments

**Key Metrics**

| | 2015A | 2016E | 2017E |
|---|---|---|---|
| AFFO/Debt (%) | 33.7 | 27-32 | 27-32 |
| Debt-to-debt and equity (%) | 42.5 | 40-45 | 40-45 |

AFFO--Adjusted funds from operations. A--Actual. E--Estimated.

## Business Risk: Excellent

We view London Hydro's business risk profile as excellent, reflecting our assessment of the company's regulatory advantage, its scale, scope and diversity and its operating efficiency. The company is regulated by the Ontario Energy Board (OEB) We view the OEB regulatory process as transparent, consistent, and predictable. The board publishes details of all hearings, and the rationale supporting its decisions. Supporting consistency and predictability are the use of standard methodology applied to all utilities in its jurisdiction, including a transparent formula for allowed returns, and a consistent deemed capital structure that has not changed for many years. In addition, during times of change, the regulator follows a public process of study and consultation that allows management to adjust to new regulatory or market developments.

The regulator's mandate is to balance the needs of customers and utility investors. To date, there have been no penalties imposed in the industry, although the regulator does monitor performance standards.

Rates are typically determined in a timely fashion and allow for the recovery of prudently incurred costs and the opportunity to earn a modest return. Furthermore, several mechanisms support timely recovery of material and unexpected capital costs, including rate riders, specific adjustments under incentive based ratemaking, and (in some circumstances) an ability to request a rate-reset hearing.

The LDC has no obligation to ensure an adequate supply of electricity and is not burdened with the procurement process or power purchase agreements which reduce operating risk. Furthermore, commodity costs flow through rates, thereby limiting the LDC's exposure to commodity risk and associated cash flow volatility.

We expect LHI's customer profile to be stable, with about two-thirds of electricity demand from residential customers,

who are less sensitive to macroeconomic stresses and business cycles. Similarly, London Hydro also has a significant institutional customer base segment with stable demand. Net revenue can fluctuate modestly due to weather-driven change in demand, but we do not believe these fluctuations will pressure credit metrics. The utility's operating efficiency, as measured by standard industry reliability measures, is above average, although there are no penalties or incentives for performance. In our opinion, London Hydro's unregulated cash flow is not material to the ratings.

## Financial Risk: Modest

We assess LHI's financial risk profile as modest. For the utility, we use the low volatility table, reflecting the very low industry risk associated with regulated utilities and the supportive regulatory framework. We expect the company to undergo another cost-of-service hearing and rate reset in 2017. During this incentive rate mechanism (IRM) period, we expect rates to be adjusted annually by inflation minus a productivity factor. The relatively low inflation environment, combined with the productivity and stretch factors, might challenge the company's ability to earn the allowed return on equity. Nevertheless, in our base-case scenario, we expect AFFO-to-debt of 27%-32%.

## Liquidity: Adequate

London Hydro's liquidity is adequate, in our view. We expect that liquidity sources will be sufficient to cover uses more than 1.1x over the next 12 months. We also expect that in the event of a 10% decline in earnings, the company's sources of funds would still exceed its uses. In our view, London Hydro has sound relationships with its banks and generally prudent financial risk management.

| Principal Liquidity Sources | Principal Liquidity Uses |
|---|---|
| • FFO of approximately C$30 million-$35million in 2016<br>• Revolver availability of C$10 million<br>• Cash and short-term investments of C$6.4 million at Dec. 31, 2015 | • Capital expenditures of about C$25 million-$30 million in the next 12 months<br>• Dividends of approximately C$10 million in the next 12 months<br>• Current portion of long-term debt of C$7.3 million |

## Other Modifiers

Based on our criteria we assess LHI's financial policy to be negative because we believe that leverage could become materially higher than our base-case forecast. London Hydro has a relatively conservative capital structure with a forecast adjusted debt-to-capital of about 40% in 2014, compared with the regulatory deemed capital structure of 60%. This results in it having strong cash-based credit metrics compared with those of peers. LHI has a history of paying special dividends. Furthermore, it does not have a formal financial policy governing its capital structure and we believe it could revisit this issue, potentially aligning leverage closer to the deemed capital structure the OEB uses. Our assessment modifies the rating down three notches.

## Government Influence

In accordance with our criteria for government-related entities, we base our view of a low likelihood of extraordinary government support on our assessment of:

- Limited importance role to London, given the province has oversight of both electricity regulation and water licensing and that private enterprise could provide the utility role
- Limited link with the city, given our view that in a stress scenario, although London might provide some temporary liquidity support, it would be more likely to sell the utility than to support it in the longer term with taxpayer dollars

Based on the low likelihood of extraordinary support, there is no rating enhancement to the 'a' stand-alone credit profile.

## Ratings Score Snapshot

### Corporate Credit Rating

A/Stable/--

### Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Excellent

### Financial risk: Modest

- **Cash flow/Leverage:** Modest

### Anchor: aa

### Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Negative (-3 notches)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

### Stand-alone credit profile : a

- **Likelihood of government support:** Low (no impact)

## Related Criteria And Research

### Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

**Business And Financial Risk Matrix**

| | Financial Risk Profile | | | | | |
|---|---|---|---|---|---|---|
| **Business Risk Profile** | Minimal | **Modest** | Intermediate | Significant | Aggressive | Highly leveraged |
| **Excellent** | aaa/aa+ | **aa** | a+/a | a- | bbb | bbb-/bb+ |
| Strong | aa/aa- | a+/a | a-/bbb+ | bbb | bb+ | bb |
| Satisfactory | a/a- | bbb+ | bbb/bbb- | bbb-/bb+ | bb | b+ |
| Fair | bbb/bbb- | bbb- | bb+ | bb | bb- | b |
| Weak | bb+ | bb+ | bb | bb- | b+ | b/b- |
| Vulnerable | bb- | bb- | bb-/b+ | b+ | b | b- |

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# Exhibit 1

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# Tab 9 of 10

# Distributor Consolidation

# STATEMENT ON DISTRIBUTOR CONSOLIDATION

The July 14, 2016 Minimum Filing Requirements reference that if a distributor has acquired or amalgamated with another distributor(s) since its last rebasing application, it must identify any incentives that formed part of the acquisition or amalgamation transaction if the incentive represents costs (e.g. programs, projects and/or assets) that are being proposed to remain or enter rate base and/or revenue requirement. A distributor must list the exhibits of its application in which any incentives are discussed.

London Hydro herein confirms it has not acquired, been acquired or amalgamated with another distributor(s) since our last 2013 rebasing application (EB-2012-0146).

File Number: EB-2016-0091

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# Exhibit 1

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# Tab 10 of 10

# Materiality Threshold

# MATERIALITY THRESHOLD

Chapter 2 of the Filing Requirements issued by the Board on July 14, 2016 sets out the materiality levels based on the magnitude of the revenue requirement. London Hydro's revenue requirement is greater than $10 million and less than $200 million, therefore its materiality level is 0.5% of distribution revenue requirement. London Hydro's materiality threshold for the 2017 Test Year is $365,000 as shown in TABLE 1.10.1.1 below.

London Hydro has used a threshold of $365,000 for assessing materiality for the purposes of this Application.

**TABLE 1.10.1.1: LONDON HYDRO'S MATERIALITY THRESHOLD FOR THE 2017 TEST YEAR**

| MATERIALITY THRESHOLD | 2013 Board Approved | 2017 Test Year |
|---|---|---|
| | ($) | ($) |
| Distribution Base Revenue Requirement | 66,326,000 | 72,956,500 |
| **Materiality Threshold @ .5%** | **332,000** | **365,000** |