

Scorecard - Guelph Hydro Electric Systems Inc.

Performance Outcomes	Performance Categories	Measures	2011	2012	2013	2014	2015	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	99.90%	100.00%	100.00%	100.00%	100.00%		90.00%		
		Scheduled Appointments Met On Time	98.60%	99.00%	97.10%	83.90%	97.60%		90.00%		
		Telephone Calls Answered On Time	92.90%	80.00%	83.70%	87.70%	87.70%		65.00%		
	Customer Satisfaction	First Contact Resolution				100%	100%				
		Billing Accuracy				99.89%	99.82%		98.00%		
		Customer Satisfaction Survey Results			96%	96%	96%				
<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					84.00%				
		Level of Compliance with Ontario Regulation 22/04 <sup>1</sup>	C	C	NI	NI	C		C		
		Serious Electrical Incident Index	Number of General Public Incidents	0	0	0	0	1		0	
	Rate per 10, 100, 1000 km of line		0.000	0.000	0.000	0.000	0.902		0.126		
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted <sup>2</sup>	1.70	0.31	2.21	0.52	0.46		1.02		
		Average Number of Times that Power to a Customer is Interrupted <sup>2</sup>	1.51	1.49	3.36	1.05	1.24		1.63		
	Asset Management	Distribution System Plan Implementation Progress				In Progress	99.34%				
	Cost Control	Efficiency Assessment		3	3	3	3				
		Total Cost per Customer <sup>3</sup>	\$696	\$587	\$608	\$601	\$632				
		Total Cost per Km of Line <sup>3</sup>	\$32,650	\$27,427	\$28,952	\$28,683	\$29,993				
<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 Cumulative Energy Savings <sup>4</sup>					59.16%		99.04 GWh		
	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time	83.33%	80.00%	100.00%	100.00%	100.00%				
		New Micro-embedded Generation Facilities Connected On Time			100.00%	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)	1.97	1.64	1.33	1.12	2.14				
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio	1.10	1.13	1.04	1.03	1.47				
		Profitability: Regulatory Return on Equity	Deemed (included in rates)	8.57%	9.42%	9.42%	9.42%	9.42%			
			Achieved	8.41%	8.00%	7.29%	12.48%	8.66%			

1. Compliance with Ontario Regulation 22/04 assessed: Compliant (C); Needs Improvement (NI); or Non-Compliant (NC).  
 2. The trend's arrow direction is based on the comparison of the current 5-year rolling average to the fixed 5-year (2010 to 2014) average distributor-specific target on the right. An upward arrow indicates decreasing reliability while downward indicates improving reliability.  
 3. A benchmarking analysis determines the total cost figures from the distributor's reported information.  
 4. The CDM measure is based on the new 2015-2020 Conservation First Framework. This measure is under review and subject to change in the future.

**Legend:**

5-year trend  
 up   down   flat

Current year  
 target met   target not met

# 2015 Scorecard Management Discussion and Analysis (“2015 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 2015 Scorecard MD&A:

[http://www.ontarioenergyboard.ca/OEB/Documents/scorecard/Scorecard\\_Performance\\_Measure\\_Descriptions.pdf](http://www.ontarioenergyboard.ca/OEB/Documents/scorecard/Scorecard_Performance_Measure_Descriptions.pdf)

## Scorecard MD&A - General Overview

In 2015, Guelph Hydro Electric Systems Inc. (“GHESI” or “Guelph Hydro”) exceeded all performance targets with one exception related to the safety measures concerning the “Serious Electrical Incident Index”. This incident related to a member of public deemed to be in potential harm when a tree they were cutting contacted a primary line.

GHESI had an excellent year from a performance standpoint. The company met or did better on the performance measures that are set by the Ontario Energy Board. The company improved upon its previously deficient measure of service quality from 2014 related to scheduled appointments being met on time moving from 83.9% in 2014 to 97.6% in 2015.

As evidenced by service quality, customer satisfaction, and system reliability measures, GHESI continued to provide excellent customer service to its customers with a very high level of reliability in 2015. The financial measures show that GHESI continues to be a stable and financially strong distribution company in Ontario.

