

Scorecard - Guelph Hydro Electric Systems Inc.

Performance Outcomes	Performance Categories	Measures	2012	2013	2014	2015	2016	Trend	Target		
									Industry	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	100.00%	100.00%	99.00%	98.50%	99.50%		90.00%		
		Scheduled Appointments Met On Time	99.00%	97.10%	83.90%	97.60%	99.70%		90.00%		
		Telephone Calls Answered On Time	80.00%	83.70%	87.70%	87.70%	86.70%		65.00%		
	Customer Satisfaction	First Contact Resolution			100%	100%	99.98%				
		Billing Accuracy			99.89%	99.82%	99.95%		98.00%		
		Customer Satisfaction Survey Results		96%	96%	96%	89%				
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				84.00%	84.00%				
		Level of Compliance with Ontario Regulation 22/04 ¹	C	NI	NI	C	C			C	
		Serious Electrical Incident Index	Number of General Public Incidents	0	0	0	1	0			0
	Rate per 10, 100, 1000 km of line		0.000	0.000	0.000	0.902	0.000			0.126	
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted ²	0.31	0.11	0.52	0.46	0.71			0.59	
		Average Number of Times that Power to a Customer is Interrupted ²	1.42	1.82	1.05	1.24	1.34			1.31	
	Asset Management	Distribution System Plan Implementation Progress			In Progress	99.34%	102.20%				
	Cost Control	Efficiency Assessment	3	3	3	3	3				
Total Cost per Customer ³		\$587	\$608	\$601	\$632	\$624					
Total Cost per Km of Line ³		\$27,427	\$28,952	\$28,683	\$29,993	\$30,014					
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 Cumulative Energy Savings ⁴				59.16%	69.88%		99.04 GWh		
	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time	80.00%	100.00%	100.00%	100.00%	100.00%				
		New Micro-embedded Generation Facilities Connected On Time		100.00%	100.00%	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)	1.64	1.33	1.12	2.14	2.37				
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio	1.13	1.04	1.03	1.47	1.41				
		Profitability: Regulatory Return on Equity	Deemed (included in rates)	9.42%	9.42%	9.42%	9.42%	9.19%			
			Achieved	8.00%	7.29%	12.48%	8.66%	10.58%			

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.

Legend:

5-year trend up down flat

Current year target met target not met

2016 Scorecard Management Discussion and Analysis (“2016 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 2016 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

In 2016, Guelph Hydro Electric Systems Inc. (Guelph Hydro) had an excellent year from a performance standpoint.

Guelph Hydro’s 2016 Scorecard results reflect performance which is significantly above the targets that are set by the Ontario Energy Board (OEB) in connecting new customers, meeting scheduled appointments with customers, answering telephone calls promptly, billing accurately, and completing renewable generation connection impact assessments. Guelph Hydro has also achieved excellent results in conservation and demand management and public safety.

Guelph Hydro continued to provide great service to its customers with a very high level of reliability in 2016, although was not able to achieve its distributor-specific targets for system reliability, which are set based on Guelph Hydro’s average performance from 2010 through 2014.

The financial measures show that Guelph Hydro continues to be a stable and financially strong distribution company in Ontario.

In 2017, Guelph Hydro is committed to doing better than the OEB-set performance measures and is committed to improving on the performance results of previous years. The performance improvements are expected because of Guelph Hydro’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 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 2012 to 2016 period, Guelph Hydro connected, on average, 99% of new Residential and Small Business customers on time. This is above the industry standard of 90% for 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 2016, 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 a condition that Guelph Hydro strives to meet. The actual result achieved by Guelph Hydro in 2016 for this metric was 99.70%.

) **Telephone Calls Answered on Time**

) In 2016, Guelph Hydro maintained high percentages for answering qualified incoming calls during regular call centre hours at 86.70%. Customer Service staff continue to put emphasis on the customer's success for the outcome of each call. Tracking call notes and trends in calls helped Guelph Hydro determine strategies to continue to meet our customer's needs. Call-notes continued to be an important tracking mechanism, as they identified where more knowledge was required for Customer Service Representatives to enable them to provide support to our customers. In 2016, there was an increase in calls pertaining to high bills and affordability. Guelph Hydro felt that it was important to have customers understand how energy is used in their homes which is an important step for customers to manage their energy costs. Co-browsing online with MyEnergy View (Guelph Hydro's online portal) with customers provided excellent opportunities for Customer Service Representatives to explain complex inquiries to customers over the phone.

