



**INTERIM REPORT TO
TOWN OF WASAGA BEACH COUNCIL
June 26, 2018**



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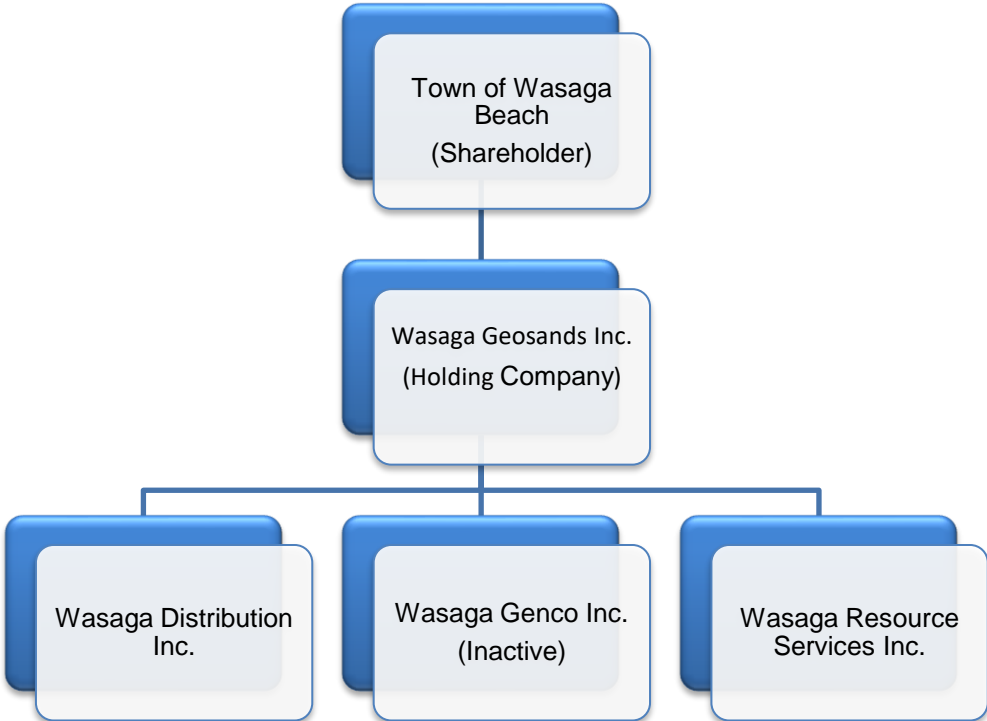
1 Introduction and Purpose

On January 30, 2018 the Town’s CAO submitted a report to Council which addressed, amongst other things, the desire for Wasaga Distribution Inc. (WDI) to provide an update report to Council which would address the current state of the utility, its response to the “retain and grow” direction from Council and its plans for the immediate future. The CAO’s report was accepted by Council.

This report provides a comprehensive review of the utility and discusses issues which must be dealt with by the Board of Directors as it responds not only to the Shareholder’s direction to “retain and grow” but also the challenges facing Local Distribution Companies (LDCs) now and in the future.

2 Ownership Structure

Wasaga Geosands Inc. (WGI) is governed by a Board of Directors and the sole shareholder is the Town of Wasaga Beach. The Corporate Structure is illustrated below:



Wasaga Geosands Inc. (WGI):

WGI was incorporated on May 11, 2000 under the laws of the Province of Ontario. The principal activity of WGI is that of a Holding Company.

Wasaga Genco Inc. (Genco):

Genco was incorporated on May 11, 2000 under the laws of the Province of Ontario. The principal activity of Genco is to generate electricity. At this time Genco is inactive.

Wasaga Distribution Inc. (WDI):

WDI was incorporated on May 11, 2000 under the laws of the Province of Ontario. The principal activity of WDI is to distribute electricity within the Town of Wasaga Beach under a Distribution License issued by the Ontario Energy Board.

The fixed assets such as buildings, substations, poles, cables, wires, transformers, meters and ancillary equipment and related financial assets are the property of WDI.

