

Scorecard - Horizon Utilities Corporation

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.	<b>Service Quality</b>	New Residential/Small Business Services Connected on Time	99.40%	99.20%	99.90%	99.90%	99.80%		90.00%	
		Scheduled Appointments Met On Time	97.30%	95.40%	98.20%	97.60%	99.90%		90.00%	
		Telephone Calls Answered On Time	74.00%	80.00%	81.00%	82.10%	80.20%		65.00%	
	<b>Customer Satisfaction</b>	First Contact Resolution			90%	89%	89%			
		Billing Accuracy				99.65%	99.86%		98.00%	
		Customer Satisfaction Survey Results			95%	87%	92%			
<b>Operational Effectiveness</b>  Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	<b>Safety</b>	Level of Public Awareness					80.00%			
		Level of Compliance with Ontario Regulation 22/04 <sup>1</sup>	C	C	C	C	C			C
		Serious Electrical Incident Index	Number of General Public Incidents	3	7	7	4	6		
	Rate per 10, 100, 1000 km of line		0.878	2.050	2.042	1.176	1.728			1.144
	<b>System Reliability</b>	Average Number of Hours that Power to a Customer is Interrupted <sup>2</sup>	2.23	1.43	4.36	1.59	1.69			2.15
		Average Number of Times that Power to a Customer is Interrupted <sup>2</sup>	1.74	1.83	1.76	1.65	1.58			1.71
	<b>Asset Management</b>	Distribution System Plan Implementation Progress			105%	97%	121.17%			
	<b>Cost Control</b>	Efficiency Assessment		2	3	3	3			
		Total Cost per Customer <sup>3</sup>	\$453	\$470	\$499	\$523	\$557			
		Total Cost per Km of Line <sup>3</sup>	\$31,197	\$32,513	\$35,054	\$36,129	\$38,389			
<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).	<b>Conservation &amp; Demand Management</b>	Net Cumulative Energy Savings <sup>4</sup>					21.42%		330.68 GWh	
	<b>Connection of Renewable Generation</b>	Renewable Generation Connection Impact Assessments Completed On Time	50.00%	66.67%	100.00%	100.00%	62.50%			
		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.	<b>Financial Ratios</b>	Liquidity: Current Ratio (Current Assets/Current Liabilities)	0.70	1.10	1.12	0.96	0.86			
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio	0.85	0.92	0.89	0.89	0.94			
		Profitability: Regulatory Return on Equity	Deemed (included in rates)	9.58%	9.58%	9.58%	9.58%	9.30%		
			Achieved	8.19%	12.49%	9.01%	7.50%	10.00%		

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

## Appendix A – 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%20Performance%20Measure%20Descriptions.pdf)

### Scorecard Management Discussion and Analysis - General Overview

Horizon Utilities Corporation (“Horizon Utilities”) recently marked the 10th anniversary of its merger that launched the Horizon family of companies. In 2015, Horizon Utilities announced its intention to merge with two other like-minded utilities – Enersource and PowerStream that will come together and jointly purchase Hydro One Brampton.

Horizon Utilities is the product of two major merger consolidations. The first was a result of the amalgamation creating the new City of Hamilton in 2000, where five former municipal electric utilities came together to create the new Hamilton Hydro Inc. The second in 2005 brought Hamilton Hydro Inc. together with St. Catharines Hydro Utility Services Inc. The 2000 and 2005 mergers were tremendous opportunities to improve service and lower costs. Horizon Utilities began by leveraging a broad range of efficiencies and investing in new technologies that improved reliability and productivity, resulting in service quality enhancements and significant cost savings for its customers.

In 2015, Horizon Utilities once again delivered the level of outstanding results that its customers and shareholders deserve and have come to expect. Horizon Utilities invested \$51.4 million in infrastructure and capital improvements and paid dividends to its municipal shareholders in Hamilton and St. Catharines totaling \$12.2 million. All of this was achieved while maintaining among the most competitive distribution rates in Ontario.

Horizon Utilities continued its efforts to attain excellent results in the key performance measurement subject areas – Customer Focus, Operational Effectiveness, Public Policy Responsiveness, and Financial Performance – and achieved significant improvements over 2014 in a number of areas.

