

EXHIBIT 1 – ADMINISTRATIVE
DOCUMENTS

2024 Cost of Service

Tillsonburg Hydro Inc.
EB-2023-0053

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38 1.1 LEGAL APPLICATION & ADMINISTRATIVE MATTERS

39

40 **IN THE MATTER OF the Ontario Energy Board Act, 1998; S.O.**
41 **1998, c.15, Schedule B, as amended (the “OEB Act”);**

42 **AND IN THE MATTER OF an Application by Tillsonburg Hydro**
43 **Inc. under Section 78 of the OEB Act to the Ontario Energy**
44 **Board for an Order or Orders approving or fixing just and**
45 **reasonable rates and other service charges for the distribution**
46 **of electricity as of May 1, 2024.**

47

48 Tillsonburg Hydro Inc. (“THI,” “the utility,” “the applicant”) is a licensed distributor of electricity
49 under distribution license EB-2020-0185 issued by the Ontario Energy Board (the “OEB” or the
50 “Board”) under the OEB Act.

51 THI hereby applies to the Board pursuant to section 78 of the Act for an Order or Orders approving
52 or fixing just and reasonable distribution rates effective May 1, 2024 (“Application”).

53 THI acknowledges that its application is being filed much later than it intended and notes that it
54 has undergone numerous resource challenges that led to this circumstance.

55 The evidence contained in this Application follows the Filing Requirements for Electricity
56 Distribution Rate Applications (“Filing Requirements”) for small electricity distributors issued on
57 December 20, 2022.

58 1.1.1 APPLICATION BACKGROUND

59 In May, 2023 THI’s Board of Directors executed a Management Services Agreement with ERT
60 Power (the “Manager”) for it to provide leadership and management of THI’s operations (the
61 “SOW”). The SOW is effective to December 31, 2024. The Manager reports to and is accountable
62 to the Town of Tillsonburg’s Chief Administrative Officer and has staffed both an Acting President
63 and General Manager positions.

64 THI’s Board of Directors entered into the SOW primarily because, since its last rebasing, THI has
65 been led by four different general managers from 2014 to 2021; all with terms between two and
66 three years. The utility also had three different operations and finance managers in the same time
67 frame.

68 In February 2024, the Manager was requested to take over leading development of THI’s
69 Application. THI’s Board of Directors and Manager acknowledge that its Application is being filed
70 well beyond the OEB’s expected filing date.

71 THI noted in its letter dated March 8, 2024 that due to resource shortages it has been challenging
72 to complete the Application. The resource shortages THI has faced include a reduced number of
73 staff to work on the Application and a lack of individuals with access to historical information and
74 the ability to verify records. The Manager, with the assistance of external resources, has

75 produced this Application on behalf of THI. Given the circumstances described above, THI has
76 detailed further in this section its request for a streamlined OEB proceeding that leverages the
77 OEB's response to recommendations made to it by the Very Small Utilities Working Group.

78 Below is a list of approvals requested to the OEB by THI in the current application.

79 1. Approval to charge distribution rates, effective May 1, 2024, to recover a base revenue
80 requirement of \$5,182,383 which includes a revenue deficiency of \$1,935,197 using the
81 Service Revenue Requirement as detailed in Exhibit 6. The schedule of proposed rates is set
82 out in Exhibit 8.

83

84 2. Approval of the 2024 capital expenditures for \$2.1 Million as supported by the Distribution
85 System Plan outlined in Exhibit 2. The Applicant has prepared a consolidated DSP in
86 accordance with Chapter 5 of the OEB's Filing Requirements.

87

88 3. Approval to adjust the Retail Transmission Rates - Network and Connection previously
89 approved and detailed in Exhibit 8.

90

91 4. Approval of the proposed Loss Factors as detailed in Exhibit 8.

92

93 5. Approval to continue to charge Wholesale Market Services, Capacity Based Recovery, and
94 Rural Rate Protection Charges.

95

96 6. Approval to continue the specific Service Charges (except for the MicroFIT Monthly Service
97 charge) and Transformer Allowance as previously approved by the OEB and detailed in
98 Exhibit 8.

99

100 7. Approval to continue applying the MicroFIT monthly service charge of \$4.55 detailed in Exhibit
101 8.

102

103 8. Approval of the Rate Riders for a two-year disposition of the Group 1 and Group 2 and Other
104 Deferral and Variance Accounts as detailed in Exhibit 9 on a final basis.

105

106 9. Disposal/recovery of Deferral and Variance Account balances in Group 1 and Group 2
107 accounts as of December 31, 2022, on a final basis with rate riders for a two-year disposition.

108

109 10. Acceptance of the Demand Profile methodology to determine the Non-Coincident Peak and
110 Coincident Peak Demand Allocators as applied in the Cost Allocation model (worksheet I8)
111 and described in Exhibit 7.

112

113 11. Final balance disposal of account 1508 (wireline pole attachment variance account) as of
114 December 31, 2022.

115 This Application consists of the following Exhibits and Excel live models supporting the evidence
116 presented in this Application.

- 117 ➤ Exhibit 1: Administrative Documents
- 118 ➤ Exhibit 2: Rate Base and DSP
- 119 ➤ Exhibit 3: Revenues
- 120 ➤ Exhibit 4: Operation, Maintenance, and Administrative Costs
- 121 ➤ Exhibit 5: Cost of Capital
- 122 ➤ Exhibit 6: Revenue Requirement
- 123 ➤ Exhibit 7: Cost Allocation
- 124 ➤ Exhibit 8: Rate Design
- 125 ➤ Exhibit 9: Deferral and Variance Accounts

126

- 127 ➤ EB-2023-0053 THI 2024 Benchmarking Forecast Model
- 128 ➤ EB-2023-0053 THI 2024 Cost Allocation
- 129 ➤ EB-2023-0053 THI 2024 LRAMVA Workform
- 130 ➤ EB-2023-0053 THI 2024 PILs Workform
- 131 ➤ EB-2023-0053 THI 2024 Rev Req Workform
- 132 ➤ EB-2023-0053 THI 2024 RTSR Workform
- 133 ➤ EB-2023-0053 THI 2024 Load Forecast Model
- 134 ➤ EB-2023-0053 THI 2024 Update Demand Data
- 135 ➤ EB-2023-0053 THI 2024 COS Checklist
- 136 ➤ EB-2023-0053 THI 2024 DVA Continuity Schedule
- 137 ➤ EB-2023-0053 THI 2024 Chapter 2 Appendices

138

139

140 The key contacts for this Application are as follow:

141 Applicants Name: Tillsonburg Hydro Inc.

142

143 Applicant Address: 10 Lisgar Ave
144 Tillsonburg, ON
145 N4G 5A5

146

147 Internet Address: <https://www.tillsonburghydro.ca/>

148

149 Social Media Address: FB: <https://www.facebook.com/TillsonburgON/>
150 IG: https://www.instagram.com/townoftillsonburg_recreation/
151 Twitter: <https://twitter.com/TillsonburgTown>

152

153 THI's Contact Info. Graig Pettit
154 General Manager
155 Graig.Pettit@erthpower.com
156 519-485-1820 Ext:254

157

158 THI's Counsel: Michael Buonaguro
159 Email: mrb@mrb-law.com
160 Phone: 416-767-1666

161

162 THI confirms the following administrative information:

- 163
- All documents have been submitted to the OEB via RESS.
- 164
- THI confirms that the Application does not include any confidential information.
- 165
- This Application is supported by written evidence. THI requests that under Section 34.01
- 166 of the Board's Rules of Practice and Procedure, this proceeding be conducted by way of
- 167 written hearing. THI notes that it has no special conditions in its license.

168 **1.1.2 THI REQUEST FOR STREAMLINED OEB PROCEEDING**

169

170 On March 28, 2024 the OEB issued a letter¹ responding to recommendations (the “Letter”) made
171 to it by the Very Small Utilities Working Group in a report (the Report) filed with the OEB on
172 February 28, 2024. In its Letter the OEB noted that it generally accepted the recommendations
173 noted in the Report and anticipated that many would be implemented commencing with the
174 applications from Atikokan Hydro and Hydro 2000 that are scheduled to be filed for 2025 rates.
175 THI highlights the following items adopted by the OEB in the Letter:

¹ OEB March 28, 2024 letter to stakeholders ([LINK](#))

- 176 • The OEB supports the idea of the one-day meeting before the discovery process to
177 streamline the application and identify key issues for discovery or to discuss the possibility
178 of skipping discovery and moving to settlement.²

179 THI respectfully requests that the OEB pilot a version of its streamlined process for Very Small
180 Utilities with its Application. THI would like the OEB to allow it to possibly skip the discovery
181 process and proceed to a settlement conference by including the one-day meeting that it will pilot
182 with Very Small Utilities in 2025 (“Modified Streamlined Approach”). The one-day meeting before
183 the discovery process would allow THI, OEB Staff and approved Interveners to this proceeding
184 to discuss the Application and the possibility of skipping discovery and moving to a settlement
185 conference.

186 THI acknowledges that its number of customers is slightly above the 5,000 customer threshold
187 the OEB has set to establish which utility qualifies as a Very Small Utility³. However, other than
188 its number of customers slightly exceeding the customer number threshold, THI is in all respects
189 a very small utility. THI believes that, given its small size and in consultation with intervenors and
190 OEB Staff, there is a high likelihood that the issues of concern for which discovery may be
191 necessary can be significantly narrowed and possibly simplified as part of the settlement
192 conference process. Additionally, THI’s regulatory costs should be materially reduced by not
193 having to exercise the full discovery process as a simplified process should reduce if not eliminate
194 the need for external resources⁴. We believe that the THI situation is an ideal opportunity to pilot
195 this Modified Streamlined Approach.

196 Should the OEB accept THI’s proposed form of proceeding, it could include the proposal for a
197 Modified Streamlined Approach when it issues Procedural Order No 1. If the OEB would like
198 stakeholders to provide their views on THI’s request for a Modified Streamlined Approach prior to
199 accepting the proposal, it could include a request for intervenor input in the Notice of Application.
200 The Notice of Application already sets out the process for parties to request intervention, and by
201 including a request for intervenor input on the proposed Modified Streamlined Approach as part
202 of their intervention request, the OEB will not only receive feedback from those parties who seek
203 to intervene it would do so without requiring additional procedural steps.

204

205

² IBID page 3

³ THI has XXXX customer compared to the OEB’s 5,000 for Very Small Utility classification.

⁴ Savings in regulatory costs by not spending monies on external consultants and legal counsel

206 **1.1.3 ADDITIONAL ADMINISTRATIVE ITEMS**

207 **Notice of Application**

208 Upon receiving the Letter of Direction and the Notice of Application and Hearing from the OEB,
209 THI will arrange to have the Notice of Application and Hearing for this proceeding published in
210 The Norfolk and Tillsonburg Independent News, a local and free community newspaper with the
211 highest circulation in its service area.

212 Once the Notice of Application and Hearing has been published, THI will file an Affidavit of
213 Publication.

214 The Application, along with all supporting evidence, will also be posted on THI website.
215 Customers will be informed of the filing via traditional media, social media, and the THI's website
216 once the Application is accepted by the OEB.

217

218 **Certification of Evidence**

219 THI hereby certifies that the Application has been reviewed and approved by the General
220 Manager and its Board of Directors. As well, THI confirms that the information and evidence
221 presented herein is accurate to the best of THI's knowledge.

222

223 Graig Pettit
224 General Manager
225 Hydro.Manager@tillsonburg.ca
226 519-485-1820 Ext:254

227 **Confirmation of Protection**

228 Tillsonburg Hydro Inc. confirms that the documents filed in support of THI's referenced Application
229 do not include any personal information (as that phrase is defined in the Freedom of Information
230 and Protection of Privacy Act), that is not otherwise redacted in accordance with rule 9A of the
231 OEB's Rules of Practice and Procedure.

232 **Financial and Load Information used in this Application**

233 In compliance with the filing requirements, THI has used 12 months of projections to determine
234 its 2023 bridge year and 2024 Test Year. THI also confirms that 2022-year end balances have
235 been audited and therefore are final. THI has not changed any of its proposed methodologies
236 from its last cost of service unless dictated explicitly by the regulator through a policy change.

237 **Materiality Threshold**

238 As per the OEB Filing Requirements, a distributor with less than 30,000 customers and a
239 distribution base revenue requirement of less than or equal to \$10 million, the materiality threshold
240 is \$10,000. As THI falls within this parameter, its materiality threshold is \$10,000. The previous

241 \$50,000 for a distributor with a distribution revenue requirement less than or equal to \$10 million
 242 still applies to other applications of the materiality threshold (e.g., DVAs, Z factor and eligible
 243 investments for the connection of qualifying generation facilities).

244 **1.2. SUMMARY OF APPLICATION**

245 **1.2.1 Distribution Rates**

246 Table 1 below presents THI’s distribution rate and total bill impacts. Impacts are shown using the
 247 applicable current approved rates (effective May 1, 2024) and the proposed THI rates for
 248 distribution, including Rate Riders for the recovery of Deferral and Variance accounts discussed
 249 in Exhibit 9. The rate impacts are assessed on the basis of moving to the proposed distribution
 250 rates. Appendix 8-4 to Exhibit 8 presents the results of the assessment of customer total bill
 251 impacts by level of consumption by rate class.

252 **Table 1 – Distribution and Total Bill Impacts**

Rate Class	Units	RPP / Non-RPP	Sub-Total						Total	
			A		B		C		Total Bill	
			\$	%	\$	%	\$	%	\$	%
Residential	kwh	RPP	\$5.79	18.8%	\$6.46	19.3%	\$6.86	14.6%	\$6.96	5.6%
GS < 50 kW	kwh	RPP	\$0.00	0.0%	\$2.61	3.4%	\$3.48	3.2%	\$3.54	1.1%
GS 50-499 kW	kw	Non-RPP (Other)	\$183.19	40.1%	\$580.25	126.9%	\$602.41	47.4%	\$687.03	9.6%
GS 500-1499 kW	kw	Non-RPP (Other)	-\$49.47	-1.9%	\$2,944.23	115.5%	\$3,125.48	34.0%	\$3,580.23	6.6%
GS 1500-4999kW	kw	Non-RPP (Other)	-\$159.62	-2.6%	\$8,339.54	134.3%	\$8,761.66	40.4%	\$10,037.97	6.7%
USL	kwh	RPP	\$18.14	3.8%	\$20.78	4.3%	\$21.65	4.2%	\$21.94	3.0%
Sentinel Lighting	kw	Non-RPP (Retailer)	\$0.23	0.1%	\$0.23	0.1%	\$0.23	0.1%	\$0.24	0.1%
Streetlighting	kw	RPP	-\$783.52	-25.5%	-\$405.28	-13.2%	-\$389.14	-10.6%	-\$433.90	-4.6%

253

254

255 **1.2.2 Revenue Requirement**

256 Table 2 below shows the change in THI's revenue requirement from the last Cost of Service in
 257 2013 compared to the proposed 2024 Test Year.

258 The proposed Revenue Requirement for the 2024 test year of 5,182,383.08 reflects an increase
 259 of \$1,935,197 from the 2013 Board Approved. The increase is primarily due to:

- 260 1. An increase in OM&A of \$757,147, a CAGR of 2.42% from the 2013 Board Approved
 261 budget to the proposed 2024 Test Year budget.
- 262 2. An increase in the Regulated Return on Capital of \$834,796 due primarily to the addition
 263 of assets to the Rate Base.
- 264 3. Offset by an increase in “Other Revenues” of \$340,265. An explanation is provided in
 265 Exhibit 3.

266

Table 2 – Continuity between 2013 and 2024 Revenue Requirement

Rate Year and Particulars	Revenue Requirement Amount	High Level Description for Change from 2013	Exhibit Reference
2013 Board Approved Revenue Requirement	\$3,247,186	2013 Board Approved Revenue Requirement	
Operation Maintenance Admin Costs	\$757,146	Increase in Operating expenses to reflect increases in unplanned and inflationary costs	Exhibit 4
Depreciation Expense	\$627,305	Additional Fixed Assets since last Cost of Service addressing 2016 asset management assessment	Exhibit 2
<i>Net Fixed Assets</i>	\$10,365,991		
<i>Working Capital Allowance</i>	-\$746,023	Reduction in WCA as a result of lower Cost of Power and lower OEB set WCA rate	Exhibit 2
<i>Rate Base</i>	\$9,619,967		
Return on Capital	\$834,796	Increase in Return on Capital from increase in rate base	Exhibit 5
PILs	\$50,714	Increase in PILs due to increase in Assets and net income	Exhibit 6
Other Revenues	-\$340,265	Increase in number of customers and additional rate base driving increase in Other Revenues	Exhibit 6
Increase in Revenue Requirement	\$1,929,697		
2024 Revenue Requirement	\$5,176,883		

267

268

269 **1.2.3 Load Forecast**

270 The methodology used in this application is generally consistent with those applied in THI's
 271 previous cost of service application. The load forecast for 2024 used a multivariate regression
 272 analysis consistent with numerous Cost of Service applications approved by the Ontario Energy
 273 Board over the past two decades. The regression analysis includes actual data to the end of 2022
 274 and relies on statistically valid independent variables to forecast future results.

275 Table 3 below showcases the Load Forecast for 2024. For in-depth insights regarding the load
 276 forecast, please refer to Exhibit 3 for detailed explanations.

277 **Table 3 – Load Forecast**

	2013 Board Approved	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Bridge Weather Normal	2024 Test Weather Normal
Purchases										
Actual kWh Purchases		201,771,248	189,637,461	189,993,955	177,282,154	173,380,459	178,063,869	185,144,756		
Predicted kWh Purchases		199,251,586	190,715,719	189,814,123	179,694,367	172,812,609	180,128,802	182,856,695	179,918,220	180,486,863
% Difference between actual and predicted purchases			0.6%	(0.1%)	1.4%	(0.3%)	1.2%	(1.2%)		
Loss Factor		1.0298	1.0316	1.0340	1.0326	1.0352	1.0341	1.0363	1.0334	1.0334
Total Billed	183,376,707	195,938,265	183,826,118	183,750,499	171,687,025	167,477,566	172,196,903	178,660,614	174,108,951	174,659,234
Billing Determinants										
Residential										
Customers	6,042	6,294	6,409	6,516	6,652	6,823	7,107	7,417	7,623	7,835
kWh	49,906,667	50,305,890	48,524,267	52,869,436	51,949,017	55,641,421	57,807,950	59,629,357	59,512,317	61,627,888
General Service < 50 kW										
Customers	666	637	642	648	655	665	672	682	690	698
kWh	22,650,334	21,381,406	20,751,635	21,318,676	21,167,458	21,397,531	21,062,932	23,000,509	22,590,994	23,022,735
General Service 50 to 499 kW										
Customers	85	80	80	80	78	81	77	74	73	72
kWh	38,065,105	44,669,119	42,593,613	42,394,829	42,725,411	43,788,589	46,750,240	54,079,512	52,318,523	51,946,339
kW	115,326	143,223	137,627	131,466	131,386	137,702	146,508	160,486	163,381	162,219
General Service 500 to 1499 kW										
Customers	9	10	10	12	12	8	9	6	6	5
kWh	36,286,504	42,123,343	39,292,385	36,925,221	28,159,132	25,142,092	27,055,986	23,120,478	20,958,055	19,312,053
kW	87,913	103,435	106,161	113,441	91,315	76,763	82,837	73,360	62,156	57,274
General Service 1500-4999 kW										
Customers	2	2	2	2	2	2	2	2	2	2
kWh	34,524,454	35,542,049	30,775,850	28,687,524	26,720,406	20,564,791	18,499,236	17,800,153	17,702,283	17,727,224
kW	68,279	72,107	68,625	66,586	60,560	53,165	50,923	48,074	42,700	42,760
Unmetered Scattered Load										
Connections	62	60	59	59	57	57	57	56	55	55
kWh	421,538	386,201	367,143	341,866	340,304	340,496	340,760	338,890	335,322	331,791
Sentinel Lighting										
Connections	127	119	113	112	112	112	112	116	116	115
kWh	116,952	102,641	98,397	95,815	79,644	75,008	72,438	72,091	71,836	71,581
kW	301	282	263	256	217	202	202	202	196	195
Street Lighting										
Connections	1	1	1	1	1	1	1	1	1	1
kWh	1,405,153	1,427,616	1,422,829	1,117,131	545,652	527,637	607,361	619,623	619,623	619,623
kW	3,829	3,831	3,831	3,044	1,498	1,416	1,647	1,668	1,676	1,676
Total										
Customer/Connections	6,994	7,202	7,316	7,431	7,568	7,749	8,037	8,355	8,566	8,783
kWh	183,376,707	195,938,265	183,826,118	183,750,499	171,687,025	167,477,566	172,196,903	178,660,614	174,108,951	174,659,234
kW	275,648	322,878	316,507	314,793	284,976	269,248	282,117	283,790	270,109	264,125

278

279

280 **1.2.4 Rate Base and Distribution System Planning**

281 The proposed Rate Base for the 2024 test year, amounting to \$19,435,564, represents an
282 increase of \$9,612,376 from THI's 2013 Board Approved Rate Base. THI notes that the net rise
283 in its Rate Base from 2013 to 2024 is primarily driven by investments from 2016 to 2022 to
284 accommodate customer growth, and address recommendations that were provided from a third-
285 party Asset Management Plan which it commissioned in 2015.

286 Further details regarding THI's historical and proposed capital spending can be found in Exhibit
287 2. Table 4 below outlines the determination of THI's Rate Base.

288 **Table 4 – Rate Base**

Particulars	Last Board Approved	2024	Var from 2013
Net Capital Assets in Service:			
Year End Capex	\$16,730,825	\$32,036,650	\$15,305,825
Year End Accumulated Depreciation	-\$9,434,702	\$14,374,536	\$23,809,238
Net Book	\$7,296,123	\$17,662,114	\$10,365,991
Working Capital Allowance	\$2,527,065	\$1,773,450	-\$753,616
Total Rate Base	\$9,823,188	\$19,435,564	\$9,612,376
Expenses for Working Capital	Last Board Approved	2024	Var from 2013
Eligible Distribution Expenses:			
3500-Distribution Expenses - Operation	\$882,270	\$525,582	-\$356,688
3550-Distribution Expenses - Maintenance	\$275,312	\$209,849	-\$65,463
3650-Billing and Collecting	\$613,505	\$813,409	\$199,904
3700-Community Relations	\$900	\$0	-\$900
3800-Administrative and General Expenses	\$743,095	\$1,723,389	\$980,294
LEAP		\$5,500	\$0
Total Eligible Distribution Expenses	\$2,515,082	\$3,277,729	\$762,647
3350-Power Supply Expenses	\$18,543,794	\$20,368,266	\$1,824,472
Total Expenses for Working Capital	\$21,058,876	\$23,645,994	\$5,061,958
Working Capital factor	12.00%	7.50%	
Total Working Capital	\$2,527,065	\$1,773,450	-\$753,616

289

290 **1.2.5 Operating Expenses (OM&A)**

291 Table 5 presents a summary of recoverable OM&A expenses for the relevant years. The spending
292 level has shown stability since the last Board approval in 2013, with a total increase of \$757,147
293 or a compound annual growth rate (CAGR) of 2.42%. THI addresses unforeseen expenses as
294 they arise and strives to offset any increases by minimizing costs or improving efficiencies
295 wherever feasible. Cost drivers are outlined and explained throughout Exhibit 4.

296 **Table 5 – Summary of Recoverable OM&A Expenses (Chapter 2 Append. 2-JA)**

	2013 Board Approved	2024 Forecast	Variance
Operations & Maintenance	\$1,157,582	\$735,431	(\$422,151)
Billing and collecting	\$613,505	\$813,409	\$199,904
Community Relations	\$900	\$0	(\$900)
Administrative and General	\$743,095	\$1,723,389	\$980,294
Total	\$2,515,082	\$3,272,229	\$757,147

297

298 **1.2.6 Cost of Capital**

299 THI seeks to recover a weighted average cost of capital of 7.34% through rates in the 2024 Test
300 Year. As per the OEB’s prescribed Cost of Capital Parameters published for 2023 Cost of Service
301 Applications, THI has used the OEB’s deemed capital structure of 56% long-term debt, 4% short-
302 term debt, and 40% equity, as well as the most recent, published allowed return on equity (ROE)
303 rate of 9.21%. THI commits to updating its proposed cost of capital parameters to reflect the
304 OEB’s prescribed Cost of Capital Parameters for 2024 Cost of Service Applications once
305 available. THI's cost of capital and return on rate base for 2024 Test Year is shown in Table 6
306 below.

307 **Table 6 – Cost of Capital Parameters**

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$10,888,167	6.08%	\$661,531
2	Short-term Debt	4.00%	\$777,726	6.23%	\$48,452
3	Total Debt	60.0%	\$11,665,894	6.09%	\$709,984
	Equity				
4	Common Equity	40.00%	\$7,777,262	9.21%	\$716,286
5	Preferred				
6	Shares		\$ -		\$ -
6	Total Equity	40.0%	\$7,777,262	9.21%	\$716,286
7	Total	100.0%	\$19,443,156	7.34%	\$1,426,270

308

309

310 **1.2.7 Cost Allocation and Rate Design**

311 The main objectives of a Cost Allocation study are to provide information on any apparent cross-
 312 subsidization among a distributor's rate. THI has prepared a Cost Allocation Study based on an
 313 allocation of the 2024 test year costs (i.e., the 2024 forecast revenue requirement) to the various
 314 customer classes using allocators based on the forecast class loads (kW and kWh) by class,
 315 customer counts, etc. Further details on Cost Allocation can be found in Exhibit 7.

316 **Table 7 – Cost Allocation Revenue to Cost Ratios**

Rate Class	2013 Board Approved	2024 Updated Cost Allocation Study	2024 Proposed Ratios	2024 to 2028 Proposed Ratios	Board Targets Min to Max	
Residential	96.3%	95.3%	96.3%	96.3%	85.0%	115.0%
GS < 50 kW	107.6%	139.4%	120.0%	120.0%	80.0%	120.0%
GS 50-499 kW	96.3%	79.6%	96.3%	96.3%	80.0%	120.0%
GS 500-1499 kW	107.4%	143.1%	120.0%	120.0%	80.0%	120.0%
GS 1500-4999kW	120.0%	143.7%	120.0%	120.0%	80.0%	120.0%
USL	120.0%	88.1%	96.3%	96.3%	80.0%	120.0%
Sentinel Lighting	60.0%	45.4%	96.3%	96.3%	80.0%	120.0%
Streetlighting	120.0%	191.9%	120.0%	120.0%	80.0%	120.0%

317

318 THI is not proposing any mitigation plans as all rate impacts are below 10%.

319 **1.2.8 Deferral and Variance Accounts**

320 THI is requesting that the final disposition of a debit of \$1,010,169 related to Group 1 (including
 321 1589), a debit of \$590,305 related to Global Adjustment which applies to Non-RPP Class B
 322 customers, and a credit of \$322,585 related to Group 2 Variance/Deferral Accounts.

323 Group 1 and Group 2 DVA balances are proposed to be disposed of over two years. THI has
 324 followed the OEB's guidance as provided by the OEB's Electricity Distributor's Disposition of
 325 Variance Accounts Reporting Requirements Report. Account balances as of December 31, 2022
 326 plus interest to March 31, 2024 are provided in table 8 below.

327

328

Table 8 – Deferral and Variance Accounts

Account		Principal Balance Dec- 22	Interest	Total Claim incl interest
Group 1 Accounts				
Smart Metering Entity Charge Variance Account	1551	-\$53,768	-\$5,461	-\$59,229
RSVA - Wholesale Market Service Charge	1580	\$14,291	-\$34,647	-\$20,356
Variance WMS – Sub-account CBR Class B*	1580	-\$30,149	\$945	-\$29,204
RSVA - Retail Transmission Network Charge	1584	\$201,669	\$6,178	\$207,847
RSVA - Retail Transmission Connection Charge	1586	\$85,749	\$8,348	\$94,097
RSVA - Power (excluding Global Adjustment)	1588	\$410,700	\$109,390	\$520,089
Total Group 1 (excl. 1589)		\$658,641	\$83,808	\$742,449
RSVA - Global Adjustment	1589	\$573,368	\$16,937	\$590,305
Total Group 1 Accounts		\$1,232,009	\$100,745	\$1,332,754
Group 2 Accounts				
Pole Attachment Revenue Variance	1508	-\$88,932	-\$8,125	-\$97,057
Sub-account Accelerated CCA	1592	-\$205,973	-\$19,554	-\$225,527
Total Group 2		-\$294,906	-\$27,679	-\$322,585
Total Group 1 and 2 Disposition		\$937,103	\$73,066	\$1,010,169

*Subset of RSVA - Wholesale Market Service Charge, and is excluded from calculation of Group 1 Totals

329

330 **1.2.9 Bill Impacts**

331 The total bill impacts range from a decrease of 4.6 % for the Street Lighting to an increase of
332 9.6% for the GS 50-499 kW class. A summary of the bill impacts by class is presented below in
333 table 9. Detailed explanations of the bill impacts are presented in Exhibit 8.

