



Achievement Through Collaboration

ANNUAL REPORT 2016



Cornerstone
Hydro Electric Concepts

Contents

- 1** Message from the Chair
- 2** Message from the COO
- 3** Executive Summary
- 6** Who We Are
- 8** Governance

- 11** Delivering Value
- 12** Industry Input
- 13** Sharing Costs
- 15** Training Together
- 17** Streamlining Processes
- 19** Delivering Analyses and Support
- 20** Maintaining a Strong Association

- 21** Moving Forward
- 23** Appendix A -
Financial Reporting Summary 2016

The CHEC 2016 Annual Report is a reflection of the support CHEC provides to its members to manage the change that is happening within the Ontario electrical distribution industry.

The public issues with electricity rates, the Wynne government's announcement of the eight percent reduction on hydro bills, the mandated Customer Satisfaction and Public Safety Awareness Surveys, and the Conservation First Framework are all areas that have required our LDCs to react and adapt to ensure they continue to provide fair, safe electricity service to their customers. The sharing of costs and knowledge within the Association has been invaluable in helping our LDCs streamline their current processes and effectively implement the new requirements.

CHEC continues to be an advocate for the small LDC. In 2016, CHEC and its members were involved in Ministry and Ontario Energy Board initiatives, participating and providing input in multiple committees and working groups to help inform the changes that are happening and make the solutions that are being implemented workable for the utilities.

As LDCs across the province face increased pressure for consolidation, the efficiencies of scale and the benefits that CHEC members receive play an important role in our member

LDCs being able to provide value and security to their shareholders: their local municipal government. The recent valuation that was performed by BDO and valued the CHEC Association at a three year discounted \$8.66 per customer in annual savings, is a validation of the benefits and support that our members receive by being part of our Association.

On behalf of the Board of Directors, I want to thank our CHEC staff and our member LDCs for their commitment to the collaborative process and their willingness to do the work that makes the CHEC Association such a successful model. We are stronger as a group and as we move into the future, I anticipate that our organization will continue to grow and provide the services and support that our LDCs need to become the next generation energy companies.



John Walsh

Chair, CHEC Board of Directors





The second annual report prepared by the CHEC Association shows a continuation of the multiple ways that the Association has evolved and adapted to provide consistent and relevant knowledge and resources to its members.

Our committees and working groups have been active across all portfolios – Finance, Regulatory, Operations and Conservation and Demand Management – and continue to adjust and adapt our solutions and support to meet the needs of our member LDCs.

In order to know what those needs are, 2016 saw two initiatives specifically targeted to better serve our members.

Our first Member Satisfaction Survey surveyed LDC staff across multiple portfolios on different elements of CHEC's performance. The results were invaluable in identifying CHEC's strengths and where we can improve our program delivery and communications.

The second initiative was the third-party valuation of CHEC done through BDO Canada. The three year discounted value of \$3,510,000 provided our members with a value they can bring to their shareholders and a real understanding what their participation in CHEC brings to their LDC.

In 2016, collaboration and engagement have been promoted as key initiatives within the electrical industry. CHEC as a long-standing collaborative organization has 16 years of experience in leveraging and maximizing

the potential of these powerful processes. Since sharing knowledge and expertise is part of our collaborative process, we have extended that practice to the larger electrical industry through sharing our experience in industry working groups and committees.

As an organization, the CHEC Association is stronger than it has ever been and continually rises to meet the challenges of our industry. I would like to thank the Board for its support and guidance and would also like to thank our CHEC staff and our member LDCs for their dedication to the organization. It is a unique model that continues to serve our members well and allow them to thrive in these changing times.

A handwritten signature in black ink, reading "Gord Eamer". The signature is fluid and cursive, with the first name "Gord" being more prominent.

Gord Eamer

CHEC Chief Operating Officer

A photograph of a utility worker in an orange safety suit and helmet working on a power line. The worker is positioned on a white bucket or platform, reaching up towards the power lines. The background is a clear blue sky. A large, semi-transparent blue and white geometric overlay is present on the right side of the image, partially obscuring the worker and the power lines. The text "Executive Summary" is written in white serif font over this overlay.

Executive Summary

Last year was a busy year for the CHEC Association both in responding to the changes and requirements of Ontario's electricity distribution industry as well as continuing to support our members through improved cost effectiveness, shared knowledge, and the implementation of new technologies.

The resources delivered to members span multiple areas with the benefits and advantages they deliver coming in many different forms. The broader areas of activity include Industry Involvement, Sharing Costs, Training Together, Streamlining Processes, Analyses and Support, and Maintaining a Strong Association.