As a customer-focused electricity distributor, Horizon Utilities understands that its success is connected to its ability to anticipate and meet the continually evolving energy needs of residential and business customers in the communities it serves and to do so in a sustainable way. For this reason, the company strives to exceed industry standards in each of the Scorecard industry measures.

The strength behind Horizon Utilities’ performance stems in large measure from its commitment to sustainable development – development that meets the needs of the present without compromising the ability of future generations to meet their own needs. This business objective

encompasses social, environmental and financial responsibility.

Since 2008, Horizon Utilities has made an ongoing commitment to triple bottom line measurement – social, environmental and economic. This discipline has delivered excellent results for customers, communities, and shareholders. Horizon Utilities has been honoured with a variety of awards. These efforts earned Horizon Holdings Inc., Horizon Utilities' parent company, the top ranking on Corporate Knights Future 40 Responsible Corporate Leaders in Canada list based on its 2015 data.

Horizon Utilities has developed in-house innovations such as iPass, its planning and scheduling software that brings execution discipline to the largest expenditure envelope for any utility. This iPass solution has boosted productivity tremendously. The company also became the first utility to achieve the Canadian Standards Association CSA Z1000 occupational health and safety performance designation. Horizon Utilities continues to be a leader in Conservation and Demand Management, delivering \$15.7 million of incentives in 2015 and being one of only five utilities to have met both its OEB energy and demand threshold targets.

Horizon Utilities is pleased to report the following results of its Performance Scorecard efforts in 2015.

## Service Quality

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

The OEB's Distribution System Code ("DSC") requires electricity distributors to complete a connection for new service under 750 volts within five days from the day on which all applicable service conditions are satisfied. This service quality standard must be met at least 90% of the time on an annual basis. Horizon Utilities works closely with contractors and developers to enhance service levels to achieve this metric. In 2015, Horizon Utilities connected 99.8% of over 2,600 eligible low-voltage residential and small business customers to its system within the five-day timeline. As shown on the Scorecard, Horizon Utilities received a green "target met" with an upward arrow indicating improvement of the five-year average. Across the five-year period, 2011 to 2015, Horizon Utilities connected low voltage customers to its system within five days over 99.6% of the time.

### **Scheduled Appointments Met On Time**

The OEB's DSC requires that electricity distributors offer to schedule an appointment within a window of time that is no greater than four hours. The electricity distributor must then arrive for the appointment within the scheduled timeframe 90% of the time. The work requested by customers in this category includes: connect or reconnect services; read meters; or perform other necessary work. In 2015, Horizon Utilities scheduled more than 4,400 appointments with its customers within this timeframe, which was 99.9% of the time. As shown on the Scorecard, Horizon Utilities received a green "target met" with an upward arrow indicating improvement of the five-year average. Across the five-year period, 2011 to 2015, Horizon Utilities did not have a score lower than 95.4%. The five appointments that Horizon Utilities missed were rescheduled. All missed appointments are rescheduled by Horizon Utilities' agents and are met 100% of the time.

### **Telephone Calls Answered On Time**

The OEB's DSC requires that electricity distributors answer calls within 30 seconds, 65% of the time. This measure is influenced by the volume of customer calls that are received, which can be driven by factors such as power outages, concerns about high bills, and news about the electricity market in the media. The volume varies from year to year. In 2015, Horizon Utilities' Customer Service representatives received more than 318,000 calls from its customers – approximately 1,300 calls per working day – and answered these 80.2% of the time within the required timeframe. As shown on the Scorecard, Horizon Utilities received a green "target met" with an upward arrow indicating that Horizon Utilities continues efforts to improve its high standard of customer response. Across the five-year period, 2011 to 2015, Horizon Utilities had four scores that met or exceeded 80.0%. The score (74%) has fallen below 80% only once in a difficult storm year.