In 2016, GHESI is committed to doing better than the OEB-set performance measures and is committed to improving on the measures in previous years. The performance improvements are expected because of GHESI’s unwavering focus on making the necessary investments that will permit its employees to operate the distribution company with a high level of reliability and by responding to excellent customer feedback on the types of improvements that they expect from the company.

## Service Quality

- **New Residential/Small Business Services Connected on Time**
  - Over the 2011 to 2015 period, Guelph Hydro connected, on average, over 99% of new Residential and Small Business customers on time. This is above the industry standard of 90% for all Local Distribution Companies (“LDCs”) in Ontario. Guelph Hydro was able to achieve this excellent result due to efficient connection procedures and a focus on providing excellent customer connection service.

- **Scheduled Appointments Met On Time**

- In 2015, Guelph Hydro's experience with meeting the Scheduled Appointments Met on Time metric was above the industry target of 90% through a continued commitment to Guelph Hydro's customers. Guelph Hydro's process for completing appointments during the utility's regular business hours and offering a window of time that is not more than four hours long is condition that Guelph Hydro strives to meet. The actual result achieved by Guelph Hydro in 2015 for this metric was 97.60%

- **Telephone Calls Answered On Time**

- Guelph Hydro believes that providing a better customer experience will help foster customer loyalty and advocacy but, as electricity rates continue to rise, customers will demand more for their electricity dollars. Customer loyalty is built through great customer experiences that exceed expectations, and Guelph Hydro believes that enhancing Guelph Hydro's customer experience will help to ensure that customers perceive Guelph Hydro's service offerings as high value added items. For the Calls Answered Within 30 Seconds metric, Guelph Hydro maintained high percentages for qualified incoming calls during regular call centre hours at 87.70% for calls received directly or of having the call transferred.
- The "Make it Easy" strategy in 2014 laid the groundwork for great customer experiences with two main goals:
  - Make it easy for customers to engage with customer service
  - Be available and present in the channels where customers are conversing
- In keeping with "Make it Easy" strategy goals, in June 2015, Guelph Hydro launched **MyEnergy View**, a new online customer portal designed to enhance service and support for Guelph customers.
- **MyEnergy View** offers a clean, straightforward and easy-to-use presentment of customer information. It provides customers with greater transparency into account information, Time-of-Use consumption information, and billing and payment options. The portal is available 24-hours a day, seven days a week, and a mobile version offers customers the convenience of managing their Guelph Hydro account right from their smart phone or tablet.
- After the launch of **MyEnergy View**, use of account-specific pages within **MyEnergy View** increased 52%; 37% over Guelph Hydro's target, giving more opportunity to Customer Service Representatives to explain complex inquiries to customers by phone.

## Customer Satisfaction

- **First Contact Resolution**

- In 2014 Guelph Hydro monitored what types of calls the call centre was receiving. Those metrics provided a baseline for improvements in training, coaching, and procedural changes. The Customer Service Department noticed that by concentrating on the type of call that Guelph Hydro customers were calling about, Customer Service Representatives could properly address the customer's need the first time they called, thereby obviating the need for the customer to follow up with a second call.