Table 9 – Bill Impacts

Rate Class	Units	RPP / Non-RPP	Sub-Total						Total	
			A		B		C		Total Bill	
			\$	%	\$	%	\$	%	\$	%
Residential	kwh	RPP	\$5.79	18.8%	\$6.46	19.3%	\$6.86	14.6%	\$6.96	5.6%
GS < 50 kW	kwh	RPP	\$0.00	0.0%	\$2.61	3.4%	\$3.48	3.2%	\$3.54	1.1%
GS 50-499 kW	kw	Non-RPP (Other)	\$183.19	40.1%	\$580.25	126.9%	\$602.41	47.4%	\$687.03	9.6%
GS 500-1499 kW	kw	Non-RPP (Other)	-\$49.47	-1.9%	\$2,944.23	115.5%	\$3,125.48	34.0%	\$3,580.23	6.6%
GS 1500-4999kW	kw	Non-RPP (Other)	-\$159.62	-2.6%	\$8,339.54	134.3%	\$8,761.66	40.4%	\$10,037.97	6.7%
USL	kwh	RPP	\$18.14	3.8%	\$20.78	4.3%	\$21.65	4.2%	\$21.94	3.0%
Sentinel Lighting	kw	Non-RPP (Retailer)	\$0.23	0.1%	\$0.23	0.1%	\$0.23	0.1%	\$0.24	0.1%
Streetlighting	kw	RPP	-\$783.52	-25.5%	-\$405.28	-13.2%	-\$389.14	-10.6%	-\$433.90	-4.6%

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1 **1.3. ABOUT THE UTILITY**

2 **1.3.1 Distribution System Overview & Operating Environment**

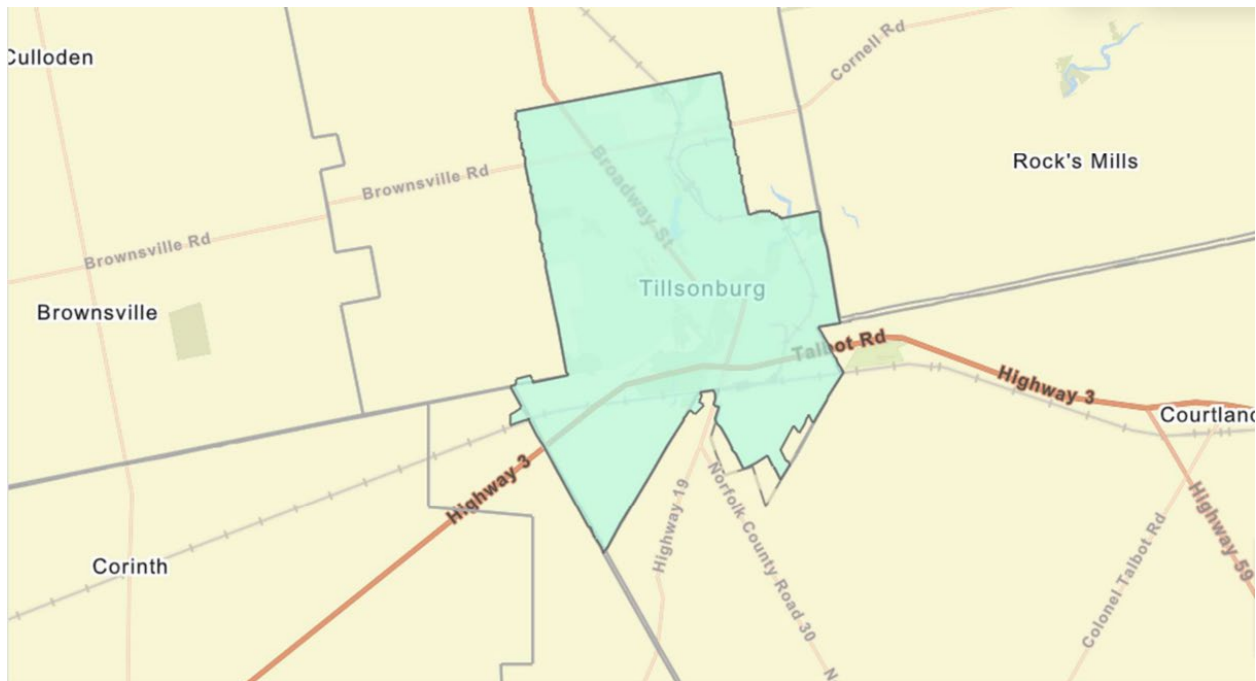
3

4 Tillsonburg is a town in Oxford County, Ontario, Canada with a population of 18,615 located about
5 50 kilometers southeast of London, on Highway 3 at the junction of Highway 19.

6 THI's service area is confined within the municipal boundaries of Tillsonburg town, making it an
7 embedded utility that exclusively serves the Tillsonburg community. The map below outlines the
8 utility's service area.

9

Map of Service Area



10

11 THI's customers total approximately 8,700 comprised of approximately 89% residential customers
12 and 9% General Service customers. The balance of the utility's customer base is comprised of
13 Street Lights, Sentinel Lights and Unmetered Scattered Load.

14 THI relies on approximately 146 km of circuits to deliver energy and power to its customers. THI's
15 circuits include approximately 67 km of overhead lines and 79 km of underground lines, all
16 carrying a voltage of less than or equal to 27.6 kV circuits.

17 The overhead system includes 1100 pole-mounted and pad-mounted transformers and 2430
18 poles. THI's underground distribution system accounts for approximately 56% of its overall
19 distribution system.

20 THI's distribution system is supplied by the IESO, from Tillsonburg TS at an incoming voltage
21 level of 115 kV stepped down to 4 circuits of 27.6 KV with pockets of 2.4KV distribution lines fed
22 by step down transformers within Tillsonburg's service territory.

23 Per ANSI standard C84.1-1989, "Low" voltage is described as 600V and below. "Medium" voltage
24 is 2.4kV through 69kV. "High" voltage is 115kV through 230kV and "Extra-High" voltage is 345kV
25 to 765kV, while "Ultra-high" voltage is 1.1MV.

26 Per the above definition, THI currently operates 4 circuits of 27.6 kV, which could be classified as
27 "medium-voltage."

28 THI's operating environment has not changed since its last Cost of Service in 2013.

29 The Manager is responsible for all internal and external financial activities of the company. This
30 includes liaison with banks and other financial institutions; providing financial reports to its
31 shareholder; development of budgets and tracking the company's progress towards achieving
32 approved financial targets; coordinating metering, information systems, and customer billing,
33 liaison with regulatory bodies including the OEB; accountants, purchasing and stores; and
34 conservation and demand management. The General Manager oversees the operation of the
35 distribution system. He is responsible for ensuring that contractors remain safe when interfacing
36 with the distribution system, ensuring the reliable operation – including maintenance and repair –
37 of the distribution system, and ensuring that customer requests for electricity service are provided
38 promptly and according to code.

39 THI is an Ontario business corporation, 100% owned by the Town of Tillsonburg (Town). THI is a
40 "virtual" utility. It has no employees and does not own all of the assets required to provide
41 distribution service on a "stand alone" commercial basis. The Town makes several of its
42 employees and many of its assets available to THI. The arrangement is governed by a Master
43 Service Agreement (MSA) under which THI pays fixed charges that recover the Town's directly
44 incurred costs (operating and capital) and a Management Fee that supports the recovery of
45 indirectly incurred costs and contributes towards the recovery of the cost of capital. THI owns and
46 is responsible for assets that are unique to the provision of electricity distribution services. THI
47 must also balance reliance on third-party contractors and consultants and use its workforce to its
48 best advantage for the customer and community.

49 THI last revised its Conditions of Service on August 1, 2019. While acknowledging that there
50 haven't been significant changes in rules and regulations, THI remains vigilant in monitoring any
51 developments and pledges to update the document as needed. The Conditions of Service can be
52 accessed via the following link: <https://www.tillsonburghydro.ca/about-us/conditions-of-service>.

53 THI confirms that there are no rates or charges listed in its Conditions of Service that are not on
54 the THI's Tariff of Rates and Charges.

55

56

57

58 **1.3.2 Corporate Organization and Governance**

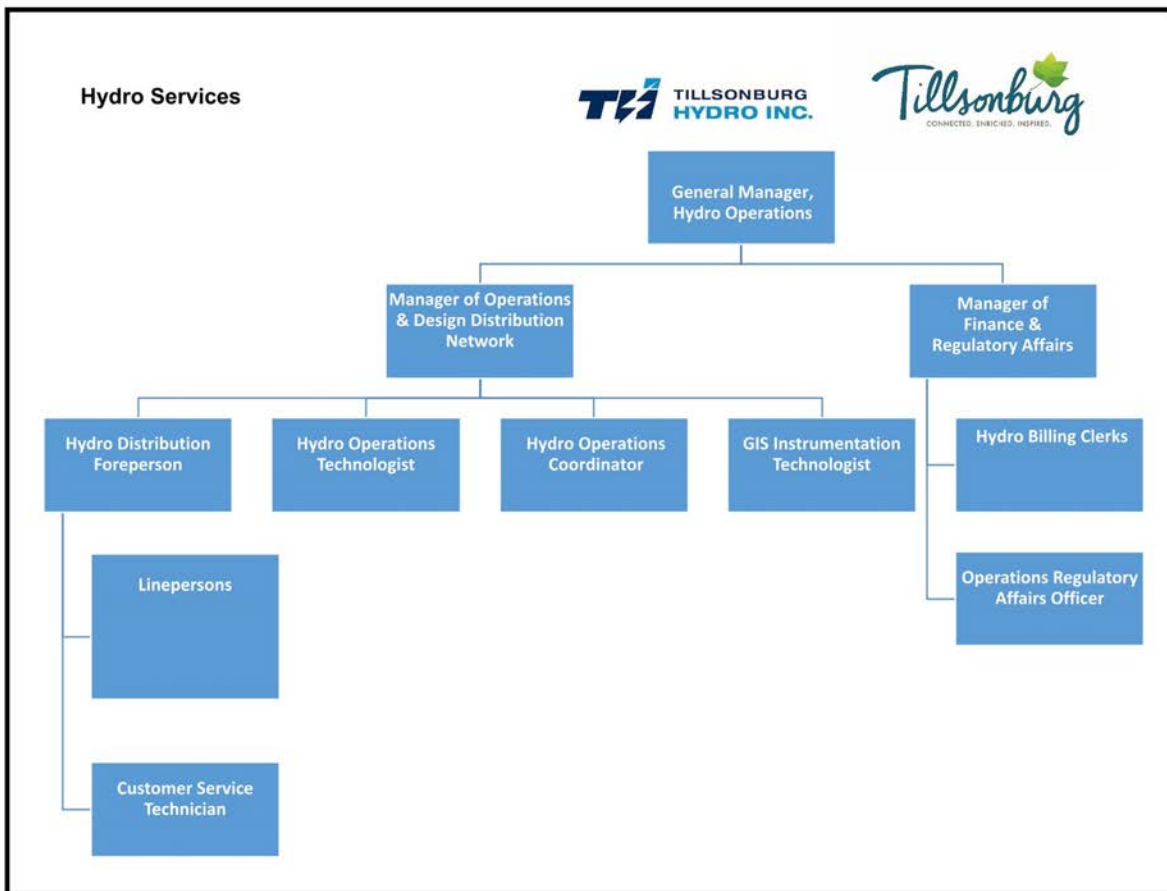
59

60 The Organizational and Corporate Chart are shown in table 10 below.

61

62

Table 10 - Organizational and Corporate Structure Chart



63

64

65 **1.3.3 Directives from Previous Decisions**

66 **2021 - 2023 Rates**

67 In the OEB's decision and rate order for THI's 2021 rates⁵, the OEB expressed concerns with
68 unusually large Group 1 account balances in Accounts 1588 and 1589. As a result, the OEB
69 referred this matter to its Inspection & Enforcement department. The referral was made to

⁵ EB-2020-0056, Decision and Rate Order

70 consider a review of THI's internal controls and associated accounting practices related to
71 Account 1588 and Account 1589.

72 In its decision and rate order on Tillsonburg Hydro's 2022 rates⁶, the OEB found that no
73 disposition of THI's Group 1 accounts was required. The disposition threshold was not exceeded,
74 and THI did not request disposition. The OEB did, however, direct Tillsonburg Hydro to file the
75 outcomes of any review by the OEB's Inspection & Enforcement department ("OEB Inspection")
76 for consideration in THI's first rates application following the conclusion of such review.

77 As of April 24, 2024 the OEB Inspection has provided THI a draft report and a summary of the
78 inspection can be found in Exhibit 9.

79 **1.3.4 Business Plan**

80

81 THI's approved business plan for 2024-2025 can be found in Appendix A.

82 **1.4. CUSTOMER ENGAGEMENT**

83 THI focuses on its customers by striving to find that balance between reliability, low rate and
84 service while maintaining financial stability. THI continues to become more customer-centric by
85 investing in new capabilities, programs and technologies that allow us to communicate more
86 effectively and efficiently with our customers.

87 THI actively engages with its customers through a diverse range of channels and initiatives. It
88 employs robocalls to inform customers about their bill status or upcoming meter reverification and
89 prints notices on monthly bills. Also, THI's website serves as a comprehensive resource providing
90 information on changes in rates and regulations, planned outages, performance metrics,
91 customer choice options, and instructional videos on accessing Green Button data.

92 Customers can visit the office for in-person service, and the distributor participates in school visits
93 to educate the community.

94 E-billing promotion has already garnered 1,900 enrolled customers, reflecting a commitment to
95 eco-friendly practices. THI's presence in the community extends to setting up and lighting the
96 Christmas tree, installing seasonal lights on streetlight posts, participating in the Christmas
97 parade, and installing banners for the Royal Canadian Legion.

98 Furthermore, the THI gathers valuable customer feedback through surveys on electrical safety
99 and satisfaction levels, while mailed or hand-delivered notices keep customers informed about
100 bill status or service interruptions.

⁶ EB-2021-0059, Decision and Rate Order

101 THI has relied on the following four Customer Surveys in addition to other activities to develop its
102 business plan and this Application:

- 103 • 2016 Customer Survey
- 104 • 2019 Customer Survey
- 105 • 2021 Customer Survey
- 106 • 2023 Customer Survey

107 The above Customer Surveys can be found in Exhibit 2 – DSP Appendix A-1 and the 2023
108 Customer Survey in Appendix B of this Exhibit. A summary. In forming the DSP and business
109 plan, THI placed the most weight to findings in the 2023 Customer Survey. A summary of this is
110 provided in the Section 1.4.1 below.

111 **1.4.1 Customer Satisfaction Survey**

112 THI values customer input and feedback. Customers are engaged through education
113 opportunities, surveys, and directly by the utility for input on the main initiatives. Customer
114 satisfaction is measured on the Distributor Scorecard and with an annual survey and then
115 incorporated into goal setting and planning processes with a focus on ensuring and improving
116 customer satisfaction. By increasing and enhancing customer engagement and communications,
117 THI is helping customers make better choices and create healthy, sustainable results for the
118 community it serves.

119 THI hired Advanis to conduct a customer satisfaction survey in early 2023. The survey instrument
120 was provided by the Electricity Distributors Association (developed in conjunction with Innovative
121 Research The survey consisted of an introduction, overall satisfaction, power quality and
122 reliability, billing and payment, customer service experience, communications, price, optional
123 deeper dive questions, and final personal finance sector mood measures. As noted above, the
124 results for the survey can be found in Appendix B.

125 The survey yielded a customer satisfaction index of 79 which, from a statistical perspective, was
126 the same as the previous 3 years and statistically the same as that of 7 other LDCs within the
127 CHEC group.

128 Advanis was able to complete 406 surveys with a margin of error of +/-4.7% at a 95% confidence
129 level.

130 As well, in March 2024 Advanis was hired to conduct an Electrical Safety Awareness (ESA)
131 Survey. The objective of the survey was to provide an ESA index score and is based on responses
132 of 400 randomly sampled individuals to six core measures. THI's index score was 85.3% which
133 is not statistically different than the 2022 score of 86.0%. Also, THI's score is statistically the same
134 as that of 10 other LDCs, higher than that of 1 other LDC and lower than that of 1.

135 THI remains committed to actively engaging customers and incorporating their feedback into its
136 planning and operations. The 2023 customer satisfaction survey conducted by Advanis reaffirms
137 that THI's efforts to prioritize customer satisfaction are yielding consistent results on par with its
138 peers. With a customer satisfaction index of 79 and a strong sample size providing a tight margin
139 of error, the survey findings highlight areas of strength as well as opportunities for continued
140 improvement. By regularly measuring customer perceptions through robust surveys and other
141 channels, THI demonstrates its dedication to delivering reliable, affordable, and customer-centric
142 services that create value for the communities it serves. Moving forward, THI will leverage these
143 insights to further enhance its customer engagement strategies and drive sustainable excellence
144 in meeting evolving customer needs and expectations.

145

146 **1.5. PERFORMANCE MEASUREMENT, BENCHMARKING**

147 From 2015-2021, THI has been in Group 3 of the PEG efficiency assessment report. As of 2022,
148 THI was placed in Group 2.

149 The table below shows the forecasted benchmarking calculations from the OEB model, which is
150 being filed along with this Application. THI has also modeled its PEG results out to 2025 based
151 on the financial projections included in this application.

152 In July 2016, THI sought to postpone its CoS rebasing from 2017 to 2018, which was
153 subsequently approved. Following this, THI opted for the Annual Incentive Regulation (IR)
154 process in its IRM applications. Since 2017, THI has been following the Annual IR path,
155 applying a default stretch factor of 0.6% as per filing requirements. THI is filing for a Price Cap
156 Incentive Rate model in this Application.

157

158 **1.5.1 Benchmarking and Scorecard Analysis**

159 THI's Scorecard can be found here: [Scorecard - Tillsonburg Hydro Inc..pdf \(oeb.ca\)](#)

160 The table below shows the current scorecard on the OEB website.

161

162

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Table 10 – Tillsonburg Scorecard

Scorecard - Tillsonburg Hydro Inc.

8/30/2023

Performance Outcomes	Performance Categories	Measures	2018	2019	2020	2021	2022	Trend	Target		
									Industry	Distributor	
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	New Residential/Small Business Services Connected on Time	97.96%	99.56%	100.00%	99.51%	95.34%	👇	90.00%		
		Scheduled Appointments Met On Time	100.00%	98.44%	99.36%	98.21%	99.33%	👇	90.00%		
		Telephone Calls Answered On Time	88.18%	84.59%	0.00%	0.00%	98.68%	👇	65.00%		
	Customer Satisfaction	First Contact Resolution	98.62	97.7%	97.2	97.7%	94.7%	👇			
		Billing Accuracy	99.73%	99.83%	99.80%	97.60%	99.70%	👇	98.00%		
		Customer Satisfaction Survey Results	satisfied	satisfied	satisfied	Satisfied	Satisfied				
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	Safety	Level of Public Awareness	81.60%	83.70%	83.70%	83.70%	86.00%	👇			
		Level of Compliance with Ontario Regulation 22/04 ¹	C	C	C	C	C	👇		C	
		Serious Electrical Incident Index Rate per 10, 100, 1000 km of line	Number of General Public Incidents	0	0	0	0	0	👇		0
				0.000	0.000	0.000	0.000	0.000	👇		0.000
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted ²	1.83	0.96	1.69	0.53	0.95	👇		1.22	
		Average Number of Times that Power to a Customer is Interrupted ²	2.28	0.56	1.02	0.37	0.99	👇		1.16	
	Asset Management	Distribution System Plan Implementation Progress	in progress	in-progress	in-progress	In-progress	In-progress				
	Cost Control	Efficiency Assessment	3	3	3	3	2				
		Total Cost per Customer ³	\$718	\$748	\$695	\$686	\$703				
		Total Cost per Km of Line ³	\$37,620	\$40,406	\$40,648	\$39,137	\$39,997				
Public Policy Responsiveness Distributors deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time ⁴	100.00%	33.33%	100.00%						
		New Micro-embedded Generation Facilities Connected On Time		100.00%		100.00%	100.00%	👇	90.00%		
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)	1.64	2.82	2.16	1.49	1.12				
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio	0.07	0.31	0.42	0.41	0.40				
		Profitability: Regulatory Return on Equity	8.98%	8.98%	8.98%	8.98%	8.98%				
		Deemed (included in rates) Achieved	5.10%	4.74%	2.42%	1.43%	-0.32%				

1. Compliance with Ontario Regulation 22/04 assessed: Compliant (C); Needs Improvement (NI); or Non-Compliant (NC).
 2. 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. Value displayed for 2021 reflects data from the first quarter, as the filing requirement was subsequently removed from the Reporting and Record-keeping Requirements (RRR).

Legend: 5-year trend
 up 📈 down 📉 flat 📊
 Current year
 🟢 target met 🟡 target not met

Asset Management

THI has updated and simplified its Distribution System Plan to reflect the Filing Requirements for small electricity distributors issued in December 2022. The DSP can be found in Exhibit 2 of this Application.

New Micro-embedded Generation Facilities Connected On Time

THI has maintained 95% timely connection of newly Micro-embedded generation facilities connected on-time. THI will continue to provide the staff resources to maintain an efficient and effective methodology to connect new micro-embedded generation facilities.

Customer Satisfaction

THI has conducted its annual customer satisfaction survey, presented in Section 1.4 of this Exhibit. Customers are generally satisfied with THI. THI continues its efforts to maintain appropriate cost control while providing safe and reliable power delivery to its customers.

Cost Control

THI strives to achieve greater efficiency through productivity improvements and cost control without compromising safety and reliability. The utility intends on maintaining its Group 2 efficiency for the next rate period.

Safety

Safety remains a core attribute of THI as it delivers power to its customers daily. THI strives to communicate safety throughout our distribution system through various methods, including safety orientations, online, outreach, and telephone. THI engaged Advanis in March 2024 to survey residents within the THI service territory on the level of public awareness on electrical safety. THI achieved a result of 85.3%. THI's results are above average within this group.

Service Quality

THI has exceeded the minimum targets established by the OEB. THI has made significant achievements over previous results through its customer focus and training.

Overall Assessment and Performance Improvement Targets

THI has continued to reflect a customer-focused, financially sound, safe, and reliable Local Distribution Company. Customer satisfaction and feedback inform and influence THI's operations, reflected in the continued low number of dissatisfied customers. THI continues to be a financially strong company that reinvests in technology that will bring improvements to customer interactions, system reliability, and safety.

THI has met or exceeded the targets in all performance categories. For measurements where THI did not reach a perfect score, the trend has improved year over year. THI will continue to compare its results to the OEB set targets and commits to continue its efforts to improve its results.

1.5.2 Activity & Performance-Based Benchmarking

Earlier in 2021, the Ontario Energy Board (OEB) took steps to enhance Activity and Program-based Benchmarking (APB). The approach to APB is one of continuous improvement with a view to increasing its value as a tool to drive utility performance and support efficiencies in the regulatory process. The APB relies on unit costs as the primary benchmarking method to support decision-making in the sector and therefore the focus of the enhancements is on unit cost benchmarking. The results, aim to achieve two main goals:

1. Ensure that the unit cost metrics reflect the underlying business drivers of the costs themselves
2. Have the results of the unit cost models enable accurate comparability of unit costs between distributors

The OEB updates its APB report annually and in 2023, published a new APB report for unit cost calculations with updated unit cost results for 2022.

THI has tallied its average results for 2019 to 2022 in the table below and discusses the results following the table.

Table 10 – APB Benchmarking Analysis

Tillsonburg Hydro Inc.					
	2021	2022	Variance	Average Actual Cost	Industry Average
1. Billing O&M	47.1	51.7	4.7	60.2	26.4
2. Metering O&M	10.4	8.3	-2.1	11.7	14.0
3. Vegetation Management O&M	17.6	17.6	0.0	23.3	67.8
4. Lines O&M	1,551.0	1,328.2	-222.8	1,560.1	1,042.1
5. Stations O&M	N/A	N/A	N/A	N/A	1,399.1
6. Poles, Towers O&M	3.8	2.7	-1.1	7.5	11.6
7. Stations CAPEX	N/A	N/A	N/A	N/A	3,234.9
8. Poles, Towers CAPEX	4,466.7	4,953.2	486.5	4,809.9	24,157.9
9. Line Transformers CAPEX	4,251.8	9,139.5	4,887.7	8,014.3	16,976.2
10. Meters CAPEX	17.3	12.7	-4.7	17.0	136.4

1. Billing O&M

Billing includes costs related to billing for water & sewer charges on behalf of Oxford County. These costs are recovered in revenues.

2. Metering O&M

THI's metering performance is nearly on par with the industry average.

3. Vegetation Management O&M

THI services an urban area which requires less vegetation management than some rural areas and work is completed in house, reducing third party costs. THI notes that the percentage of underground infrastructure is higher than other LDCs.

4. Lines O&M

The higher percentage of underground infrastructure contributes significantly to elevated operation and maintenance costs for THI. Underground cables and equipment require more labor-intensive maintenance due to challenges such as excavation for repairs, locating faults, and mitigating environmental factors like moisture ingress and soil movements. Access constraints, including traffic management and permitting processes for working in public areas, also add to operational costs. Furthermore, underground infrastructure involves specialized and often costlier materials, equipment, and safety measures compared to overhead lines. The age of the underground assets is another factor, as older systems may demand more frequent maintenance and replacements, increasing overall expenditures.

5. Stations O&M

N/A.

6. Poles, Towers O&M

Lower average due to a higher percentage of underground infrastructure.

7. Stations CAPEX

N/A.

8. Poles, Towers CAPEX

THI's service territory is small in comparison to other utilities. As such, the pole replacement program is manageable. THI conducts annual pole testing completing the entire service area every three years. On average, THI replaces 20 poles per year.

9. Line Transformers CAPEX

THI follows a "run to failure" strategy for transformers, maintaining adequate inventory levels for replacements, which helps manage costs. Additionally, THI conducts premature failure reviews for transformers to assess if they can be repaired and returned to service, further optimizing maintenance expenses.

10. Meters CAPEX

THI follows Measurement Canada standards, reverifying meters and returning passing meters back into service.

1.6. FINANCIAL INFORMATION

THI's financial performance is listed in Table 12 below, and since the last Cost of Service in 2013 has achieved an average income of \$468K over the years 2021 and 2022. The most recent financial statements were prepared under MIFRS accounting standards and are presented in Appendix C of this exhibit.

Table 12 - Return on Equity Table

	2019	2020	2021	2022	2023
2013 Board Approved	8.98%	8.98%	8.98%	8.98%	8.98%
Actual Achieved	4.74%	2.42%	1.43%	-0.32%	-0.51%

THI does not have Rating Agency Reports, Prospectuses, information circulars, etc. for recent and planned public issuances.

THI did not undergo a change in tax status, nor does it have any existing accounting orders and as such, does not deviate from these orders, as well as any departures from the USoA Accounting Standards

THI does not have any affiliate or conduct non-distribution businesses, so there is no need to segregate activities from rates.

APPENDIX A – 2024 BUSINESS PLAN



2024-2025 BUSINESS PLAN

Tillsonburg Hydro Inc.

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1. Executive Summary

Tillsonburg Hydro Inc. (“THI”) is a fully licensed distributor of electricity under distribution license ED-2022-0026 issued by the Ontario Energy Board (the “OEB” or the “Board”) under the Ontario Energy Board Act, 1998 (the “Act”).

Tillsonburg Hydro Inc. is 100% owned by the Town of Tillsonburg and operates as a regulated company under the auspices of the Ontario Energy Board. THI serves more than 7,500 customers in the Town of Tillsonburg.

THI develops and manages an electrical distribution network in the City/Town region, specifically the town of Tillsonburg, and delivers electricity to five customer classes via its distribution system: residential, commercial (small and large general service classes), street lighting and unmetered scattered loads. THI earns income based on fixed and volumetric service charges for the distribution of this electricity. The service charges are set through a periodic rate-making process via applications to the OEB.

The utility’s current rates were based on an OEB approved operating revenues of \$3,234,015, which was adjusted for a Price Cap Index (inflation) in the years 2014 to 2023. THI’s actual operating revenues are in the amount of \$3,977,208. The revenues are mainly used to;

- ✓ Maintain its Substation and Feeder performance.
- ✓ Maintain its underground distribution assets.
- ✓ Maintain its system demand and critical loading issues.
- ✓ Support its system maintenance activities and priorities.
- ✓ Support its reliability statistics and observations.
- ✓ Support future maintenance recommendations.
- ✓ Support future capital budget recommendations.

1.1. Mission

Our mission is to optimize value for all stakeholders by pioneering innovative solutions. We are dedicated to providing safe, reliable, and environmentally conscious electricity distribution services that are both cost-effective and dependable.

1.2. Strategic Goals and Initiatives (result)

THI has identified four key areas of focus that supports its mission:

- ✓ Promoting safe and efficient practices in the supply, delivery, education and use of energy.
- ✓ Create an atmosphere for employees that promotes empowerment and commitment to the THI mission.
- ✓ Focus on transparent, responsible and fiscally sound leadership.
- ✓ Respond to our customer, community and industry trends while seeking excellence and continuous improvement in all business areas.