Wasaga Resource Services Inc. (WRSI):

WRSI was incorporated on May 11, 2000 under the laws of the Province of Ontario. The principal activity of WRSI is to provide a variety of management and other services to WDI. In addition, WRSI has a mandate to actively engage in commercial services to the marketplace. The vehicles, tools, billing systems and administrative equipment are the property of WRSI. All staff are employed by WRSI.

Affiliate Transactions:

WRSI is under contract to WDI through the Master Service Agreement (MSA). A major part of WDI's operating and administrative expenditures are paid to WRSI for services rendered.

3 Wasaga Distribution Inc. (WDI)

The present population, as provided by the Town, is over 20,500, with a total service area of 61 square kilometers. The utility presently serves approximately 13,500 customers and has 292.5 kilometers of conductor, both overhead and underground. The system also has more than 1,500 distribution transformers, and approximately 5,200 poles in service, fed from five owned, and one shared distribution station.

WDI has seen significant growth in the community over the last 10 years as illustrated in the table below.

Period	Customer Base	Average Annual Load in kW
Increase in 10 years	25.1%	23.4%
2016	13,379	23,599
2006	10,694	19,120

*Average Annual Load = (Sum of 12 Monthly Peak Load)/12

The historical cumulative 10-year growth rate clearly demonstrates the significant growth of the Wasaga Beach community and the corresponding load requirements and supporting system infrastructure, required to service the new customers.

WDI operates a 44 kV sub-transmission network within the boundaries of the Town of Wasaga Beach. This WDI 44 kV network is fully embedded in the Hydro One Networks Inc. (HONI) system which derives its power from three 44 kV HONI feeders emanating from the Stayner Transmission Station.

Revenue is earned by WDI delivering electric power to the homes and businesses in its service territory. The rates charged for this and the performance standards that the energy delivery system must meet are regulated by the Ontario Energy Board (OEB).

The table below illustrates the changes in infrastructure (either replaced or installed) that has occurred over the past 5 years.

Infrastructure Components	2013	2014	2015	2016	2017	
Number of Poles	40	74	65	106	127	
Lines - 5,000 V Conductors (km)	Overhead	0.0	0.8	0.0	2.2	1.7
	Underground	1.9	4.1	0.7	2.8	1.2
Lines - Low V Conductors (km)	19.7	19.5	9.6	17.5	17.5	
Number of New Transformers	45	56	41	39	32	
Number of New Connections	278	169	187	174	281	

*Approximately 90% of Low Voltage (V) Conductors are installed underground

3.1 Infrastructure Investments and Plan:

WDI is being proactive in infrastructure planning, focusing on maintaining system reliability, managing growth and the financial investments required to accommodate infrastructure replacement and growth.

In 2016 WDI updated its asset management process, focusing on a variety of inputs including, infrastructure, asset conditions, finance, regulatory, demand requirements, strategic objectives, and maintenance costs. This process now incorporates a more calculated approach in determining capital expenditures that was determined by an internal assessment on the condition of assets within WDI's distribution system.

As such, WDI has determined that much of its overhead plant (poles, wires, and transformers) is aging and is the main driving force for capital investments between the years 2016-2020. WDI incorporates rigorous testing of assets to effectively apply maintenance activities, and to assist in effective prioritization of investments and to optimize the lifecycle of the assets.

Replacing assets that WDI has determined to be the most critical will assist WDI in reducing future unplanned maintenance expenses to assist in achieving cost savings. Furthermore, WDI is aware that capital investments are constrained by financial resources and appropriate planning is underway to ensure WDI is forward thinking in their approach to appropriately maintain WDI's distribution system to the benefit of our rate payers.

WDI's 5 year capital expenditure (2016-2020) accommodates the replacement of 725 poles, 10 km of conductor and 225 overhead transformers that are nearing the end of their useful lives. WDI continues to ensure adequate supply for expansion and works diligently with developers for new service connections.

WDI is confident that with the planning in place and the expected investments in the system, during the 2016-2020 period addresses WDI's needs to update their aging overhead plant to allow WDI to maintain acceptable reliability levels. It is our belief that our planned investments will ultimately be to the benefit of both our shareholder and our rate payers.

