

# Scorecard - Espanola Regional Hydro Distribution Corporation

9/28/2015

Performance Outcomes	Performance Categories	Measures	2010	2011	2012	2013	2014	Trend	Target		
									Industry	Distributor	
<b>Customer Focus</b>  Services are provided in a manner that responds to identified customer preferences.	Service Quality	New Residential/Small Business Services Connected on Time	100.00%	100.00%	100.00%	94.70%	100.00%		90.00%		
		Scheduled Appointments Met On Time	90.50%	89.20%	93.00%	95.40%	100.00%		90.00%		
		Telephone Calls Answered On Time	63.90%	67.50%	65.70%	74.80%	77.30%		65.00%		
	Customer Satisfaction	First Contact Resolution					100%				
		Billing Accuracy					99.83%		98.00%		
		Customer Satisfaction Survey Results									
<b>Operational Effectiveness</b>  Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	Safety	Level of Public awareness [measure to be determined]									
		Level of Compliance with Ontario Regulation 22/04	C	C	C	C	C			C	
		Serious Electrical Incident Index	Number of General Public Incidents	0	0	0	0	0			0
	Rate per 10, 100, 1000 km of line		0.000	0.000	0.000	0.000	0.000			0.000	
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted	0.56	0.38	1.13	1.05	0.29			at least within 0.38 - 1.13	
		Average Number of Times that Power to a Customer is Interrupted	0.25	0.32	0.50	0.40	0.15			at least within 0.25 - 0.50	
	Asset Management	Distribution System Plan Implementation Progress					In progress				
	Cost Control	Efficiency Assessment			2	2	2				
		Total Cost per Customer <sup>1</sup>	\$558	\$577	\$619	\$612	\$602				
		Total Cost per Km of Line <sup>1</sup>	\$13,436	\$13,884	\$14,921	\$14,642	\$14,388				
<b>Public Policy Responsiveness</b>  Distributors deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	Conservation & Demand Management	Net Annual Peak Demand Savings (Percent of target achieved) <sup>2</sup>		10.97%	32.74%	39.95%	60.32%			0.52MW	
		Net Cumulative Energy Savings (Percent of target achieved)		53.15%	96.82%	108.32%	124.11%			2.76GWh	
	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time									
		New Micro-embedded Generation Facilities Connected On Time				100.00%	100.00%			90.00%	
<b>Financial Performance</b>  Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)	1.08	1.10	1.09	1.17	0.83				
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio	0.92	0.93	1.04	0.76	1.10				
		Profitability: Regulatory Return on Equity	Deemed (included in rates)		8.57%	9.12%	9.12%	9.12%			
			Achieved		-0.56%	-13.19%	29.90%	28.00%			

**Notes:**

- These figures were generated by the Board based on the total cost benchmarking analysis conducted by Pacific Economics Group Research, LLC and based on the distributor's annual reported information.
- The Conservation & Demand Management net annual peak demand savings include any persisting peak demand savings from the previous years.

**Legend:**

- up
- down
- flat
- target met
- target not met

## Appendix B – 2014 Scorecard Management Discussion and Analysis (“2014 Scorecard MD&A”)

The link below provides a document titled “Scorecard - Performance Measure Descriptions” that has the technical definition, plain language description and how the measure may be compared for each of the Scorecard’s measures in the 2014 Scorecard MD&A:

[http://www.ontarioenergyboard.ca/OEB/ Documents/scorecard/Scorecard Performance Measure Descriptions.pdf](http://www.ontarioenergyboard.ca/OEB/Documents/scorecard/Scorecard%20Performance%20Measure%20Descriptions.pdf)

### Scorecard MD&A - General Overview

For the year 2014, Espanola Regional Hydro (ERH) exceeded prescribed targets on all but one of the scorecard measures, specifically Net Annual Peak Demand Savings. In particular, system reliability performance for the year 2014 was significantly improved over 2013 and prior years. Much of this can be attributed to major capital investments such as the new MS4 distribution substation as well as related distribution system upgrades, and significant improved vegetation control in the distribution system.