Objectives (steps to get to the result)

THI plans on achieving its strategic goals by setting and meeting the following objectives:

- ✓ Corporate & Social Responsibility: Committed to being a socially, financially and environmentally sustainable company.
- ✓ Leadership Responsibilities: THI works to achieve its Mission, Vision and Values through strategic direction, targeted outcomes and ethical practices consistent with all statutory and regulatory requirements.
- ✓ Customer Care: Enhance customer engagement by seeking feedback and monitoring customer satisfaction.
- ✓ Reliability: Maximize system performance utilizing best practices for asset management to align with customer needs, industry practices and corporate goals.
- ✓ Financial: Maximize value to our stakeholders through responsible financial management and industry best practices to improve efficiencies and reduce costs to our rate payers.
- ✓ High Performance Teams: Promote a culture that will retain and attract high performance talent that will maximize Corporate and Board performance.
- ✓ Risk Management: Continue to identify and manage risks within the changing digital environment and leverage technology to enhance our operations and service delivery.

2. Strategy and Implementation Summary

2.1. SWOT Analysis

The A SWOT analysis is a strategic planning tool used to identify and evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in running an organization. It involves identifying internal factors (Strengths and Weaknesses) that are within the organization's control and external factors (Opportunities and Threats) that may impact the organization's ability to achieve its objectives. SWOT analysis helps THI develop strategies to capitalize on strengths, minimize weaknesses, leverage opportunities, and mitigate threats.

2.2. Strengths

Despite being a small utility operating in a small town, THI has several notable strengths. The utility places a strong emphasis on serving its customers and the local community, striving to meet their needs and priorities. Furthermore, THI takes a forward-looking approach, proactively adapting to industry trends and embracing innovative solutions. The company also prides itself on delivering value to its customers while maintaining financial health and sustainability. By leveraging its strengths as a nimble, customer-focused, and financially prudent utility, THI aims to provide reliable and cost-effective electricity distribution services to the community it serves.

2.3. Weaknesses

THI faces several key challenges in its operations. One significant challenge is high employee turnover, which can disrupt operations and lead to knowledge gaps. Another pressing issue involves managing unexpected costs that are beyond the utility's control, such as unforeseen maintenance expenses or fluctuations in material and labor costs. Effectively addressing these challenges is crucial for the utility to maintain operational efficiency, retain institutional knowledge, comply with regulations, and control costs for its customers.

2.4. Opportunities

THI has an opportunity to explore collaborations with other utilities in order to share costs and achieve greater operational efficiencies. By forming strategic partnerships and leveraging economies of scale, THI could potentially reduce expenses associated with various aspects of its operations, such as procurement, training, and shared services. Collaborating with other utilities could enable cost-sharing for initiatives like system upgrades, technology implementations, and resource pooling. This approach could be particularly beneficial for a smaller utility like THI, allowing it to access resources and expertise that may be challenging to develop independently. Pursuing collaborative opportunities with industry peers could help THI optimize its cost structure while maintaining high service standards for its customers.

2.5. Threats

THI faces several significant threats that could impact its operations and performance. One major threat is maintaining reliable service delivery, as aging infrastructure and external factors like severe weather events can disrupt the electricity distribution system. Effective succession planning is another challenge, as the utility needs to ensure a smooth transition of knowledge and expertise when experienced employees retire or leave the organization. Additionally, THI faces the threat of increasing regulatory requirements from the Ontario Energy Board (OEB), which could impose additional compliance obligations and associated costs. Failure to adequately address reliability concerns, succession planning deficiencies, or new regulatory mandates could result in service interruptions, operational inefficiencies, and financial strain for the utility. Proactively mitigating these threats through strategic investments, workforce development, and regulatory compliance is crucial for THI to maintain its position as a trusted and efficient electricity distributor.

3. Strategic Objectives

3.1. Safety

Ensuring health and safety remains a top priority for THI. We offer comprehensive training on safe work practices to all employees, aligning with industry standards. Our commitment extends to fostering a safety culture among employees, customers, and the community, both within and beyond the workplace. We constantly explore innovative approaches to enhance safety communication and awareness.

3.2. Customer Focus

The role of customers in the electricity industry is rapidly evolving, and utilities that recognize and cater to the diverse needs of their customer base will emerge as leaders in this increasingly customer-centric environment. Investing in the necessary skills, culture, technology, and practices to harness these differences will be crucial for distinguishing leading utilities from the rest.

At THI, we are committed to adapting and customizing our service delivery methods to meet the unique needs of individual customers. By leveraging cutting-edge technology, we aim to enhance the customer experience and improve operational flexibility, ensuring a seamless and personalized interaction with each of our customers.

Our utility has access to advanced tools that enable us to understand and engage with our customers on a personalized level. Through the utilization of big data analytics, evolving social media platforms, and mobile technology, we can anticipate customer needs more accurately, resulting in a smoother and more tailored customer experience. This customer-centric approach

positions us as a forward-thinking utility, prepared to meet the evolving demands of the electricity industry and our valued customers.

3.3. Operational Effectiveness

We will continue to capitalize on the advantages of collaboration within the industry, actively engaging with the Electricity Distributors Association and leveraging the synergies offered by our membership. Additionally, we will maintain an open dialogue with the Ontario Energy Board, stakeholders, and peer utilities to develop and share best practices, fostering a collaborative environment that drives continuous improvement.

Our utility remains committed to exploring areas within our control to reduce or curtail costs, ensuring a more efficient utilization of resources. We will prioritize the proper maintenance of our infrastructure by implementing our comprehensive 2024-2028 Distribution System Plan, complemented by our annual Distribution Maintenance Program.

Recognizing the invaluable role of our workforce, we will invest heavily in our staff and rely on their expertise and dedication to help us accomplish our goals. This commitment will be realized through the following initiatives:

- Fostering open communication to keep our employees well-informed and engaged.
- Clearly articulating our expectations and reinforcing the importance of each individual's contribution to the organization.
- Providing our people with the necessary information, tools, equipment, standardized policies and procedures, and training opportunities to support their success.
- Implementing a pay-for-performance model for the management team, aligning their compensation with their performance and the overall performance of the company.
- Continuing to execute our succession planning processes, ensuring a seamless transition of knowledge and leadership within the organization.
- By embracing collaboration, optimizing resource utilization, maintaining infrastructure integrity, and investing in our talented workforce, we are well-positioned to deliver exceptional service and value to our customers while driving sustainable growth for our utility.

3.4. Financial Performance

We are dedicated to ensuring financial sustainability through rigorous efficiency assessments and the prudent management of costs.

Our goal is to consistently rank among the top-performing utilities in terms of cost performance within the OEB's benchmarking reports.

While prioritizing fairness and affordability for our customers, we strive to meet or surpass our expected rate of return.

To maintain our competitive edge, we regularly analyze data from the OEB Yearbook, OEB Activity & Program-based Benchmarking, and track our performance trends year-over-year.

Exploring viable avenues for expanding our regulated distribution business remains a key focus area for us.

4. Economic Overview and Customer Description

4.1. General Overview

THI continues to meet customer expectations for safety, reliability, customer service, and cost. Consideration has been given regarding the expected development of the Town of Tillsonburg and future requirements for serving the anticipated growth in both load and generation customers.

THI is owned by the Town of Tillsonburg (sole shareholder) and operates as a “virtual” utility with a Master Services Agreement (MSA) in place with the Town to provide resources including facilities, fleet, IT, and personnel. The close working relationship with the Town has allowed for synergies including the efficient use of resources while allowing THI to focus on providing a safe and reliable distribution system.

Customer surveys, completed in 2016, 2019, 2021, and 2023 consistently give THI high overall satisfaction ratings, as well as support for the pro-active asset replacement strategy currently in use that delivers a level of system reliability preferred by a majority of customers.

Customer growth is expected to be approximately 2% based on data from 2015-2022. and the existing supply (four 27.6 kV feeders from the Tillsonburg Transformer Station) should be adequate to meet future growth in load and generation, subject to upstream constraints (at the transmission level). Investment in System Access projects is expected to be similar to previous years while there will be some spending on System Service projects as investments are made to modernize the grid and improve system reliability and increase operating flexibility.

4.2. Customer Description

THI's breakdown of customers by class is shown below (as of December 31, 2022)

Customer Class	Number of Customers/Connections
Residential	7,433
General Service < 50 kW	675
General Service 50 to 499 kW	73
General Service 500 to 1,499 kW	6
General Service >= 1,500 kW	2
Sentinel Lighting	112
Street Lighting	3,089
Unmetered Scattered Load	9

5. Performance Metrics and Future Plans

5.1. Pacific Economics Group (PEG) Report

From 2015-2021, THI has been in Group 3 of the PEG efficiency assessment report. As of 2022, THI was placed in Group 2 due to cost efficiencies. Despite having achieved an acceptable grouping, the THI continues to seek ways of reducing costs, finding efficiencies through

collaboration and cost-sharing ideas. In July 2016, THI sought to postpone its CoS rebasing from 2017 to 2018, which was subsequently approved. Following this, THI opted for the Annual Incentive Regulation (IR) process in its IRM applications. Since 2017, THI has been following the Annual IR path, applying a default stretch factor of 0.6% as per filing requirements. As of 2025, THI will transition to price cap IR for its IRM applications. This transition will save increase revenues by 0.45% (0.60% - 0.15%).

5.2. Scorecard Overview

In 2022, THI exceeded most of its performance targets set by the OEB. However, like many utilities in the province, aging distribution infrastructure remains a significant challenge. To address this issue, THI has developed a strategic plan to manage the renewal and growth of its distribution system in a cost-effective manner.

Throughout the year, the utility continued its vegetation control and line clearing activities to reduce the vulnerability of the distribution system to external factors, such as severe weather events, thereby improving reliability for customers.

THI remains committed to providing value to its customers. The utility offers an interactive platform on its website that allows customers to monitor, understand, and better control their electricity consumption. Additionally, the company has been continuously improving its website to enhance the customer experience, and it has increased its social media presence to provide immediate updates on outages and news.

THI actively engages with its customers regularly to ensure that it understands their needs and delivers the best value for their investment.

Looking ahead, THI will continue its efforts to improve its overall performance results compared to previous years. This improvement is expected due to ongoing investments in infrastructure and customer service initiatives.

Scorecard - Tillsonburg Hydro Inc. 8/30/2023

Performance Outcomes	Performance Categories	Measures	2018	2019	2020	2021	2022	Trend	Target	
									Industry	Distributor
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	New Residential/Small Business Services Connected on Time	97.96%	99.56%	100.00%	99.51%	95.34%	⬆️	90.00%	
		Scheduled Appointments Met On Time	100.00%	99.44%	99.30%	98.21%	99.33%	⬆️	90.00%	
		Telephone Calls Answered On Time	88.18%	84.59%	0.00%	0.00%	98.68%	⬆️	65.00%	
	Customer Satisfaction	First Contact Resolution	98.62	97.7%	97.2	97.7%	94.7%	⬆️		
		Billing Accuracy	99.73%	99.83%	99.80%	97.60%	99.70%	⬆️	98.00%	
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved, and distributors deliver on system reliability and quality objectives.	Safety	Customer Satisfaction Survey Results	satisfied	satisfied	satisfied	Satisfied	Satisfied	⬆️		
		Level of Public Awareness	81.60%	83.70%	83.70%	83.70%	86.00%	⬆️		
		Level of Compliance with Ontario Regulation 22/04 ¹	C	C	C	C	C	⬆️		C
	System Reliability	Serious Electrical Incident Index	0	0	0	0	0	⬆️		0
		Number of General Public Incidents Rate per 10, 100, 1000 km of line	0.000	0.000	0.000	0.000	0.000	⬆️		0.000
	Asset Management	Average Number of Hours that Power to a Customer is Interrupted ²	1.83	0.96	1.69	0.53	0.95	⬆️		1.22
		Average Number of Times that Power to a Customer is Interrupted ²	2.28	0.56	1.02	0.37	0.99	⬆️		1.16
	Cost Control	Distribution System Plan Implementation Progress	In progress	In-progress	In-progress	In-progress	In-progress	⬆️		
		Efficiency Assessment	3	3	3	3	2	⬆️		
		Total Cost per Customer ³	\$718	\$748	\$695	\$688	\$703	⬆️		
Public Policy Responsiveness Distributors deliver on obligations mandated by government (e.g. in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	Connection of Renewable Generation	Total Cost per Km of Line ³	\$37,620	\$40,406	\$40,648	\$38,137	\$39,997	⬆️		
		Renewable Generation Connection Impact Assessments Completed On Time ⁴	100.00%	33.33%	100.00%			⬆️		
Financial Performance Financial viability is maintained, and savings from operational effectiveness are sustainable.	Financial Ratios	New Micro-embedded Generation Facilities Connected On Time		100.00%		100.00%	100.00%	⬆️	90.00%	
		Liquidity: Current Ratio (Current Assets/Current Liabilities)	1.64	2.82	2.16	1.49	1.12	⬆️		
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio	0.07	0.31	0.42	0.41	0.40	⬆️		
		Profitability: Regulatory Return on Equity	8.98%	8.98%	8.98%	8.98%	8.98%	⬆️		
		Deemed (included in rates) Achieved	5.10%	4.74%	2.42%	1.43%	-0.32%	⬆️		

Legend: 5-year trend (up/down/flat), Current year (green/red), target met (green circle), target not met (red circle)

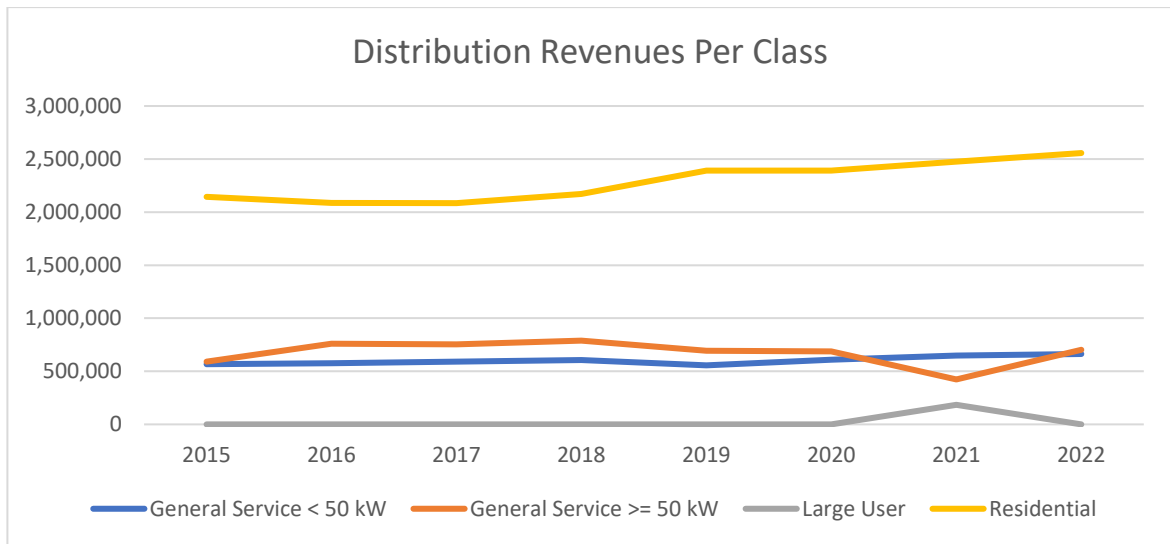
1. Compliance with Ontario Regulation 22/04 assessed: Compliant (C); Needs Improvement (NI); or Non-Compliant (NC).
 2. An upward arrow indicates decreasing reliability while downward indicates improving reliability.
 3. A benchmarking analysis determines the total cost figures from the distributor's reported information.
 4. Value displayed for 2021 reflects data from the first quarter, as the filing requirement was subsequently removed from the Reporting and Record-keeping Requirements (RKR).

5.3. **Distribution Revenue**

Over the past 5 years, THI has experienced a 2.7% increase in its overall distribution revenues. This moderate increase can be attributed to two primary factors:

1. An increase in the number of customers served by the utility, resulting in a larger customer base contributing to the overall revenue.
2. Annual rate increases approved by the Ontario Energy Board (OEB) through the incentive regulation mechanism, which allows utilities to adjust their distribution rates within a prescribed range to account for changes in costs.

While the growth in customer numbers has played a role, the incremental annual rate increases granted by the OEB appear to be the main driver behind THI's 2.7% rise in distribution revenues over the past five years.



6. Capital Spending

6.1. **Key Objectives for Capital Expenditures**

- Maintain the safety of the distribution system for both the public and THI staff - (System Renewal)
- Meet mandated service obligations including new customer connections, meter maintenance, facility relocations - (System Access)
- the efficient replacement of assets at risk of failure as guided by the Asset Condition Assessment (ACA) and Asset Management Plan (AMP) – (System Renewal)
- Meet customer expectations as informed by customer engagement activities.
- Ensure adequate capacity and reliability for new & existing customers – (System Service)
- Invest adequately in tools, equipment and software to enable the efficient execution of the above noted objectives – (General Plant)
- Achieve overall, long-term costs efficiency improvements & cost savings.

6.2. 2024 Capital Budget

THI's Distribution System Plan developed in 2023/2024, forms the basis for the utility's capital and maintenance programs. The updated Distribution System Plan reflects the latest performance priorities of the distribution system. It serves as a placeholder for the longer-term projects recommended from the condition (age risk ratings) assessments.

Priorities for 2024 are listed below. The budget development includes the following:

Category	Project Name	2024 Budget
System Access	New Connections	157,968
System Renewal	Meter Replacement	26,027
System Renewal	Lisgar Heights Phase III - Distribution	572,451
System Renewal	Lisgar Heights Phase III - Servicing	205,477
System Renewal	Fairgrounds Conversion	54,212
System Renewal	Townline Rd - Feeder Upgrade PH I	301,372
System Renewal	End of Life Poles	52,695
System Renewal	Vintage UG Replacements - T-Splice (ClearValley Dr)	34,734
System Renewal	Porcelain Switch & Insulator Changes	16,278
System Service	William St UG Conversion	128,094
System Service	QTL Rd Reconductoring	124,265
System Service	John Pound Rd PHI - Feeder Upgrade	239,286
System Service	John Pound Rd PHII - Feeder Tie	95,674
System Service	Valleyview Dr - Primary Extension	21,978
General Plant	Tools, Shop & Garage Equipment	30,000
General Plant	Furniture and office equipment replacement	25,000
General Plant	Computer Software - Job Costing module for GP	20,000
Total		2,105,510

2024-2028 Year Capital Planning to Aging Infrastructure

THI's Board of Directors has reviewed the 2024-2025 budget of the distribution plan to ensure that THI's asset management is up to date and to replace its transformers that have reached the end of their useful life.

The focus for 2024 and 2025 is to replace aging assets in an effort to reduce trouble calls, and also achieve its best performance in terms of reliability of its distribution system for the years 2024 and beyond.

7. Operational Costs

THI's Operations strategy is to provide safe, reliable service at an appropriate level of quality throughout the licensed service areas.

THI continually reviews its business and operational goals against its workforce needs, its financial strength, and the impact on its customers. THI recognizes the importance and value of maintaining a skilled and engaged workforce, where all employees are customer-focused and enjoy working for the utility. THI analyzes its operation budget monthly to make sure that it does not stray far from its budgets, thus ensuring that its ROE stays within range of its approved ROE. The utility is very mindful that every dollar of increase in operating costs means that a dollar more is collected from the customers. Therefore, operational planning focuses mainly on efficiency and finding reductions wherever possible.

7.1. 2024 OM&A Budget

The operating and maintenance work primarily focuses on inspecting, testing, and supervising the distribution system and equipment, including transformers, and meters. This also covers planned maintenance projects like vegetation management and reactive work such as transformer repairs. The goal is to ensure better system reliability, a key initiative for us. Labor, materials, and contractor costs are included in the operating budget.

For billing, collecting, and meter reading, costs encompass overseeing the customer service department, staff labor, stationery, postage, billing system operating costs, meter reading, and smart metering. We are continuously exploring efficiencies to reduce costs while maintaining our customer-centric focus.

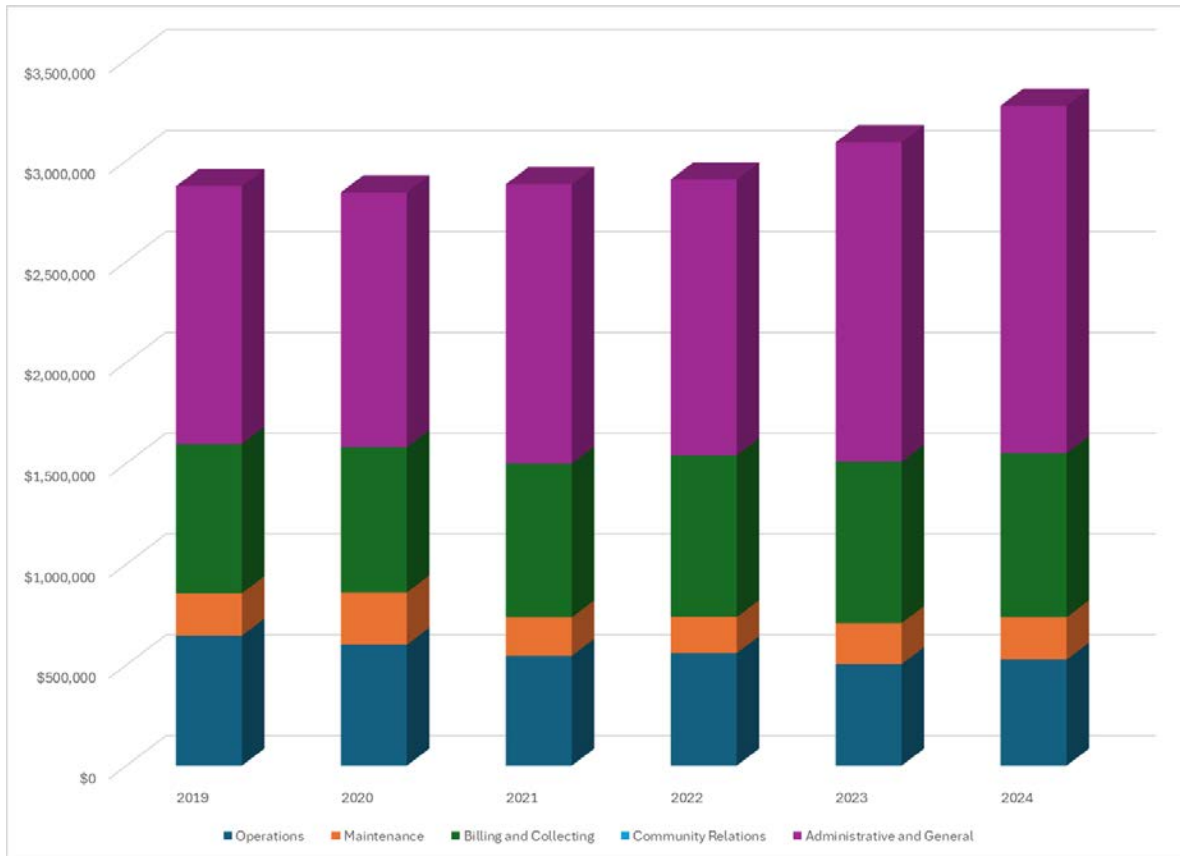
The community relations budget supports informational messages to customers, social media advertising, and participation in local events.

Administration costs cover the directors, president, CFO, finance and regulatory staff, labor, benefits, training, office maintenance, insurances, regulatory costs, association memberships, HR, legal, and auditing consultants. Our membership in various organizations like CHEC, EDA and ESA provides valuable collaboration, engineering standards, regulatory networking, and industry representation.

THI's operation, maintenance and administrative budget for 2024 is \$3.27M. THI has experienced several changes impacting its operating expenses over recent years. The full-time equivalent (FTE) count for management and executive positions increased to fill vacant and part-time roles, leading to higher direct costs for items like training and mileage. As well, cost of service expenses rose by \$35,000 in 2024. The number of directors was increased in 2023 to better represent shareholder interests, resulting in higher directors' compensation in 2024 after prior years' compensation was not indexed to inflation. Additionally, the utility faced a \$32,500 rent increase in 2024 due to a new building lease, coupled with insurance cost escalations in 2023 and 2024.

Table 1: 5 year OM&A plus Test Year

	2019	2020	2021	2022	2023	2024
Operations	\$644,867	\$600,165	\$545,201	\$558,349	\$503,729	\$525,582
Maintenance	\$210,034	\$258,503	\$189,919	\$178,192	\$203,359	\$209,849
Billing and Collecting	\$740,168	\$720,741	\$762,553	\$802,621	\$800,229	\$813,409
Community Relations	\$0	\$0	\$0	\$0	\$0	\$0
Administrative and General	\$1,278,057	\$1,263,432	\$1,385,362	\$1,367,591	\$1,583,612	\$1,723,389
Total	\$2,873,126	\$2,842,841	\$2,883,036	\$2,906,752	\$3,090,929	\$3,272,229
% Change (year over year)	-2.0%	-1.1%	1.4%	0.8%	6.3%	5.9%



8. Personal

THI maintains operational efficiency with a streamlined workforce. We prioritize skilled and trained employees and foster collaboration with other LDCs through partnerships with CHEC and EDA. As of the end of 2023, our full-time staff complement is projected to be 20, a figure we anticipate maintaining in the foreseeable future.

9. Financial Summary

9.1. *Capital Structure*

The OEB's deemed debt to equity capital structure is 60:40. THI deviates slightly from this with a structure of 57:43.

9.2. *Rate of Return*

THI earns a regulated return on its investments in the distribution system, as determined by the OEB. This return is set at a rate that allows the utility to meet its revenue requirement for developing distribution rates. Specifically, THI is permitted to earn a return on equity of 9.36% and to recover its OM&A costs to ensure efficient operations.

The regulated return on equity is calculated by dividing the regulated net income by the total rate base, which is the average value of property, plant, and equipment plus working capital. During the annual planning process, THI's management continuously explores opportunities for improvement, with the intent of achieving a reasonable return on equity within the regulatory framework.

In essence, the OEB-approved return on equity and the ability to recover OM&A costs form the basis for Orangeville Hydro to generate sufficient revenue through its distribution rates, enabling the utility to maintain and grow its distribution system while providing a fair return to its shareholders.

The actual Return on Equity for 2022 is determined to be (0.32)% (a further decline has been forecasted for 2023), which indicates an under earning when compared to the Board Approved 2013 rate of return of 8.98%. This indicates that a cost of service application is necessary to realign its costs with its rates.

10. Conclusion

The 2024 Budget ensures financial stability amidst inflationary uncertainties. Conservative assumptions are made regarding growth and inflation fluctuations. The business plan maintains financial consistency and aligns with operational goals, workforce needs, and customer impact. Revenue and expenses are carefully reviewed for accuracy and compliance with OEB standards, emphasizing service quality and reliability through prudent capital and operational expenditure.

THI strives to Institute a culture of continuous improvement in identifying areas where the effectiveness of the organization can be improved.

Over the past years, THI took steps to weave reliability and sustainability into all aspects of its operations – from the power supply to encouraging and helping customers incorporate green features into their homes and businesses. Even though THI is a small utility, planning is something it has always done well and will continue to do so in the coming years.

THI also set out to leverage technology to improve the customer experience. Since then, the utility has launched a series of technology enhancements to increase communication with its customers and upgrade its website to include capital projects and educational tools about the industry and regulatory processes.

THI will continue to monitor its business objectives to ensure that they are aligned with the OEB scorecard and actively drive cost reductions and productivity improvement.

Developing THI's Business Plan has allowed the management and executive team to think about how to plan and implement quick wins, mid-term improvements, and longer-term improvements.

Some of the self-assessment measures which informed THI's Business Plan include;

- ✓ Reviewing its mission statement to ensure that it informs the direction of the utility and serves as a guide for long-term growth/development.
- ✓ Detailing specific long-term goals and short-term objectives by developing an action plan for each goal and purpose.
- ✓ Reviewing and updated its company history. It is especially important to document the motivation (vision) of the utility and its shareholders.
- ✓ Reviewing its current management structure, including the roles and responsibilities of the management team and employees. In doing so, THI will review areas for improvement in the current management structure to better understand its obstacles.
- ✓ Analyzing its economic conditions to better understand its effect on business strategy – including consideration for load forecast, predicted capital and operational costs, resources.
- ✓ Analyzing its strengths and weaknesses to identify where it is the most vulnerable.

APPENDIX B – 2023 CUSTOMER SATISFACTION SURVEY



ADVANIS

for



2023 Customer Satisfaction Survey

March 2023

Deliverables

Advanis is pleased to provide **this report with results of the 2023 Customer Satisfaction study.**

- We include comparisons to previous years of the study, where applicable.

In addition to this report, you have access to **Advanis' Online Reporting Environment (ORE)** which allows you to:

- create charts and tables like those contained in this report
 - you will be able to do much more analysis than we had space for in this overall report (e.g., look at results comparing segments of the annual consumption index or the regions within your LDC, if applicable)
- review the verbatim responses to:
 - the open-ended question “Is there anything you would like your LDC to do to improve its services to you?”; and
 - questions where respondents could “specify” a response to one of your custom questions (if applicable).
 - Note that you can export the verbatim responses to Excel at the click of a button; and
 - search for key words or filter the results by different segments (e.g., customer type, region) or other questions in the survey.