WDI's 2018 Capital Budget forecasted net capital investment of \$1.438 million includes the infrastructure required for an additional 456 residential customers.

3.2 Performance Measurement:

On March 5, 2014, the OEB issued its report on “Performance Measurement for Electricity Distributors: A Scorecard Approach”. The report sets out the OEB’s policies on the measures that will be used by the OEB to assess a distributor’s effectiveness and improvement in achieving customer focus, operational effectiveness, public policy responsiveness, and financial performance to the benefit of existing and future customers.

Under this approach, a distributor is also expected to demonstrate continuous improvement in its understanding of the needs and expectations of its customers and its delivery of services.

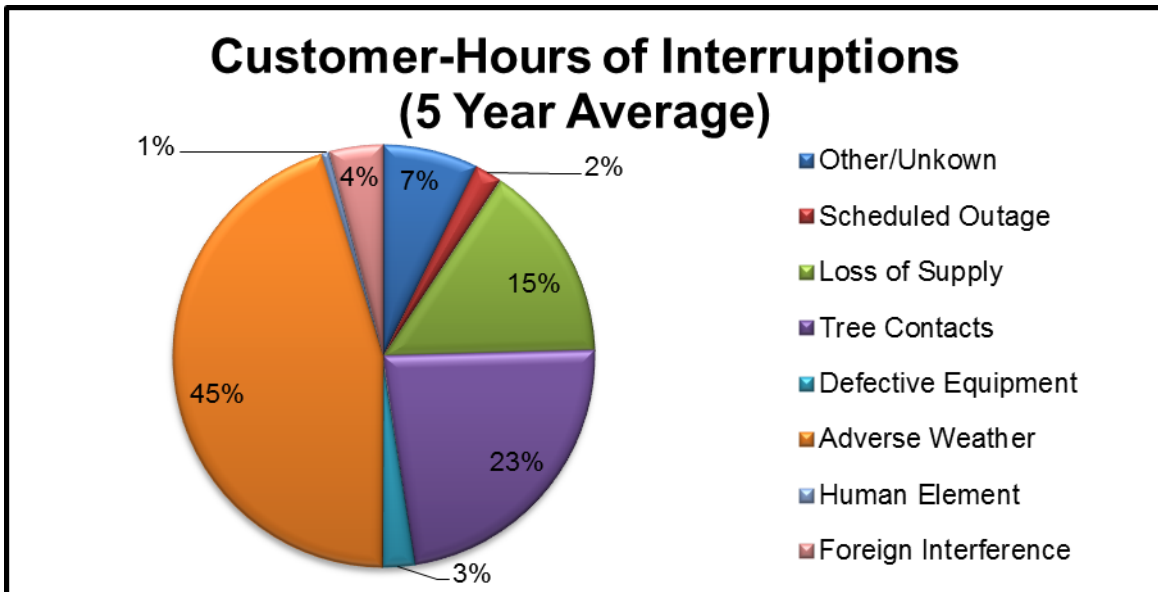
A copy of WDI’s most recent Scorecard and Management Discussion and Analysis can be found on WDI’s website (www.wasagadist.ca)

3.3 System Reliability:

The following events resulted in significant and widespread outages in 2017:

- Freezing rain Jan 17, 2017
- Hydro One’s Outage on August 5, 2017 - Brock’s Beach Distribution Station
- Hydro One pole fire on Dec 5, 2017

The breakdown of the average customer-hours of interruptions based on a 5 year average is illustrated below as a percentage of total interruption relative to the type of interruption.



WDI’s average customer experienced 1.1 outages and with respect to all other Ontario LDC’s the average customer experienced 4.8 outages in 2016.

WDI's average customer experienced 1.35 hours of annual outages and with respect to all other Ontario LDC's the average customer experienced 2.03 hours of annual outages in 2016.