### Service Quality

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

In 2014, ERH connected 12 eligible low-voltage residential and small business customers (connections under 750 volts) to its system, 100% of which were within the five-day timeline prescribed by the Ontario Energy Board (OEB). This is a 5.30% improvement from the previous year and well above the OEB-mandated target of 90%. The improvement over the prior year can be attributed to an increased effort on meeting customer needs and expectations. ERH is a relatively small utility and as a result the operations staff are directly involved with most of the functions that contribute to customer connections and servicing.

- **Scheduled Appointments Met On Time**

In 2014, ERH scheduled 28 appointments with its customers to complete customer requested work (ex. meter re-reads, reconnections, meter locates etc.). ERH met 100% of these appointments which was a 5.60% increase from last year and well above the OEB-mandated target of 90%. The increase is attributed to a focused effort by staff to ensure the appointment schedule is reviewed and adhered to on a daily basis.

- **Telephone Calls Answered On Time**

In 2014, ERH’s Customer Care Department received 4,289 calls from its customers – over 17 calls per working day. Of those calls, a Customer Care Representative answered the call in 30 seconds or less, 77.30% of the time. This result exceeds the OEB-mandated target

of 65% for timely call response. Year-over-year, the 2014 result amounts to a 2.50% improvement over 2013, driven primarily by a reduction in the number of calls. Call volume decreases may be attributed to improved internal processes, online access to account information and distributor contact via email.

## Customer Satisfaction

Specific customer satisfaction measurements have not been previously defined across the industry. The OEB has instructed all electricity distributors to review and develop measurements in these areas and begin tracking by July 1, 2014 so that information can be reported in 2015. The OEB plans to review information provided by electricity distributors over the next few years and implement a commonly defined measure for these areas in the future. As a result, each electricity distributor may have different measurements of performance until such time as the OEB provides specific direction regarding a commonly defined measure.

- **First Contact Resolution**

ERH's First Contact Resolution was measured by tracking the number of calls which were escalated to a Supervisor/Manager and a Senior Customer Care Representative. This was done by creating two specific call types in our Customer Information System (CIS) which could then be queried to provide the number of customer concerns which were escalated.

To establish the number of calls which were handled without escalation, the CIS was queried based on the associated call types to arrive at the number of customer calls handled by the Customer Care Team. To determine the number of repeat calls for the same issue, a review of the escalated calls was conducted on the premise that if the call reached the Senior Customer Care level the concern would not have been satisfactorily resolved at the time of first contact.

- **Billing Accuracy**

Until July 2014 a specific measurement of billing accuracy had not been previously defined across the industry. After consultation with some electricity distributors, the OEB has prescribed a measurement of billing accuracy which must be used by all distributors effective October 1, 2014. For the period from October 1, 2014 – December 31, 2014 ERH issued more than 9,500 bills and achieved a billing accuracy of 99.83%. This compares favourably to the prescribed OEB target of 98%. ERH continues to monitor its billing accuracy results and processes to identify opportunities for improvement.

- **Customer Satisfaction Survey Results**

The OEB introduced the Customer Satisfaction Survey Results measure beginning in 2013. At a minimum, electricity distributors are required to measure and report a customer satisfaction result at least every other year. At this time the OEB is allowing distributors discretion as to how they implement this measure.

ERH engaged a third party to conduct the customer satisfaction survey. The survey was conducted in April 2015 and completed in June 2015, therefore, survey results along with management discussion will be published on the 2015 Scorecard.

## Safety

- **Public Safety**

The OEB introduced the Safety Measure in 2015. This measure looks at safety from a customer's point of view as safety of the distribution system is a high priority. The Safety measure is generated by the Electrical Safety Authority (ESA) and includes three components: Public Awareness of Electrical Safety, Compliance with Ontario Regulation 22/04 and the Serious Electrical Incident Index.

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

This Component of the public safety measure does not have performance data for the 2014 scorecard as the public awareness of electrical safety survey was not required to be conducted in the subject year. 2016 will be the first year that the data for this measure will be reported on the scorecard for the 2015 results.

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

Component B is comprised of: the External Audit, the Declaration of Compliance, Due Diligence Inspections, Public Safety Concerns and Compliance Investigations. All these elements are evaluated as a whole and determine the status of compliance. Over the past five years, ERH was found to be compliant with Ontario Regulation 22/04 (Electrical Distribution Safety). This was achieved by our strong commitment to safety and adherence to company procedures. Ontario Regulation 22/04 establishes objective 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, and specifications and the inspection of construction before they are put in service.