Horizon Utilities continues to improve its accessibility to customers through its Call Centre and Call Centre alternatives. First, since October 2014, the company has expanded its hours of service to 6:30 p.m., Monday to Friday for all types of customer inquiries. Second, Horizon

Utilities has responded to customer preferences for email as a communications channel, with the Customer Service team having responded to almost 8,000 such inquires in 2015. Third, Horizon Utilities continues to expand the use of its self-serve options for customers, which resulted in more than 42,000 self-service transactions being processed through the company's website, mobile website and interactive voice response ("IVR") telephone system. Horizon Utilities' customers can use self-service options to: advise of account changes (e.g., notification of a move); register for e-billing; review their account balance; provide notification of payments; provide their meter reading; and new in 2015, register for pre-authorized payments. They can do so anytime, anywhere, on any device without the need to contact the Customer Service department.

## Customer Satisfaction

### First Contact Resolution

The OEB does not provide a specific metric for First Contact Resolution, which is a customer query resolved in a single call, but it did instruct all electricity distributors to review and develop a number of customer satisfaction measurements for reporting in 2015. Horizon Utilities responded by adding First Contact Resolution in 2012 to the third-party customer satisfaction surveys it has commissioned for 17 years and received a customer satisfaction rating of 89% in 2015. This survey has been and continues to be great a tool for improving customer satisfaction and the company's own business processes and First Contact Resolution is an importance case study of this success.

In determining First Contact Resolution results, customers surveyed are typically contacted within 48 hours of their call to the Customer Service department and are asked a series of questions regarding the quality of service received. In 2015, more than 1,500 Horizon Utilities customers responded to this automated transactional survey opportunity which is conducted by a third-party service provider. In the case where a customer has advised that its query was not resolved in a single contact, Horizon Utilities takes the following actions: reviews the opportunity to improve its processes; identifies training gaps; and, addresses ways to work through the outstanding customer concern.

The OEB plans to review information provided by electricity distributors over the next few years and implement a commonly defined measure for this item 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.

### Billing Accuracy

The OEB began prescribing an Industry Target of 98% as a specific Billing Accuracy customer satisfaction metric on October 1, 2014. The measure has been defined as the number of accurate bills issued expressed as a percentage of total bills issued. It is calculated as:  $\text{Percentage of Bills Accurately Issued} = (\text{Total Number of Bills Issued for Year} - \text{Number of Inaccurate Bills Issued for Year}) \div \text{Total Number of Bills Issued for Year}$ .

In 2015, Horizon Utilities achieved a billing accuracy of 99.86% for more than 1.6 million bills issued. As shown on the Scorecard, Horizon Utilities received a green “target met” with a upward arrow indicating results that are better than the industry target and an improvement over the prior year. The most common cause of a “billing error” for Horizon Utilities is a result of a customer advising of a move from a location after the bill has been issued, requiring the account to be closed and the bill to be re-issued to a new party. Horizon Utilities continues to monitor its billing accuracy results and processes to identify opportunities for improvement.

## Customer Satisfaction Survey Results

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

Horizon Utilities has commissioned an annual customer satisfaction survey, conducted by a third-party vendor, for 17 years. The provider, Simul Corporation, conducts its UtilityPulse survey for other Ontario and Canadian utilities as well. The survey asks customers about a wide range of topics, including the following: overall satisfaction; service reliability; customer service; billing experience; and corporate image. The data is incorporated into Horizon Utilities’ planning processes, ensuring that the distributor’s practices evolve to meet customer’s changing needs and expectations.

On customer satisfaction, Horizon Utilities’ scores for the five-year period, 2011 to 2015, are reported along with the Ontario average in the table below. Horizon Utilities has consistently exceeded the Ontario distributor customer satisfaction average in each year over the five-year period. In 2015, Horizon Utilities received a score of 92%, exceeding the Ontario average of 86%. Over the last five years, Horizon Utilities’ Customer Satisfaction score average is 91%.

Customer Satisfaction	2011	2012	2013	2014	2015	5 year average
<b>Horizon Utilities</b>	90%	93%	95%	87%	92%	91%
<b>Ontario Average</b>	86%	89%	90%	80%	86%	86%
<b>% above Ontario Average</b>	4%	4%	5%	7%	6%	5%

### Public Safety

The OEB's Public Safety metric was new for the Scorecard in 2014. It was developed for the OEB by the Electrical Safety Authority ("ESA"), after public consultation. The OEB, through the ESA recommendation, has now arrived at the three component metrics of (a) Public Awareness of Electrical Safety, (b) Compliance with Ontario Regulation 22/04, and (c) Serious Electrical Incident Index.