WDI conducts regular preventative distribution maintenance to provide top of class reliability for its customers. Some of these approaches include the following:

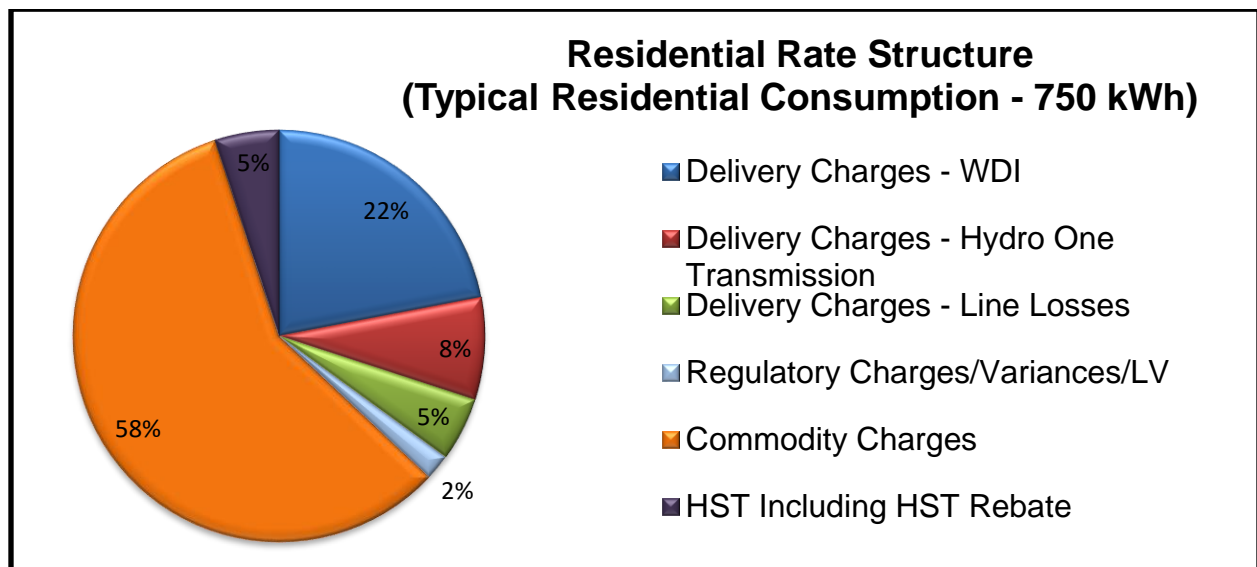
- Non-invasive pole testing
- Infrared scanning
- Tree trimming
- Station transformer Dissolved Gas Analysis oil testing (DGA)
- Regular patrols of all assets

3.4 Rate Structure:

As of May 1, 2018 the typical residential bill, based on 750 kWh, from WDI is \$106.04. This is down from a previous high of \$147.42 prior to January 1, 2017.

WDI's delivery charges that are controllable by WDI are made up of approximately 22% of the typical monthly residential bill.

The breakdown of a typical monthly bill is illustrated below:



The delivery charges controlled by WDI make up the utilities "revenue requirement" and are used to maintain and operate the distribution system. These charges include all operation, administration, and maintenance expenses (OM&A), depreciation of property, plant and equipment and all financing and income tax requirements. WDI's net income is also a component of these delivery charges.

3.5 Benchmarking Report – Report to the Ontario Energy Board:

The PEG model is used to determine the cost efficiency of distributors.

WDI has been ranked, since 2012, as the 2nd most efficient LDC in the province and clearly indicates WDI’s focus on operational effectiveness.

WDI continues to perform well with a “cost per customer” of \$430 of and is ranked lowest in Simcoe County and Area. A Summary of WDI’s Costs compared to other Simcoe County and Area LDC’s as provided below.

LDCs - Simcoe County and Area	Cost Per Customer Per Year
Wasaga Distribution	\$ 430
Collus Powerstream	\$ 541
Newmarket-Tay Hydro	\$ 600
Orillia Power	\$ 658
Midland Power	\$ 679
Lakeland Power	\$ 734
InnPower	\$ 904
Hydro One	\$ 987