In 2016 CHEC LDCs served over 150,000 customers, employed over 300 individuals and delivered nearly 3 million MWh of electricity.

With fifteen LDCs behind its expertise and insight, CHEC is recognized as a strong, knowledgeable voice in the electrical industry particularly as the voice of the small LDC. In 2016, CHEC and LDC staff were involved across the industry with key activities including representation on the Major Event Reporting Working Group at the Ontario Energy Board, providing input on the Burden Reduction Act with the Ministry of Energy, representation on the Business and Retrofit Working Groups at the Independent Electricity System Operator, and input on Regulation 22/04 at the Electrical Safety Authority, among others.

CHEC continued to thrive in its cost sharing activities in 2016, bringing substantial savings and benefits to its member LDCs. The group procurement of the Customer Satisfaction Survey and the Public Safety Measure Survey saved considerable costs and ensured the surveys were properly administered. In particular, the Customer Satisfaction Survey saved the group approximately \$26,000 along with a reduced level of staff involvement. Three group RFPs were issued for the CDM Provincial Program Delivery to provide critical support for members in the new Conservation First Framework. Eleven LDCs benefited from the support of the CHEC Roving Energy Manager with forty-four large commercial and industrial projects completed for a total of 5,308 MWh in energy savings.

Shared training is an area where CHEC leverages the expertise within its LDCs to provide comprehensive, high level training for its members. The spring safety session drew participants from 12 CHEC LDCs and provided specific technical training delivered by LDC staff. The fall session provided an industry focussed look into emergency preparedness.

New training initiatives in 2016 that saved travel time and costs while ensuring staff receive important training were the delivery of training sessions via Webex and on-site standardized safety talks.

A critical area for saving costs provided by CHEC is the continual streamlining of processes within the LDC.

2016 saw the formalization of the Lead-Lag model that had been used internally by Wasaga Distribution the previous year and resulted in a 2.3% rate change and an increase in working capital of \$300,000. The Workplace Violence Risk Assessment developed in conjunction with Midland PUC allowed for an easier, more accessible implementation of the OHSA requirements at a significantly lower cost. The CDM planning and tracking tools that were initially developed by InnPower have reduced the time and complexity of tracking and planning CDM programs for all CHEC LDCs.

Analyses and Support is an area that undertakes specific, relevant analysis on issues affecting LDCs so they can make informed decisions on how to optimize their operations.

Executive Summary

Of particular note in 2016 was the site visits to member LDCs for safety inspections of their field work prior to the Ministry of Labour/Infrastructure Health and Safety Association Western Initiative. As part of its on-going vetting of services and technology, ten LDCs participated in the iNotify pilot project to evaluate the software's advanced weather warning capabilities.

The final area of activity for the CHEC Association, and perhaps its most important, is its efforts to remain relevant to its members.

In 2016 CHEC conducted its first Member Satisfaction Survey to provide a formalized channel for input on the services it provides to its members. Three portfolios scored in the top 25 percent of all organizations in the net promotor score. CHEC also continued to strengthen the organization through improved communications with the successful delivery of a bi-weekly newsletter to its members, the publication of three articles in *The Distributor*, improved social media engagement, and the production of its first annual report.





Who We Are

Who We Are

The CHEC Association is a long-standing collaborative organization providing support and resources to small LDCs throughout Ontario.

In 2016, the organization had 15 member LDCs that combined served over 150,000 customers, employed over 300 individuals and delivered nearly 3 million MWh of electricity.

The Association was formed in 2000, out of the Organized Power Group, as a result of de-regulation in the electrical distribution industry. Its original purpose was to provide regulatory support to small LDCs throughout

the province and has since grown to include resources and support throughout LDC operations including Regulatory & Finance, Operations, Communications, and Conservation & Demand Management.

Modeled after a co-operative, the Association leverages the expertise and knowledge of its entire membership to meet and deliver on the changing requirements in the Ontario

electrical industry. Access to such a wide breadth of experience allows it to deliver best practices and cost efficiencies on the scale of a larger organization while its member LDCs remain as viable, active members of their local communities.

VISION STATEMENT

To be recognized as the premier LDC Cooperative in the Province, by meeting or exceeding our members' expectations through the sharing of services, opportunities, knowledge and resources.