- In 2015 Guelph Hydro drilled down even further to identify call-types that are not resolved easily. Guelph Hydro added 30 new call-types. The Customer Service Department then assigned more specific call notes to identify each call received from customers. Root cause analysis and process streamlining, automation and more self-service options all contributed to maintaining Guelph Hydro's 100 percent first call resolution standards in 2015.
- Guelph Hydro still tracks First Contact Resolution in its Customer Inquiry System (CIS) tracking First Contact Resolution by using call notes within the CIS.
- Guelph Hydro transitioned to Monthly Billing in November of 2015.
  - A monthly bill provides greater visibility of electricity consumption, giving customers more of a chance to make adjustments to their usage to save money if they notice their electricity consumption is higher than desired. Guelph Hydro believes the transition to monthly billing has also helped maintain our high standards of First Contact Resolution.
- **Billing Accuracy**
  - Guelph Hydro initiated the tracking and measuring of Billing Accuracy in April, 2014 using call notes and system queries. Any bill adjustment or cancelled bill is coded with a call-type Correction ("PCOR"). Guelph Hydro also uses an arrears call-type Post Bill Correction/Account ("PCCR") code for the Credit Department to be notified if the cancelled or adjusted bill becomes delinquent. In addition, any cancelled bill is identified and queried by the Billing Supervisor.
  - Guelph Hydro was able to support a billing accuracy metric of 99.82% for 2015 with the use of call notes and system queries. Guelph Hydro achieved this accuracy rate because of the efforts of its billing staff and through continuous improvement of its billing processes.
- **Customer Satisfaction Survey Results**
  - Guelph Hydro is committed to customer satisfaction and measures its customer satisfaction through periodic customer telephone surveys conducted by third parties as well as via online surveys.
  - A comprehensive Customer Satisfaction Survey conducted by telephone in 2013 measured the satisfaction of customers with the quality and timeliness of information they received as well as the satisfaction of customers with the professionalism, attitude and helpfulness of Guelph Hydro staff. Results indicated that 96% of the 400 respondents surveyed reported they were "very" or "fairly" satisfied with the above-noted metrics.
  - As a result of the customer satisfaction score of 96%, Guelph Hydro was ranked #1 in customer satisfaction among 25 Ontario utilities. Notably, this score was higher than the national and provincial customer satisfaction averages.
  - The Ontario Energy Board is in the process of standardizing questions to be asked on customer satisfaction telephone surveys to be completed by all Ontario electricity distribution companies. Once the standard questions are finalized, Guelph Hydro will conduct its next Customer Satisfaction Survey.

## Safety

- **Public Safety**

- Public Safety is a new scorecard measure introduced by the Ontario Energy Board. The Public Safety measure is generated by the Electrical Safety Authority and is comprised of 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**

- Component A involves a new statistical survey that gauges the public's awareness of key electrical safety concepts related to electrical distribution equipment in Guelph Hydro's service area. It measures the level of effort placed by distributors on preventing electrical accidents and provides a benchmark of the levels of awareness including identifying gaps where additional education and awareness efforts may be required. This is the first year for providing province-wide standardized reporting on this measure.
- Guelph Hydro surveyed 400 members of the general public, 18 years of age or older in the spring of 2016.
- The following six core measurement questions were asked which correspond to the six most frequent incidents involving utility equipment in Ontario over the last decade:
  - Likelihood to "call before you dig."
  - Impact of touching a power line
  - Proximity of an overhead power line
  - Danger of tampering with electrical equipment
  - Proximity to downed power line
  - Actions taken in vehicle in contact with wires
- This first year of surveying the public in Guelph Hydro's service territory about electrical safety indicates that many people have good knowledge or have received some information pertaining to the six core measurement questions.
- Guelph Hydro's Public Safety Awareness Index score is 84%.

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

- Audit, Declaration of Compliance, Due Diligence Inspections ("DDI's"), Public Safety Concerns and Compliance Investigations make up the level of compliance with Ontario Regulation 22/04 (O.Reg. 22/04) component on the scorecard. Guelph Hydro is reviewed by the Electrical Safety Authority (ESA) on all 5 elements which are evaluated as a whole to determine the status of compliance (Non-Compliant (N/C), Needs Improvement (N/I), or Compliant (C)).
- For the 2015 reporting period, Guelph Hydro's O.Reg. 22/04 audit was conducted between May 1, 2014 and April 30, 2015.

The final audit report noted that the Records of Inspection criterion Needed Improvement. Nevertheless, based on this report Guelph Hydro was deemed to be in compliance with O.Reg. 22/04.

- Guelph Hydro modified the process for the "Inspection and Approval of Construction" to ensure that all drawings and certificates are available and completed to ensure the appropriate approvals are in place prior to energizing the distribution system.
- For the 2015 reporting period, 1 Due Diligence Inspections ("DDI's") were performed by ESA on Guelph Hydro's distribution system. The DDI resulted in full compliance with meeting the requirements of the inspections.