4 Wasaga Resource Services Inc. (WRSI)

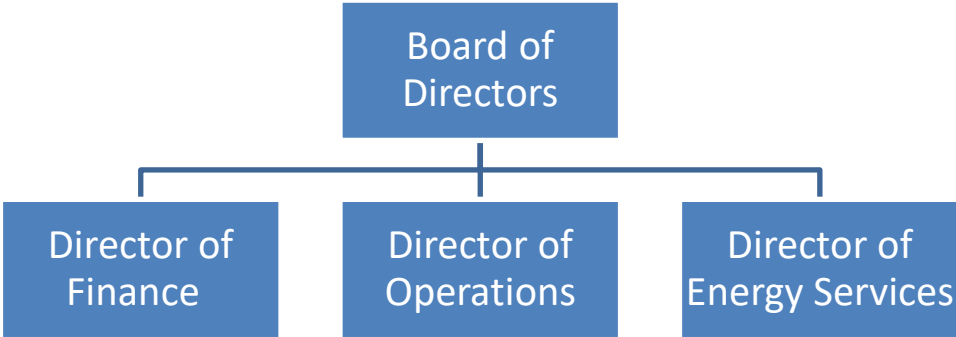
WRSI is contracted by WDI to maintain the distribution system and provide the resources necessary to support capital investments. WRSI is the arm of WGI that maintains all employees of the corporation.

WRSI also owns all the vehicles and computing and software systems to do the utility’s billing. Furthermore, as a good corporate citizen WRSI re-invests in the community by supporting community charities.

WRSI is an unregulated entity that has significant potential for revenue growth.

4.1 Management Structure and Number of Employees:

WRSI is comprised of 18 employees that are both unionized and non-unionized employees. The current management structure is as follows:



5 Financial Performance

WGI's consolidated 5-year average net income after taxes is approximately \$741k. These consistent results can be attributed to the financial success of WDI and WRSI.

These financial successes have resulted in a \$400k annual dividend paid to the shareholder for each year from 2013-2017. The following table illustrates the consolidated 5-year performance of WGI.

Wasaga Geosands		2013	2014	2015	2016	2017
Consolidated Net Income	[A]	\$ 568,762	\$ 781,536	\$ 662,287	\$ 913,253	\$ 783,693
Dividend Paid	[B]	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000
Increases in Shareholder Equity	[A] - [B]	\$ 168,762	\$ 381,536	\$ 262,287	\$ 513,253	\$ 383,693
Total Shareholder's Equity	[C]	\$ 14,355,431	\$ 14,736,967	\$ 14,999,254	\$ 15,512,507	\$ 15,896,200
Return on Equity	[A] / [C]	3.96%	5.30%	4.42%	5.89%	4.93%

WDI is the regulated entity of WGI. Rates are set by the OEB and the Return on Equity (ROE) is based on capital parameters set by the OEB. WDI requested a rate adjustment in 2016 through a Cost of Service application to reduce their revenue deficiency. This has resulted in improved earnings for the years 2016 and 2017 and is consistent with OEB approved capital parameters.

WDI's 5-year financial performance is provided in the following table.

Wasaga Distribution		2013	2014	2015	2016	2017
Net Income	[A]	\$ 293,240	\$ 459,913	\$ 368,615	\$ 536,067	\$ 563,670
Dividend Paid	[B]	\$ 200,000	\$ 200,000	\$ 200,000	\$ 250,000	\$ 250,000
Increases in Shareholder Equity	[A] - [B]	\$ 93,240	\$ 259,913	\$ 168,615	\$ 286,067	\$ 313,670
Total Shareholder's Equity	[C]	\$ 10,691,314	\$ 10,951,227	\$ 11,119,842	\$ 11,405,909	\$ 11,719,579
Return on Equity	[A] / [C]	2.74%	4.20%	3.31%	4.70%	4.81%

WRSI the non-regulated entity of WGI is able to generate revenues through the MSA and construction projects. WRSI saw a decline in third party construction projects in 2017 and expects a similar level to carry forward into 2018.

WRSI 5-year financial performance is provided in the following table.