CHEC OBJECTIVES

- 1. Delivering the benefits of consolidation without loss of individual control;**
- 2. Achieving scale without relinquishing accountability;**
- 3. Improving operating and delivery standards within each of the member companies through cost effective solutions.**

CURRENT MEMBERS

Centre Wellington Hydro Limited
Collus PowerStream Corporation
InnPower Corporation
Lakefront Utilities Incorporated
Lakeland Power Distribution Limited
Midland Power Utility Corporation
Niagara-on-the-Lake Hydro
Orangeville Hydro Limited
Orillia Power Corporation
Ottawa River Power Corporation
Renfrew Hydro Incorporated
Rideau St. Lawrence Distribution Incorporated
Wasaga Distribution Incorporated
Wellington North Power Incorporated
West Coast Huron Energy Incorporated



Governance

OVERVIEW

Cornerstone Hydro Electric Concepts is a not-for-profit corporation governed by a Board of Directors. The Board ensures CHEC achieves its objectives, is financially accountable, and is in compliance with all relevant laws, regulations and by-laws.

The Board consists of seven directors that are nominated from the member LDCs. The positions are voluntary with directors donating their time for the benefit of the Association and the continued gains realized by the member LDCs through participation in the group. The past year saw the election of several new individuals and a change of roles for others.

BOARD OF DIRECTORS AND OFFICERS OF THE CORPORATION

Prior to AGM held on November 1, 2016

Chair

Ed Houghton,
Collus PowerStream Corp.
(Retired June 2016)

Vice-Chair

John Walsh,
Rideau St. Lawrence
Distribution Inc.

Secretary/Treasurer

Dereck Paul,
Lakefront Utilities Inc.

Director

Ruth Tyrrell,
Orangeville Hydro Ltd.

Director

Chris Litschko,
Lakeland Power
Distribution Ltd.

Director

Phil Marley,
Midland Power
Utility Corp.

Director

Joanne Tackaberry,
Wasaga Distribution Inc.



Governance

BOARD OF DIRECTORS AND OFFICERS OF THE CORPORATION

Following AGM held on November 1, 2016

Chair

John Walsh,
Rideau St. Lawrence
Distribution Inc.

Vice-Chair

Chris Litschko,
Lakeland Power
Distribution Ltd.

Secretary/Treasurer

Tim Curtis,
Niagara-on-the-Lake
Hydro Inc.

Director

Wayne Dyce,
Centre Wellington
Hydro Ltd.

Director

Adam Giddings,
Lakefront Utilities Inc.

Director

Joanne Tackaberry,
Wasaga Distribution Inc.

Director

Ruth Tyrrell,
Orangeville Hydro Ltd.

Past Chair

Ed Houghton,
Collus PowerStream
Corp.



Winning Strategy

The Association implemented a Winning Strategy in 2015 that continued to guide the development of the Association and the available services for member LDCs throughout 2016. The Strategy establishes targeted goals and sets out actions to define structural changes that are advantageous to the Association and its member LDCs.



○ Delivering Value

INDUSTRY INVOLVEMENT

Involvement in the development and regulation of the electrical industry is a priority for the CHEC Association.

In 2016, CHEC and its members participated in working groups and provided input to the regulatory bodies that govern the electrical distribution industry. With 15 LDCs behind CHEC's expertise, the Association is recognized as a strong, knowledgeable voice that provides a unique perspective when determining policy and program implementation.

Activities in 2016 spanned all portfolios and regulatory bodies:

ONTARIO ENERGY BOARD

- Representation on the Pole Attachment Working Group to determine a standard pole attachment fee for third party services.
- Representation on the Customer Specific Reliability Pilot Project
- Sharing CHEC's experience developing a model for claiming costs under the Lost Revenue Adjustment Mechanism Variance Act with the LRAMVA Working Group.

- Representing the small Ontario LDC on the Cyber Security Working Group with a draft framework expected out in early 2017.
- Representation on the Major Event Reporting Working Group that defined a 'Major Event' and helped develop amendments to the Electricity Reporting and Record Keeping Requirements regarding System Reliability.
- Submitting collaborative input to the OEB in areas including CI Rates Design, OESP, Outage reporting, Long Term Load Transfers, Pensions & OPEBs, IFRS, Residential Fixed Rate Design, Customer Complaints, and Energy Consumer Protection.

MINISTRY OF ENERGY

CHEC, with input from its LDCs, provided comments to the Ministry of Energy on issues including the Green Button, Long Term Energy Plan, Cost of Energy, Disconnections, Net Metering,

System Modernization and the Burden Reduction Act.

ELECTRICAL SAFETY AUTHORITY

After receiving input from the individual CHEC LDCs, CHEC compiled a letter to the Electrical Safety Authority with respect to the proposed changes to Regulation 22/04 that will affect the reporting requirements of serious electrical incidents.

