Scorecard - Festival Hydro Inc.

9/28/2015

Performance Outcomes	Performance Categories	Measures		2010	2011	2012	2013	2014	Trend	Target: Industry	Target: Distributor
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	New Residential/Small Business Services Connected on Time		99.00%	99.20%	99.50%	99.40%	100.00%	up	90.00%	
		Scheduled Appointments Met On Time		100.00%	100.00%	99.80%	99.80%	100.00%	down	90.00%	
		Telephone Calls Answered On Time		98.30%	98.60%	78.70%	84.50%	84.60%	down	65.00%	
	Customer Satisfaction	First Contact Resolution						99.89%			
		Billing Accuracy						99.89%	flat	98.00%	
		Customer Satisfaction Survey Results						79%			
Operational Effectiveness 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		NI	NI	C	C	C	up		C
		Serious Electrical Incident Index	Number of General Public Incidents	0	0	0	0	0	flat		0
			Rate per 10, 100, 1000 km of line	0.000	0.000	0.000	0.000	0.000	flat		0.000
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted		1.86	1.08	1.04	4.00	1.27	up		at least within 1.04 - 4.00
		Average Number of Times that Power to a Customer is Interrupted		1.93	1.73	1.42	3.11	1.56	up		at least within 1.42 - 3.11
	Asset Management	Distribution System Plan Implementation Progress						91.45%			
	Cost Control	Efficiency Assessment				4	4	4			
		Total Cost per Customer [1]		$608	$606	$612	$627	$634			
		Total Cost per Km of Line [1]		$42,975	$43,484	$44,313	$49,466	$50,028			
Public Policy Responsiveness 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) [2]			10.83%	32.22%	45.66%	85.81%	target not met		6.23MW
		Net Cumulative Energy Savings (Percent of target achieved)			30.41%	108.10%	127.26%	155.92%	target met		29.25GWh
	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time						100.00%			
		New Micro-embedded Generation Facilities Connected On Time					100.00%	100.00%		90.00%	
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)		0.48	0.49	0.37	0.48	0.48			
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio		0.96	0.93	1.10	1.34	1.40			
		Profitability: Regulatory Return on Equity	Deemed (included in rates)		9.85%	9.85%	9.85%	9.85%			
			Achieved		11.71%	9.75%	10.50%	8.18%			

Notes:
1. 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.
2. 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

Festival Hydro Inc. – 2014 Scorecard Management Discussion and Analysis ("2014 Scorecard MD&A")

Scorecard MD&A - General Overview

In 2014, Festival Hydro met or exceeded all OEB Scorecard performance targets, with the exception of the Conservation and Demand Management (CDM) target for Net Annual Peak Demand Savings. A CDM Net Annual Peak demand Savings score of 85.81% was achieved, which compares to the OEB performance target of 100%. However, based on the OPA final 2014 results, Festival is proud to be amongst the top nine utilities in the province achieving over 85% of its MW target for the program delivery period of 2011 to 2014.

A concerted effort was put forth in 2014 to return System Reliability within its acceptable range. The lower reliability performance scores experienced in 2013 were largely due to ice storms which fortunately did not occur to the same extent in 2014. Festival maintains a robust replacement program for aging infrastructure and a vegetation control program including tree trimming activities in order to reduce the vulnerability of the distribution system during bad weather conditions.

New to the 2014 Scorecard are a number of newly reported performance targets related to first contact resolution, billing accuracy and customer survey results. Festival's goal is to improve customer satisfaction in 2015 and 2016. To address growing customer demands for timely information, in the latter part of 2015 Festival will be replacing its current website with a user focused system. Festival expects that, once it is operational, the richness of data in the new system will provide its customers with a broad array of useful, real-time, and interactive information that will permit them to better monitor and control their electricity consumption.

In 2016, Festival will be conducting a detailed customer survey and customer information gathering process. The expectation is that with the new self serve website and other customer focused initiatives undertaken it should lead to overall improved scorecard performance results and in particular, improvements in telephone accessibility and customer survey satisfaction.

Service Quality

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

  In 2014, Festival connected 100% of the 190 requested eligible low-voltage residential and small business customer connections (those utilizing connections under 750 volts) to its system within the five-day timeline prescribed by the Ontario Energy Board (OEB). This is a slight improvement from the previous year of 99.40% and above the OEB-mandated threshold of 90%. The 100% score reflects Festival's commitment to quality and timely customer service.