Wasaga Resource Services		2013	2014	2015	2016	2017
Net Income	[A]	\$ 275,519	\$ 429,677	\$ 341,077	\$ 426,456	\$ 292,893
Dividend Paid	[B]	\$ 200,000	\$ 200,000	\$ 200,000	\$ 150,000	\$ 150,000
Increases in Shareholder Equity	[A] - [B]	\$ 75,519	\$ 229,677	\$ 141,077	\$ 276,456	\$ 142,893
Total Shareholder's Equity	[C]	\$ 3,844,850	\$ 4,074,527	\$ 4,215,604	\$ 4,492,060	\$ 4,634,953
Return on Equity	[A] / [C]	5.20%	4.91%	4.74%	3.34%	3.24%

6 What is New – Regulatory Year in Review

Introduced in 2017, The Ontario Fair Hydro Plan (OFHP) reduced electricity bills for electricity consumers. Consumers experienced a 25% reduction in their hydro bill In addition to the 8% HST rebate that became effective January 1, 2017.

Low Income Customers are eligible to qualify for additional reductions in the electricity program through the Ontario Energy Support Program. During 2017, these rebates increased by 50% and up to a maximum eligible monthly rebate of \$113.

WDI continues to deliver SaveONenergy energy conservation programs for residential, commercial, and low income consumers.

Additional Regulatory Changes:

1. MDM/R – Synchronization of Additional Consumer information
 - Customer Class, Rate Class, Postal Code, Occupant Change
2. Winter Disconnection ban on disconnecting residential consumers effective from November 1 - April 30
3. MDM/R 8.0 (EnergyIP R7.7) upgrade
4. Amendments due to Energy Consumer Project Act (ECPA)
 - Written Notice of Switch to a Retailer
 - Retailer information added to Invoices
5. Net Metering Setups
 - Standardized setup and instructions for setting up net metering customers
6. Ontario Fair Hydro Plan Dynamic Messaging
 - Dynamic message on invoices to show customers how much the OFHP saved them
 - Required bill print changes
 - Setups need adjusting when RPP prices without OFHP are set

7 Looking Ahead – Regulatory Changes

In 2018, WDI will be a part of the launching of the provincial wide Affordability Fund, aimed at further assisting in easing the burden of energy costs.

Additional Regulatory Changes:

1. Bill Redesign Action Plan (RAP)

- Main Themes from Design Discussions were:
 - Key Information
 - Line Items
- Revised Definitions (Glossary of Terms)
- Government Messaging
- Digital Alternatives

Bill redesign: what we have so far:

- Fair Hydro Plan savings dynamic message
- O. Reg. 153/18
 - Minor reorganization of headings
 - Revised Definitions (Glossary of Terms)
 - Additional contact information (website, OEB phrase)

2. Enhancements to Ontario's Net Metering Framework

- Amendments per O. REG. 541/05, effective October 2018
- Third Party Ownership
- Virtual Net Metering Demonstration Projects
- Modifications to Electronic Business Transaction (EBT) Standards to support net metering
- Allowing the use of energy storage when paired with renewable energy generation

3. OEB Review of Customer Service Rules

- Board File No.: EB-2017-0183
- The review will consider how existing customer service rules have been implemented, ensure that they continue to be relevant and serve the needs of consumers, and that they maintain an appropriate balance between customer protection and the ongoing operational needs of utilities.
- The OEB has had detailed customer service rules in place for electricity distributors to follow since 2011 that provide for:
 - Disconnection and reconnection practices for non-payment;
 - Arrears Management Programs
 - Equal Payment Plans
 - Security Deposits
 - Bill Issuance and Payment

- Correction of Billing Errors
- Management of Customer Accounts
- New Reporting and Record keeping Requirements (RRR) – quarterly Reporting on Arrears, Disconnections and Arrears Management
- Stakeholder meetings in March to gather input on preliminary recommendations

4. Cybersecurity Framework

- LDC Risk Profile to be completed to determine a risk score and rating
- Each LDC categorized based on inherent risk (Low, Low to Medium etc.)
- Based on risk profile, LDC to implement security and privacy controls based on the Ontario Cybersecurity Framework.
- Required to submit to the OEB their interim cyber security self-assessment reports no later than June 15, 2018.
- Annual self-certification of cyber security maturity will be required starting on April 30, 2019.