INDEPENDENT ELECTRICITY SYSTEM OPERATOR

CHEC represented the CHEC LDCs on both the IESO Business Working Group and the Retrofit Working Group to provide input, help set direction, and establish the overarching premise of the conservation programs.

“As a collaboration of small LDCs, CHEC is able to articulate the benefits and challenges our members face in delivering value to their customers. By representing us all, CHEC speaks with authority as a representative of small LDCs in industry working groups and as an advocate for small LDCs with the Ministry of Energy and industry regulatory bodies.”

Tim Curtis, President, Niagara-on-the-Lake Hydro

SHARING COSTS

An activity within CHEC that provides significant cost savings for our LDCs is the procurement of services through group Request for Proposals (RFPs).

All three areas of CHEC: Finance & Regulatory, Operations and CDM issued group RFPs in 2016 and realized the cost savings that can be achieved through going to market for services from within a larger group. Member LDCs have the option of whether to be part of the RFP process or to meet their requirements by seeking out services on an individual basis.

CUSTOMER SATISFACTION SURVEY

In 2016, fourteen CHEC LDCs opted to participate in the issuing of an RFP for the implementation of the OEB mandated Customer Satisfaction Survey. It is estimated that the LDCs saved \$26,000 through soliciting services as a group in addition to the time saved compared to outsourcing the service individually.

PUBLIC SAFETY MEASURE SURVEY

Fifteen CHEC LDCs participated in the group RFP in 2016 for services to implement the OEB mandated Public Safety Measure Survey. Implementing the survey as a group reduced the cost of the survey for

each LDC and ensured that the survey was administered according to proper research methodology. CHEC analyzed the results following the survey, giving the LDCs a better understanding of their performance and a baseline for future work.

“The public safety performance statistics helped us determine the areas where our customers had good knowledge of electrical safety as well as the areas where we can increase education. By focusing our education initiatives in the areas where our customers need it most, they will be safer, and we’ll be better prepared for the next reporting period.”

Roy Rogers, Operations Manager,
Midland PUC

CDM PROVINCIAL PROGRAM DELIVERY

The issuing of three RFPs for delivery of the CDM programs for CHEC LDCs provided critical support for members in the new Conservation First Framework. The RFPs were for services related to the Retrofit program, Small Business Lighting Program, and the Home Assistance program. The group RFP ensures that conservation programs are properly delivered in the CHEC LDC service areas, LDC customers have easy access to the programs, and the individual LDCs maximize their conservation targets.

“The RFPs conducted by the CHEC CDM group were beneficial for Ottawa River Power and its CDM program delivery. The detailed Scope of Services outlined in each RFP ensured that the successful proponent had an understanding of the individual program delivery, project management and administration, customer care, program specific IESO tools, development of local capacity (including procurement) and, most importantly, budget and expected kWh target.”

Mary Hellingman, CDM Manager,
Ottawa River Power Corp.

SHARING COSTS

VERACITY ASSET MANAGEMENT PILOT PROJECT

Ten CHEC LDCs participated in the pilot project to evaluate the software that provides alerts based on the potential for weather conditions that could adversely affect the electricity distribution network. The pilot project allowed LDCs to determine whether the program would help improve their storm response and grid reliability without having the costs of enrolling in the program individually. The project also includes a collaborative program for emergency planning and resources. CHEC is investigating the potential to extend the data base to include surplus and critical equipment inventory.

CONTRACTOR LIST

To facilitate the hiring of qualified, knowledgeable outside contractors, CHEC has compiled a master list of known contractors with information on what contractors other CHEC LDCs are using and prefer. The list saves LDCs time and provides a level of comfort that they are hiring reliable, competent contractors who can effectively and efficiently complete required work.

ROVING ENERGY MANAGER (REM)

The REM provided conservation support to 11 of the 15 CHEC LDCs by directly assisting their Commercial and Industrial customers with accessing and implementing the conservation programs available through the Conservation First Framework. Individually the cost of a dedicated REM would be prohibitive to an LDC. As a group they have created a resource that has significantly contributed to their success in meeting their conservation targets and making the implementation of conservation projects easily accessible for their customers. In 2016, that included 44 large commercial and industrial projects for a total of 5,308 MWh in electricity savings.



Three LDCs, Orillia, Midland and Centre Wellington, received recognition from the IESO for exceeding their targets in the Conservation Framework.

TRAINING TOGETHER

Training provides an exceptional opportunity for CHEC member LDCs to share resources and reduce costs.