- ### Scheduled Appointments Met On Time

  Festival scheduled 483 appointments with customers in 2014 to complete work requested by customers, read meters, reconnects, or other work necessary to perform. Up slightly from last year's score of 99.8%, the utility met 100% of these appointments on time, which significantly exceeds the industry target of 90%.

Again, the 100% score reflects Festival's commitment to quality and timely customer service.

- **Telephone Calls Answered On Time**

In 2014, Festival's customer contact centre agents received over 20,690 calls from its customers. An agent answered a call in 30 seconds or less for 84.6% of these calls, which is a slight improvement from the previous year. This result significantly exceeds the OEB-mandated 65% target for timely call response.

Festival expects that in 2016 call volumes will decrease as a result of its new website which will offer more online self-serve features and reduce the necessity to call. Festival expects it will lead to improved answered calls results with increased customer preference to contact Festival via email and through the website.

Customer Satisfaction

- **First Contact Resolution**

Specific customer satisfaction measurements had not been previously defined across the industry. The Ontario Energy Board (OEB) instructed all electricity distributors to review and develop measurements in these areas and to begin tracking by July 1, 2014. 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 can be measured in a variety of ways and further regulatory guidance is necessary in order to achieve meaningful comparable information across electricity distributors. In July 2014, Festival implemented a First Contact Resolution process whereby at the end of the phone call the customer service agent records whether or not the customer's issue or reason for calling was satisfactory resolved on their first call. Of the total customers calls received from July 1, 2014 to December 31, 2014, 99.89% were found to have been resolved on the first call to Festival.

Of course, this performance measure as designed by Festival is reliant on the integrity of its agents to accurately assess and record the call resolution outcome. During 2015, Festival will review first contact resolution processes in place at other LDCs and consider adopting for 2016 processes whereby a third party contacts the customers to determine if satisfactory resolution has been met, with the expectation of adopting the new standard measures as set by the OEB when available. Festival's goal is to have the customer obtain a resolution to their issues and concerns at the time of the first call where possible and will monitor its customer survey results to identify customer service improvements which may assist in enhancing first contact resolution in the future.

- **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 Ontario Energy Board (OEB) prescribed a measurement of billing accuracy which must be used by all electricity distributors effective October 1, 2014.

For the period from October 1, 2014 – December 31, 2014 Festival issued more than 61,000 bills and achieved a billing accuracy rate of 99.89%. This compares favourably to the prescribed OEB target of 98%. Festival takes billing accuracy very seriously and continues to monitor its billing accuracy results and processes to identify opportunities for improvement. For customers to put their trust in Festival, it is essential that bills are issued accurately and on a timely basis.

- **Customer Satisfaction Survey Results**

The Ontario Energy Board (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 Ontario Energy Board is allowing electricity distributors' discretion as to how they implement this measure.

During 2014, Festival conducted its first customer satisfaction survey. The survey was created in-house and asked customers a set of questions on the following topics related to their interaction with Festival: telephone interaction, front counter interaction, website interaction, on-site interaction and overall impression of their interactive experience with Festival. The 2014 customer survey results have been incorporated into Festival's planning process and forms the basis of plans to improve customer satisfaction and meet the needs of customers. The final assessment of these customer satisfaction surveys evaluates the level of customer satisfaction and identifies areas of improvement. It also helps identify the means of communication which are most desirable to the customer.

In the 2014 Scorecard, Festival has reported the percentage of customers surveyed that were very or fairly satisfied with Festival. A score of 79% was achieved on this measure in 2014. Customer feedback indicated, in particular, a need for improvements to Festival's website and online self-service tools. Festival will continue to use the survey results to identify additional customer service improvement opportunities.

Previous to 2014, in 2013 a survey was conducted that specifically asked questions on the topics related to reliability and customers expectations as it relates to new technology and infrastructure expenditures. This survey was completed as part of Festival's 2015 Cost of Service Application and the results of the survey were considered in support of developing Festival's Five Year Distribution System Plan.

Safety

- **Public Safety**

The Ontario Energy Board (OEB) introduced these Safety measures in 2015. The measures look at safety from a customers' 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 year, ESA on behalf of Festival launched the new public awareness survey among a representative sample of its territory population. The survey gauges awareness levels of key electrical safety concepts related to distribution assets and is based on a template survey provided by the Electrical Safety Authority (ESA.) The survey provides a benchmark of levels of awareness including identifying gaps where additional education and awareness efforts may be required. Note, this component of the public safety measure does not have performance data for the 2014 scorecard because the survey result is not available. The year 2016 will be the first year that the data for this component of measure will be shown on the scorecard for the 2015 results.