Safety is a core value and is always top priority at Horizon Utilities. The company is one of the first electric utilities in Canada to implement the CSA Z1000 safety program, which focuses on: i) promoting the physical, mental, and social wellbeing of workers in the workplace; and ii) protecting workers from adverse workplace conditions. Horizon Utilities' commitment to public and employee safety is clearly demonstrated through its stringent safety protocols and training. It is in fact one of a small number of Ontario distributors to have achieved over two million hours without a lost-time injury on several occasions.

### Component A – Public Awareness of Electrical Safety

The ESA and OEB developed a standard survey methodology to determine the Public Awareness of Electrical Safety component of the Safety Performance Category of the OEB Scorecard. This is the first year for compiling data to measure the level of awareness of key electrical safety precautions among the public within the electricity distributor's service territory. Results are based on a telephone survey (Random Digit Dialing) among 400 members of the general public, 18 years of age or older, within Horizon Utilities' service territory. The six core measurement questions correspond to the six most frequent incidents involving utility equipment in Ontario over the last decade.

Horizon Utilities' Public Safety Awareness Score in this initial year of measurement is 80%. The OEB has indicated that the performance target for this metric will be established once three years of data has been gathered.

### Component B – Compliance with Ontario Regulation 22/04

The metric measuring Ontario Regulation 22/04 (the "Regulation") exists to assess an LDC's compliance with the ESA's standard for safety performance based requirements for the design, construction and maintenance of electrical distribution systems. Horizon Utilities received a rating of 'compliant', the highest rating possible, for its performance in 2010 to 2015. This rating is based upon Horizon Utilities' performance in the following areas: Regulation 22/04 Audit; Declaration of Compliance; Due Diligence Inspections; Public Safety Concerns; and Compliance Investigations.

Across the period 2011 through 2015, Horizon Utilities had zero non-compliance issues identified in the annual Regulation 22/04 Audit,

confirming that the company's commitment to safety is effective and that it is compliant with the Regulation.

Annual Due Diligence Inspections of the LDC's electrical distribution installations are completed by ESA with primary focus on ensuring the construction in the field is in accordance with a plan, work instruction, and standard design compliant with Regulation 22/04.

All Public Safety Concerns issued to the LDC by ESA are reviewed for compliance against Ontario Regulation 22/04, corrected in a timely fashion should these concerns fall outside the established Regulation.

As background, the Regulation requires an audit and declaration of compliance that both measures the appropriateness of processes in place to comply with the safety standards set out in the Regulation and determines whether the distributor correctly follows its processes. The audit is an independent review and examination of records and activities to: (i) assess the adequacy of system controls; (ii) ensure compliance with established policies and procedures; and (iii) recommend necessary changes in controls, policies, or procedures to meet objectives. Horizon Utilities' most recent independent audit findings for the period May 1, 2014 to April 30, 2015 were consistent with findings in prior years.

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

The Serious Electrical Incident Index measures the number and rate of serious electrical incidents occurring across the distributor's assets per 1,000 kms of line. Section 12 of Ontario Regulation 22/04 defines a "serious electrical incident" as:

- (a) any electrical contact that caused death or critical injury to a person;
- (b) any inadvertent contact with any part of a distribution system operating at 750 volts or above that caused or had the potential to cause death or critical injury to a person; or
- (c) any fire or explosion in any part of a distribution system operating at 750 volts or above that caused or had the potential to cause death or critical injury to a person, except a fire or explosion caused by lightning strike.

The OEB set a target of four (4) Serious Electrical Incidents for Horizon Utilities in 2015. To promote a continued focus on Serious Electrical Incidents, the target is calculated as 70% of the five year rolling average of such incidents. Horizon Utilities' goal is to have zero "serious electrical incidents" annually. Horizon Utilities expects to achieve these results through the following: renewal of its aging infrastructure to bring distribution assets to current material and construction standards; review and continual improvement of health and safety procedures; and, continual education external workers on hazard identification and avoidance.