To access the ORE, visit this link: portal.advanis.net and enter your username in the format `firstname_lastname`. If you've forgotten your password, there is a link to reset it on the login page. If you have any questions, please contact Gary.Offenberger@advanis.net.

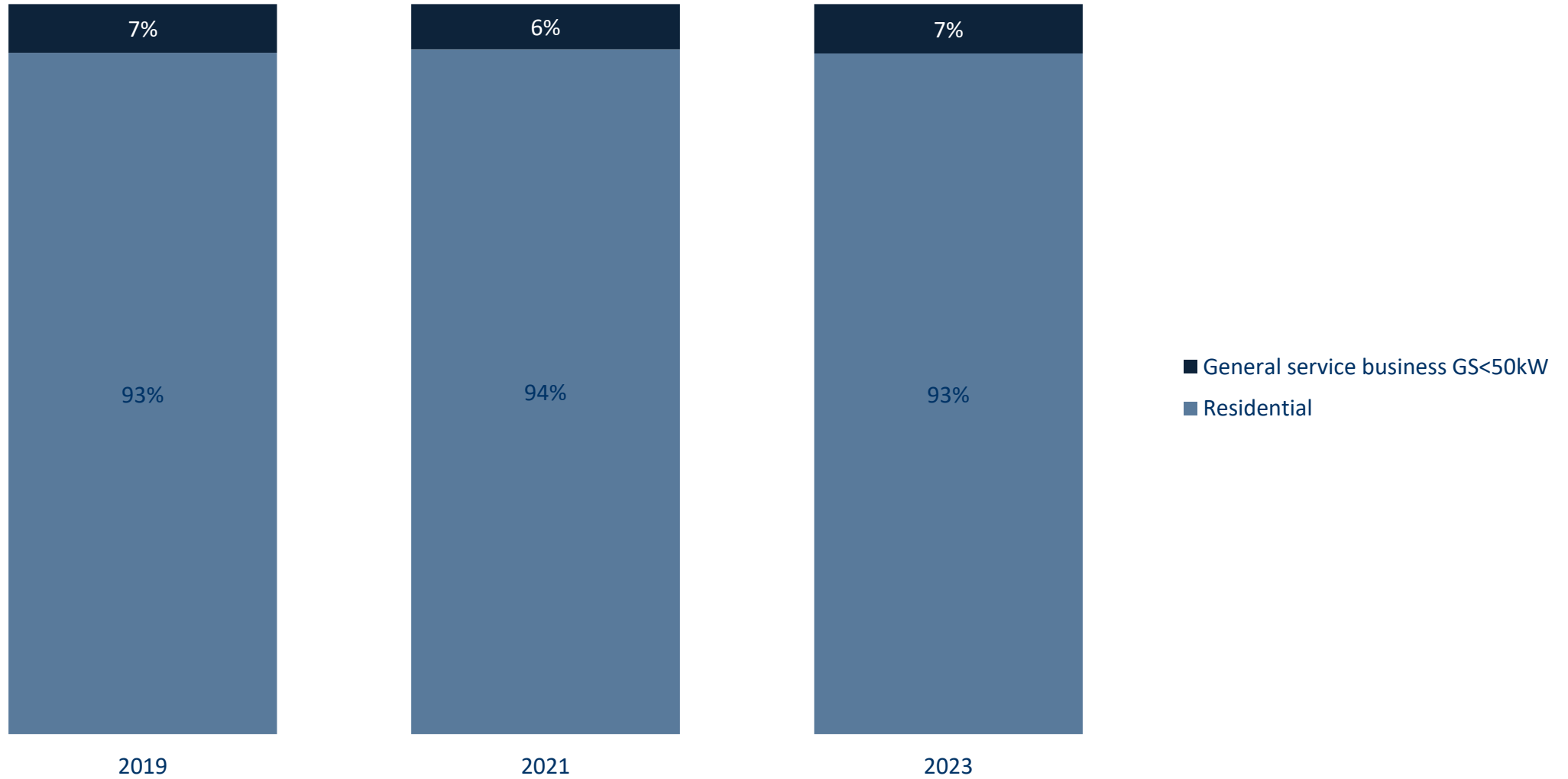
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Lead Consultant: Gary.Offenberger@advanis.net // 780.229.1140

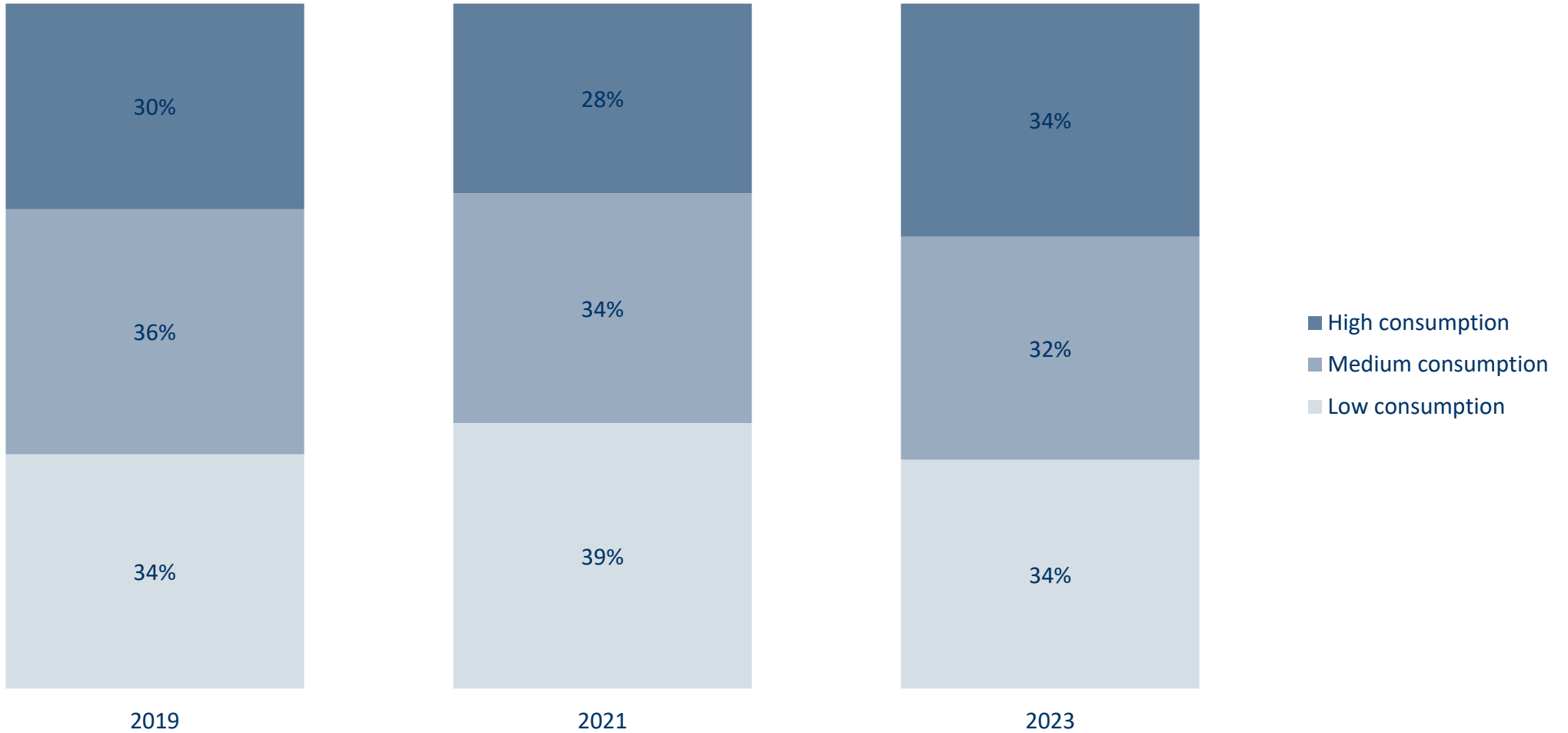
Customer (i.e., Survey Respondent) Profile

Customer Type - information provided by Tillsonburg Hydro



Weight: Aggregate weight for LDC based on customer_type
Filters: LDC: Tillsonburg Hydro

*Indexed score of annual consumption (Only have GS data for 2023 onwards) -
information provided by Tillsonburg Hydro*

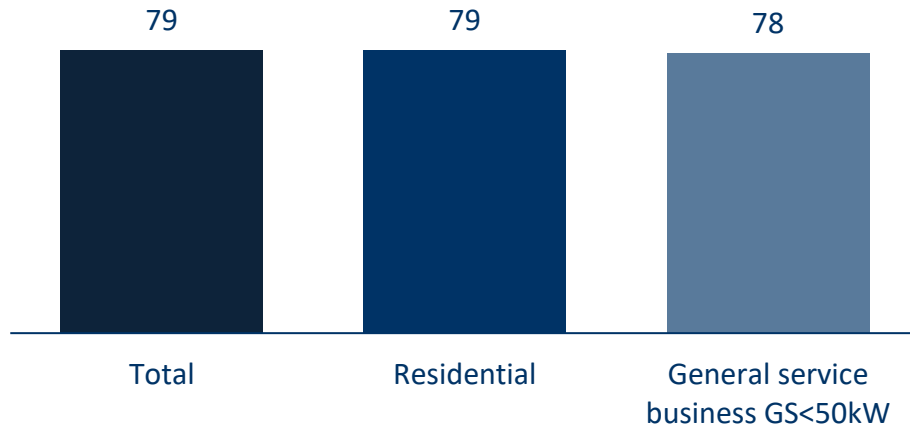


Weight: Aggregate weight for LDC based on customer_type
Filters: LDC: Tillsonburg Hydro

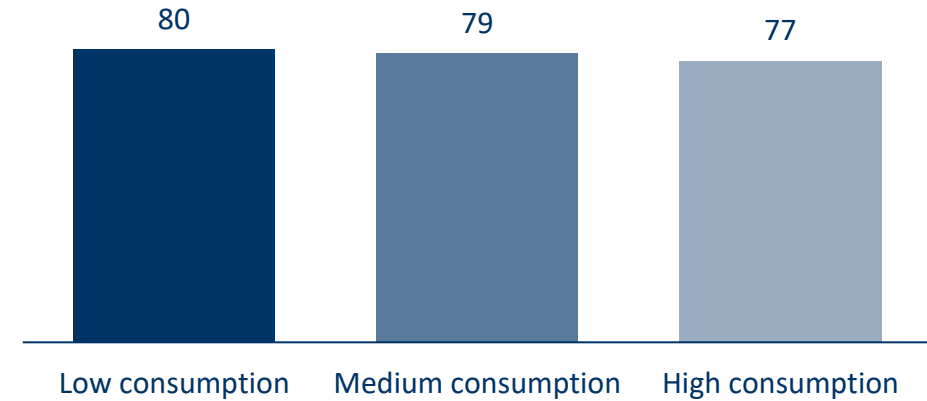
Customer Satisfaction Index Score – 2023 Results & Trend

Customer Satisfaction Index: Tillsonburg Hydro for 2023

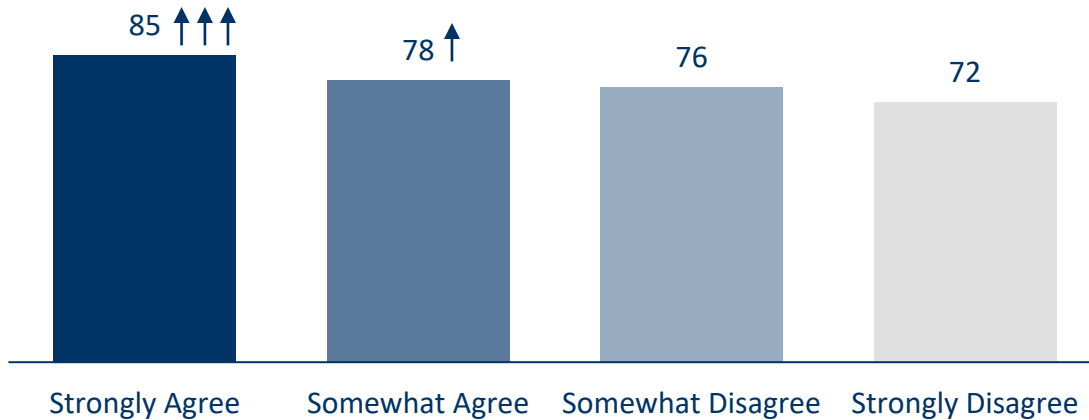
CSI Score – Total and by Customer Type



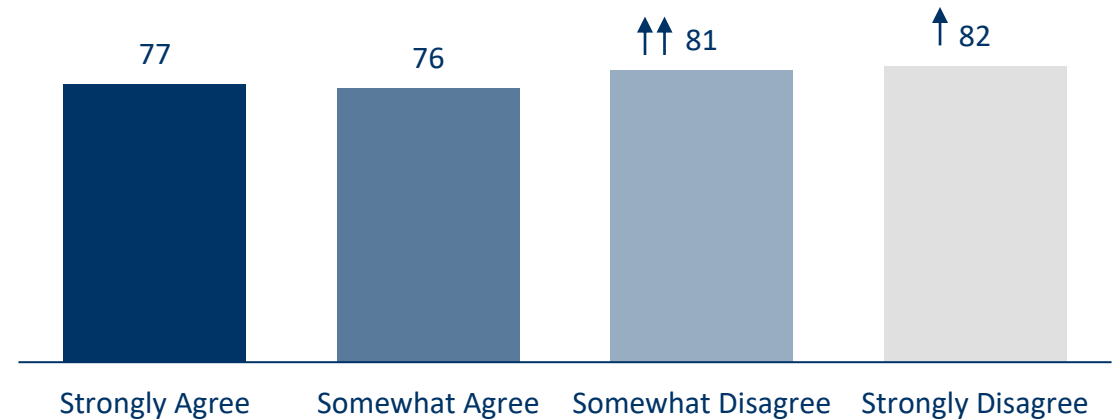
CSI Score by Annual Consumption Index



CSI Score for each segment of agreement with:
“Customers are well served by the electricity system in Ontario”



CSI Score for each segment of agreement with:
“The cost of my electricity bill has a major impact [on personal finances] OR [bottom line of organization]”



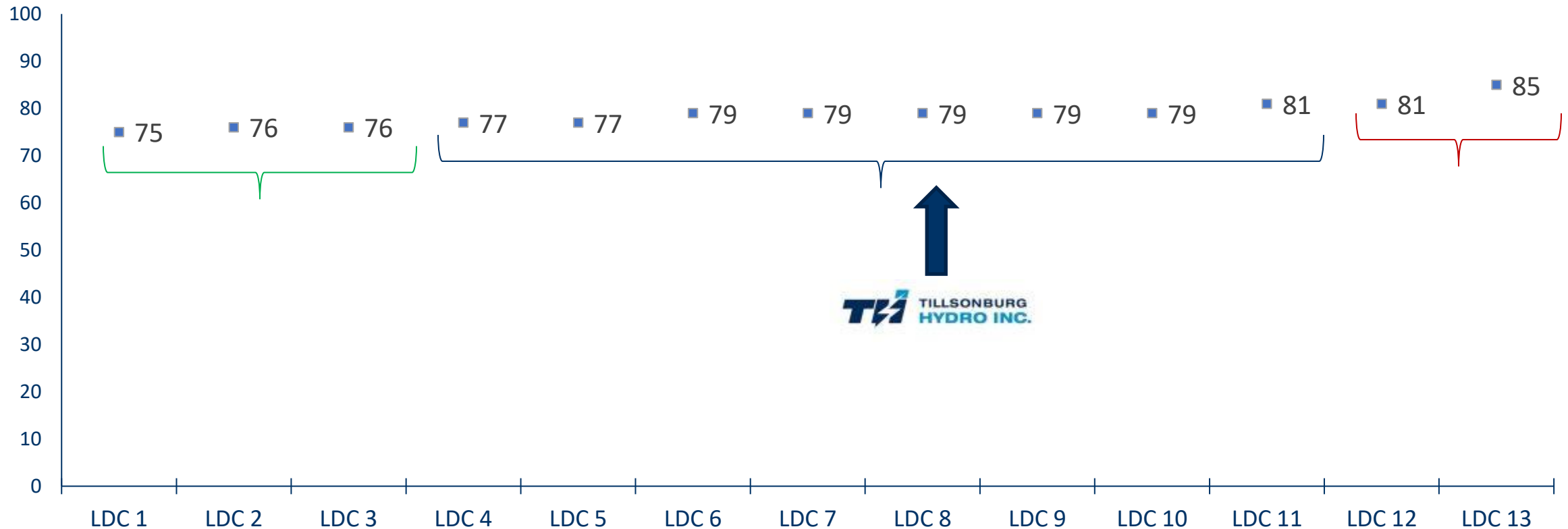
Weight: Aggregate weight for LDC based on customer_type

Filters: Year of Data Collection: 2023, LDC: Tillsonburg Hydro

Note: Arrows denote statistically higher than other segment(s) at 95% confidence level; sometimes an apparent difference is not statistically significant because of low base size in a segment

Customer Satisfaction Index: Compared to Other CHEC Members

- In 2023, Tillsonburg's score of 79 is *statistically* the same as that of 7 other LDCs.
- Tillsonburg's score is *statistically* higher than that of 3 other LDCs.
- Tillsonburg's score is *statistically* lower than that of 2 other LDC (the score of 81 for one of the LDCs is not statistically higher than Tillsonburg's).

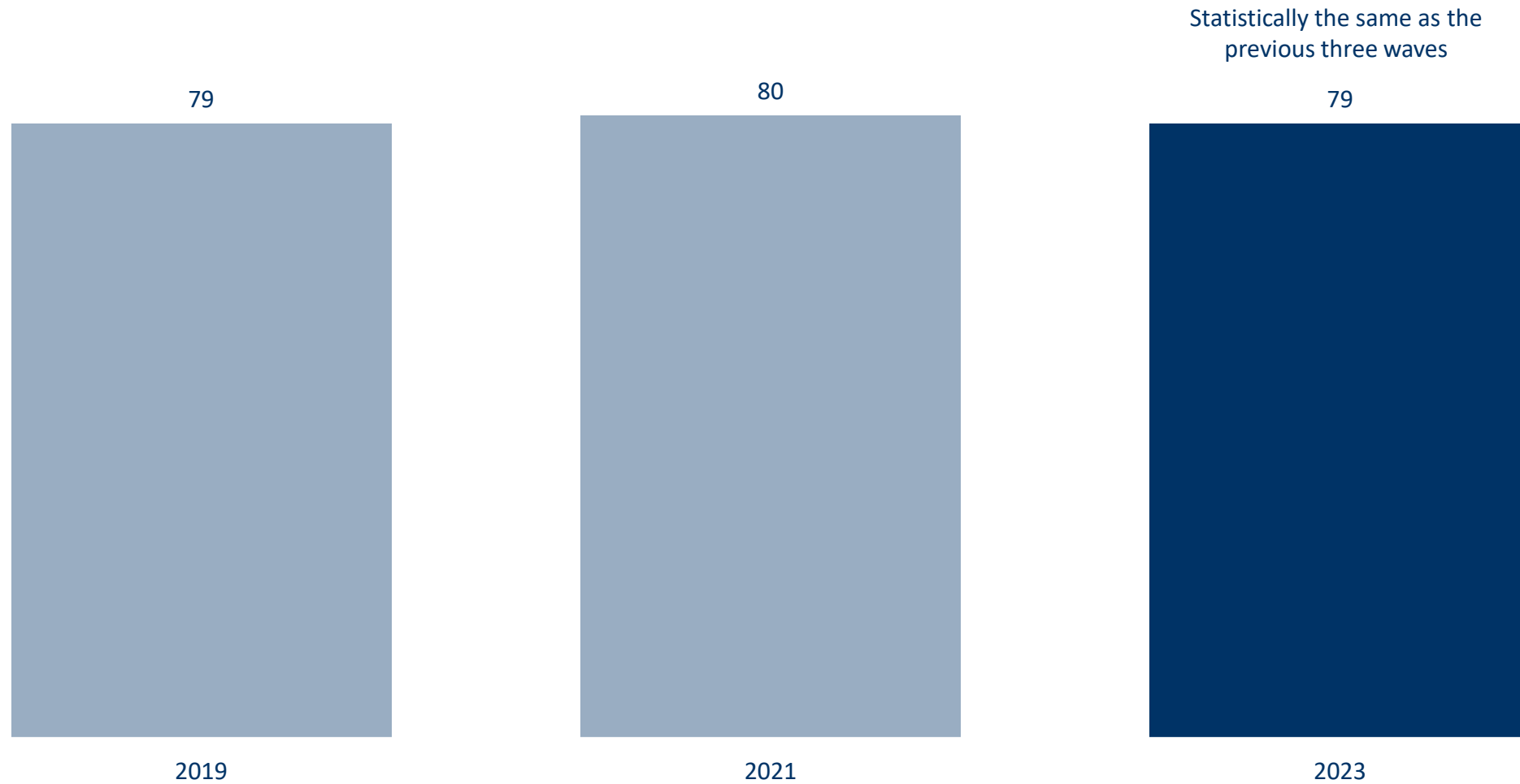


Weight: Aggregate weight for LDC based on customer_type

Filters: Year of Data Collection: 2023

Note: Statistical differences at 95% confidence level; sometimes an apparent difference is not statistically significant because of low base size in a segment

Tillsonburg Hydro's Customer Satisfaction Index by Year



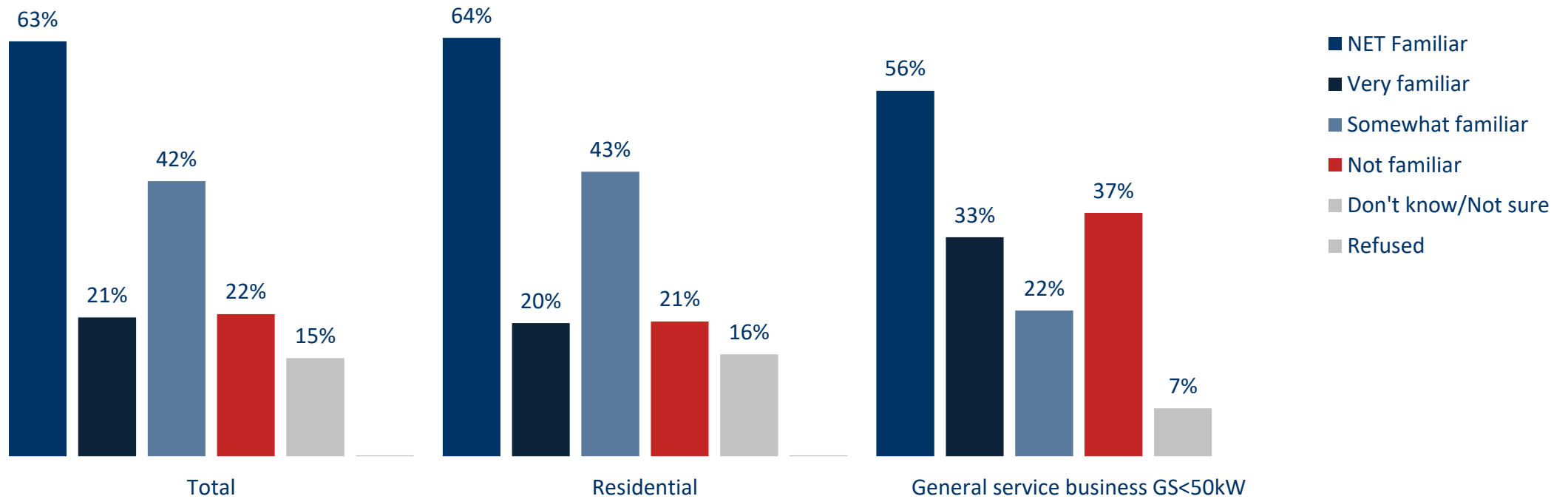
Weight: Aggregate weight for LDC based on customer_type

Filters: LDC: Tillsonburg Hydro

Note: Statistical differences at 95% confidence level; sometimes an apparent difference is not statistically significant because of low base size in a segment

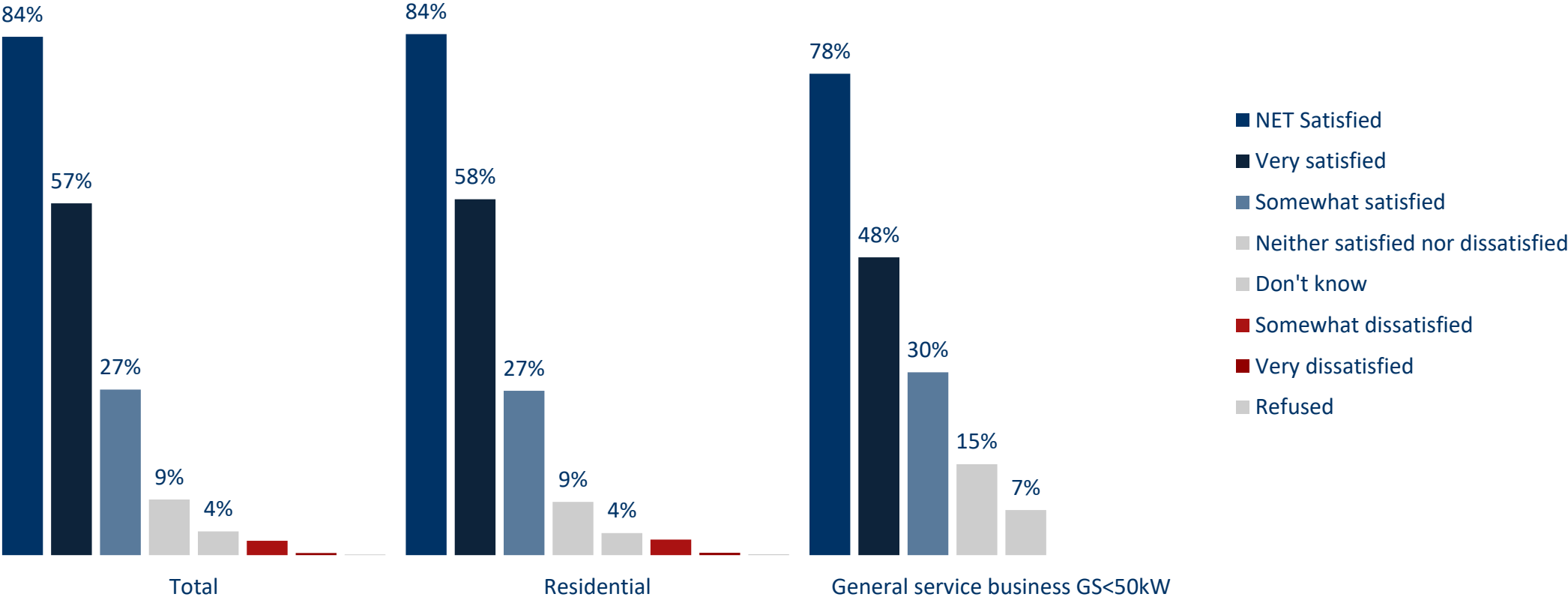
Core (OEB) Survey Questions – 2023 Results

How familiar are you with Tillsonburg Hydro, which operates the electricity distribution system in your community?



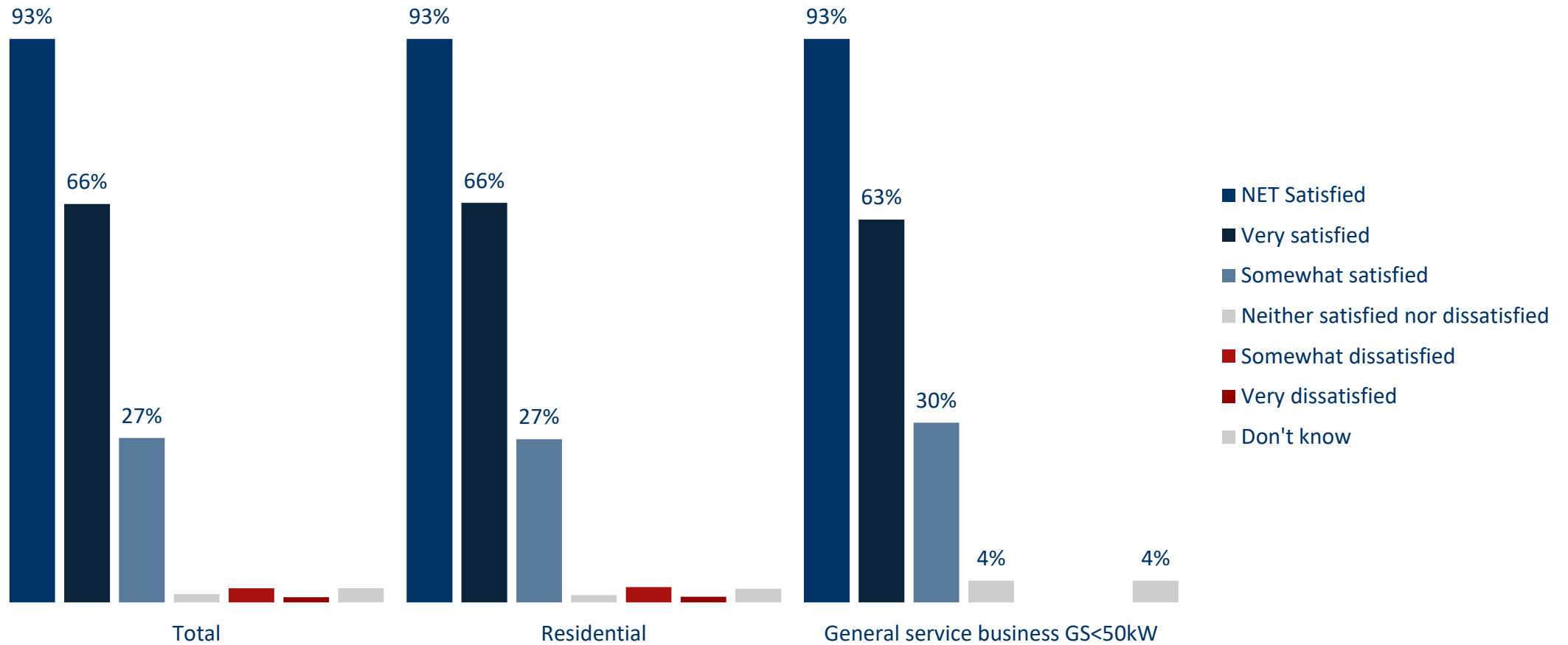
Weight: Aggregate weight for LDC based on customer_type
Filters: Year of Data Collection: 2023, LDC: Tillsonburg Hydro

Thinking specifically about the services provided to you and your community by Tillsonburg Hydro, OVERALL, how satisfied are you with the services that you receive?