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

ERH had no serious electrical incidents to report for 2014. In fact, the utility has not had a serious electrical incident to report in the last 4 years. For 2014 the results are zero incidents (0) with a rate of 0.0 per 100km of line. ERH continues to have a strong commitment to the safety of workers and the general public. ERH continues to provide its customers and the general public with information about electrical safety via its website and bill inserts, as well as both newspaper and radio advertisements. ERH has also

made significant maintenance and capital infrastructure investments in the past several years to enhance system safety and reliability.

## System Reliability

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

The average number of hours that a customer was interrupted in 2014 was significantly lower than 2013 or any of the preceding years. Much of this can be attributed to major capital investments such as the new MS4 distribution substation in Espanola as well as related distribution system upgrades, and significant vegetation control in the distribution system.

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

The average number of times that a customer was interrupted in 2014 was significantly lower than 2013 or any of the preceding years. As in the comment above, much of this can be attributed to major capital investments such as the new MS4 distribution substation in Espanola as well as related distribution system upgrades, and significant vegetation control in the distribution system.

## Asset Management

- **Distribution System Plan Implementation Progress**

All distributors are required to file a Distribution System Plan (DSP) when filing a cost of service application for the rebasing of their rates. Accordingly, ERH plans to file an application with the OEB for a full review of its rates effective May 1, 2016, which will include a complete DSP.

## Cost Control

- **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 PEG econometrics model attempts to standardizes costs to facilitate more accurate cost comparisons among distributors by accounting for differences such as number of customers, treatment of high and low voltage costs, kWh deliveries, capacity, customer growth, length of lines, etc. All Ontario electricity distributors are divided into five groups

based on the magnitude of the difference between their respective individual actual costs versus the PEG model predicted costs. The following table summarizes the distribution of all distributors across the 5 groupings.

Group	Demarcation Points for Relative Cost Performance	% of Ontario LDCs in Group
1	Actual costs are 25% or more below predicted costs	8
2	Actual costs are 10% to 25% below predicted costs	20
3	Actual costs are within +/-10% of predicted costs	47
4	Actual costs are 10% to 25% above predicted costs	18
5	Actual costs are 25% or more above predicted costs	7

In 2014, for the third year in a row, ERH was placed in Group 2, where a Group 2 distributor is defined as having actual costs between 10% and 25% below predicted costs under the PEG model. Group 3 is considered "average efficiency".

- **Total Cost per Customer**

Total cost per customer is calculated as the sum of ERH's capital and operating costs, including certain adjustments to make the costs more comparable between distributors (i.e. under the PEG econometrics model) and dividing this cost figure by the total number of customers that ERH serves. The cost performance result for 2014 is \$602/customer which is a 1.6% decrease over 2013.

Overall, ERH's Total Cost per Customer has increased on average by 1.6% per annum over the period 2010 through 2014. Similar to most distributors in the province, ERH has experienced increases in its total costs required to deliver quality and reliable services to customers. Province-wide programs such as Time of Use pricing, growth in wage and benefits costs for employees, as well as the renewal of the distribution system, have all contributed to increased operating and capital costs.

ERH will continue to replace distribution assets proactively in a manner that balances system risks and customer rate impacts. ERH's capital and operating programs will be further defined in its 2016 rate application to be filed in 2015. Customer engagement initiatives that commenced in 2015 will continue in order to ensure customers have an opportunity to share their viewpoint on ERH'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 the company operates to serve its customers. ERH's 2014 rate is \$14,388 per Km of line, a 1.7% decrease over 2013.

ERH has experienced a low level of growth in its total kilometers of lines due to a low annual customer growth rate. Such a low growth rate has reduced the ability to fund capital renewal and increasing operating costs through customer growth. As a result, total cost per Km of line has increased since 2010 with the increase in capital and operating costs.

## Conservation & Demand Management

- **Net Annual Peak Demand Savings (Percent of target achieved)**

ERH achieved 60.32% of its 2011-2014 Peak Demand target of 0.52 MW. It was a challenge to meet the peak demand target due to the fact ERH is a winter peaking utility. ERH was pleased with its efforts as peak demand savings results aligned fairly well with the provincial average.