Customer Satisfaction

) **First Contact Resolution**

) In 2016, Guelph Hydro continued to maintain a very high rate of First Contact Resolution, based on the performance result of 99.98%. As the demands of customers continue to evolve, Guelph Hydro feels that understanding our customer's experience is imperative to increasing customer satisfaction. Using call-notes within the Customer Information System (CIS) to track types of inquiries from customers received over multiple communication channels helped Guelph Hydro implement customer-friendly touch points for customers. This included updated and accessible online forms, easy-to-use payment options (eBilling), customer-centric customer service and improved energy literacy. Listening to the voice of the customer is the first step in targeting performance improvement initiatives that sustain customer satisfaction.

) **Billing Accuracy**

) Guelph Hydro maintained tracking and measuring of Billing Accuracy for 2016 using call-notes and system queries.

) Guelph Hydro achieved a billing accuracy metric of 99.95% for 2016, using call-notes and system queries. Guelph Hydro achieved

this accuracy rate because of the diligence of its billing staff and through the company's focus on continuously improving its billing processes.

J **Customer Satisfaction Survey Results**

- J 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.
- J A comprehensive telephone survey, conducted by an independent research company, UtilityPULSE, in January 2017, surveyed 400 residential and commercial customers about customer service, reliability, billing, operations and the utility's image. Results showed an overall customer satisfaction rate of 89%, which was 5% higher than the Ontario benchmark.
- J Guelph Hydro received particularly high marks for reliability with 92% of respondents saying Guelph Hydro delivered consistent, reliable energy and 91% saying the reliability of the electricity system met their expectations. In the event of a power outage, 88% indicated their satisfaction that Guelph Hydro handled outages and restored power quickly.
- J Thinking about the services provided by Guelph Hydro, 88% said the company provided excellent, quality services and 90% said that the company delivered on its service commitments.
- J Overall, Guelph Hydro scored an "A" on the UtilityPULSE "report card" that marks the company on three categories: Customer Care, Company Image and Management Operations.
- J Results of the 2017 Customer Satisfaction Survey can be found on the Guelph Hydro website.

Safety

J **Public Safety**

- J The Electrical Safety Authority (ESA) generates the performance results for the Public Safety measure, which is comprised of three components: Public Awareness of Electrical Safety, Compliance with Ontario Regulation 22/04, and the Serious Electrical Incident Index.
 - o **Component A – Public Awareness of Electrical Safety**
 - Component A involves a statistical survey that gauges the public's awareness of key electrical safety concepts related to electrical distribution equipment in Guelph Hydro's service area. This metric, introduced in 2015, 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.

- 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:
 1. Likelihood to “call before you dig.”
 2. Impact of touching a power line
 3. Proximity of an overhead power line
 4. Danger of tampering with electrical equipment
 5. Proximity to downed power line
 6. Actions taken in vehicle in contact with wires
- Guelph Hydro’s Public Safety Awareness Index score of 84% indicates that many people in Guelph Hydro’s service territory have good knowledge or have received some information pertaining to the six core measurement questions.
- The next Public Awareness Safety Survey is scheduled to take place in 2018.

○ **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 of the scorecard. Guelph Hydro is reviewed by the Electrical Safety Authority (ESA) on all five elements which are evaluated to determine the overall status of compliance (Non-Compliant (N/C), Needs Improvement (N/I), or Compliant (C)).
- For the 2016 reporting period, Guelph Hydro’s O.Reg. 22/04 audit was conducted between May 1, 2015 and April 30, 2016. The final audit report noted that the process for Inspection and Approval of Construction criterion needed improvement. Despite this audit finding, the report concluded that Guelph Hydro was in compliance with O.Reg. 22/04. Guelph Hydro took steps to address the audit finding and modified its process for Approval of Construction prior to being placed in-service to ensure that appropriate approvals are in place prior to energizing the distribution system.
- For the 2016 reporting period, three Due Diligence Inspections (DDI’s) were performed by the ESA on Guelph Hydro’s distribution system between April 1, 2015 and March 31, 2016. Two of the DDI’s were fully compliant with the requirements of the inspections, while one DDI resulted in two “needs-improvements” scores, which were corrected by Guelph Hydro immediately following the assessment.

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

- “Serious electrical incidents”, as defined by Ontario 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 kilometres (km) of line (10 km for total lines fewer than 100 km, 1000 km for total lines over 1000 km, and 100 km for all others). Only equipment which is applicable to Section 12 of O.Reg 22/04 is considered. A “serious electrical incident” appears 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 2016 reporting period (January 1, 2015 to December 31, 2015), there were zero incidents in Guelph Hydro’s service territory.
- 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 for 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.