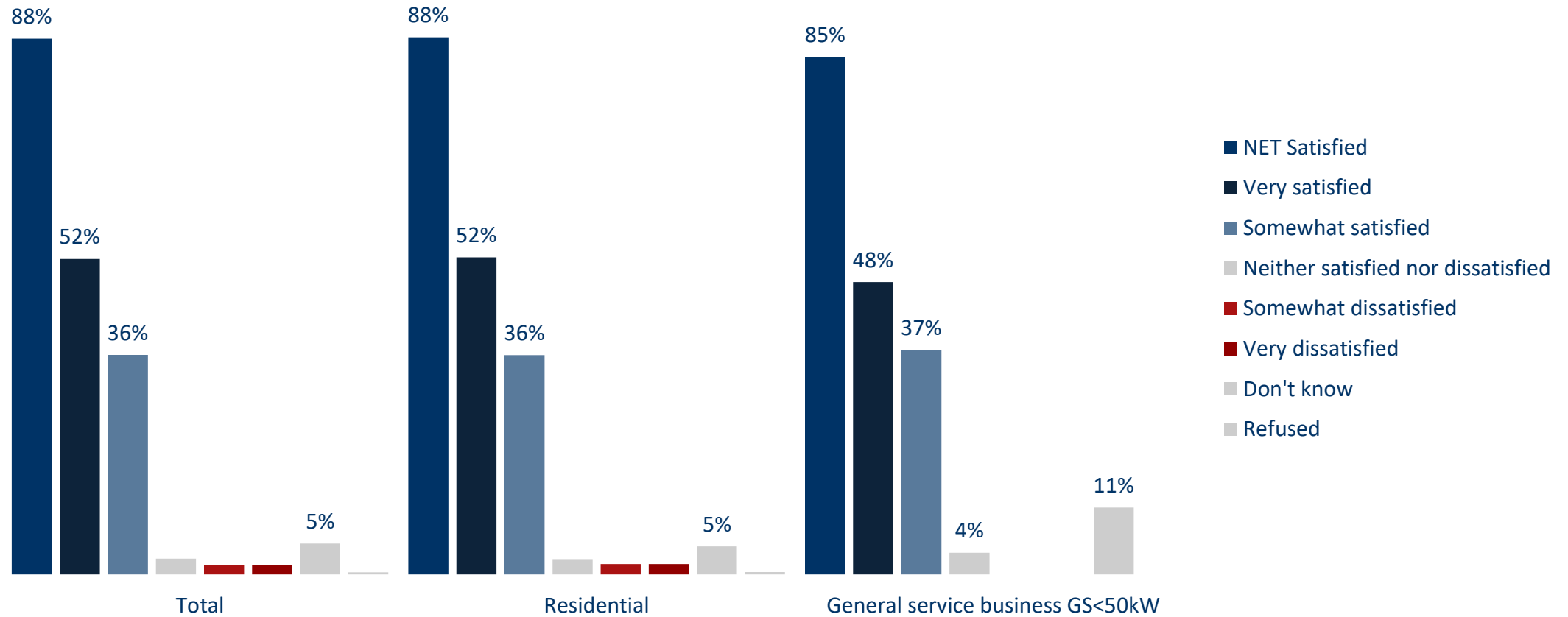
Weight: Aggregate weight for LDC based on customer_type
 Filters: Year of Data Collection: 2023, LDC: Tillsonburg Hydro

How satisfied are you with the electrical service that you receive from Tillsonburg Hydro - based on the RELIABILITY of your electrical service as judged by the number of outages you experience?



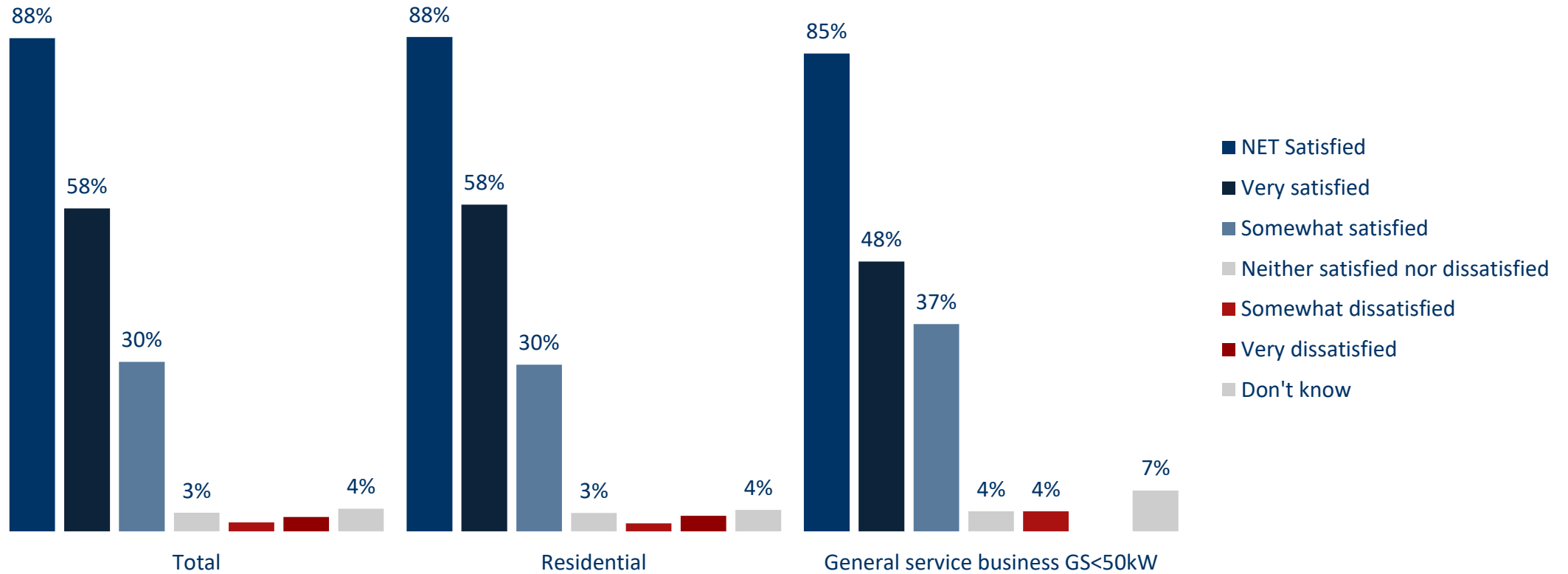
Weight: Aggregate weight for LDC based on customer_type
 Filters: Year of Data Collection: 2023, LDC: Tillsonburg Hydro

How satisfied are you with the electrical service that you receive from Tillsonburg Hydro - based on the amount of TIME IT TAKES TO RESTORE POWER when outages occur?



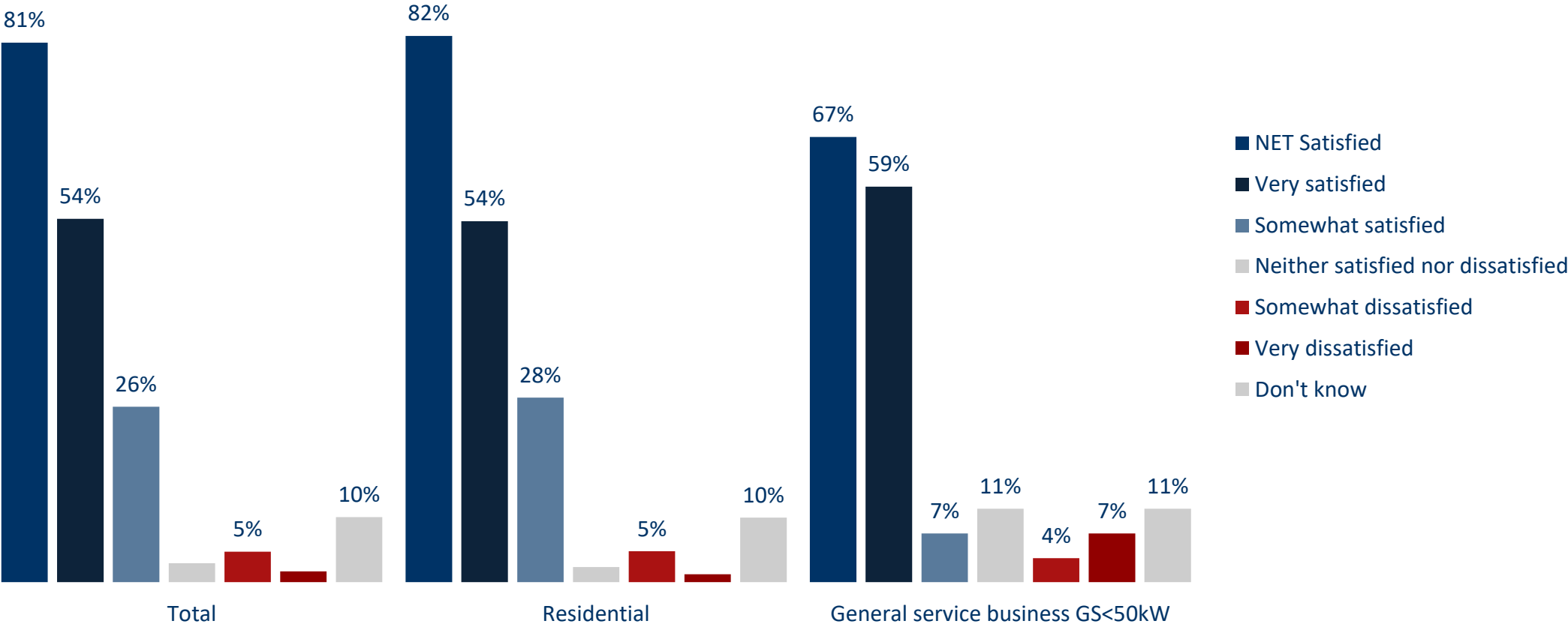
Weight: Aggregate weight for LDC based on customer_type
 Filters: Year of Data Collection: 2023, LDC: Tillsonburg Hydro

How satisfied are you with the electrical service that you receive from Tillsonburg Hydro - based on the QUALITY OF THE POWER delivered to you as judged by the absence of voltage fluctuations that can result in flickering/dimming of lights / an affect on



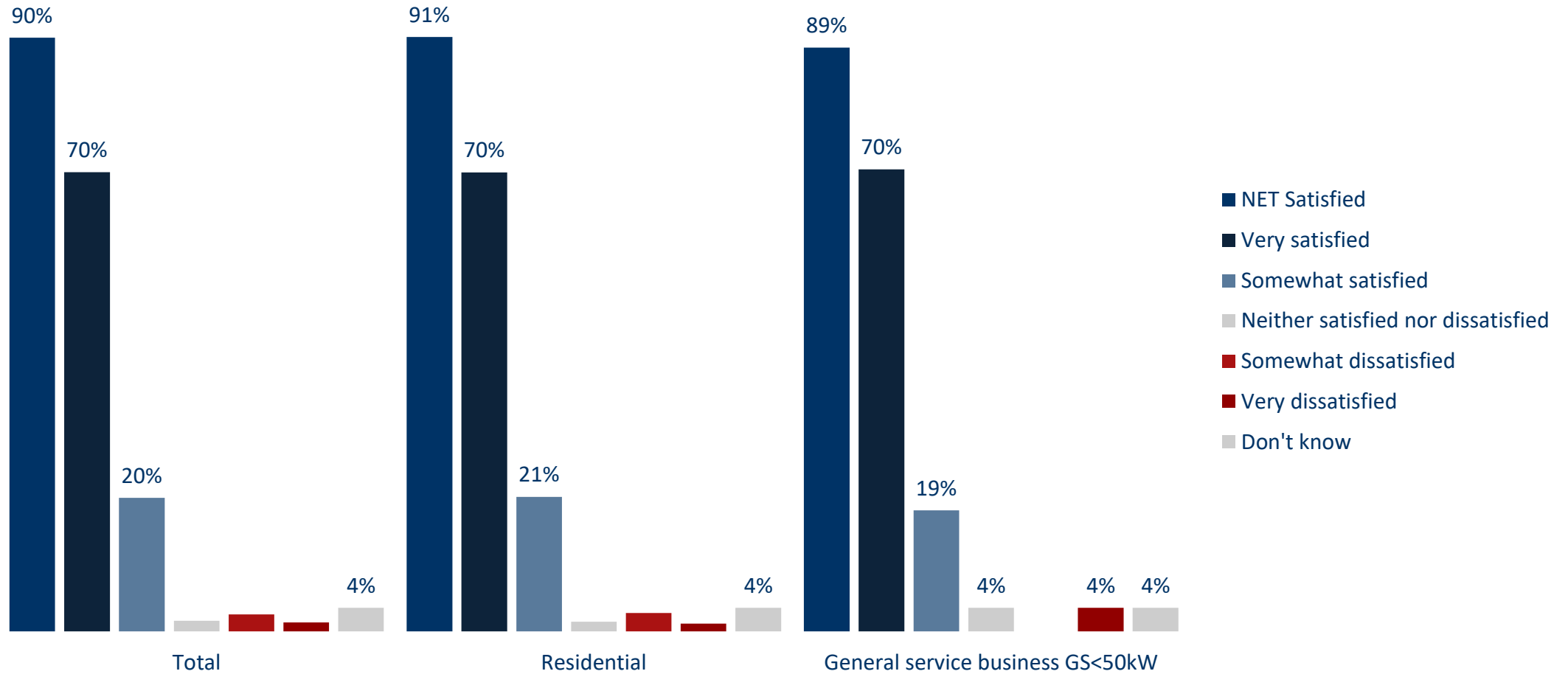
Weight: Aggregate weight for LDC based on customer_type
 Filters: Year of Data Collection: 2023, LDC: Tillsonburg Hydro

How satisfied are you with the bills that you receive from Tillsonburg Hydro - based on them providing ACCURATE BILLS?



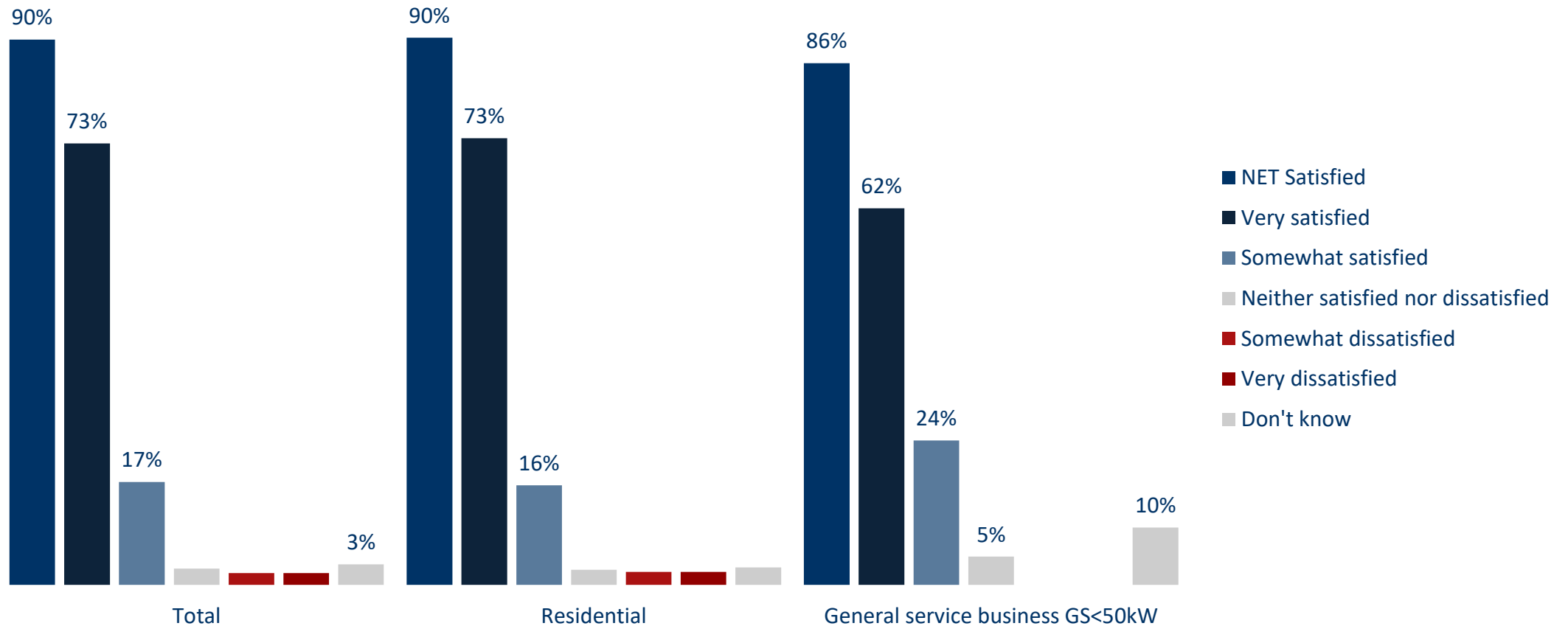
Weight: Aggregate weight for LDC based on customer_type
 Filters: Year of Data Collection: 2023, LDC: Tillsonburg Hydro

How satisfied are you with the bills that you receive from Tillsonburg Hydro - based on them providing CONVENIENT OPTIONS TO RECEIVE AND PAY BILLS?



Weight: Aggregate weight for LDC based on customer_type
 Filters: Year of Data Collection: 2023, LDC: Tillsonburg Hydro

How satisfied are you with the CUSTOMER SERVICE you have received when dealing with employees of Tillsonburg Hydro, whether on the telephone, via email, in person or through online conversations including social media?

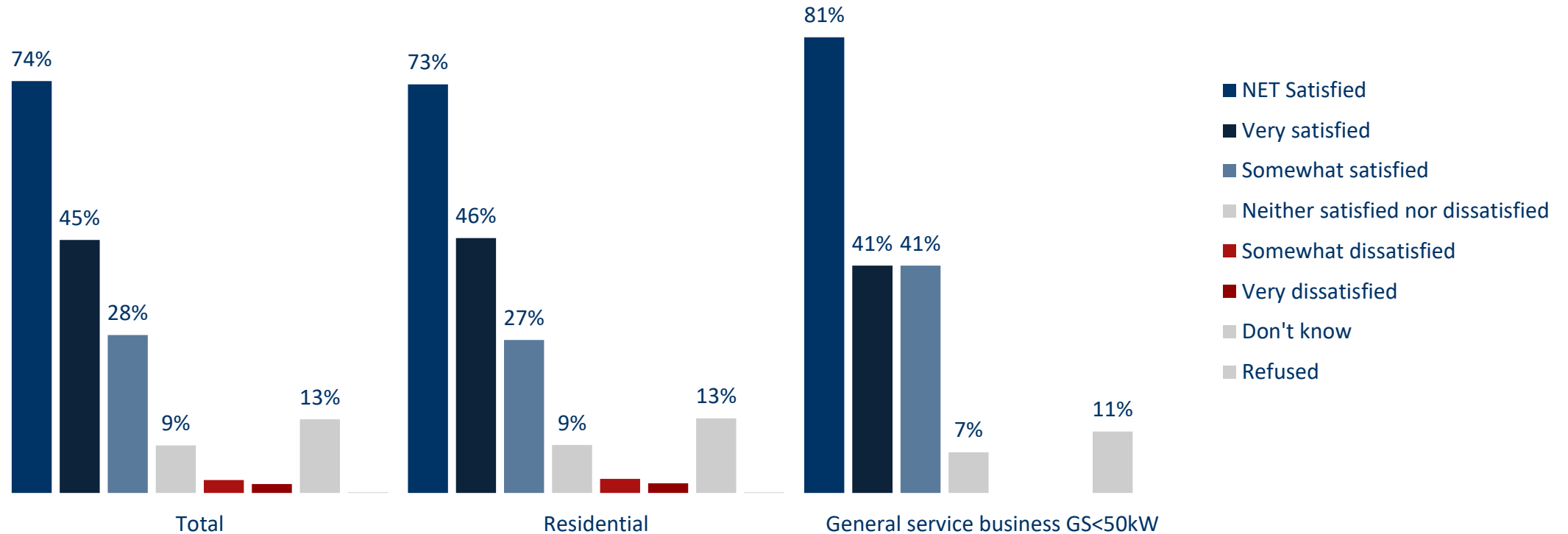


Weight: Aggregate weight for LDC based on customer_type

Filters: Year of Data Collection: 2023, LDC: Tillsonburg Hydro

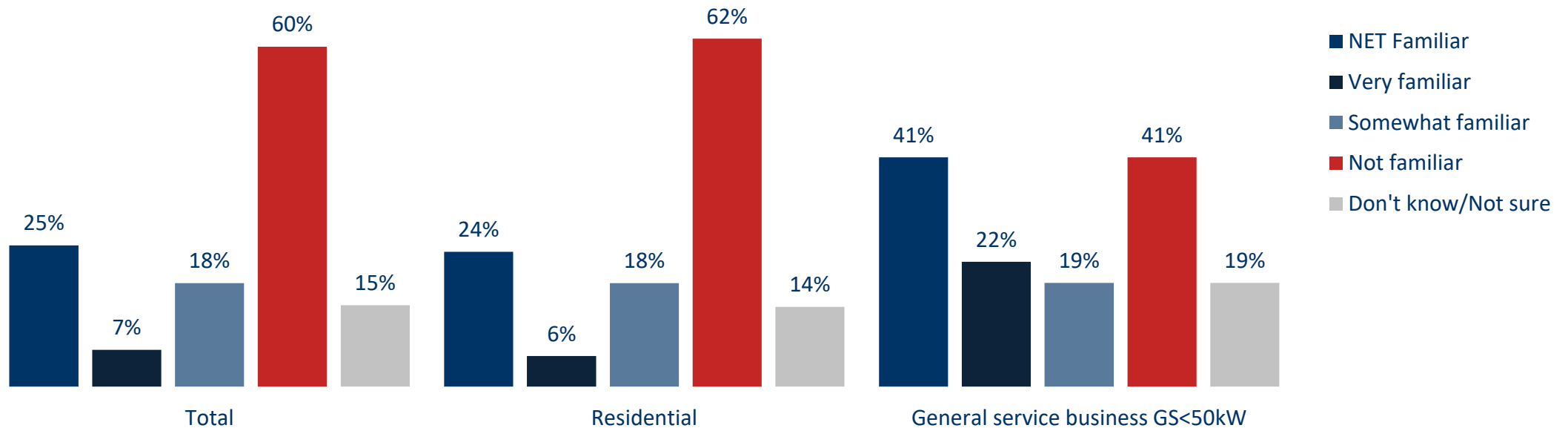
Note: Base excludes those who indicated that they had not contacted customer service, thus could not provide an assessment

How satisfied are you with the COMMUNICATIONS that you may receive from Tillsonburg Hydro without talking directly to an employee, including information found on their website, bill inserts, advertising, notices, emails, or social media sites?



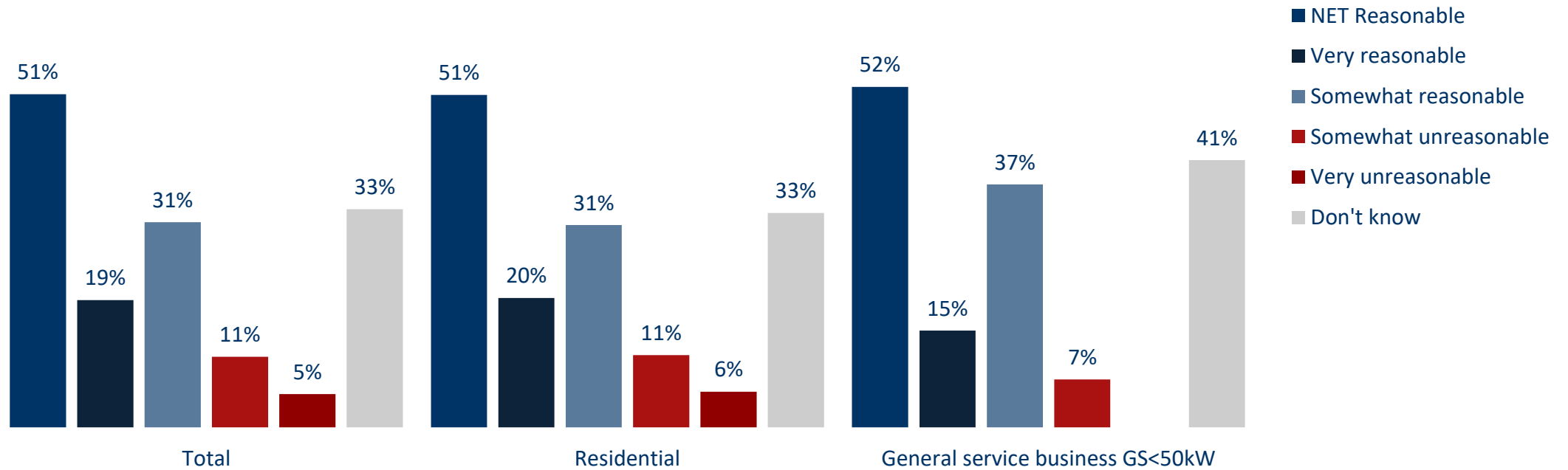
Weight: Aggregate weight for LDC based on customer_type
 Filters: Year of Data Collection: 2023, LDC: Tillsonburg Hydro

How familiar are you with the percentage of your electricity bill that went to Tillsonburg Hydro? So, NOT the portions allocated to power generation companies, transmission companies, the provincial government and regulatory agencies.



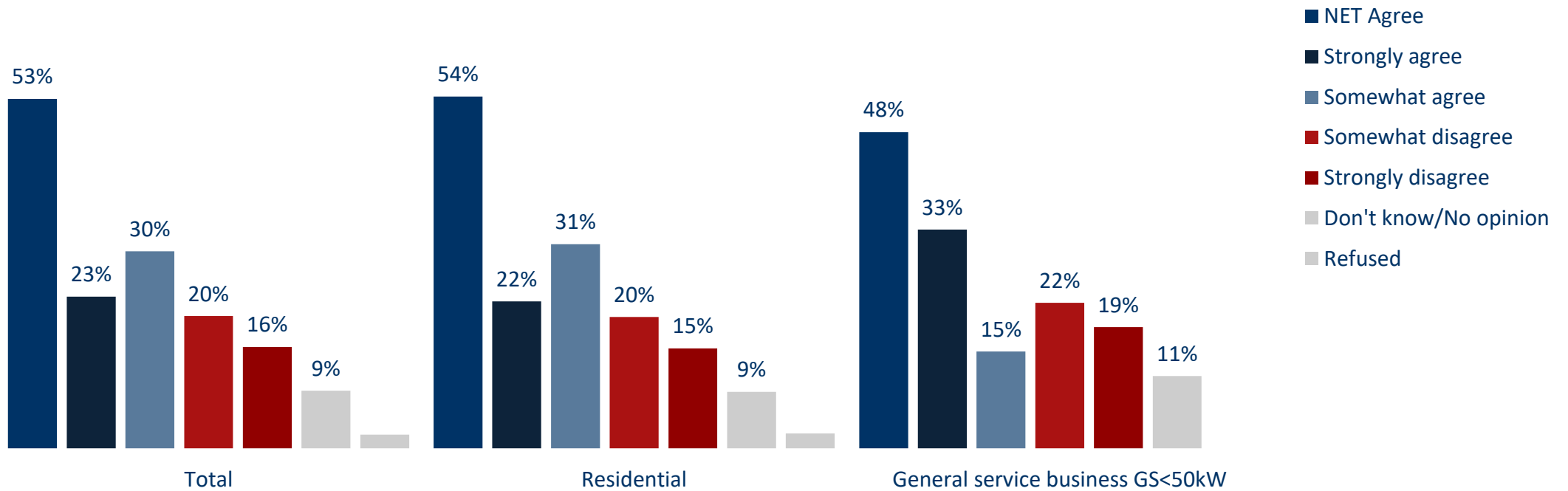
Weight: Aggregate weight for LDC based on customer_type
Filters: Year of Data Collection: 2023, LDC: Tillsonburg Hydro

Do you feel that the percentage of your total electricity bill that you pay to Tillsonburg Hydro for the services they provide is...?