Horizon Utilities experienced six "serious electrical incidents" in the 2015 reporting period. This is an increase over the 2011 to 2014 average of five. Four of the six incidents were initiated as a result of items beyond the control of Horizon Utilities. The remaining two incidents were a result of equipment failures. One of the two equipment failures occurred on Horizon Utilities' 4kV distribution system, Horizon Utilities' oldest overhead distribution assets. Horizon Utilities' 4kV and 8kV Renewal Program is the largest single renewal effort of its overall renewal



program. It has been developed to focus on the renewal of these aging assets. Horizon Utilities expects that this focus will assist in reducing the risk of “serious electrical incidents” due to equipment failures on this system.

## System Reliability

In addition to its role of regulating rates, the OEB also reviews, reports and publishes the system reliability (loss of supply) statistics of licensed electrical distributors like Horizon Utilities. For the purposes of this Scorecard, the OEB publishes metrics identifying customer power outage frequency and customer power outage duration.

Horizon Utilities has two strategies for addressing system reliability: continued renewal of its distribution system and continued deployment of distribution system automation.

Any distributor can experience significant year-over-year volatility in its system reliability measure because this measure is heavily influenced by the number and severity of major weather events that may occur in any one year. As the impacts of climate change become a more prevalent issue, this number may continue to be affected by the frequency and intensity of severe weather events. The following commentary is provided with respect to Horizon Utilities’ performance on the two key power outage metrics for 2015.

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

The OEB uses System Average Interruption Duration Index (“SAIDI”) as an index of system reliability. SAIDI is the average amount of time that supply to a customer is interrupted per year. The metric is determined by dividing the total customer hours of all interruptions (excluding interruptions caused by upstream Loss of Supply events to the distributor) divided by the average number of customers served. In 2015, Horizon Utilities’ customers experienced a reliability rate, on average, of 99.98% or 1.69 hours of power interruption. Horizon Utilities’ performance has consistently been within the OEB defined acceptable range in recent years.

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

The OEB also uses System Average Interruption Frequency Index (“SAIFI”) as an index of system reliability. SAIFI is the average number of times per year that the supply to a customer is interrupted. The metric is determined by dividing the total number of customer interruptions experienced by all customers (excluding interruptions caused by upstream Loss of Supply events to the distributor), by the average number of customers served. In 2015, Horizon Utilities’ customers experienced an average of 1.58 interruptions. Horizon Utilities’ performance has consistently been within the OEB defined acceptable range in recent years.

## Asset Management

### Distribution System Plan Implementation Progress

The OEB does not require all distributors to use the same approach to measure Distribution System Plan Implementation progress. However, the OEB requires that a distributor report on this metric to indicate whether its work continues to be “on track” relative to its Distribution System Plan. Horizon Utilities measures its Distribution System Plan Implementation Progress by comparing capital expenditures to what was approved by the OEB. The measure indicates that Horizon Utilities’ actual capital expenditures were 121% of budget in 2015, compared to 97% in 2014 and 105% in 2013.

In determining its Distribution System Plan priorities, Horizon Utilities completed a comprehensive development plan that both provides a 20-year outlook and defines specific capital and operating plans for the next five years. As the first distributor to receive approval under the OEB’s new ‘custom’ incentive rate-setting framework, Horizon Utilities has set the stage for renewal and modernization of its distribution system in a timely manner, one that ensures continued reliability and avoids undue increases in customer rates.

Using an asset management approach to renewal and modernization priorities, Horizon Utilities has refined its long-term distribution system capital plan through a logical and sequential process, including: i) preparing a detailed assessment of the health of its assets by an independent engineering consulting firm using industry best practices; ii) developing a comprehensive Asset Management Plan (“AMP”); and, iii) preparing a long-term Distribution System Plan (“DSP”) that provides for annual distribution system capital investments on a prioritized basis.