Opportunities for shared training are leveraged across all portfolios and come in the form of workshops, technical presentations, safety talks, and webex meetings. In addition to the cost efficiencies of organizing training as a larger group, having all CHEC LDCs participate allows higher level course offerings delivered by experienced LDC staff, topics tailored to specific aspects of utility operations, and a more robust treatment of material.

SAFETY SESSIONS

CHEC offered two safety sessions in 2016. The spring workshop drew participants from 12 CHEC LDCs and provided specific technical training. Courses included Underground Electrical Systems and Temporary Grounding & Bonding Techniques, Rigging and Slings Hardware and Pole Handling, and Live Line Tool Techniques and High Voltage Rubber Techniques up to 36 kV. Instructors for these sessions were CHEC LDC staff with specific subject knowledge.

The theme for the fall workshop, which focuses on broader safety awareness, was Emergency Preparedness. The key-note presentation was on the Lac-Mégantic Rail Disaster Investigation. Lead Investigator, Donald Ross, provided insight into the contributing factors, the root causes, the extent of

TRAINING TOGETHER

loss and the challenges faced during an extended investigation. The challenges faced by those responding highlighted the similarities when responding to emergency situations. Attendees benefitted from a report on OEB reporting standards, a presentation on home and work preparedness, and lessons learned by three CHEC LDC's handling the Easter Ice Storm.

SAFETY TALKS & WEB LEARNING

In 2016 CHEC initiated training opportunities through Webex meetings. The meetings gave LDCs the opportunity to receive specific training without the lost time or cost of travel. The first meeting covered changes to the Construction project regulation, specifically the ladders section.

Another initiative in 2016 that reduced the cost and time of training, was the delivery of on-site standardized safety talks. The first talk was delivered at Wellington North Power, by the CHEC Health

& Safety Specialist, and will help staff stay up-to-date on the current safety standards.

COLLECTIONS TRAINING

CHEC provided training to LDC Collections staff in 2016 to help them better engage with customers and to potentially improve the collection rates of their LDC. Courses delivered by professional trainers included understanding customer needs and how to communicate with them effectively, improving telephone and writing skills, appreciating the key legal issues, improving collection rates, and stress at work.

OTHER TRAINING

Additional areas where LDCs benefitted from accessing the broader range of training opportunities at a reduced cost included Customer Service Training, MS Office and Outlook Proficiency Training, Effective Personal Communications, and Leveraging Social Media.

"Wellington North Power engaged Taylor (CHEC Health and Safety Specialist) to deliver a quarterly Health and Safety meeting to our staff. It was a great opportunity for our staff to discuss safety topics with a full time Health and Safety Professional. I would recommend all utilities take advantage of this value add service."

Jim Klujber, Chief Operating Officer,
Wellington North Power



STREAMLINING PROCESSES

One of CHEC's priorities is to provide resources and support to help LDCs reduce their costs and streamline their processes. The on-going development of models and tools throughout the Operations, CDM, Finance & Regulatory portfolios has delivered resources to the LDCs that have allowed them to improve and automate processes across the organization.

COST OF SERVICE PROCESS

CHEC and the Rates Working Group have internally developed a Cost of Service process to help its LDCs file their rate applications in-house at a significantly reduced cost and time. The process is updated each year and in 2016 the data storage model was extended to a seven year time frame. LDCs that have used the process realized an approximately 25 percent reduction in the cost and time required.

FORMALIZED LEAD-LAG MODEL

In 2016, CHEC formalized the lead-lag model developed by Wasaga Distribution that resulted in a 2.3% rate change and an increase in working capital of \$300,000. The model was made available to all CHEC LDCs. This gave LDCs the opportunity to leverage their internal resources and complete the study internally at a significantly reduced cost.

MICROFIT, 1598 AND ECONOMIC EVALUATION MODELS

Relevant, up-to-date financial models are central to reducing the load on LDC financial staff and increasing the accuracy of required data. Regularly updated models that have saved CHEC LDC financial staff considerable time and effort include the microFIT model, the 1598 model, and the Economic Evaluation model that helps staff compensate for additional requirements added between Cost of Service applications.

“The Rates Working Group was a big help to us throughout the application process. We were able to use the Rate models and Templates and submit an application that told our story, while meeting the Cost of Service filing requirements. The Rate models were well designed and easy to use and it allowed us to not feel overwhelmed by the process. Updating the models on an annual basis will help us manage the process going forward.”