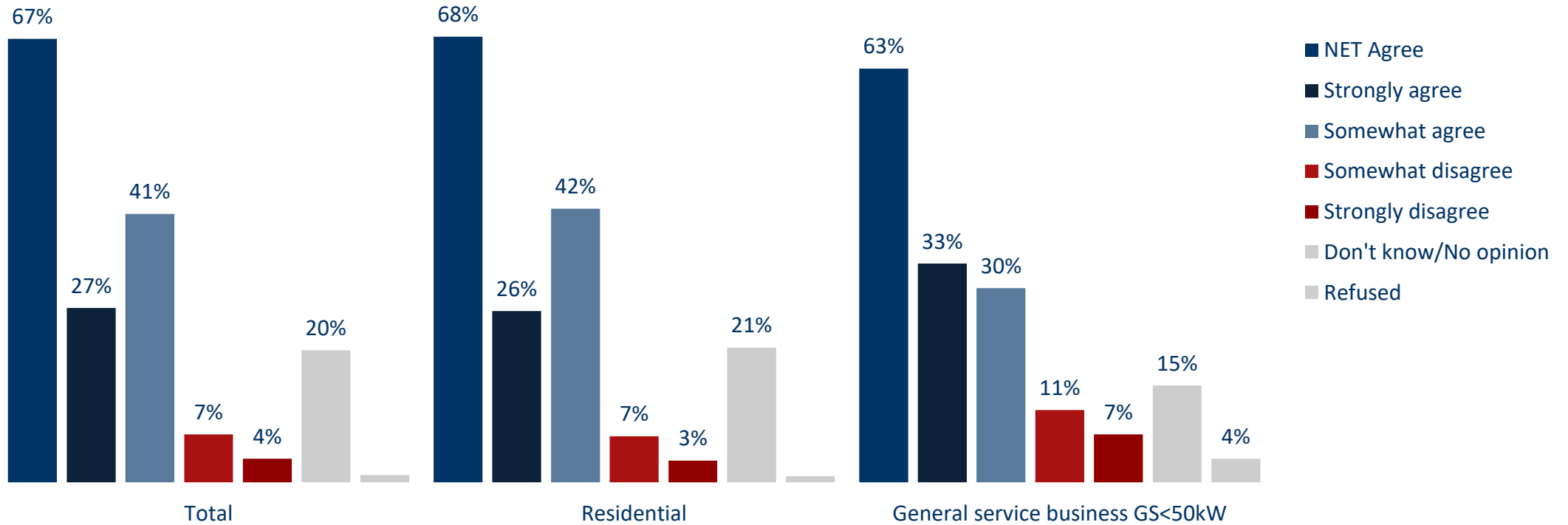
Weight: Aggregate weight for LDC based on customer_type
Filters: Year of Data Collection: 2023, LDC: Tillsonburg Hydro

To what extent do you agree with "The cost of my electricity bill has a major impact [on personal finances OR bottom line of organization]"?



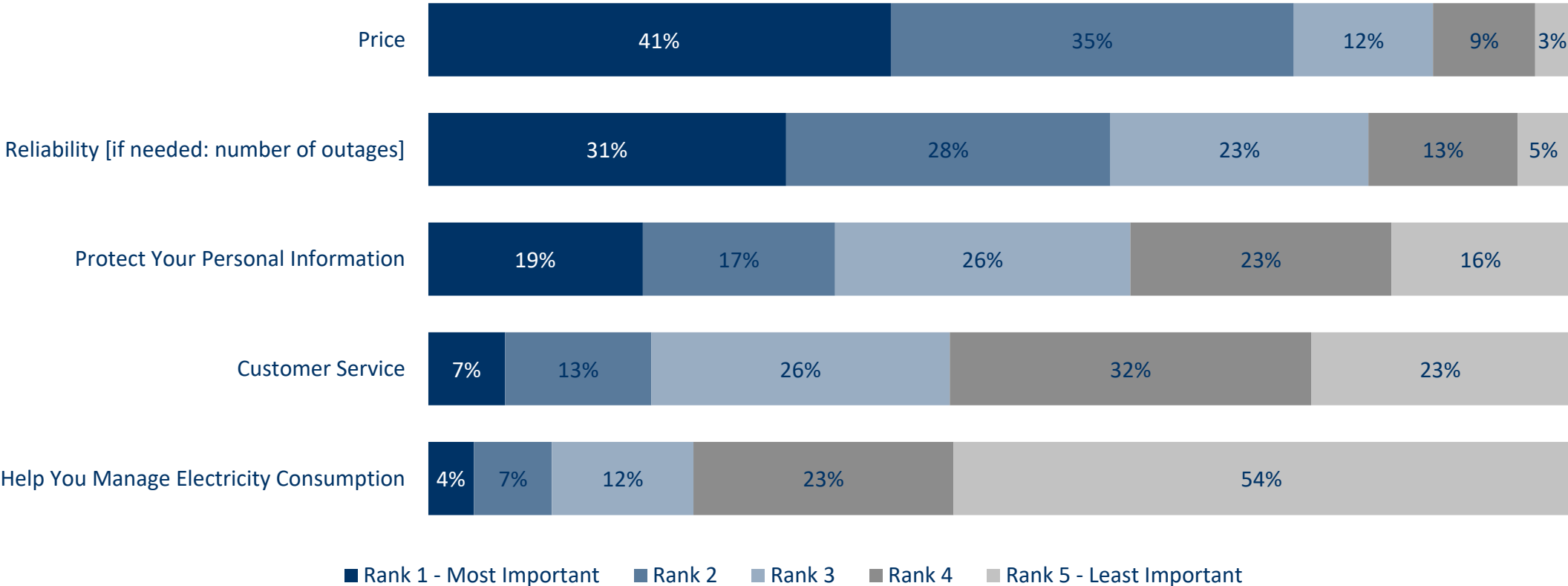
Weight: Aggregate weight for LDC based on customer_type
 Filters: Year of Data Collection: 2023, LDC: Tillsonburg Hydro

To what extent do you agree with "Customers are well served by the electricity system in Ontario"?



Tillsonburg Hydro's Custom Survey Questions – 2023 Results

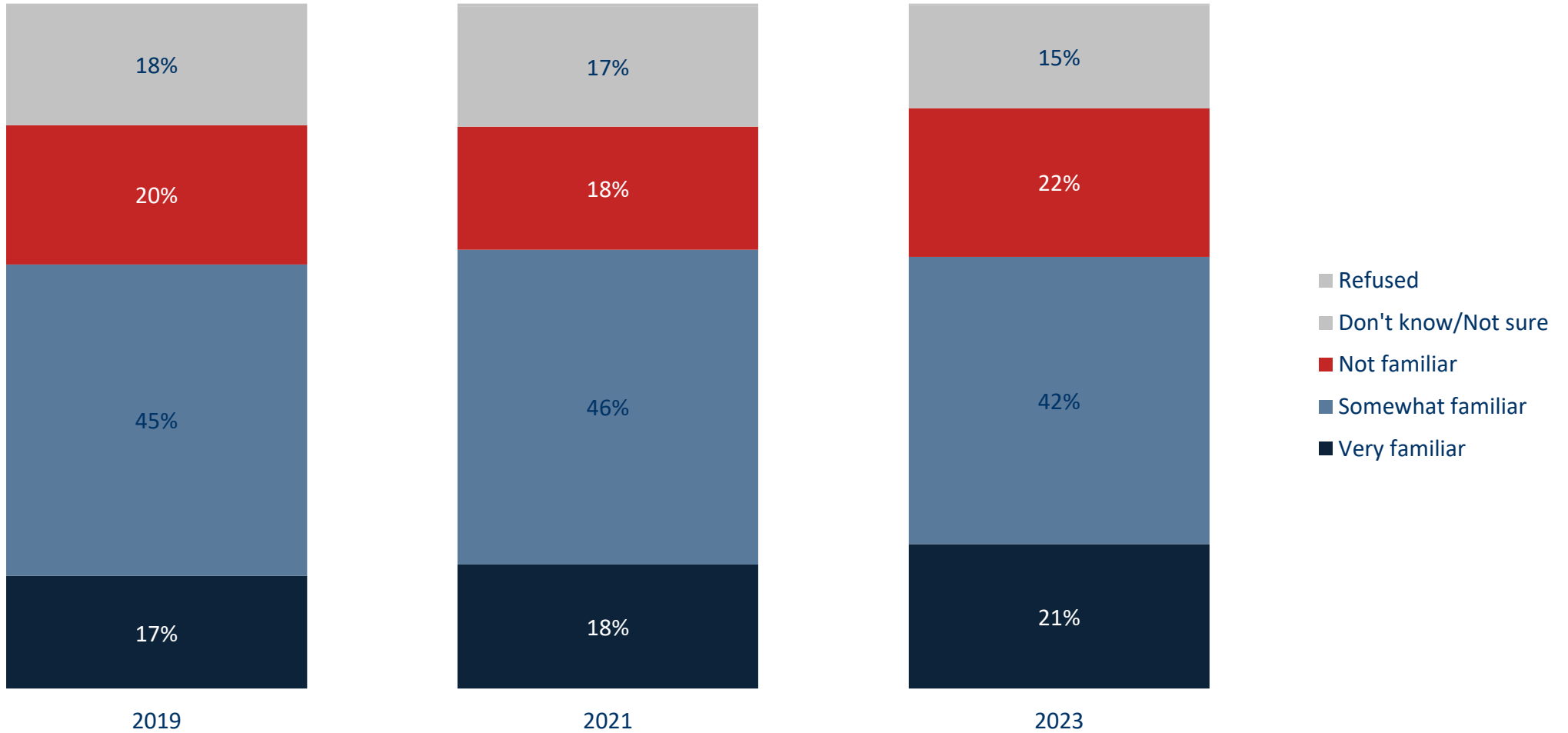
Tillsonburg Hydro is in the process of preparing a rate application to the Ontario Energy Board for 2024 and would like to get feedback from its customers to help set its priorities. Please rank the following 5 items from most important to you [1] to least



Weight: Aggregate weight for LDC based on customer_type
 Filters: LDC: Tillsonburg Hydro
 Base Size: 402

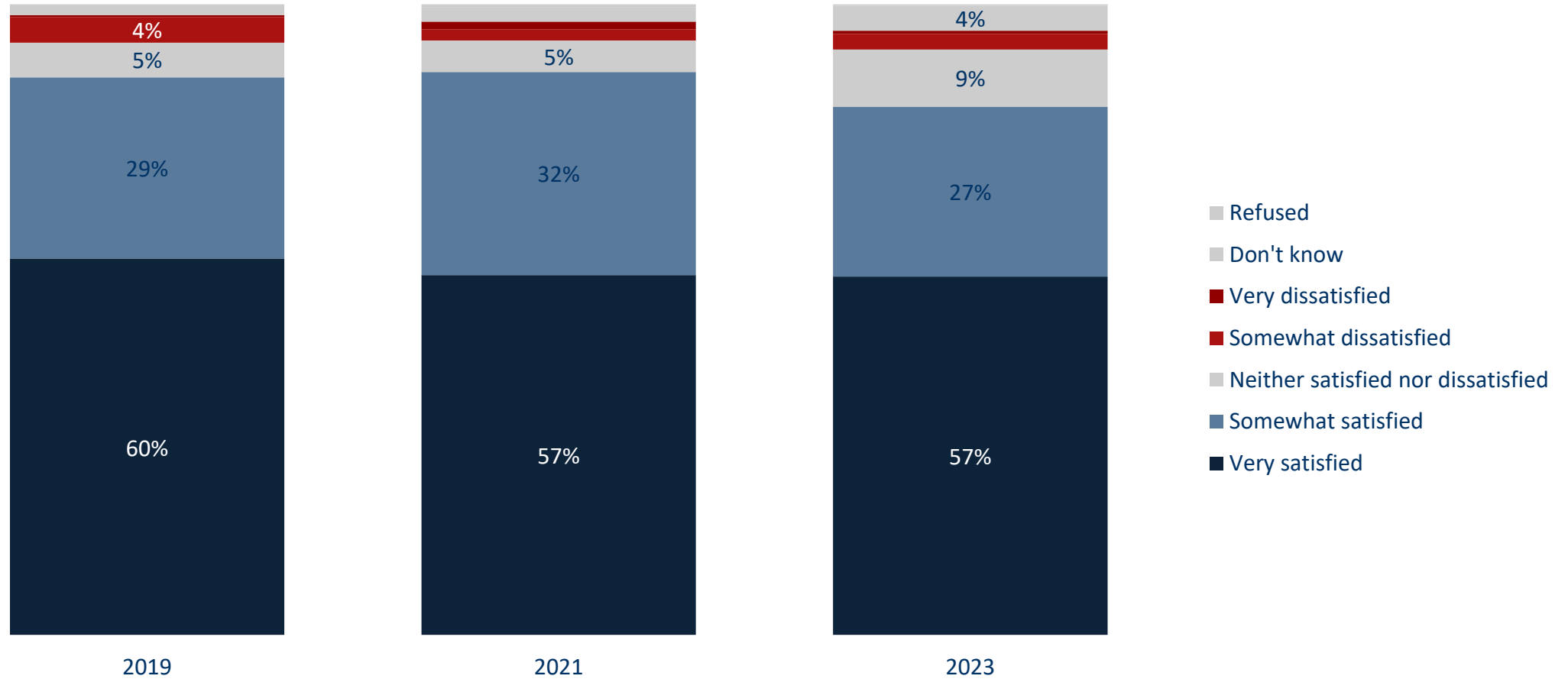
Core (OEB) Survey Questions – Trend over Time

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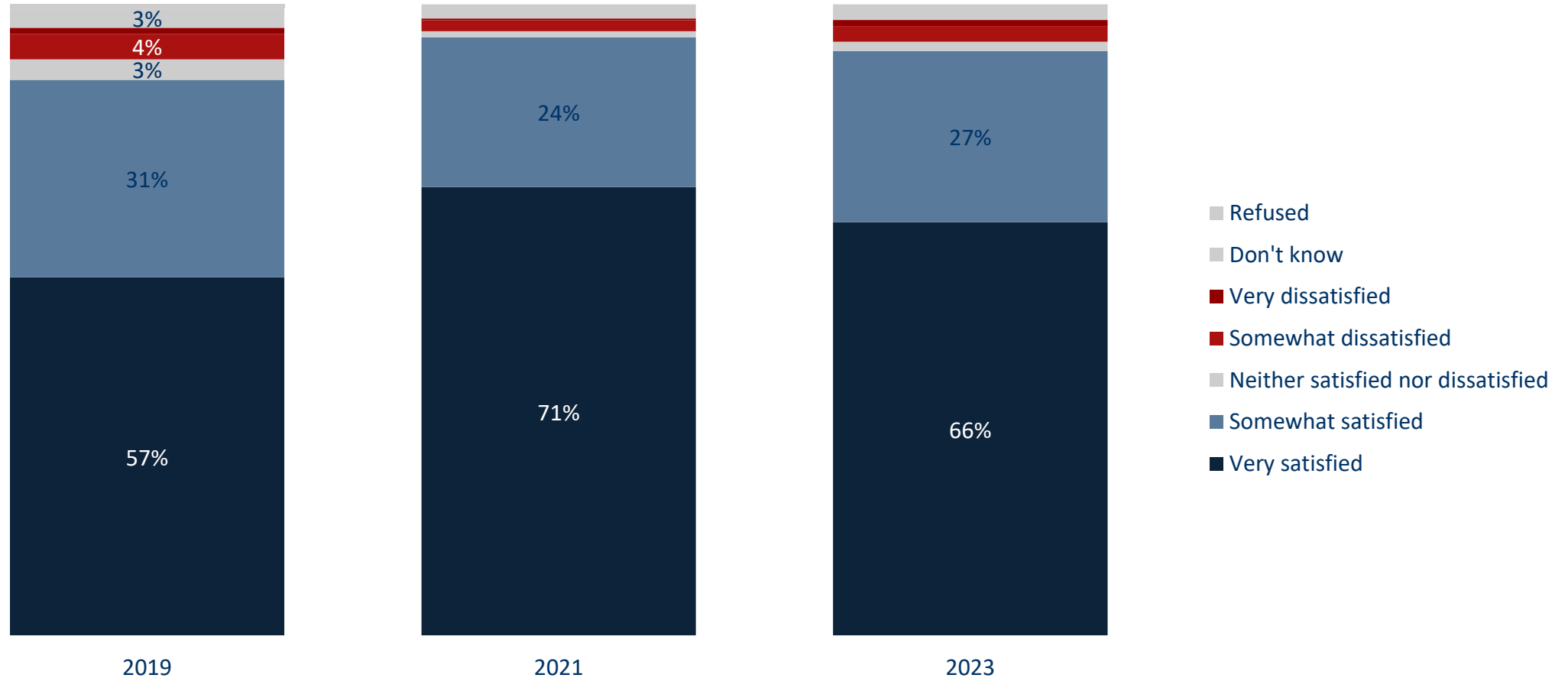
Weight: Aggregate weight for LDC based on customer_type
Filters: LDC: Tillsonburg Hydro

Thinking specifically about the services provided to you and your community by Tillsonburg Hydro, OVERALL, how satisfied are you with the services that you receive?



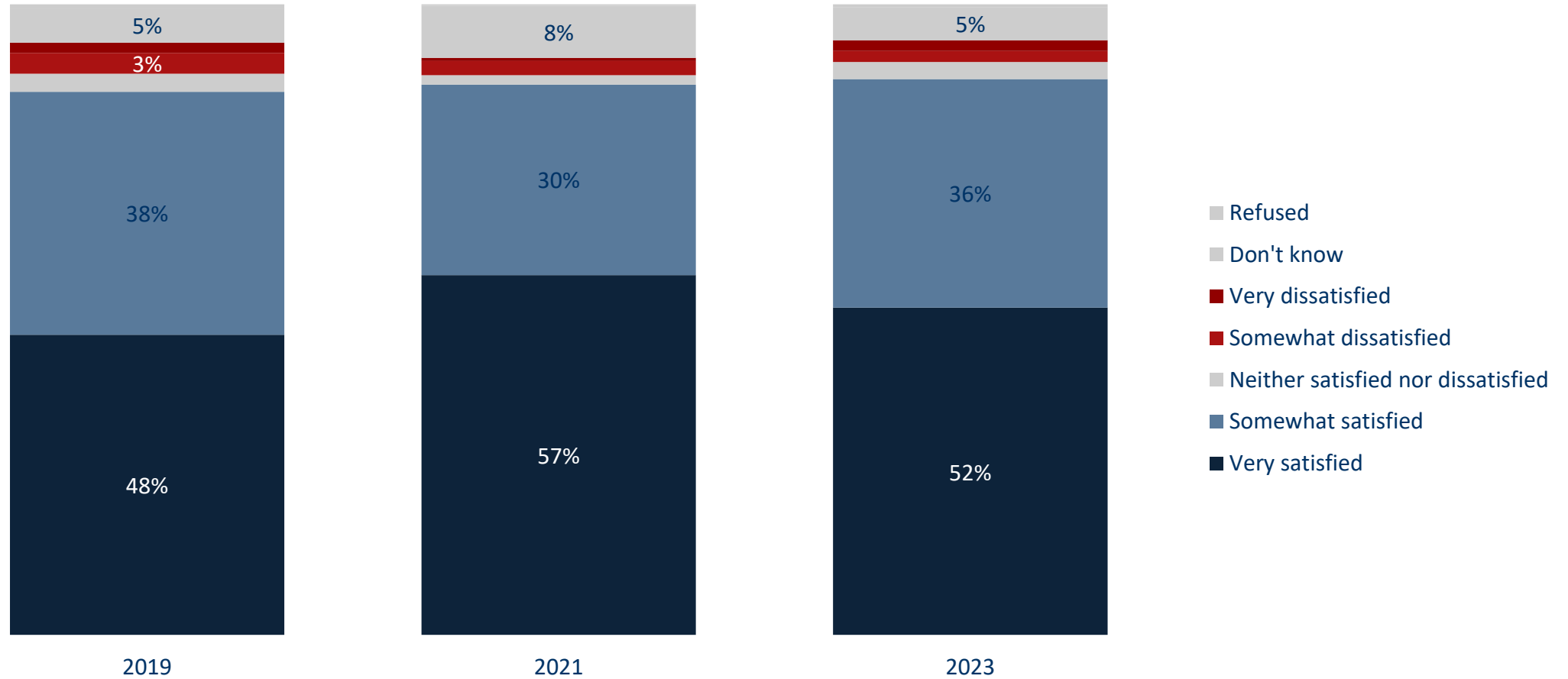
Weight: Aggregate weight for LDC based on customer_type
 Filters: LDC: Tillsonburg Hydro

How satisfied are you with the electrical service that you receive from Tillsonburg Hydro - based on the RELIABILITY of your electrical service as judged by the number of outages you experience?



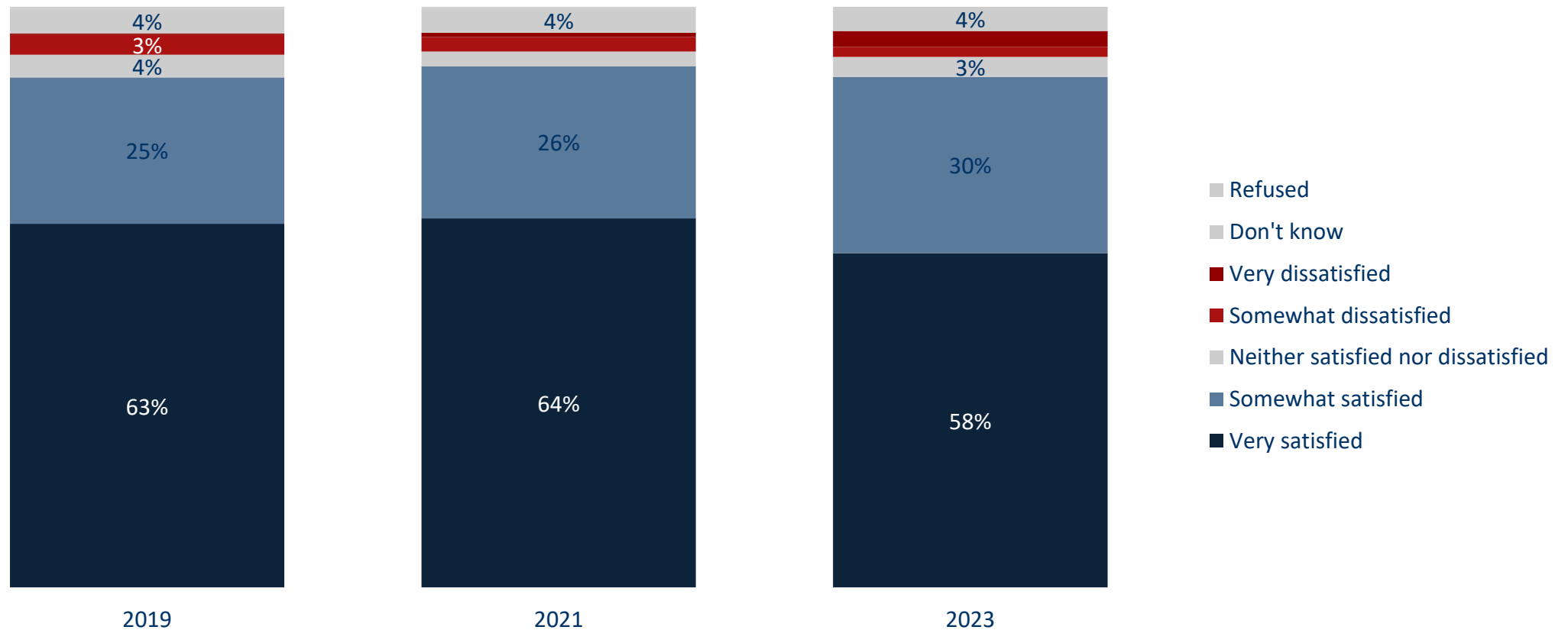
Weight: Aggregate weight for LDC based on customer_type
 Filters: LDC: Tillsonburg Hydro

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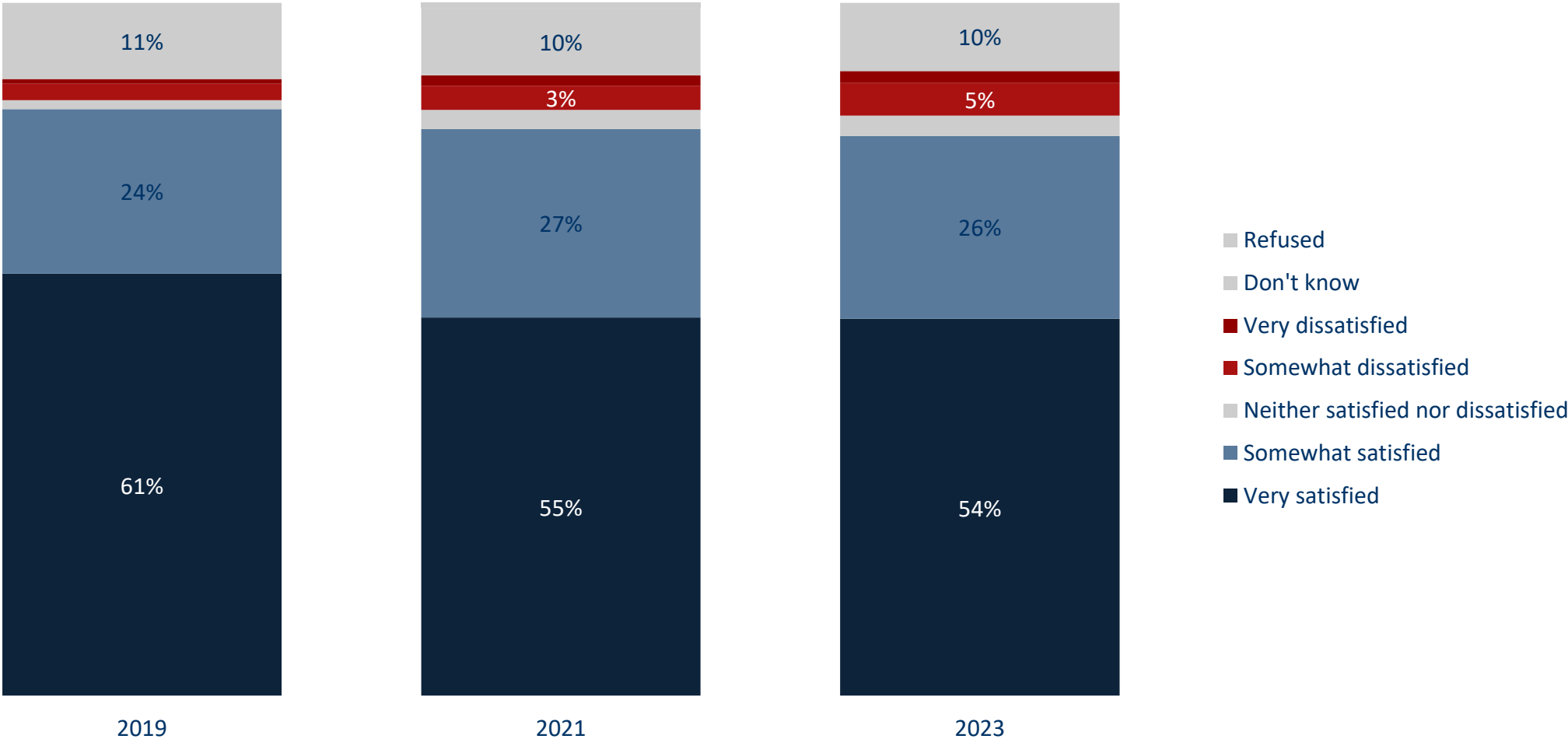
Weight: Aggregate weight for LDC based on customer_type
 Filters: LDC: Tillsonburg Hydro