## Cost Control

### Efficiency Assessment

The total costs for Ontario distributors are evaluated by the Pacific Economics Group LLC (“PEG”) on behalf of the OEB to produce a single efficiency ranking. Distributors are divided into five groups based on the magnitude of the difference between their respective individual actual and predicted costs. Distributors with larger negative differences between actual and predicted costs are considered better cost performers and therefore eligible for lower stretch factors. The following outlines the five groups to which the distributors can be allocated and their definitions:

- 1) Cohort I (Stretch Factor = 0.0%) – Actual costs are 25% or more below predicted costs
- 2) Cohort II (Stretch Factor = 0.15%) – Actual costs are 10% to 25% or more below predicted costs
- 3) Cohort III (Stretch Factor = 0.30%) – Actual costs are within +/- 10% of predicted costs

- 4) Cohort IV (Stretch Factor = 0.45%) – Actual costs are 10% to 25% or more above predicted costs
- 5) Cohort V (Stretch Factor = 0.60%) – Actual costs are 25% or more above predicted costs

In 2012, Horizon Utilities was placed in Cohort II, where a Cohort II distributor is defined as having actual costs 10 to 25 percent below predicted costs. The significance of this categorization is that Horizon Utilities was ranked as high as 7<sup>th</sup> and not below 21<sup>st</sup> of the 71 distributors ranked, given that only six of the 71 LDCs are in Group I and 15 are in Group II.

In 2013, an update of the PEG analysis was released that indicated a change to Horizon Utilities' relative efficiency. Horizon Utilities was placed in Cohort III; a Cohort III distributor is defined as having actual costs within 10% of predicted costs.

In 2014 and 2015, Horizon Utilities maintained its placement in Cohort III having achieved actual costs that were within 10% of predicted costs.

### **Total Cost per Customer**

Total costs per customer and per kilometer are computed by PEG based on an econometric model to adjust distributors' costs reported in the financial statements in order to benchmark distributors' cost performance. They are based on, but do not represent, Horizon Utilities' costs as identified in its financial statements.

Total costs refer to operating and capital costs and include costs to operate, maintain, administer and renew distribution system, buildings, and related underlying systems and processes. Horizon Utilities' capital and operating costs are increasing year-over-year. The increase in capital costs corresponds to the ongoing need to invest in the necessary renewal of its distribution system, buildings, and related underlying systems and processes. A significant portion of Horizon Utilities' asset infrastructure is now at or nearing end-of life and is due for renewal. Horizon Utilities is replacing assets proactively along a carefully managed timeframe in a manner that balances system risks and customer rate impacts.

Increases in operating costs are mainly attributable to increases in distribution system and facilities maintenance, information technology costs supporting new regulated and internal business processes, salary/wage inflation, and non-labour expense inflation, partially offset by significant productivity achievements. Horizon Utilities experienced a low level of customer growth in its service territory. As a result, cost per customer has increased year-over-year with the increase in capital and operating costs. Distributors with low customer growth rates and upward cost pressures experience higher increases in cost per customer compared to distributors with higher growth rates that are able to fund capital renewal and operating costs through customer growth. New suburban distributors are not confronted by the infrastructure maintenance and capital renewal challenges of distributors in older municipalities. Suburban distributors, where the focus is on new capital rather than maintenance, can capitalize more labour costs, resulting in lower pressure on the key sector comparator of OM&A costs.

## **Total Cost per Km of Line**

Horizon Utilities experienced a low level of customer growth in its service territory in terms of number of total kilometers of lines. As a result, costs per kilometer of line have increased year over year with the increase in capital and operating costs. Distributors with low growth rates with upward cost pressures experience higher increases in cost per kilometer of line as compared to distributors with higher growth rates that are able to fund capital renewal and operating costs through customer growth.

## **Conservation & Demand Management**

On March 31, 2014, the IESO (formerly Ontario Power Authority) was directed by the Minister of Energy to coordinate, support and fund the delivery of CDM programs through licensed electricity distributors to achieve a total of 7 TWh of reductions in electricity consumption between January 1, 2015 and December 31, 2020, in conjunction with specified guiding principles and requirements set out by the Ministry of Energy. The IESO released targets and budgets for the Conservation First 2015-2020 Framework to electricity distributors on October 31, 2014, which included Horizon Utilities' target of 330.68 GWh of persistent energy savings to be achieved by December 31, 2020. As per the requirements Energy Conservation Agreement with the IESO, Horizon Utilities chose an option to file a Joint CDM Plan with Erie Thames Powerlines. Specific proposed CDM programs and budgets to achieve the allocated targets were included in the Joint CDM Plan. Further, the Joint CDM Plan specified that Horizon Utilities would achieve 65 GWh of persistent net energy savings for 2015.