Brandon Weiss, Senior Financial Accountant at Wasaga Distribution



STREAMLINING PROCESSES

WORKPLACE VIOLENCE RISK ASSESSMENT TOOL

CHEC's Workplace Violence Risk Assessment Tool, that was developed in 2016 with Midland PUC, helps CHEC members meet the requirements of the Occupational Health & Safety Act. The development of a common tool and the ability to share policies and procedures resulted in a significantly lower cost for LDCs and an easier, more accessible implementation.

CDM PLANNING AND TRACKING

Two tools, originally developed by InnPower, have reduced the time and complexity of tracking and planning CDM programs for CHEC LDCs. The Planning Tool helps LDCs track their background

information to make filing their CDM plans a more streamlined process. The Tracking tool tracks CDM projects and expenditures to help LDCs monitor the progress of their CDM programs and make decisions on where to focus their conservation resources.

JOB PLANNING FOLDER

Updated and standardized Job Planning folders were delivered to CHEC members in 2016 to help LDCs plan their field work and ensure their workers are meeting current tailboard and documentation requirements. Through the shared development and subsequent group purchasing a common template that could be adopted by each LDC was made available.

"Working through the Workplace Violence Risk Assessment Tool was definitely worthwhile for us. It allowed us to take a look at our current processes and make adjustments to ensure that our employees are as safe as possible. Taylor (McHugh) guided us through the assessment process, making what looked like a daunting task straight forward and painless."

Patty Giblin, Operations Office Manager at Midland PUC.

"Goderich Hydro is really enjoying using (the tracking) tool, it is so helpful and such a time saver when preparing the LDC reports. It has helped us monitor our CDM programs so that we can see how they are progressing and if we need to focus more of our resources on a certain program. Tracking costs has given us a more complete picture of our programs and their success."

Jessica Feere, Asset Management and Environmental Coordinator/CDM Conservation Officer, West Coast Huron Energy Inc. (Goderich Hydro)



DELIVERING ANALYSES AND SUPPORT

By pooling resources and using CHEC as a central resource to undertake analysis and support, CHEC LDCs have access to professional, in-depth analysis and support services. The resources span across all portfolios and are developed to directly meet LDCs current and developing needs.

PREPARATIONS FOR MOL/IHSA INITIATIVE FOR WESTERN LDCS

In preparation for the site visits that are anticipated to be conducted by the Ministry of Labour as part of the Electrical Utilities Initiative, CHEC offered site visits in 2016 to member LDCs for safety inspections of their field work. The review and discussions of suggested adjustments to improve safety and the Internal Responsibility System will assist CHEC LDCs in achieving their safety goals.

VETTING OF THIRD PARTY TECHNOLOGY AND SERVICES

CHEC evaluates the third party technology and services that are offered to the Association or to individual LDCs on an as needed basis. Evaluation includes discussion with LDCs, pilot projects, and can include trial runs with each offering carefully evaluated before being recommended. In 2016, the most significant project was the CHEC participation in the Veracity Advanced Weather Warning pilot project.

SCORECARD ANALYSES

The annual scorecard analysis performed by CHEC provides member LDCs with a benchmark of

the value they deliver to their customers. The analysis provides insights into where they can focus their efforts to improve productivity and performance relative to other Ontario LDCs.

WAGE AND BENEFIT REPORT

In 2016, thirteen CHEC LDCs contributed to and benefitted from the wage and benefit database that is annually updated. The database assists the LDCs in planning for the following year by providing a reference point of how other LDCs, of a similar size, are managing their resources.

COMBINED PORTFOLIO MEETINGS

Combined meetings allow staff in different areas to understand issues that span across multiple portfolios from a different perspective. In 2016, the Finance/Operations meeting provided insights into Major Events Reporting, the Public Safety Survey results, the valuation of the CHEC Association and the Member Satisfaction Survey Results. The Finance/CDM Meetings helped attendees understand tracking CDM costs, the changes in the IESO financial reporting, and sharing the nuances of CDM Plans.

“Having a joint meeting benefits both our Finance and Operations departments. The update on Major Event reporting was particularly useful in understanding the new requirements and what constitutes a ‘Major Event.’”

Rob Koekkoek, Manager of Operations and Engineering, Orangeville Hydro.

FURTHER SUPPORT

CHEC continually monitors changes in regulations to ensure that its member LDCs are aware of and compliant with the required regulations. In 2016, that included ensuring LDCs adapted to the new changes to Noise Regulation 318/15. In net metering, the automated model is updated in preparation for the anticipated increase in accounts once the microFIT and FIT programs are discontinued by the Ministry of Energy. Several CHEC LDCs had sub-transmission customers identified as part of the Long Term Load Transfer process that represented a significant portion of their loads. CHEC worked on behalf of the group to resolve the issue with the Ontario Energy Board.