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 fixed average (2010 to 2014).
-) In 2016, Guelph Hydro’s annual system reliability indicator (“average number of hours that power to a customer is interrupted”) – a rolling five-year average (2012-2016) improved compared to the five-year fixed average (2010-2014). The 2016 system reliability measure was 0.71 hours (or 42.6 minutes) of interruption per customer. The 2016 result was slightly higher than the distributor target of 0.59.
-) Guelph Hydro had one major event day in 2016 calculated using the IEEE-1366-2003, “IEEE Guide for Electric Power Distribution Reliability Indices” which was excluded from the results.

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

- J The industry target for this performance metric is established as a five-year fixed average (2010 to 2014).
- J In 2016, Guelph Hydro's annual system reliability indicator ("average number of times that power to a customer is interrupted") – a rolling five-year average (2012-2016) increased compared to the five-year fixed average (2010-2014). The 2016 system reliability measure was 1.34 interruptions per customer. The 2016 result was also slightly higher than the distributor target of 1.31.
- J Guelph Hydro had one major event day in 2016 calculated using the IEEE-1366-2003, "IEEE Guide for Electric Power Distribution Reliability Indices" which was excluded from the results.

Asset Management

J **Distribution System Plan Implementation Progress**

- J Distribution System Plan implementation progress is a performance measure instituted by the OEB starting in 2014. The Distribution System Plan outlines Guelph Hydro's forecasted capital expenditures over the next five years (2016-2020) that are required to maintain and expand Guelph Hydro's distribution system to serve its current and future customers.
- J Guelph Hydro included the Distribution System Plan as part of the 2016 Cost of Service rate application (EB-2015-0073), filed on April 24, 2015. Guelph Hydro has achieved a result of 102.2% in its Distribution System Plan Implementation progress for the 2016 year. This measure is calculated by comparing Guelph Hydro's actual capital expenditures for 2016 to the 2016 budget in the Distribution System Plan.

Cost Control

J **Efficiency Assessment**

- J Cohort/Group 3 out of 5
- J The Ontario Energy Board has adopted an extensive and complex model called the Pacific Economics Group (PEG) benchmarking model to determine the average efficiency performance of distributors to permit meaningful efficiency comparisons between distributors. As of December 31, 2016, Guelph Hydro's three-year average efficiency performance score, as calculated by the PEG benchmarking model, was -4.6% (i.e. total cost was 4.6% less than expected). This performance indicates that Guelph Hydro's cost control performance was better than the average LDC over the previous three-year period. As of December 31, 2015, Guelph Hydro's three-year average efficiency performance score was -2.6%.

) Guelph Hydro continually seeks 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 2016, Guelph Hydro's total cost per customer was \$624, a decrease of \$8 compared to 2015, primarily due to Guelph Hydro's quantity of customers increasing by more than 1%. Guelph Hydro also incurred lower Operating, Maintenance and Administration (OM&A) costs for 2016 as a result of lower regulatory costs related to the company's 2016 Cost of Service filing, which were incurred in 2015 and did not repeat in 2016. In addition, 2016 marked the first year that Guelph Hydro made an adjustment to record Other Post-Employment Benefit (OPEB) costs on a cash basis versus an accrual basis for regulatory purposes. This had the impact of decreasing OM&A costs by \$324,000 in 2016. The decrease in OM&A costs was offset by higher capital costs as result of an increase in the quantity of capital additions; specifically, an increase of \$5.2 million in underground conductors, conduit, transformers and services due to a focus on underground work related to the Distribution System Plan (DSP) workplan. This was partially offset due to a reduction in capital costs of \$3.8 million related to station work, meter replacements and intangible asset additions in 2016.

) **Total Cost per Km of Line**

) In 2016, Guelph Hydro's total cost per kilometer of line was \$30,014, an increase of \$21 compared to 2015. This was primarily due to a small reduction in the quantity of overhead lines, which more than offset a small increase in the quantity of underground lines. There was virtually no change in total cost for 2016 versus 2015, since O&MA decreases were substantially offset by the capital increases as discussed in the previous paragraph.

Conservation & Demand Management

) **Net Cumulative Energy Savings**

) Guelph Hydro has a history of excellence in Conservation and 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, as well as exceeding both its 2011-2014 net demand and net energy savings targets, having achieved 119.8% of its demand and 164.6% of its energy savings target. Guelph Hydro was one of only six LDCs to have exceeded 100% of its demand target, and one of 41 LDCs to have exceeded 100% of its energy target, with 79% of its energy savings coming from the non-residential sector.