In the past year, Festival undertook safety awareness efforts, which included both workers and members of the public.

Component B – Compliance with Ontario Regulation 22/04

Over the past three years since this measure was introduced, Festival has been in compliance with Ontario Regulation 22/04 (Electrical Distribution Safety). This was achieved by Festival's strong commitment to safety, and adherence to company procedures & policies. Ontario Regulation 22/04 - *Electrical Distribution Safety* 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, specifications and inspection of construction before they are put into service.

Component C - Serious Electrical Incident Index

Festival reported no serious electrical incidences in the past five years, which reflects Festival's commitment to public safety and setting it as a number one priority.

System Reliability

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

Festival saw a decrease in the average number of hours that power to a customer was interrupted during 2014 compared to 2013, and was in a range comparable to its 2010 to 2012 results. Festival's score of 1.27 in 2014 compares favourably to the provincial average of 1.60 reported in the 2014 OEB's Yearbook of Electricity Distributors. In 2013, two significant weather events occurred: an ice storm in April 2013 followed by a more severe ice storm in December.

The severe storm events of 2013 has provided Festival with an opportunity to review its practices with regards to a number of systems and to ensure its distribution system plan directs improvements that will have a positive effect on reliability, in order to ensure customers continue to receive high value from their electricity service.

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

Festival's Average Number of Times that Power to a Customer is Interrupted (i.e., frequency) of 1.56 is within the range achieved by Festival between 2010 to 2012. Festival's score of 1.56 in 2014 compares favourably to the provincial average of 1.64 as reported in the 2014 OEB's Yearbook of Electricity Distributors. In 2013, two significant weather events occurred which negatively impacted the scores obtained by Festival and many other distributors, as described above.
Festival is taking action to address system reliability. It has conducted a detailed review of its distribution assets as part of its Distribution System Plan and prepared a comprehensive plan, which provides for the renewal of its distribution system over the next five years. Festival maintains a proactive, balanced approach to distribution system planning, infrastructure investment and replacement programs to address immediate risks associated with end-of-life assets; manage distribution system risks; ensure the safe and reliable delivery of electricity; and balance ratepayer and utility affordability.

Asset Management

- **Distribution System Plan Implementation Progress**

Distribution system plan implementation progress is a new performance measure instituted by the OEB starting in 2013. Consistent with other new measures, utilities were given an opportunity to define it in the manner that best fits their organization. As part of Festival's 2015 Cost of Service application, a five year distribution plan was developed. The Distribution System Plan ("DSP") outlines Festival's forecasted capital expenditures, over the next five (5) years, which are required to maintain and expand the distributor's electricity system to serve its current and future customers. The "Distribution System Plan Implementation Progress" measure is intended to assess the effectiveness at planning and implementing the DSP.

For 2014, Festival measured the progress of its capital expenditures as a ratio of actual total capital expenditures in the year compared to the total amount of planned capital expenditures for 2014. The 2014 measure at 91.45% indicates that Festival completed a substantial portion of its planned project spending during the year. The Company had in fact spent 99.85% of its original capital budget, but the OEB's Decision on Festival's 2015 Cost of Service disallowed treating the permanent bypass expenditure as capital and instead the expenditure was set up in a variance account for future recovery. The Company has planned relatively flat expenditures on infrastructure and capital over the next five years. Due to strong capital programs in the past, Festival is fortunate to not be in the same position as many other distributors where substantial amounts of capital investment are required over the next five to ten years to address aging infrastructure.

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 ranking is based on a total cost approach taking into account the amounts spend on expenditures on capital and infrastructure reinvestments and the amounts spent on Operations, Maintenance and Administration costs. The electricity distributors are divided into five groups based on the magnitude of the difference between their respective individual actual and predicted costs.

In 2014, for the third year in a row, Festival was placed in Group 4, where a Group 4 distributor is defined as having actual costs in excess of 10% to 25% above predicted costs. The 4 rating was anticipated by Festival as a result of a number of years of sustained higher investment to improve the infrastructure within in the smaller towns purchased by Festival. With the major investments now completed, Festival anticipates advancing to the "more efficient" group 3 within the next three years. Note that under the previous OEB performance efficiency model, which was based solely on operating costs, Festival was amongst the top 10 most efficient local distribution companies in the Province.