5. Green Button

- By July 2020 LDCs must have Green Button compliant software
- Download My Data (DMD). Interval data downloadable in specified XML format
- Connect My Data (CMD). Make energy data available to third party applications
- Would require an upgrade to Customer Connect version 6. No license cost, but services in the range of \$18k - \$20k

6. Regulated Price Protection (RPP) Roadmap

- Enhanced Time-of-Use
- Low Overnight
- Variable Peak Pricing with Critical Peak Pricing (CPP)
- Quick-Ramping CPP
- Seasonal Time-of-Use with CPP
- Super-Peak Time-of-Use

7. Long Term Energy Plan (LTEP)

- Strengthen Utility Accountability to Customers
- Regulatory Reforms
- Regional Planning Process
- Access to Electric Vehicle (EV) Smart Charging

8 Challenges facing LDC's in Ontario

In February 2017 the EDA released a report entitled “The Power to Connect” which presented their vision of the future role of the local Utility. This full report is available at https://secure2.eda-on.ca/iMIS15/EDA/EDA_Priorities/EDA_Policy_Papers/PowerToConnect_Feb2017.aspx.

An abstract of the report reads:

“The electricity grid is undergoing significant transformation, shifting from the one-way flow of power to a clean, decentralized and intelligent system. This is evident in the integration of new technology and innovation, changing market demands, and regulatory and policy shifts. The status quo continues to be challenged by declining costs of distributed energy resources (DER), digitalization, data analytics, rising customer empowerment, and climate change policies”.

Other factors that continue to affect the ever-changing landscape include:

1. Regulation and Policy
 - The role of the OEB
 - The Green Energy Act (2009)
 - The LTEP
 - Mandatory reporting requirements (regulatory vs. self-regulation)
2. Market Demand for power
 - Choice:
 - Renewable power
 - Self-generated power
 - Community power
 - Flat Consumption demand, through conservation and energy efficiencies demand is going down
3. Technology Innovation
 - Affordability, declining costs of solar, etc.
 - Integration of technologies, i.e. solar and batteries
4. Consumers investing in distributed energy resources (DER) (Source – Mowat Research #134 December 2016)
 - DERs can encompass several different things, including renewable generation, such as wind solar, combined heat and power plants, energy storage, demand response technologies, as well as conservation and demand management programs. The defining characteristics are that DERs are much smaller than centralized energy systems, and in many cases are located on consumer premises.
 - Led by solar, small-scale distribution electricity generation in Ontario has more than doubled over the past five years.

5. Price and Rate Design
 - Politically driven
 - Incentives to conserve
 - Imposed policies (e.g. disconnect policies) that can affect cash flow

6. Perception of the capability of LDC's
 - How do small LDC's survive in the changing landscapes
 - How do they address "disruptive technologies"
 - Do they have the financial ability to grow
 - The relationship of the regulated and non-regulated companies through the Affiliate Relationship Code (ARC) and the capability of the respective company to grow within the rules and regulations of either the OEB or the Business Corporations Act.

We support the principles outlined in the EDA's campaign entitled "The Power of local Hydro" (available at www.poweroflocalhydro.ca) and supporting the goals that they outline below:

1. Keeping the Customer First
2. Driving Local Hydro Innovation Forward
3. Improving the Regulatory Framework
4. Respecting Community Decision Making
5. Expanding Local Energy Conservation.

9 Governance transformation to respond to the challenges and direction

In March 2018 the Ontario Energy release a report entitled "*Corporate Governance Guidance for OEB Rate Regulated Utilities*" (available at <https://www.oeb.ca/sites/default/files/draft-report-of-of-the-board-corporate-governance-20180328.pdf>).

In the report it outlined guidelines for the following areas of Utility Governance:

1. Director Independence
2. Director Skills
3. Board and Committee Structures and Functions
4. Supporting Documentation and Practices

Over the last 18 years our Utility has been governed by an "Operational" Board. As you can see by the results, both financial and operational, this has been proven quite successful. However, given the continued evolution of the industry and the challenges we are faced with, this model needs to change.