### **2015 Persistent Net Energy Savings**

Horizon Utilities has attained 70.84 GWh or 21.42% of net verified energy savings persisting to the 2020 target. Adjustments to the reported 2015 energy savings are expected and will be reported by the IESO in 2016 as "Prior Period Adjustments". Horizon Utilities exceeded its 2015 Incremental Annual Target of 55.11 GWh by 28.54% and its 2015 CDM Annual Plan target of 65.02 GWh by 8.94%. The 2015 results were 48.19% higher than the previous year's (2014) net energy savings of 47.80 GWh.

## Connection of Renewable Generation

### Renewable Generation Connection Impact Assessments Completed on Time

Horizon Utilities completed all Renewable Generation Connection Impact Assessments (“CIAs”) in 2015 within the required timeframe specified by the OEB. The OEB requires that CIAs be completed within 60 days (or 90 days if an expansion of the distribution system is required to accommodate the generation) of receiving a complete application from a customer. Horizon Utilities’ performance was also 62.5% in 2015. Horizon Utilities’ 2015 performance falls below the performance in 2013 and 2014 where 100% of the CIAs were completed within the required timeframe. The lower performance experienced in 2015 was a result of three CIAs being processed outside of the prescribed timeframe. In each case, the renewable generation facility is a connection to a feeder owned by Horizon Utilities that is embedded in a host distributor’s distribution system (“Hydro One”) and the processing delay was related to complications arising from Horizon Utilities’ application and receipt of a Threshold Allocation Assessment (“TAA”) from the host distributor.

### New Micro-embedded Generation Facilities Connected on Time

Horizon Utilities successfully connected 100% of all New Micro-embedded Generation Facilities in 2015 within the required timeframe set out by the OEB. These connections are for Feed in Tariff projects of less than 10 kW (micro-FIT). The OEB requires 90% of these projects to be completed within five days of receiving authorization from the Electrical Safety Authority. Horizon Utilities’ performance exceeds the OEB’s industry target of 90%.

## Financial Ratios

### Liquidity: Current Ratio (Current Assets/Current Liabilities)

The OEB requires distributors to report their Current Ratio because it is one of a number of common measures of the financial health of a distributor. The Current Ratio indicates whether or not the distributor has enough resources (assets) to pay its debts (liabilities) over the next 12 months. A Current Ratio of 1.0 means all current assets can cover all current liabilities. The company’s Current Ratio in 2015 was 0.86, down from 0.96 in 2014. The change is primarily due to an increase in current liabilities relating to investments in the electrical distribution system.

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

The OEB requires distributors to report on their “Leverage” or debt to equity ratio as another common measure of the financial health of the organization. This is a useful measure because it indicates the extent to which the distributor is borrowing money to finance its assets. In

its rate setting policies, the OEB uses a deemed capital structure for distributors of 60% debt and 40% equity. This means the leverage is 1.5 (60/40 or  $60 = 40 \times 1.5$ ). Horizon Utilities has consistently had less leverage than the OEB's deemed capital structure in the past five years, with 0.94 in 2015. Having this relatively low level of debt-to-equity enables Horizon Utilities to use increased financial leverage to support its future plans for capital expenditures and growth. Horizon Utilities' strong financial position is further supported by its S&P Global rating of "A".

### **Profitability: Regulatory Return on Equity – Deemed (included in rates) and Achieved**

The OEB requires all distributors to report their Return on Equity earned through OEB approved distribution rates as another common measure of the financial health of the distributor. Horizon Utilities' 2015 distribution rates were approved with an allowance for a (deemed) Return on Equity of 9.30%. The OEB, however, allows a distributor to earn within plus or minus 3% of the deemed 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.

Horizon Utilities' achieved return on equity was 10.00% in 2015. This is within the range allowed by the OEB. Its five-year average return for 2011 to 2015 was 9.44%. The 2015 return was higher than the deemed return principally due to (i) favourable total operating expenses and (ii) favourable net finance charges.

## **Note to Readers of 2015 Scorecard Management Discussion and Analysis**

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, 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.