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

- "Serious electrical incidents", as defined by Regulation 22/04, make up Component C. The metric details the number of and rate of "serious electrical incidents" occurring on a distributor's assets and is normalized per 10, 100 or 1,000 km of line (10km for total lines fewer than 100km, 1000km for total lines over 1000km, and 100km for all the others). Only equipment which is applicable to Section 12 of Regulation 22/04 will be considered. A "serious electrical incident" will appear as part of this Component if it is determined that a member of the Public was involved in the incident (i.e., caused a death, critical injury or had the potential to cause death or critical injury).
- For the 2015 reporting period (January 1, 2014 to December 31, 2014) there was 1 incident in Guelph Hydro's service territory where a "member of the public" was deemed to be in potential harm when the tree they were cutting contacted a primary line.
- Guelph Hydro treats all safety "incidents" seriously, and safety is Guelph Hydro's top priority, for both employees and the public. The company regularly promotes powerline safety through social media, its website, on-bill messages, and community presentations, reminding customers to "Look Up, Look Out" for overhead powerlines, including when trimming trees. The company participates in Dig Safe Week, reminding customers to "Call before you dig;" and through social media and on its website, supports the Electrical Safety Authority's Powerline Safety Week communications efforts. Two sections of Guelph Hydro's website advise customers to contact Guelph Hydro if trees on their property have grown in to powerlines, and safe tree trimming and powerline safety are included as part of Guelph Hydro's community engagement presentation, "Get to Know Guelph Hydro," which is offered free to a cross section of community groups in Guelph and Rockwood and is presented between three and five times each year. In addition, Guelph Hydro conducts an electrical safety presentation to one-third of the elementary schools in Guelph each year, teaching students how to treat electricity with respect and be safe around electricity, including overhead powerlines and padmount transformers.
- In addition to the above-noted safety measures, Guelph Hydro performs tree trimming for its entire service territory using a three-year rotation cycle. This maintenance program is contracted to a qualified arborist. The contractor and Guelph Hydro work in co-operation with the City of Guelph and homeowners when tree-growth is determined to be a threat to overhead lines. This steady, rotational cycle of tree trimming assists with preventing tree contacts with overhead lines.

## System Reliability

- **Average Number of Hours that Power to a Customer is Interrupted**
  - The industry target for this performance metric is established as a five-year rolling average (2010 to 2014).
  - In 2015, Guelph Hydro's annual system reliability indicator "average number of hours that power to a customer is interrupted" improved compared to the five-year rolling average. The 2015 system reliability measure was 0.46 hours (or 27.6 minutes) of interruption per customer and also fell below the 5-year rolling average of 1.02 hours of interruption per customer. There were 0 major event days calculated for 2015 using the IEEE-1366-2003, "IEEE Guide for Electric Power Distribution Reliability Indices".
- **Average Number of Times that Power to a Customer is Interrupted**
  - The industry target for this performance metric is established as a five-year rolling average (2010 to 2014).
  - In 2015, Guelph Hydro's annual system reliability indicator for "average number of times that power to a customer is interrupted" improved compared to the five-year rolling average. The 2015 system reliability measure was 1.24 interruptions per customer and fell below the 5-year rolling average of 1.63 interruptions per customer. There were 0 major event days calculated for 2015 using the IEEE-1366-2003, "IEEE Guide for Electric Power Distribution Reliability Indices".

## Asset Management

- **Distribution System Plan Implementation Progress**
  - Guelph Hydro included the DSP as part of Guelph Hydro's 2016 Cost of Service rate application (EB-2015-0073), filed on April 24, 2015. The DSP filed was a 5 year plan for years 2016-2020. Guelph Hydro achieved a 2015 capital actual to budget ratio of 99.34%.

## Cost Control

- **Efficiency Assessment**
  - Cohort/ Group 3 out of 5
  - The Ontario Energy Board has adopted an extensive and complex model (called the PEG benchmarking model) to determine the average efficiency performance of distributors to permit meaningful efficiency comparisons between distributors. As of December 31, 2015, Guelph Hydro's three-year average efficiency performance score, as calculated by the PEG benchmarking model, was -2.6%. This performance indicated that Guelph Hydro's cost control performance was better than the average LDC over the previous three-year period. For December 31, 2014, Guelph Hydro's three-year average performance was -2.0%.

- Guelph Hydro is continually seeking ways to improve its performance, reduce costs and become more efficient. Initiatives such as 24/7 control room operation, shared services with other LDCs, and the implementation of Interactive Voice Recognition systems are all examples of Guelph Hydro's commitment to these performance measures.