MAINTAINING A STRONG ASSOCIATION

CHEC is a strong organization that delivers the support and resources that its LDCs need.

Receiving feedback on how it is performing and informing members of the supports that are available are a critical part of ensuring that the organization remains strong and that members remain engaged. Two initiatives in 2016 helped to develop stronger communications channels within the organization and ensured that CHEC staff have an accurate benchmark of how they are meeting the needs of their members.

MEMBER SATISFACTION SURVEY

The 2016 Member Satisfaction Survey was the first survey of its kind conducted by the Association. The survey provided a formal mechanism for CHEC's members to provide feedback

on how the Association is performing and the areas where it can improve on its service delivery. Staff from all portfolios (Finance & Regulatory, CDM, Operations and CEOs) were polled, with three of the four portfolios scoring between 82-92% for the net promoter score. These three portfolios are in the top 25% of all organizations in this benchmark.

COMMUNICATIONS

In 2016 CHEC continued to strengthen and develop both its internal and external communications. Accomplishments included the production of its first annual report, an increased engagement on social media, the

successful delivery of a bi-weekly internal newsletter, and three articles in The Distributor magazine.

VALUATION OF CHEC MODEL

A project to formalize the value provided by CHEC to its members was undertaken in the later part of 2016. The developed model evaluated the various activities and tools delivered by the Association and related these to the overall value to the Members. In addition to being able to evaluate past performance, the model will be used as a planning tool for future activities and value generation.



In early 2017, the valuation model identified a three year discounted value of \$3,510,000, a value LDCs can bring to their shareholders as a true indicator of what their participation in CHEC brings to their LDC.



Moving Forward

CHEC undertook a number of initiatives in 2016 that have allowed its members to continue to thrive in an industry that is undergoing extensive change. Moving forward, these initiatives along with its well established base will allow CHEC to continue to provide the level of support needed to ensure our members remain as cost-effective and efficient providers of electricity within their communities.

The development of our communications platform is an initiative that has measurably strengthened our organization. As we move forward into 2017, this platform will be a key component in ensuring the continuation of CHEC's open, well-informed, sharing environment. Collaboration has become a key initiative within the wider electrical industry and CHEC will continue to be a leader in developing methods and processes for effective collaboration.

Since its inception, and particularly in recent years, CHEC has seen an increased interest and need for the model that the Association provides. There continue to be opportunities for partnerships to increase the diversity of the support as well as increase our advocacy on behalf of the small LDC. The next year will be a year of renewal within the CHEC Association with members renewing their three year memberships. We anticipate continuing to provide our unique offering in a solid, reasonably sized association with a mixture of LDCs.



Appendix A

Financial Summary 2016

FINANCIAL SUMMARY 2016

OVERVIEW

Revenues received by the CHEC Association are used to deliver a variety of programs and services to member LDCs. These programs and services ensure the organization's sustainability as it works toward being recognized as the premier LDC Cooperative in the Province, by meeting or exceeding members' expectations through the sharing of services, opportunities, knowledge and resources.

In fiscal year 2016 (FY2016 – January 1, 2016 to December 31, 2016), CHEC achieved a positive change in working funds of \$27.5k, a favourable variance from the budgeted decrease in working funds of \$72.2k. This result was due to a concerted effort across the organization to manage costs and improve efficiencies, while continuing to meet the expectations of its membership. These funds remain with the Association for future use by the member LDCs.

Overall, good progress was made during the past year. FY2016 saw growth in revenue from two full time new member LDCs as well as an improvement on programs and services offered in previous years.

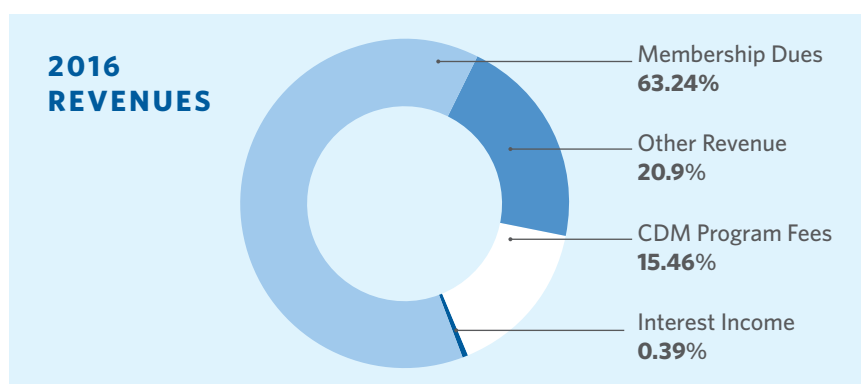
Progress has been achieved through innovation, efficiency gains and diligent cost management. CHEC management and the CHEC Board of Directors continue to execute a multi-year strategy that includes the strategic offering of programs and services, while ensuring the organization continues to evolve to meet the demanding challenges of the industry and its members.