There are many documents, theories and articles that talk about Board Governance and Board structure. In all these cases there are some common elements however what seems to always come to the foreground is Leadership. Leadership is crucial to the success of a Board and its organization and must bring credibility to the process.

As we look at the different types of Boards, Advisory, Collaborative, Operational, Intervening and Governance they all must represent the “Duties of the Board” (*Source Hopkins, B. Legal Responsibilities of Non-profit Boards, Board Source Governance Series, Book 5, 2007.*) which are:

1. Duty of Care
 - Requires all directors be reasonably informed about the organization’s activities, participate in decisions, and do so in good faith and with the care of an ordinary prudent person in similar circumstances
2. Duty of Loyalty
 - Requires board members exercise their power in the interest of the organization and not in their own interest or the interest of another entity, particularly one in which they have a formal relationship
3. Duty of Obedience
 - Requires that directors comply with applicable federal, provincial and local laws, adhere to the organization’s bylaws, and remain the guardians of the mission

The key element here is that, due to the changing landscape and the pressures our Utility faces, the current structure of the Board has to change from being an Operational Board to that of one of Governance.

The other important factor is that our Shareholder has given us specific direction to grow the utility and not to sell.

With these two specific factors it is imperative that the Board moves towards a Governance Board and govern the organization at the appropriate levels of Fiduciary, Strategic and Generative governance. A key component to the success of this strategy is the hiring of a Chief Executive Officer who can devote the time to grow the organization and explore new business opportunities in both the regulated and non-regulated companies. This will then permit the Board to, amongst other things, confirm/establish our mission and purpose, ensure effective strategic planning, and provide oversight, insight and foresight to the Utility. The Board must drive the business forward while keeping it under prudent control. It must display the indicators of best governance practices which include:

1. Establishing the appropriate vision, mission and values
2. Setting the strategy and necessary structures
3. Ensure the correct delegation to management and;
4. Exercise accountability to shareholders and be responsible to our stakeholders.

10 Next Steps

1. Working on Hiring a CEO
 - Recruitment is being administered by an independent Executive Search Firm
 - Target start date August 2018
2. Develop a Strategy Plan followed by the Operation Plan
 - Once a CEO is on-board one of the first deliverables will be to create a realistic strategy plan that includes the specific direction given by Council to grow the business
 - Strategic plan will be discussed with Council
 - Once the plan is approved by Council, an operation/business plan will be created to support the Strategic Plan
3. Reviewing outdated Shareholder Direction (by-law#1)
 - As directed by Council, the Town will be reviewing the Shareholder Direction with the view to updating it to reflect current trends and practices. The Board Chair will be working with the Town to provide input as required.
4. Promoting Stakeholder and Community Engagement
5. Exploring a variety of Opportunities:
 - DERs
 - Generation
 - Storage
 - Community power
 - Grid integration
 - Conservation Initiatives
 - Leveraging Capital
 - Revenue generation through potential acquisitions or partnerships
 - New Business Ventures
 - Explore opportunities through the non-regulated company (WRSI)
 - Resource sharing with neighboring Utilities
 - Drive innovation through a better understanding of emerging trends and technologies and share these ideas with the community and businesses
 - Explore the opportunity to provide charging stations for electric vehicles
 - Examine opportunities to demonstrate a “Power House” (Alectra model)
 - Seek Corporate partnerships to develop microgrid battery project (aka Town of Penetanguishene Microgrid project)

- Focus on creating value beyond our traditional model
 - Plan smart developments and communities
 - Enable economic growth by Participate in Municipal planning
 - Explore Community Power and Power “Farms”
 - Encourage an innovative mindset to think out of the box and leverage the non-regulated company (WRSI) to explore non-traditional businesses.
 - Gain access to the EDA’s “LDC Tomorrow Fund” which supports advancements in technology, procedures and knowledge, in relation to the commercial opportunities within the Ontario electricity market.
 - Continue to leverage our membership in Cornerstone Hydro Electric Concepts (CHEC) in order to take advantage of cost effective solutions relating to the sharing of services, opportunities knowledge and resources.

11 Conclusion

This serves as an interim update and more information will flow through the presentation of the Strategic plan early in 2019.