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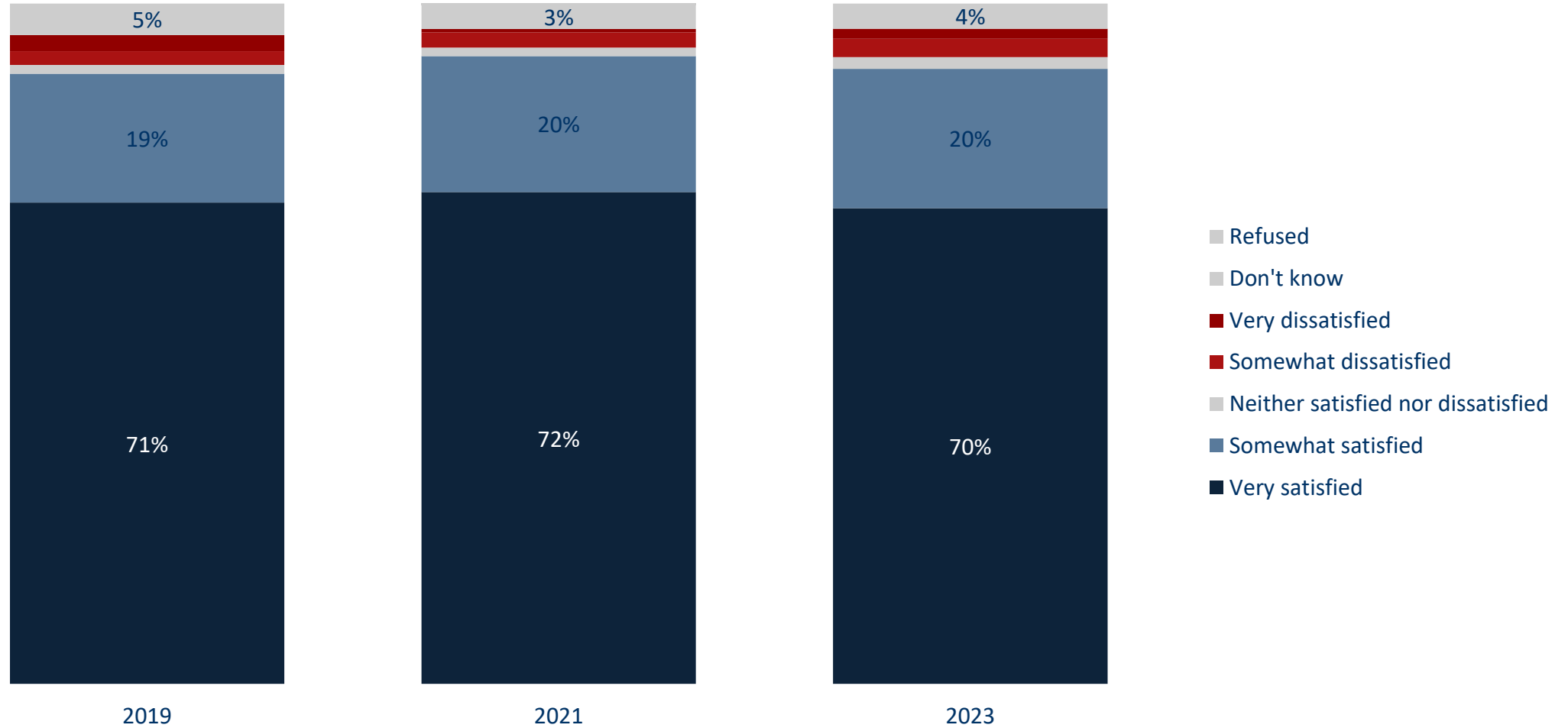
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 Filters: LDC: Tillsonburg Hydro

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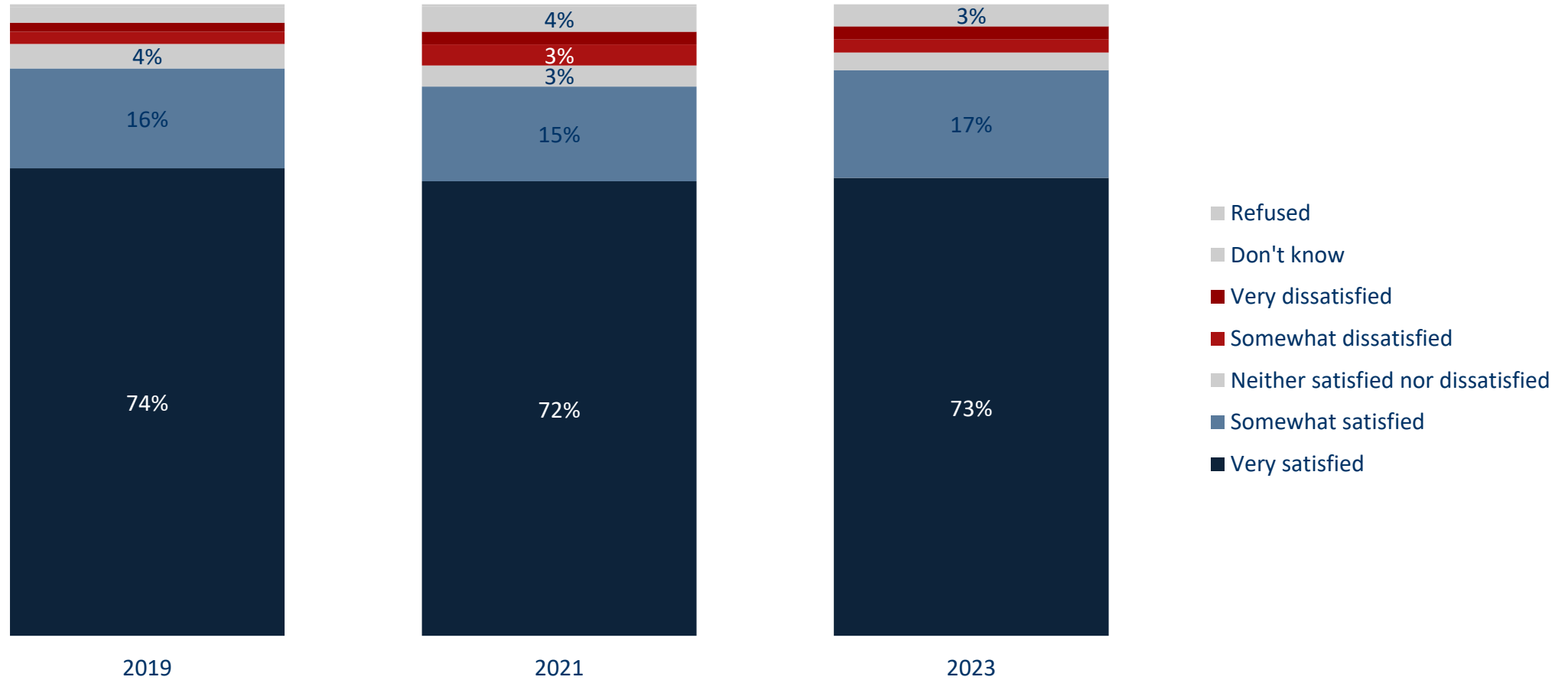
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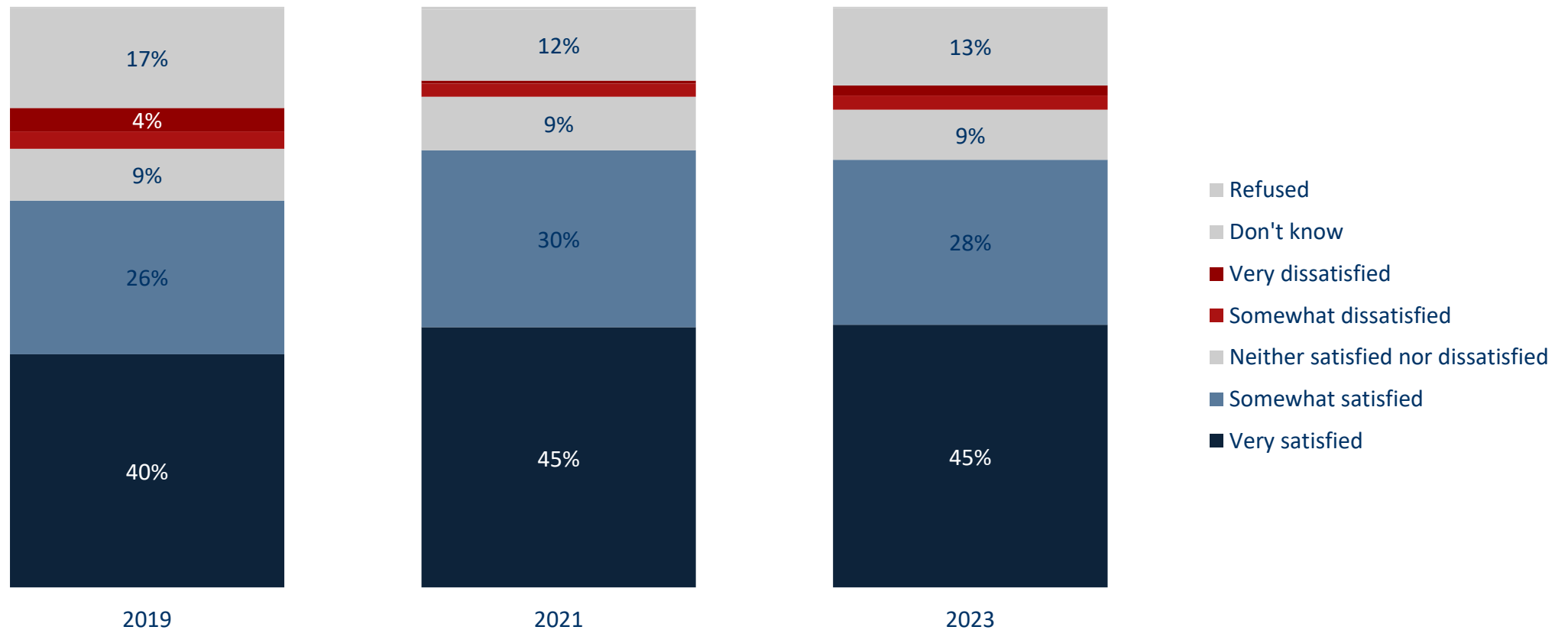


Weight: Aggregate weight for LDC based on customer_type

Filters: LDC: Tillsonburg Hydro

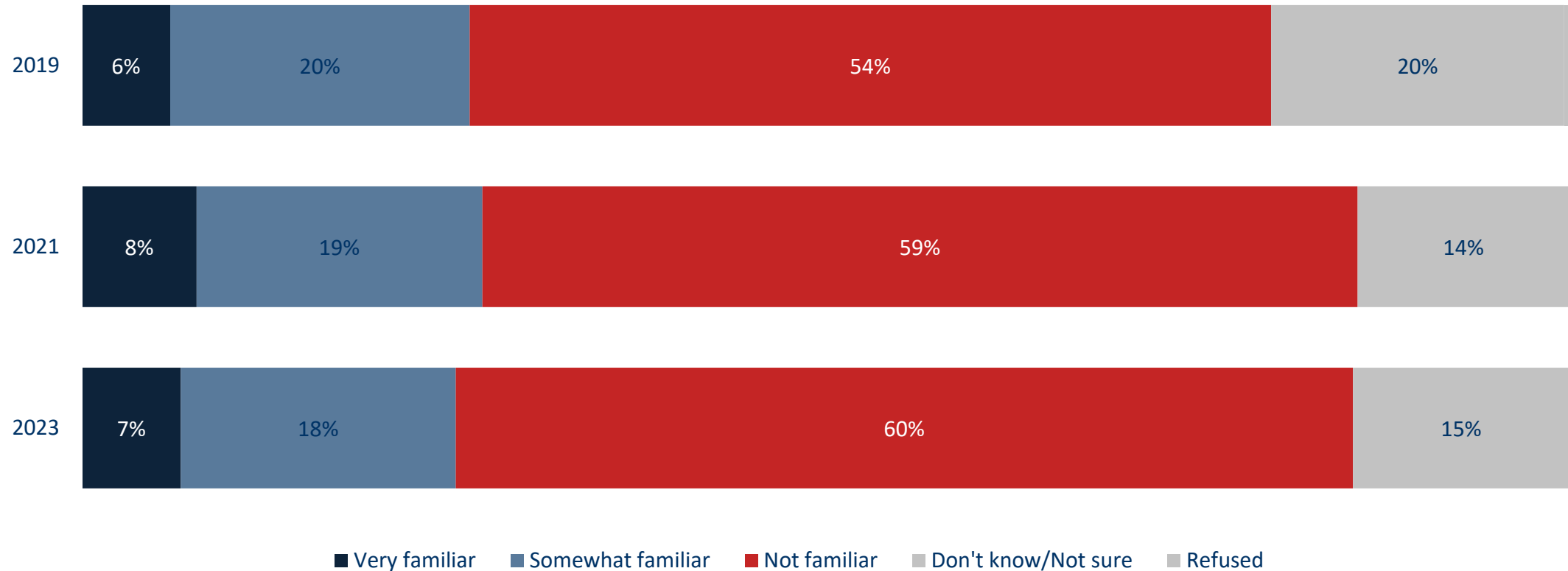
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How satisfied are you with the COMMUNICATIONS that you may receive from Tillsonburg Hydro without talking directly to an employee, including information found on their website, bill inserts, advertising, notices, emails, or social media sites?



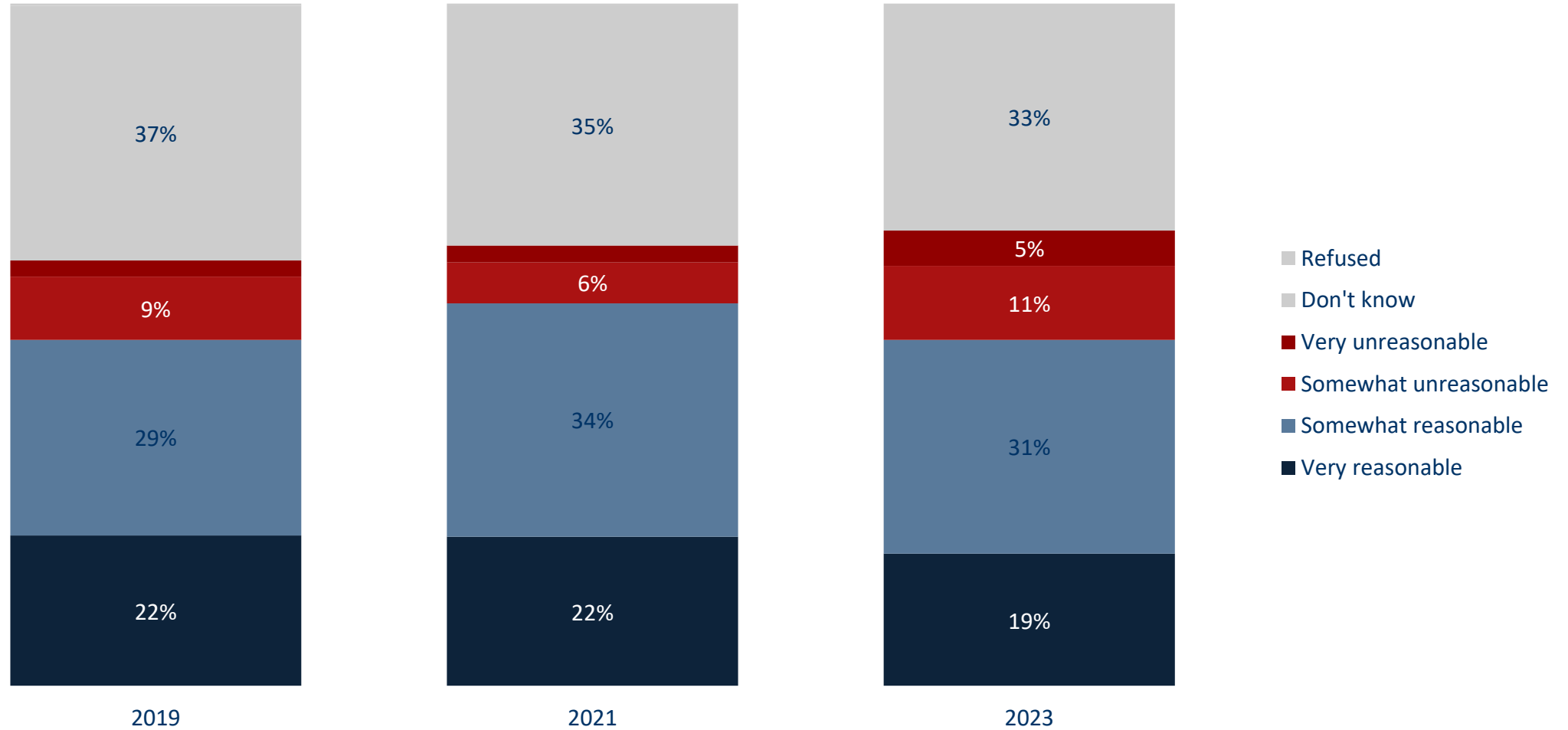
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How familiar are you with the percentage of your electricity bill that went to Tillsonburg Hydro? So, NOT the portions allocated to power generation companies, transmission companies, the provincial government and regulatory agencies.



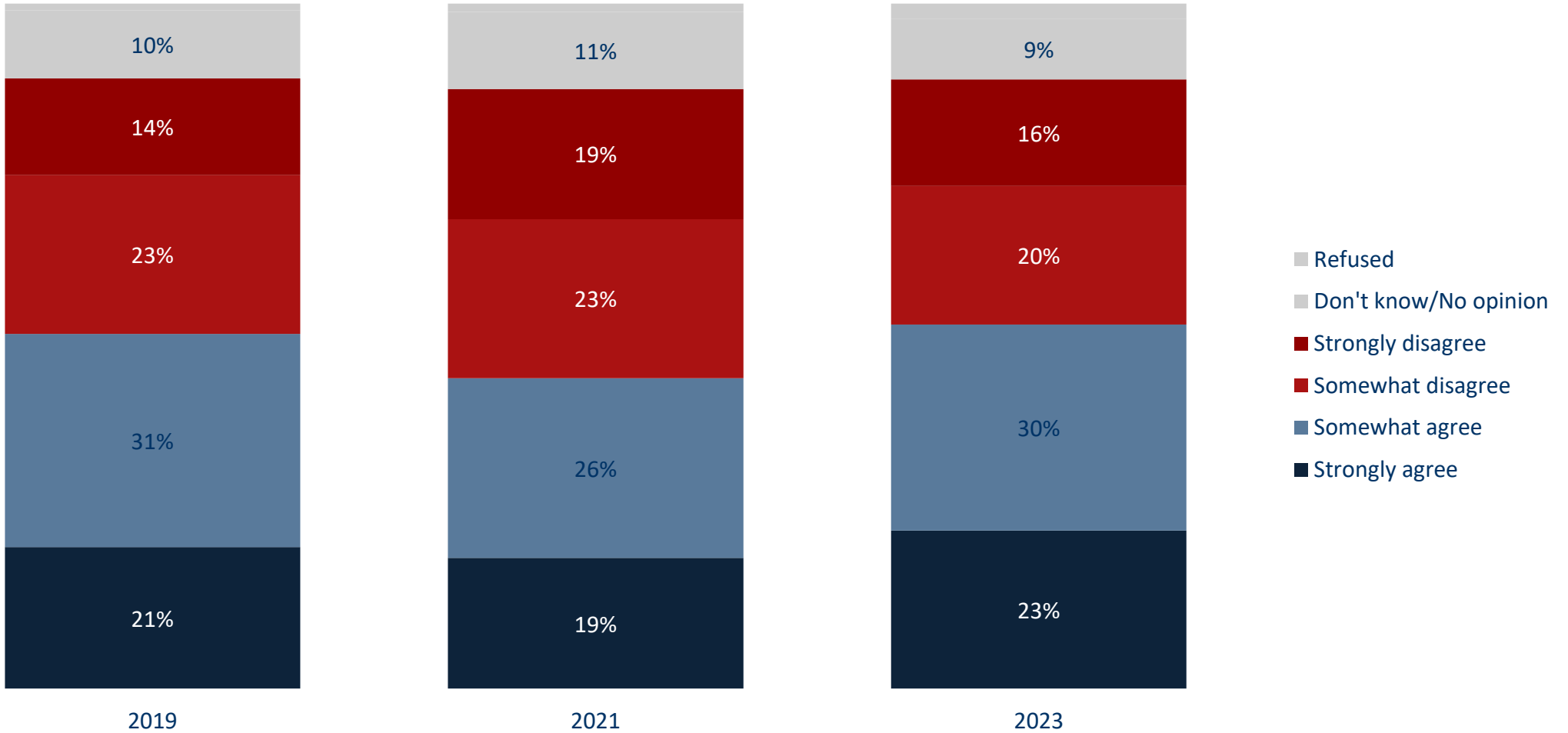
Weight: Aggregate weight for LDC based on customer_type
Filters: LDC: Tillsonburg Hydro

Do you feel that the percentage of your total electricity bill that you pay to Tillsonburg Hydro for the services they provide is...?



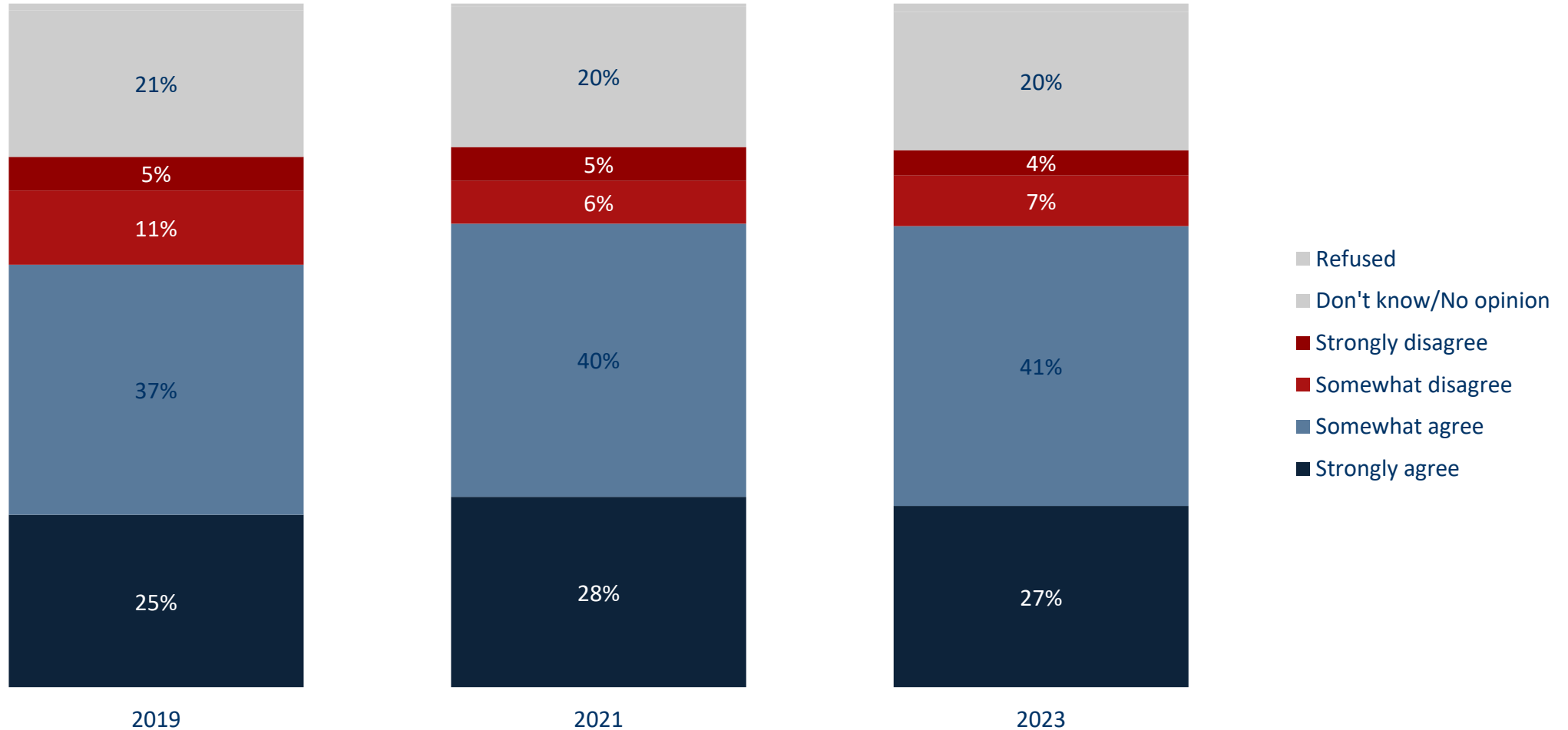
Weight: Aggregate weight for LDC based on customer_type
Filters: LDC: Tillsonburg Hydro

To what extent do you agree with "The cost of my electricity bill has a major impact [on personal finances OR bottom line of organization]"?



Weight: Aggregate weight for LDC based on customer_type
Filters: LDC: Tillsonburg Hydro

To what extent do you agree with "Customers are well served by the electricity system in Ontario"?



Weight: Aggregate weight for LDC based on customer_type
Filters: LDC: Tillsonburg Hydro

Methodology

Methodology Summary

Commissioned by	Tillsonburg Hydro
Sample size	406 randomly selected customers
Margin of error	±4.7 percentage points, 19 times out of 20
Survey mode	Random telephone survey of customer base, CATI data collection
Survey sample	Residential and GS <50kWh customer lists provided by Tillsonburg Hydro
Time of calling	4PM-9PM Weekdays, 10AM-5PM Saturdays, scheduled callbacks
In-field dates	January 23-February 22, 2023
Language	English only
Survey author	Innovative Research/Electricity Distributors Association
Question Order	Core (OEB) questions then LDC-specific questions
Question Wording	Questions shown in report largely as asked; exact questionnaire available upon request
Survey Company	Advanis Gary.Offenberger@advanis.net

Methodology Details (1/4)

Target Respondents

The respondents of the survey were Ontario residents who are the primary bill payer or share the responsibility if residential or the person in-charge of managing the electricity bill at the organization if general service, and who resided within one of LDC's service territory(ies). Service territories were determined based on customer lists provided by the LDC.

Sample Size and Statistical Reliability

The final total completed surveys by LDC, and the associated margin of error for each, are shown below.

All margins of error are shown at a 95% confidence level.

- E.g., the margin of error associated with a sample size of 400 for a large (infinite) population is ± 4.9 percentage points, 19 times out of 20.

Since each LDC has a finite population, we used the specific population sizes (i.e., the number of sample records received from each LDC) in the calculation of margin of error. Doing so is more accurate, and results in a narrower margin of error than if we simply assumed large (infinite) population for each.

Sample sizes were set according to the *LDC Customer Satisfaction Survey: Methodology & Survey Implementation Guide*, prepared for the Electrical Distributors Association (April 19, 2016 revision):

Where possible, sample size of $n=400$.

Distributors with 3000 to 4999 customers (residential + GS<50), $n=300$

Distributors with <3000 customers (residential + GS<50), $n=200$

Methodology Details (2/4)

Sampling Methodology

Advanis was provided sample lists from each LDC. Customer lists included all basic information required such as name, telephone number, region (where applicable), customer type (residential or GS<50), LDC fee, Annual or Monthly consumption values. Redhead then calculated which quartile group each resident belonged to by evenly dividing them into four groups within each region and customer type. These quartiles were calculated based on annual consumption value.

To minimize low response:

- Sample was loaded in batches to ensure the sample was fully utilized before moving onto fresh sample records;
- Calls were made between the hours of 4pm and 9pm ET; and
- Call backs were scheduled and honored between the hours of 9am and 9pm ET.

Sample Cleaning

Redhead cleaned the customer lists individually once received from each LDC to ensure the customer list counts reflected actual individual records that could be called. The following steps were taken during sample cleaning.

- All records with no phone numbers were removed.
- All phone numbers were checked to see if they were valid numbers (i.e., 10 digits, all numerical, etc.) and any bad cases were removed.
- When duplicates were detected based on phone number, the average of the consumption value was calculated and kept for one consolidated record. All others were removed.
- Residential and GS<50KW were separated into their own lists to be loaded and managed separately in the calling system.

Regions within each customer list were given a numerical value to be used for calling quotas.

Methodology Details (3/4)

Questionnaire

The survey instrument was provided by the Electricity Distributors Association (EDA) developed in conjunction with Innovative Research. The survey consisted of an introduction, overall satisfaction, power quality and reliability, billing and payment, customer service experience, communications, price, optional deeper dive questions, and final personal finance / sector mood measures. Additional questions were provided individually by some LDCs. These questions are not required as part of the survey and, as outlined in the methodology guideline, were asked after all the standard and required questions.

Data Collection

Computer aided telephone interviews (CATI) were conducted from **January 23-February 22, 2023**.

Quality Control

- Advanis trained its interviewers to understand the study's objectives;
- Detailed call records are kept by the automated CATI system, and are supplemented by output files to SPSS for productivity analysis (i.e., not subject to human error);
- The survey was soft launched in LDCs that had the most available sample, and the data was then checked before calling began in full for each;
- 100% of all surveys are digitally recorded for potential review (see next bullet);
- Advanis' Quality Assurance team listened to the actual recordings of five-ten percent of completed surveys and compared the responses to those entered by the interviewer to ensure that responses from respondents are properly recorded;
- Team Supervisors conduct regular more formal evaluations with each interviewer, in addition to nightly monitoring of each interviewer on their team;
- Project Managers closely monitored the progress of data collection, including call record dispositions;
- All SPSS code is reviewed by a more senior researcher;
- All report output is reviewed by a more senior researcher; and
- All values in the report are reviewed by another team member to ensure accuracy.

Methodology Details (4/4)

Analysis of Findings & Data Weighting

Results were weighted to match the proportion of low volume rate class records as provided to Advanis after cleaning of the sample file. Where a region flag was also provided, results were weighted to the low volume rate class within each region and regions were weighted proportionately to one another based on the customer base as provided in the cleaned sample file.