- **Total Cost per Customer**

- In 2015, Guelph Hydro's total cost per customer of \$632 increased by \$31 compared to 2014, primarily due to higher OM&A costs for 2015 as a result of higher regulatory costs related to the company's 2016 Cost of Service filing, as well as higher expenses in billing & collecting as the company transitioned to monthly billing for all of its residential customers. The increase in OM&A costs was coupled with higher capital costs in 2015 due to a 5.8% increase in cost of capital for the 2015 period as a result of higher quantity of capital additions for 2015.

- **Total Cost per Km of Line**

- In 2015, Guelph Hydro's total cost per km of line of \$29,993 increased by \$1,310 compared to 2014. This was primarily due to higher OM&A costs as noted above in addition to higher capital costs resulting from a 5.8% increase in cost of capital for the 2015 period.

## Conservation & Demand Management

- **Net Cumulative Energy Savings**

- Guelph Hydro has a history of excellence in Conservation & Demand Management (CDM) program delivery and results achievement. This includes exceeding each of its annual targets in the 2007-2010 "Every Kilowatt Counts" CDM Tranche, and exceeding both its 2011-2014 net demand and net energy savings targets. Guelph Hydro's IESO 2011-2014 Final Verified Results Report indicated a net demand savings achievement of 119.8% of target, and a net cumulative energy savings achievement of 164.6% of target. Guelph Hydro was one of only 6 LDCs to have exceeded 100% of its demand target, while the provincial average demand savings achieved was 69.8% of target. Guelph Hydro was also one of 41 LDCs to have exceeded 100% of its energy target, with 79% of its energy savings coming from the non-residential sector.
- Under the new Conservation First Framework (CFF), Guelph Hydro was assigned a net incremental persistent energy savings target of 99.035 GWh over the 2015-2020 timeframe, an effective doubling of Guelph Hydro's 2011-2014 CDM framework incremental annual energy savings target.
- Guelph Hydro has achieved a remarkable result in its first year under CFF, with Guelph Hydro's 2015 Final Verified Results report indicating achievement of over 59% of its 2015-2020 energy savings target. Guelph Hydro believes this is due to its ongoing efforts through several CDM frameworks in building relationships with its customers, and most importantly, its customers' willingness to participate in the conservation programs being offered. In late 2015 one very large Combined Heat and Power (CHP) or "Behind

the Meter Generation” (BMG) project was commissioned, with project incentive funding provided under the saveONenergy Process and Systems Upgrade Initiative. This one project contributed a disproportionate share of Guelph Hydro’s overall target savings, representing 72% of Guelph Hydro’s 2015 savings achievement, and over 42% of Guelph Hydro’s 2020 energy savings target.

- While Guelph Hydro is very pleased with the strength of its CDM team in building relationships with its customers, and recognizes this as wonderful groundwork for continued success, Guelph Hydro also notes that achieving the 2020 energy savings target will be challenging. Many Local Distribution Companies (LDCs), including Guelph Hydro, will be relying on large discreet projects such as the CHP commissioned late 2015 in order to achieve target. Projects such as these are complex, expensive, and have a significant lead time, in some cases 3-4 years, or even longer. Circumstances outside of the customer’s or the LDC’s control (e.g. US exchange risk, impact of Ontario’s Cap and Trade program, a long payback period, competition for capital, technical connection restrictions, etc.), can have adverse effects on the probability of projects such as these coming to fruition, and consequently on an LDC’s ability to achieve its 2020 energy savings target.

## Connection of Renewable Generation

### • Renewable Generation Connection Impact Assessments Completed on Time

- Renewable generation predominantly refers to solar photo voltaic generation assets that generate electricity and to inject the output from these generation assets into Guelph Hydro’s electricity distribution system. As part of the process to connect these generation assets, the OEB has implemented a performance standard that requires distributors to carry out a Renewable Generation Connection Impact Assessment. The performance standard that is to be met is that the distribution company must complete these connection impact assessments in a timely manner.
- Under the Green Energy Act, Guelph Hydro (along with all other distributors in Ontario) has an obligation to enable renewable generation connections into the distribution system. As part of the process to connect generation projects greater than 10kW, a connection impact assessment (CIA) has to be performed to determine the impact of the project to Guelph Hydro’s distribution system. Additionally, the OEB has implemented a performance standard that requires LDCs to carry out a CIA within a prescribed time limit.
- According to Section 25.37 of the Electricity Act, 1998 and Ontario Regulation 326/09, the utility must complete a CIA for a renewable generator within 60 days and must report to the OEB on how well it met those timelines.
- In 2015, Guelph Hydro achieved 100% for the completion of all eleven renewable generation CIAs within the prescribed time limit. As of December 31, 2015, Guelph Hydro had connected a total of 33 Feed-in-Tariff (FIT) Projects with a total nameplate capacity of 7.048MW.
- In 2014, there were three Impact Assessments requested, and Guelph Hydro completed all three Renewable Generation CIAs on time.
- In 2013, one CIA was requested which Guelph Hydro completed within the prescribed time limit.