REVENUE

FY2016 revenue from operations was \$707.3k, an increase of 13% from the previous year. CHEC's revenues are primarily generated by membership dues (63%), with CDM revenues, other revenues, and investment

income comprising the balance of business income.

The increase in membership dues for 2016 was a result of Niagara-on-the-Lake Hydro completing a full year with CHEC Group in 2016. CHEC membership has typically increased by 1 or 2 new member LDCs each year over the last three years. CDM Program Fees are generated from those member LDCs who wish to participate in CHEC's CDM portfolio of services. Other revenues consist primarily of training, meeting and other services offered to member LDCs throughout the year. Other revenues for 2016 are somewhat inflated due to the introduction of the ESA Safety Survey. These services are not intended to generate a profit but are generally recoverable at a rate that will offset the expenses associated with the services. Other revenues can vary somewhat as they are dependent on the services offered in a particular year. When not required for operations, excess reserves within CHEC are invested in order to generate interest income on funds that would otherwise be sitting idle.



FINANCIAL SUMMARY 2016

EXPENSES

CHEC expenses in FY2016 were \$679.8k, an increase of 18% from the previous year. The year-over-year increase in expenses was driven primarily by the change in special projects, which are defined by CHEC management and the CHEC Board of Directors on an annual basis. Special projects for FY2016 included the continued use of a Communication Consultant, an evaluation by BDO on the “Value of CHEC”, and engagement of the Veracity Asset Management Group for a pilot program that helps utilities prepare, plan and respond to severe weather events.

Recoverable expenses and meetings are the two major expenses categories that also vary somewhat during the course of the year. Recoverable expenses are those expenses primarily related to training and special events. For 2016, these costs more than doubled due to the introduction of the OEB’s regulatory requirement for an ESA Public Safety Survey.

Meeting expenses are primarily related to the events that CHEC hosts during the year to promote collaboration, sharing of information and networking. Both expense categories vary as the needs of the member LDCs evolve. Other OM&A expenses constituted the normal operating expenses of the association and are relatively stable year-over year.

CHANGE IN WORKING FUNDS

In FY2016, there was a positive change in working funds before investment income of \$24.7k. This compares to a positive change in working funds before investment income of \$48.8k in FY2015. Investment income was \$2.8k compared to \$1.5k for the prior year, resulting in a positive change of working funds for FY2016 of \$27.5k compared to \$50.2k for the prior year.

STATEMENT OF FINANCIAL POSITION

The statement of financial position for CHEC remained stable, with

assets exceeding liabilities by \$425.1k. Assets consist mainly of cash and investments, making CHEC very solvent in terms of liquidity. CHEC does not currently carry any capital assets on its financial records.

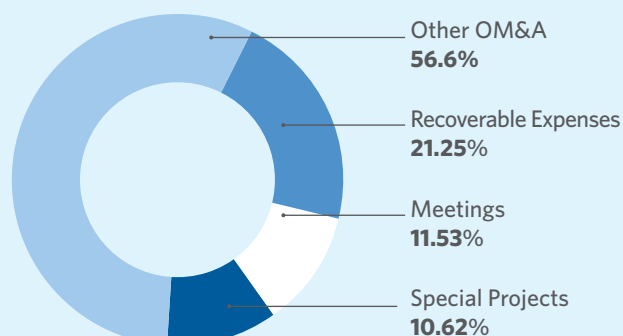
CONCLUSION

Despite some pressure on expenses, CHEC generated a growth in working funds in FY2016, primarily as a result of prudent cost control and project prioritization. CHEC continues to maintain a solid financial base to support the needs of its member LDCs and management continues to work to achieve break-even performance on operating income.

FINANCIAL PROJECTIONS

Through the establishment of a three-year business plan, CHEC expects to achieve greater predictability in financial performance and to mitigate the impact of significant factors, including special projects and regulatory mandates. This business plan is refined on an annual basis prior to commencing each fiscal year.

2016 EXPENSES





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