- J Under the Conservation First Framework (CFF), Guelph Hydro was assigned a net incremental persistent energy savings target of 99.04 gigawatt hours (GWh) over the 2015-2020 timeframe, an effective doubling of Guelph Hydro's 2011-2014 CDM framework incremental annual energy savings target.
- J At the end of 2015, Guelph Hydro had achieved over 59% of its 2015-2020 energy savings target and, by the end of 2016, had achieved over 69.2 GWh, or almost 70% of its 2020 persistent 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" project was commissioned, with project incentive funding provided under the Save on Energy 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. In 2016, Guelph Hydro's residential customers received the benefit of, and provided significant energy savings contributions, through the Coupon and Heating and Cooling programs.
- J 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 rely 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 significant lead times, in some cases 3-4 years, or even longer. Circumstances outside of the customer's or the LDC's control (e.g., competition for capital, long payback periods, \$US exchange rate risk, potential impact of climate change regulations, technical connection restrictions, etc.), can adversely affect the probability of these projects coming to fruition, and consequently an LDC's ability to achieve its 2020 energy savings target.

Connection of Renewable Generation

J Renewable Generation Connection Impact Assessments Completed on Time

- J Renewable generation predominantly refers to solar photovoltaic generation assets that generate electricity and 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.
- J 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 10 kilowatts

(kW), 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.

- J 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.
- J In 2016, Guelph Hydro achieved 100% for the completion of all four renewable generation CIAs within the prescribed time limit. As of December 31, 2016, Guelph Hydro had connected a total of 38 Feed-in-Tariff ("FIT") Projects with a total nameplate capacity of 8.128 megawatts (MW).
- J In 2015, there were eleven CIAs requested, and Guelph Hydro completed all within the prescribed time limit.
- J In 2014, there were three CIAs requested, and Guelph Hydro completed all within the prescribed time limit.
- J In 2013, one CIA was requested which Guelph Hydro completed within the prescribed time limit.
- J In 2012, five CIAs were requested, and Guelph Hydro completed all five CIAs, but four within the prescribed time limit.
- J Guelph Hydro outsources the CIA work to an engineering consultant. Historically, the reason for any delays was 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 even before the CIA work begins. Guelph Hydro believes that these measures will help to ensure that CIAs are completed on time and in full.

J **New Micro-Embedded Generation Facilities Connected On Time**

- J Guelph Hydro must connect smaller generators that produce less than 10 kW of power within five 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).
- J In 2016, Guelph Hydro achieved 100% for the connection of New Micro-Embedded Generation Facilities (microFIT and Net Metering) by connecting all 44 microFIT and two Net Metering projects within the prescribed time, and above the industry target of 90%. As of December 31, 2016, Guelph Hydro had connected a total of 364 microFIT projects with a total nameplate capacity of 2.945 MW and four Net Metering projects with a total nameplate capacity of 37 kW.
- J In 2015, Guelph Hydro achieved 100% for the connection of New Micro-Embedded Generation Facilities ("microFIT") by connecting all 39 microFIT projects and two Net Metering projects within the prescribed time, and above the industry target of 90%.

- J 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%.
- J 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.
- J As of December 31, 2016, Guelph Hydro had connected a total of 364 microFIT, four Net Metering and 38 FIT generation customers with a connected capacity of 11.11 MW.

Financial Ratios

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

- J 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 users of financial information with 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 company’s balance sheet.
- J In 2016, Guelph Hydro’s current ratio was 2.37, representing an increase of 0.23 over 2015. This was due to a reduction of current liabilities, primarily the result of a large income tax payable balance in 2015 being replaced by a large income tax receivable balance in 2016.
- J 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 2.37 from 1.12 in 2014. Over the 2012 to 2014 period, Guelph Hydro saw a steady deterioration in its Current Ratio. 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.

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

J 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 OEB 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.

J Guelph Hydro’s total debt to equity ratio of 1.41 for 2016 is the result of a \$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: 1.13 in 2012 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.

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

J The OEB sets a “deemed” Return on Equity (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 9.19% in 2016 when its costs were last examined in detail by the OEB.

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

J 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.

J Achieved ROE for 2016 of 10.58% was above the allowed ROE set by the OEB for the following reasons:

- Guelph Hydro, as with other distribution companies in Ontario, pays taxes under a provincial tax system called Payments in Lieu of Taxes (PILs). Guelph Hydro pays PILs based on its International Financial Reporting Standards (IFRS) income. This income is calculated to include changes in the Deferral and Variance Account (DVA) balances for the year, since DVA balances are not

allowed to be recognized on the balance sheet under IFRS rules. In 2016, the change in DVA balances amounted to \$1.6 million, and had the impact of increasing Guelph Hydro's net income and hence its taxable income for PILs purposes. When determining adjusted regulated net income (ARNI) for the purposes of calculating Achieved ROE, an adjustment was made to remove the impact of the change in DVA assets from the PILs calculation. This had the impact of reducing PILs for regulated ROE purposes and increasing ARNI by \$434,000. Without this adjustment, the Achieved ROE% would have been reduced to 9.83%.

Note to Readers of 2016 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.