- In 2012, five CIAs were requested, and Guelph Hydro completed all five CIAs, but four within the prescribed time limit.
  - Guelph Hydro outsources the CIA work to an engineering consultant. Historically, delays were due to the consultant's workload and unexpected delays associated with getting more information from the customer. Guelph Hydro has now developed and implemented measures to ensure that the CIAs are done within 50 days instead of 60 days and has set strict guidelines on the information required from the customer prior to commencing the CIA work. Guelph Hydro believes that these measures will help to ensure that CIAs are completed on time and in full.
- **New Micro-embedded Generation Facilities Connected On Time**
    - Guelph Hydro must connect smaller generators that produce less than 10kW of power within five (5) business days, 90% of the time on a yearly basis, unless the customer agrees to a longer connection timeline. These generators are known as “micro-embedded generation facilities”. The timeline depends on the customer meeting specific requirements ahead of time, including generator account set-up and the LDC receiving Connection Authorization from the Electrical Safety Authority (“ESA”).
    - In 2015, Guelph Hydro achieved 100% for the connection of New Micro-Embedded Generation Facilities (“microFIT”) by connecting all 39 microFIT projects within the prescribed time, and above the industry target of 90%. As of December 31, 2015, Guelph Hydro had connected a total of 320 microFIT projects with a total nameplate capacity of 2.515MW.
    - In 2014, Guelph Hydro achieved 100% for the connection of New Micro-Embedded Generation Facilities (“microFIT”) by connecting all 40 microFIT projects within the prescribed time, and above the industry target of 90%.
    - In 2013, Guelph Hydro connected 73 microFIT projects on time above the prescribed industry target of 90%. There was a decrease in the number of micro-embedded generation project connections from 2012, where Guelph Hydro connected 83 microFIT projects. The workflow to connect these projects is very streamlined and transparent for Guelph Hydro customers. Guelph Hydro works closely with customers and their contractors to address any connection issues and ensure the project is connected on time.
    - As of December 31, 2015, Guelph Hydro had connected a total of 320 microFIT and 33 FIT generation customers with a connected capacity of 9.563 MW.

## Financial Ratios

- **Liquidity: Current Ratio (Current Assets/Current Liabilities)**
  - Financial liquidity measures are intended to provide information on the company's ability to pay its liabilities over the short term without any undue financial stress. There are many liquidity “ratios” that can assist the users in determining the company's short-term financial health. The Current Ratio is one of the best known and widely used liquidity measures that fulfills this purpose. This ratio is derived by dividing the LDC's current assets by its current liabilities, and both of these amounts can be readily found on the balance sheet.