- **Net Cumulative Energy Savings (Percent of target achieved)**

ERH achieved 124.11% of its 2011-2014 net cumulative energy savings target of 2.76 GWh. Much of this success can be attributed to the successful promotion of energy efficiency programs and strong participation by commercial customers in the Retrofit and Small Business Lighting Programs. ERH looks forward to promoting energy efficiency programs and assisting its customer in saving money and conserving energy throughout the new 2015-2020 Conservation First Framework.

## Connection of Renewable Generation

ERH's process to connect renewable generation projects is primarily delivered through a service contract with PUC Services Inc. out of their office in Sault Ste. Marie. PUC Services leverages the same employees and processes it uses to process generator connections for its affiliate, PUC Distribution Inc. thereby realizing economies of scale for all three parties involved. Both ERH and PUC Services employees work closely together and with ERH customers and their contractors to ensure projects are connected in a timely manner.

- **Renewable Generation Connection Impact Assessments Completed on Time**

Electricity distributors are required to conduct Connection Impact Assessments (CIAs) within 60 days of receiving authorization for their project from the Electrical Safety Authority. Although there has been considerable interest from developers to connect distributed generation in the ERH service territory, for the period 2010-2014 none of the proposed projects proceeded to the CIA stage.

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

In 2013-2014, ERH connected seven new micro-embedded generation facilities (microFIT projects of less than 10 kW) 100% of time

within the prescribed time frame of five business days. The minimum acceptable performance level for this measure is 90% of the time. Prior to that, in the period 2010-2012 there were no connections made.

## Financial Ratios

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

As an indicator of financial health, a current ratio that is greater than 1 is considered good as it indicates that the company can pay its short term debts and financial obligations. Companies with a ratio of greater than 1 are often referred to as being “liquid”. The higher the number, the more “liquid” and the larger the margin of safety to cover the company’s short-term debts and financial obligations.

ERH’s current ratio decreased from 1.17 in 2013 to 0.83 in 2014. The new substation constructed in 2014 was partially financed by a construction loan which will be converted to long term debt in 2015. ERH’s liquidity ratio will be in the area of 1.2 when the construction loan is converted.

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

The OEB uses a deemed capital structure of 60% debt, 40% equity for electricity distributors when establishing rates. This deemed capital mix is equal to a debt to equity ratio of 1.5 (60/40). A debt to equity ratio of more than 1.5 indicates that a distributor is more highly levered than the deemed capital structure. A high debt to equity ratio may indicate that an electricity distributor may have difficulty generating sufficient cash flows to make its debt payments. A debt to equity ratio of less than 1.5 indicates that the distributor is less levered than the deemed capital structure. A low debt-to-equity ratio may indicate that an electricity distributor is not taking advantage of the increased profits that financial leverage may bring.

ERH has a debt to equity ratio of 1.10 which is below the deemed capital structure. Additional borrowing is anticipated for the new substation and refurbishment of existing stations.

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

ERH's current distribution rates were approved by the OEB and include an expected (deemed) regulatory return on equity of 9.12%. 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 by the OEB of the distributor’s revenues and costs structure.

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

ERH’s return on equity achieved in 2014 was 28.00%, which is outside the +/-3% range. The average return over the past 3 years was 11.04% which is within the return included in ERH’s approved rates. ERH achieved returns higher than the deemed rate in 2014 mainly

due to the rate mitigation plans designed to assist customers which was approved by the OEB during the last Cost of Service Rate Application (2012). It is expected that ERH's return on equity will be within the +/-3% approved range for 2015.

### **Note to Readers of 2014 Scorecard MD&A**

The information provided by distributors on their future performance (or what can be construed as forward-looking information) may be subject to a number of risks, uncertainties and other factors that may cause actual events, conditions or results to differ materially from historical results or those contemplated by the distributor regarding their future performance. Some of the factors that could cause such differences include legislative or regulatory developments, financial market conditions, general economic conditions and the weather. For these reasons, the information on future performance is intended to be management's best judgment on the reporting date of the performance scorecard, and could be markedly different in the future.