- **Total Cost per Customer**

Total cost per customer is calculated as the sum of Festival's capital and operating costs and dividing this cost figure by the total number of customers that Festival serves. The cost performance result for 2014 is $634 per customer, which is a 1.1% increase over 2013 and less that the CPI increase in Canada for 2014.

Festival's Total Cost per Customer has increased on average by 0.86% per annum over the period 2010 through 2015, which is well below inflationary CPI for that period. Similar to most distributors in the province, Festival has experienced increases in its total costs required to deliver quality and reliable services to customers. Festival has managed to keep its costs in line despite having to deliver on provincial wide programs such as Time of Use pricing, experiencing 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, which have all contributed to increased operating and capital costs. Festival will continue to replace distribution assets proactively along a carefully managed timeframe in a manner that balances system risks and customer rate impacts, as demonstrated in Festival Distribution Plan filed as part of its 2015 Cost of Service application. Festival 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 Festival'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 Festival operates to serve its customers. Festival's 2014 rate is $50,028 per Km of line, a 1.1% increase over 2013. Festival generally experiences minimal growth in its total kilometers of lines due to a low annual customer and population growth rate. Such a low growth rate has reduced Festival's ability to fund capital renewal and increased operating costs through customer growth. As a result, cost per Km of line has increased year over year with the increase in capital and operating costs. Festival 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 Annual Peak Demand Savings (Percent of target achieved)**

Festival did not meet the OEB's Net Annual Peak Demand Savings target of 100% for the 2011 to 2014 program completion ended December 31, 2014. However, based on the OPA final 2014 results, Festival is proud to be amongst the top nine utilities achieving over 85% of its MW target for the program delivery period of 2011 to 2014. This score was achieved by leveraging the suite of Ontario Power Authority ("OPA") province-wide demand management programs and by placing increased emphasis on supporting the conservation efforts of large commercial, industrial and institutional customers. Festival's conservation officer worked closely with customers to identify and pursue energy saving measures within their sectors.

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

  Festival is pleased to have achieved its four-year net cumulative energy savings target, achieving in excess of 155% of target and being in the top nine utilities within the province. Our successful achievement was made possible by the strong and early participation by local commercial customers in our retrofit, high performance new construction and energy efficient lighting programs.

Connection of Renewable Generation

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

  Electricity distributors are required to conduct Connection Impact Assessments (CIAs) within 60 days of receiving authorization from the Electrical Safety Authority. In 2014, Festival completed sixteen CIAs, which were completed within the prescribed time limit.

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

  In 2014, Festival connected six 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. Festival works closely with its customers and their contractors to minimize any connection issues to ensure the project is connected on time.

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.

  Festival’s current ratio decreased for 2014 was 0.48%, which is fairly consistent with the ratio over the past five years. Festival during 2012 and 2013 constructed a transformer station in the City of Stratford, at a cost of approximately $15.5 million. While the capital investment was substantially financed through a third party long term financing arrangement, it did reduce cash reserves held by Festival.

- **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. Festival continues to maintain a debt to equity structure that closely approximates the deemed 60% to 40% capital mix as set out by the OEB – this is demonstrated by the 2014 debt to equity ratio of 1.40. Over the past five years the leverage ratio has moved closer to the prescribed OEB rate largely due to expenditures to improve infrastructure, expenditures on provincial projects such as time of use metering and large investment ($15.5 million) in the construction of the Transformer Station. Capital expenditures planned for the next five years will be all funded through current operations so the leverage ratio is not expected to exceed the OEB deemed ratio of 1.5.

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

Festival's current deemed regulatory return of equity of 9.85% was approved by the OEB as part of Festival's 2010 Cost of service application. The deemed regulatory return on equity is traditionally only changed every five years as part of a Cost of Service Application. 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. The 2015 deemed regulatory return on equity approved by the OEB as part of Festival's 2015 Cost of service Application is set at 9.30%, providing a lower return to Festival and lower return to be collected through distribution rates.

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

Festival achieved a regulatory return of equity of 8.18% in 2014 and has operated within the 300 basis points band for the past four years. The reduction in the 2014 return compared to previous years is partially the result of expensing $194,000 in operating costs related to the operations of the transformer station in 2013 and 2014 for which recovery was not allowed through rates. The average return over the past 4 years since the deemed ROE was last set in Festival 2010 Cost of service is 10.04%, which is 1.9% on average higher than the approved ROE and well within the approved 300 basis point band. . Festival achieved slight higher returns over the 4 year period mainly due to mitigated the overall real growth in its operating cost base with productivity savings arising from related process improvement initiatives.

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.