- In 2015, Guelph Hydro issued \$30 million in long-term debt to finance long-term distribution asset additions over the next few years. As a result, the company's Current Ratio has increased considerably to 2.14 from 1.12 in 2014. Over the 2011 to 2014 period, Guelph Hydro had seen a steady deterioration in its Current Ratio, but this trend was explainable since Guelph Hydro had not issued long-term debt since a \$65 million issuance in 2010. After retiring old debt with \$42.6 million of the \$65 million proceeds, the remaining cash was used up over time to purchase and install smart meters in Guelph Hydro's distribution system and to finance the company's Arlen transformer station. As this cash began to be used, Guelph Hydro's current ratio declined steadily, and reached a low point of 1.12 as at the end of 2014.
- **Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio**
  - Leverage ratios are intended to provide information on how assets are being financed by the company. The Total Debt to Equity ratio is one of the most widely used leverage ratios. The Ontario Energy Board has set (or "deemed") a standard leverage structure for electricity distribution companies in Ontario. This leverage structure, on which distribution rates are based, stipulates that 60% of an LDC's rate base (which is the sum of the LDC's net fixed assets and an OEB-determined Working Capital Allowance) should be used to determine the LDC's allowed long-term and short-term debt costs, and 40% of the LDC's rate base should be used to determine the allowed cost of equity. What this also implies is that for every \$1 of (rate base) equity, the LDC can borrow up to \$1.50 and still comply with the OEB's allowed capital structure. Conversely, this ratio also provides useful information if this leverage ratio departs from the allowed 1.50 level.
  - Guelph Hydro's total debt to equity ratio of 1.47 for 2015 is the result of the above-mentioned \$30 million long-term debt issuance undertaken in 2015. Guelph Hydro was significantly under-leveraged in prior periods as can be seen in the scorecard results: 1.10 in 2011 to 1.03 at the end of 2014. One of the root causes of the deterioration in Guelph Hydro's leverage ratio was due to the company financing long-term distribution capital assets with operating cash. To remedy this, Guelph Hydro undertook a long-term debt issue in 2015 to align the company's capital structure with the OEB-allowed capital structure of 60% debt to 40% equity and to use the net proceeds of the long-term debt issue to fund future long-term asset capital additions.
- **Profitability: Regulatory Return on Equity – Deemed (included in rates)**
  - The OEB sets a "deemed" Return on Equity or ROE for all LDCs in Ontario as part of its broad rate-setting mandate. The deemed ROE that is set by the OEB is derived using a complex formula that includes long-term Government of Canada bonds and relative credit risk and market risk premia for utilities. In general, the deemed ROE, which is also used as an input into setting distribution rates, remains in place until the LDC's costs are examined by the OEB in a cost of service rate setting period. Guelph Hydro had its deemed ROE set by the OEB at 9.42% in 2012 when its costs were last examined in detail by the OEB.
- **Profitability: Regulatory Return on Equity – Achieved**
  - In accounting terms (as contrasted with the deemed ROE described above), a company's achieved ROE refers to the net income

(or profit earned by the company in a given year) divided by the shareholders' equity on the balance sheet. The ROE is a fundamental indicator of profitability for a company, and also serves as a ready comparator for companies that operate in the same industry.

- Guelph Hydro's achieved ROE from 2011 to 2013 had been in a declining trend, but the measure increased markedly in 2014. There were two main factors that caused this measure to increase in 2014 — the company's Accounting Reporting Standards ("IFRS") and tax differences. In 2014, there was a significant difference between the tax calculation for rate-making purposes and the actual tax assessed by the Ministry of Finance. Guelph Hydro, as with other distribution companies in Ontario, pays taxes under a provincial tax system called Payment in Lieu of Taxes or PILs. In 2012, for rate making purposes the PILs impact of the Deferral and Variance Account ("DVA") adjustment was assumed to be nil. In 2014, Guelph Hydro's actual experience was a \$6.3MM increase in regulatory assets over regulatory liabilities. Under IFRS this DVA adjustment flowed through the company's statement of earnings and had the impact of reducing pre-tax income by \$6.3MM in 2014. However, because the OEB sets distribution rates in a manner that continues to maintain DVA balances on the balance sheet, from a rate making standpoint, Guelph Hydro had \$6.3MM higher pre-tax income which resulted in significantly higher net income and hence the high ROE. Were Guelph Hydro to remove the impact of this DVA adjustment from its 2014 PILs calculation, this would result in a 2.75% decrease in Guelph Hydro's achieved ROE for 2014 or an ROE of 9.73%, instead of the reported 12.48%. If Guelph Hydro were to use this adjusted ROE figure for 2014 and factor in the 2015 ROE figure of 8.66%, the average ROE realized by Guelph Hydro from 2011 to 2015 was 8.42%.
- Achieved ROE remains below the allowed ROE set by the OEB. ROE continues to be adversely impacted due to the impact of the OEB's half-year rule which disallows one-half of the value of test year capital additions from being included in rate base in the Cost of Service filing and subsequent IRM periods. This disallows Guelph Hydro from earning a return of and a return on one-half of the capital additions permanently, and the disallowed portion of these same capital assets only start earning a return on and return of when the utility is next rebased at a future Cost of Service filing.

## Note to Readers of 2015 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 judgement on the reporting date of the performance scorecard, and could be markedly different in the future.