The Customer Satisfaction index scores have been highlighted and were calculated as described below, based on instructions in the Survey Methodology Guidelines. The “response values” referenced in the description below were also determined and provided by the survey authors.

Data analysis and cross-tabulation have been conducted using SPSS and Advanis’ proprietary Online Reporting Environment software.

As noted above, LDCs without a region flag were weighted to their low volume rate class proportion based on the cleaned sample file. LDCs with a region flag were weighted to their low volume rate class proportion within each region based on the cleaned sample file, and then regions were weighted proportionately to one another based on the customer base as provided in the cleaned sample file.

Specific values of the number of sample records, estimated population proportions, and final weighted sample counts within LDC are provided on the next slide. The sum of the regional population proportions within an LDC may not equal 100% due to rounding.

This index score is calculated using the following process:

Step 1: Weight data to n=400 with each low volume rate class proportionate to its share of LDC customer base.

Step 2: Rescale the index score variables onto the 0 to 1 scale as indicated by the response values detailed below.

Step 3: The average result of the questions asked for each OEB topic and the overall satisfaction score will be added together³.

	B5
+	[C6+C7+C8] divided by 3
+	[D9+D10] divided by 2
+	E11
+	F12
+	G14
=	Total cumulative scores

Step 4: The total cumulative score from Step 2 will be divided by 6 to generate the **Customer Satisfaction Index Score** (bound between 0-1).

The chart on the following page illustrates how the **Customer Satisfaction Index Score** will be calculated.

Methodology Tables

Margin of error

LDC	Clean Customer Records from LDC	Completed Surveys	Sample Size as % of Customer list	Margin of Error @ 95% confidence level
Tillsonburg Hydro	6,639	406	6.12%	+/- 4.7%

* Since each LDC has a finite population, we used the specific population sizes (i.e., the number of sample records received from each LDC) in the calculation of margin of error. Doing so is more accurate, and results in a narrower margin of error than if we simply assumed large (infinite) population for each.

Sample weighting

Tillsonburg Hydro						
Regions Flagged in Sample	Low Volume Rate Class	Sample Received (Cleaned, Deduplicated)	Rate Class Proportion	Estimated Customer Proportion	Weighted Sample Count	Unweighted Sample Count
TOTAL	Residential	6,190	93%	100%	379	379
	General Service < 50 kW	449	7%		27	27
					406	406



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gary.offenberger@advanis.net

780.229.1140

APPENDIX C – FINANCIAL STATEMENTS

TILLSONBURG HYDRO INC.

FINANCIAL STATEMENTS

For the year ended December 31, 2022

TILLSONBURG HYDRO INC.

For the year ended December 31, 2022

INDEX

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Statement of Changes in Equity	4
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Statement of Cash Flows	6
Notes to the Financial Statements	7 - 25

INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of Directors of
Tillsonburg Hydro Inc.

Opinion

We have audited the financial statements of Tillsonburg Hydro Inc. (the 'Entity'), which comprise the statement of financial position as at December 31, 2022, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

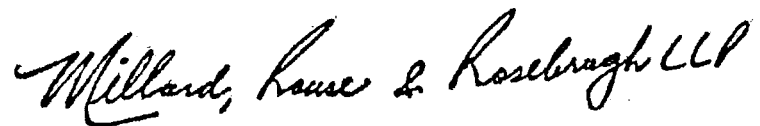
Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



April 25, 2023
Brantford, Ontario

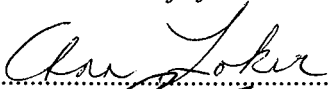
CHARTERED PROFESSIONAL ACCOUNTANTS
Licensed Public Accountants


TILLSONBURG HYDRO INC.

STATEMENT OF FINANCIAL POSITION

As at December 31	2022	2021
ASSETS		
Current Assets		
Cash and bank	793,075	700,530
Accounts receivable (Note 5)	1,779,874	1,782,478
Unbilled revenue	2,118,566	1,629,782
Inventory (Note 6)	825,817	529,918
Income taxes payable	-	87,980
Prepaid expenses	56,229	44,736
	5,573,561	4,775,424
Property, plant and equipment (Note 9)	19,960,493	18,788,111
Non-utility capital assets (Note 10)	-	473
Intangible assets (Note 8)	16,182	-
Total Assets	25,550,236	23,564,008
Regulatory assets (Note 12)	2,263,044	1,560,927
Total Assets and Regulatory Balances	27,813,280	25,124,935
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	1,944,703	1,692,625
Income taxes payable	14,678	-
Due to related parties (Note 7)	2,496,386	1,257,982
Current portion of customer deposits	45,778	47,235
Deposits in aid of construction	456,872	220,948
	4,958,417	3,218,790
Long-term debt (Note 11)	5,000,000	5,000,000
Deferred tax liability (Note 14)	845,228	606,830
Customer deposits	303,932	274,115
Deferred contributions (Note 13)	4,228,555	3,831,067
Total Liabilities	15,336,132	12,930,802
EQUITY		
Share Capital (Note 15)	6,992,565	6,992,565
Contributed Surplus	990,388	990,388
Retained Earnings	4,387,785	4,146,367
Total Equity	12,370,738	12,129,320
Total Liabilities and Equity	27,706,870	25,060,122
Regulatory liabilities (Note 12)	106,410	64,813
Total Liabilities, Equity and Regulatory Balances	27,813,280	25,124,935

Approved on behalf of the Board of Directors:





TILLSONBURG HYDRO INC.

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31	2022	2021
Retained Earnings, Beginning of Year	4,146,367	3,851,267
Comprehensive Income	441,418	495,100
Dividends	(200,000)	(200,000)
Retained Earnings, End of Year	4,387,785	4,146,367

TILLSONBURG HYDRO INC.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31	2022	2021
Revenue		
Energy sales	21,927,313	20,954,499
Distribution services	3,977,208	3,904,190
Retail	12,163	12,032
Other	397,245	290,544
	26,313,929	25,161,265
Net non-utility activities (Note 10)	19,396	2,717
Expenses		
Operating and maintenance	736,540	735,121
Billing and collecting	732,151	762,553
General administration	1,398,228	1,328,755
Regulatory	39,833	31,229
	2,906,752	2,857,658
Cost of Power	22,586,341	21,502,280
Income Before Depreciation, Interest and Income Taxes	840,232	804,044
Other Expenses		
Depreciation	789,938	733,345
Interest and finance charges	178,981	115,969
Income (Loss) Before Income Taxes	(128,687)	(45,270)
Income taxes (Note 14)	328,813	222,831
Net Income (Loss)	(457,500)	(268,101)
Net Movement in Regulatory Balances		
Net movement in regulatory balances	(660,520)	(549,779)
Income tax (Note 14)	(238,398)	(213,422)
	(898,918)	(763,201)
Comprehensive Income	441,418	495,100

TILLSONBURG HYDRO INC.

STATEMENT OF CASH FLOWS

For the year ended December 31	2022	2021
Cash Flows From Operating Activities		
Comprehensive income for the year	441,418	495,100
Charges (credits) to income not involving cash:		
Depreciation	789,938	733,345
Deferred tax asset (liability)	238,398	213,422
	1,469,754	1,441,867
Change in non-cash working capital:		
Accounts receivable	2,604	(112,174)
Unbilled revenue	(488,784)	520,592
Inventory	(295,899)	(52,181)
Prepaid expenses	(11,493)	23,629
Accounts payable	252,078	2,810
Income taxes recoverable	102,658	84,207
Current portion of customer deposits	(1,457)	(3,564)
Deposits in aid of construction	235,924	(222,195)
	(204,369)	241,124
Cash flow from (used by) operating activities	1,265,385	1,682,991
Investing activities		
Purchase of property, plant and equipment and intangibles	(1,978,502)	(2,028,192)
Deferred contributions	397,488	489,140
Non-utility capital assets	473	14,773
Cash flow from (used by) investing activities	(1,580,541)	(1,524,279)
Financing Activities		
Dividends paid	(200,000)	(200,000)
Advances from related parties	1,238,404	269,256
Regulatory balances	(660,520)	(549,779)
Customer deposits	29,817	13,687
Proceeds from long-term debt	-	1,000,000
Cash flow from (used by) financing activities	407,701	533,164
Net Change in Cash and Bank	92,545	691,876
Opening Cash and Bank	700,530	8,654
Closing Cash and Bank	793,075	700,530

See accompanying notes

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

1. DESCRIPTION OF THE BUSINESS

Tillsonburg Hydro Inc. (the Entity), was incorporated provincially under the Business Corporations Act of Ontario on October 26, 2000. The Entity's principal business activity is to distribute electrical power to the residents of the Town of Tillsonburg in accordance with Section 144 of the Electricity Act, 1998. The Corporation operates under a licence issued by the Ontario Energy Board (OEB). The Corporation is regulated by the OEB and adjustments to the Corporation's distribution and power rates require OEB approval. The address of the Corporation's registered office is 200 Broadway Street, 2nd Floor, Tillsonburg, Ontario, N4G 5A7.

2. BASIS OF PRESENTATION

The Entity's financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board (IASB).

(a) Approval of the financial statements

The financial statements were approved by the Board of Directors on April 25, 2023.

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis, unless otherwise stated.

These financial statements have been prepared using the accrual basis of accounting. The accrual basis of accounting recognizes revenue as it becomes available and measurable. Expenses are recognized as they are incurred and measurable as a result of the receipt of goods and services and the creation of a legal obligation to pay.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is also the Entity's functional currency.

(d) Subsequent events

The Entity has evaluated the events and transactions occurring after December 31, 2022 through April 25, 2023, when the Board approved the financial statements, and identified the events and transactions which required recognition in the Entity's financial statements.

(e) Rate setting and industry regulation

The Ontario Energy Board Act (1998) (the Act) gave the Ontario Energy Board (OEB) powers and responsibilities to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounts treatment that may differ from IFRS for enterprises operating in a non-rate regulated environment.

The Act provides for a competitive market in the sale of electricity in addition to the regulation of the monopoly electricity delivery system in Ontario.

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

2. BASIS OF PRESENTATION (Continued)

(e) **Rate setting and industry regulation (continued)**

The OEB has regulatory authority over the electricity delivery sector. The Act set out the Board's powers to issue a distribution license, which must be obtained by any person owning or operating a distribution system under the Act. The Act allows the Board to prescribe license requirements and conditions to electricity distributors, which includes such considerations as specified accounting records, regulatory accounting principles, separation of accounts for separate businesses, and filing requirements for rate setting purposes.

With the commencement of the open market, the Corporation purchases electricity from the Independent Electricity System Operator (IESO), at spot market rates and charges its customers unbundled rates. The unbundled rates include the actual cost of generation and transmission of electricity and an approved rate for electricity distribution. The cost of generation, transmission, and other charges such as connection are collected by Tillsonburg Hydro Inc. and remitted to the IESO. The Corporation retains the distribution charge on the customer hydro invoices. The OEB has the general power to include or exclude costs, revenues, losses, or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated Corporation. Such change in timing gives rise to the recognition of regulatory assets and liabilities. The Corporation's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered on future rates. In addition, the Corporation has recorded regulatory liabilities, which will represent amounts for expenses incurred in different periods than would be the case had the Corporation been unregulated. Specific regulatory assets and liabilities are disclosed in note 12.

The Corporation's approved distribution rates include components for the recovery of distribution expenses, regulatory assets and liabilities, and a rate of return on capital assets.

Rate setting - Distribution revenue

The Corporation is required to file a "Cost of Service" ("COS") rate application every five years, unless approved for a deferral, under which the OEB establishes the revenues required to recover the forecasted operating and capital expenditures to support the Corporation's business. The Corporation estimates usage and the costs to service each customer class in order to determine the appropriate rates to be charged by each customer class. The COS rate application is reviewed by the OEB and any registered interveners. Rates are approved based upon the review of evidence and information, including any revisions resulting from that review.

In the intervening years an Incentive Rate Mechanism application (IRM) is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS rate application. The previous year's rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Inflation for Final Domestic Demand ("GDP IPI FDI") net of a productivity factor and a "stretch factor" determined by the relative efficiency of an electricity distributor.

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

2. BASIS OF PRESENTATION (Continued)

(e) **Rate setting and industry regulation (continued)**

As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers.

In 2021, the Corporation submitted an Incentive Rate-setting Mechanism (IRM) application to the OEB for 2022 Electricity Distribution rates. On March 24, 2022, the Corporation received a decision from the OEB that approved changes to rates that the Corporation charges for electricity distribution, to be effective May 1, 2022.

Rate setting - Electricity rates

The OEB sets electricity prices for certain low volume consumers twice per year (May and November) based upon an estimate of how much it will cost to supply the province with electricity in the coming year (Regulated Price Plan). Remaining customers will pay either the market price for electricity or the contracted price for electricity if they have enrolled with a retailer. The Company is billed for the cost of the electricity that its customers use and passes this cost on to its customers without a markup.

In 2021, the OEB adjusted the Regulated Price Plan in response to the Government issued Emergency Orders under the Emergency Management and Civil Protection Act to assist Ontarians who were forced to stay home due to the COVID-19 pandemic.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

(a) **Cash and cash equivalents**

Cash and cash equivalents consist of overnight deposits at a Canadian chartered bank

(b) **Revenue recognition**

Sale and distribution of electricity

Revenues from energy sales and electricity distribution are recorded on the basis of cyclical billings and include estimates of customer usage since the last meter reading to the end of the year (unbilled revenue). The Entity applies judgment to the measurement of the estimated consumption and to the valuation of the consumption.

Distribution revenue is recorded based on the approved OEB distribution rates to recover the costs of delivering electricity to customers. This revenue also includes revenue related to the collection of the rate riders approved by the OEB.

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Revenue recognition (continued)

Capital contributions

Developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. The developer is not a customer and therefore the contributions are scoped out of IFRS 15 *Revenue from Contracts with Customers*. Cash contributions, received from developers are recorded as deferred revenue. When an asset other than cash is received as a capital contribution, the asset is initially recognized at its fair value, with a corresponding amount recognized as deferred revenue. The deferred revenue, which represents the Entity's obligation to continue to provide the customer access to the supply of electricity, is amortized to income on a straight-line basis over the useful life of the related asset.

Certain customers are also required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. These contributions fall within the scope of IFRS 15 *Revenue from Contracts with Customers*. The contributions are received to obtain a connection to the distribution system in order to receive ongoing access to electricity. The Entity has concluded that the performance obligation is the supply of the electricity over the life of the relationship with the customer which is satisfied over time as the customer receives and consumes the electricity. Revenue is recognized on a straight-line basis over the useful life of the related asset.

(c) Accounts receivable

Accounts receivable are recorded at the invoiced amount and overdue amounts bear interest at rates approved by the OEB. The Corporation evaluated its allowance for doubtful accounts on its expected credit loss (ECL) model based on its historic credit loss experience. Accounts receivable are shown net of an allowance for doubtful accounts of \$150,749 (2021 - \$112,931)

(d) Unbilled revenue

Unbilled revenue is recorded based on an estimated amount for electricity delivered and not yet billed. The estimate is based on actual meter readings provided and analyzed by a meter demand management company. Actual unbilled revenue could vary based on actual meter reading dates and the fiscal year end.

(e) Inventory

Inventory consists of repair parts, supplies, and material held for future capital expansion and maintenance activities and is valued at the lower of cost and net realizable value, with cost being determined on an average cost basis. Items considered major spare parts are recorded as capital assets.

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) **Property, plant and equipment**

Property, plant, and equipment (PP&E) are measured at cost or deemed cost established on the transition date. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Parts of an item of property, plant, and equipment that have different useful lives are accounted for as separate items (major components) of property, plant and equipment.

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal, if any, with the carrying amount of the item and is included in profit or loss.

The cost of replacing a part of an item in PP&E is recognized in the net book value of the item if it probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. In this event, the replaced part of the property, plant and equipment is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

The need to estimate the decommissioning costs at the end of the useful lives of certain assets is reviewed periodically. The Corporation has concluded it does not have any legal or constructive obligation to remove PP&E.

Depreciation is recognized in comprehensive income on a straight-line basis over the estimate useful life of each part or component of property, plant, and equipment. Land is not depreciated. Work in progress assets are not depreciated until the project is complete and the asset is available for use. The estimated useful lives are as follows:

Distribution station equipment	40 years
Poles, towers, and fixtures	50 years
Overhead conductors	60 years
Overhead devices	40 years
Underground conduit	50 years
Underground conductors and devices	30 years
Transformers	40 years
Services – overhead	50 years
Services – underground	40 years
Distribution meters	25 years
Smart meters	15 years
Computer hardware	5 years
Computer software	5 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting period.

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment

Property, plant, and equipment assets with finite lives are tested for recoverability at each reporting date to determine whether there is any indication of impairment. Any impairment is recognized in comprehensive income when the asset's carrying value exceeds its estimated recoverable amount.

An impairment charge may be reversed only if there is objective evidence that a change in the estimate used to determine the asset's recoverable amount since the last impairment was recognized is warranted. A reversal of an impairment charge is recognized immediately in comprehensive income. After such a reversal, the depreciation charge, where relevant, is adjusted in future periods on a systematic basis over the asset's remaining useful life.

The carrying amounts of the Entity's other non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

(h) Customer deposits

Deposits from electricity customers are cash collections to guarantee the payment of electricity bills. Interest is paid on customer deposits.

Deposits are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

(i) Provisions

A provision is recognized if, as a result of a past event, the Entity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(j) Deferred income taxes

Income taxes are reported using the deferred income taxes method, as follows: current income tax expense is the estimated income taxes payable for the current year after any refunds or the use of losses incurred in previous years, and deferred income taxes reflect:

- the temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes;
- the benefit of unutilized tax losses that will more likely than not be realized and carried forward to future years to reduce income taxes.

Deferred income taxes are estimated using the rates enacted by tax law and those substantively enacted for the years in which deferred income taxes assets are likely to be realized, or deferred income tax liabilities settled. The effect of a change in tax rates on deferred income tax assets and liabilities is included in earnings in the period when the change is substantively enacted.

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Payment in lieu of corporate income taxes

Under the Electricity Act, the Corporation provides for payments in lieu of corporate income taxes, also referred to as income tax expense, using the tax liability method. Under the tax liability method, current income taxes payable are recorded based on taxable income. The Entity recognizes deferred tax assets and liabilities for future tax consequences of events that have been included in the financial statements or income tax returns. Deferred tax assets and liabilities are determined based on the difference between the carrying value and their respective tax basis, using tax rates enacted or substantially enacted by the statement of financial position date that are in effect for the year in which the differences are expected to reverse. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefits will be realized. The calculation of current and deferred taxes requires management to make certain judgments with respect to changes in tax interpretations, regulations, and legislation, and to estimate probable outcomes on the timing and reversal of temporary differences and tax authority audits of income tax.

Rate-regulated accounting requires the recognition of regulatory balances and related deferred tax assets and liabilities for the amount of deferred taxes expected to be refunded or recovered from customers through future electricity distribution rates. A gross up to reflect the income tax benefits or liabilities associated with the revenue impact resulting from the realization of deferred taxes is recorded within regulatory balances.

(l) Regulatory deferral accounts

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. These amounts have been accumulated and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Entity.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in profit and loss. The debit balance is reduced by the amount of customer billings as electricity is delivered to the customer and the customer is billed at rates approved by the OEB for the recovery of the capitalized costs.

Regulatory deferral account credit balances are recognized if it is probable that future billings in an amount at least equal to the credit balance will be reduced as a result of rate-making activities. The offsetting amount is recognized in profit and loss. The credit balance is reduced by the amounts returned to customers as electricity is delivered to the customer at rates approved by the OEB for the return of the regulatory account credit balance.

The probability of recovery or repayment of the regulatory account balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover or repay the balance. Any resulting impairment loss is recognized in profit and loss in the year incurred.

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Regulatory deferral accounts (continued)

Regulatory deferral accounts attract interest at OEB prescribed rates. In 2022 the rates were 0.57% in quarter one, 1.02% in quarter two, 2.20% in quarter three and 3.87 in quarter four (2021 - 0.57%).

(m) Measurement Uncertainty

The preparation of financial statements in conformity with IFRS requires management to make certain estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

- a) Note 3 - Revenue recognition - estimates of unbilled revenue
- b) Note 3 - Accounts receivable - allowance for impairment
- c) Note 3 - Property, plant, and equipment, useful lives and the identification of significant components of property, plant, and equipment
- d) Note 3, 12 - Recognition and measurement of regulatory balances
- e) Note 14 - Recognition of deferred tax assets - availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be used.

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

4. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the Entity's designation of such instruments. Settlement date accounting is used.

Classification

Cash and cash equivalents	Fair value through profit and loss (FVTPL)
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities
Due from/to related parties	Other financial assets/liabilities
Current portion of customer deposits	Other financial liabilities
Long-term debt	Other financial liabilities
Non-current portion of customer deposits	Other financial liabilities

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

Amortized cost

Subsequent to initial recognition, loans and receivables are accounted for at amortized cost using the effective interest method.

Other financial liabilities

Subsequent to initial recognition, other financial liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

Effective interest method

The Entity uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums, or discounts earned or incurred for financial instruments.

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when, and only when, the Entity has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

4. FINANCIAL INSTRUMENTS (Continued)

Fair value measurements are established based on the following hierarchy that categorizes the inputs to valuation techniques:

Level 1 Fair value measurement based on quoted prices (unadjusted) observable in active markets for identical assets or liabilities

Level 2 Fair value measurement using inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3 Fair value measurement using inputs that are not based on observable market data (unobservable inputs)

The fair values of cash and cash equivalents approximate their carrying amounts due to their short-term nature.

The following table presents the financial instruments recorded in fair value in the Statement of Financial Position, classified using the fair value hierarchy described above:

December 31, 2022	Level 1	Level 2	Level 3	Total financial assets and liabilities at fair value
Financial assets				
Cash and cash equivalents	793,075	-	-	793,075
Total Financial Assets	793,075	-	-	793,075

December 31, 2021	Level 1	Level 2	Level 3	Total financial assets and liabilities at fair value
Financial assets				
Cash and cash equivalents	700,530	-	-	700,530
Total Financial Assets	700,530	-	-	700,530

Impairment of financial assets

A financial asset is assessed using the lifetime expected credit losses (ECL) model to determine whether there is any objective evidence that it is impaired, using the simplified approach. This includes both quantitative and qualitative information and analysis, based on the Entity's historical experience, adjusted for forward-looking factors specific to the current credit environment.

The Entity measures the loss allowance at an amount equal to the lifetime ECL for accounts receivables or contract assets that result from transactions that are within the scope of IFRS 15, and do not contain a significant financing component. The Entity uses a provision matrix to measure the lifetime ECL of accounts receivable from individual customers which accounts for exposures in different customer classes.

If the amount of impairment loss subsequently decreases due to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through net income.

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

4. FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The company is exposed to credit risk from customers. In order to reduce its credit risk, the company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. The Corporation has a significant number of customers which minimizes concentration of credit risk. The Corporation's distribution revenue is earned on a broad base of customers principally located in Tillsonburg, with no single customer that accounts for revenue or accounts receivable balance in excess of 10% of the respective balance.

An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends, and other information. The carrying amount of accounts receivable is reduced through the use of the allowance. Subsequent recoveries of receivables previously provisioned are credited to profit or loss. The balance of the allowance for impairment at December 31, 2022 is \$150,749 (2021 - \$112,931). An impairment loss of \$60,000 (2021 - 60,000) was recognized during the year.

The Entity invests in short-term investments, depending on cash flow availability, which are not considered a credit risk.

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Entity is exposed to this risk mainly in respect of its receipt of funds from its customers and other related sources, long-term debt, and accounts payable. The Entity monitors its liquidity risk to ensure access to sufficient funds to meet operational requirements.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency rate risk, interest rate risk, and commodity price risk. The Entity does not currently have any material commodity or foreign exchange risk. The Entity is exposed to fluctuations in interest rates as the regulated rate of return for the Entity's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

(d) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the company manages exposure through its normal operating and financing activities.

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

5. ACCOUNTS RECEIVABLE

	2022	2021
Trade receivables	1,829,499	1,778,994
Other receivables	101,124	116,415
Allowance for doubtful accounts	(150,749)	(112,931)
	1,779,874	1,782,478

6. INVENTORY

The amount of inventory consumed by the Corporation and recognized as an expense during the year was \$21,890 (2021 - \$23,490). An amount of \$Nil (2021 - \$Nil) was written down due to obsolescence.

7. RELATED PARTY TRANSACTIONS

(a) Parent and ultimate controlling party

As the Corporation of the Town of Tillsonburg (Town) is the sole shareholder of the Entity, the Entity and the Town are considered related parties.

Banking and accounting activities are administered by the Town on behalf of Tillsonburg Hydro Inc. Amounts due from (to) related parties represent the net working capital position between the Town and the Corporation. A Master Service Agreement (MSA), which was updated in 2013, governs the financial relationship between the Entity and the Town. These financial statements reflect this MSA. This MSA was updated for the year beginning January 1, 2019 and was approved by both parties as of January 28, 2019. The costing provisions set out in the agreement includes a fixed indirect fee of \$140,000 (2021 - \$140,000).

A summary of transactions between these related parties are as follows:

	2022	2021
<u>Service based expenditures</u>		
Labour	2,057,759	2,054,417
Fleet	177,000	177,000
Rent	150,000	150,000
Master service agreement	140,000	140,000
	2,524,759	2,521,417

	2022	2021
<u>Service based sales</u>		
Hydro billings	492,898	483,749
Capital projects	111,386	-
	604,284	483,749

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

7. RELATED PARTY TRANSACTIONS (Continued)

As disclosed the entity received \$111,386 (2021 - \$Nil) in funds related to deposits on capital projects. These balances are included in the Deposits in Aid of Construction balance on the statement of financial position.

At year end outstanding balances due from (to) related parties was \$2,496,386 (2021 - 1,257,982).

The Entity also paid dividends to the Town of \$200,000 (2021 - \$200,000). The amounts due to and from related parties are non-interest bearing and unsecured.

(b) Key management personnel

They key management personnel of the Corporation have been defined as members of the Board of Directors and the executive managerial team members:

The compensation paid or payable is as follows:

	2022	2021
Salaries and benefits and directors' fees	453,911	362,564

8. INTANGIBLE ASSETS

2022

Cost

Balance at January 1, 2022	-
Additions	18,080
Disposals	-
Balance at December 31, 2022	18,080

Accumulated Amortization

Balance at January 1, 2022	-
Additions	1,898
Disposals	-
Balance at December 31, 2022	1,898

Net Book Value

December 31, 2022	16,182
December 31, 2021	-

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

9. PROPERTY, PLANT AND EQUIPMENT

Cost	2021 Balance	Additions	Disposals	2022 Balance
Substation land	11,520	-	-	11,520
Substation equipment	366,936	-	-	366,936
Distribution system	31,351,327	1,958,186	80,920	33,228,593
Computer hardware	26,168	2,236	-	28,404
Computer software	763,848	-	-	763,848
	32,519,799	1,960,422	80,920	34,399,301

Accumulated Amortization	2021 Balance	Amortization	Accumulated Amortization on Disposals	2022 Balance
Substation land	-	-	-	-
Substation equipment	154,438	12,792	-	167,230
Distribution system	12,881,311	731,315	80,920	13,531,706
Computer hardware	24,283	1,480	-	25,763
Computer software	671,656	42,453	-	714,109
	13,731,688	788,040	80,920	14,438,808

Cost	2020 Balance	Additions	Disposals	2021 Balance
Substation land	11,520	-	-	11,520
Substation equipment	279,239	87,697	-	366,936
Distribution system	29,486,476	1,937,845	72,994	31,351,327
Computer hardware	26,168	-	-	26,168
Computer software	761,198	2,650	-	763,848
	30,564,601	2,028,192	72,994	32,519,799

Accumulated Amortization	2020 Balance	Amortization	Accumulated Amortization on Disposals	2021 Balance
Substation land	-	-	-	-
Substation equipment	144,569	9,869	-	154,438
Distribution system	12,276,548	677,757	72,994	12,881,311
Computer hardware	23,027	1,256	-	24,283
Computer software	627,193	44,463	-	671,656
	13,071,337	733,345	72,994	13,731,688

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

9. PROPERTY, PLANT AND EQUIPMENT (Continued)

Net Book Value	2022	2021
Substation land	11,520	11,520
Substation equipment	199,706	212,498
Distribution system	19,696,887	18,470,016
Computer hardware	2,641	1,885
Computer software	49,739	92,192
	19,960,493	18,788,111

Included in distribution systems is \$303,184 of work in progress (2021 - \$137,861).

As at December 31, 2022, the property, plant and equipment are subject to a general security agreement as described in Note 11.

10. NET NON-UTILITY ACTIVITIES

The non-utility capital assets are comprised of solar powered equipment which is not regulated by the OEB. These assets are being depreciated over their useful lives and are shown as non-utility capital assets. The net revenue generated from these assets is recorded in the non-utility activities.

11. LONG-TERM DEBT

During 2021, the Entity was approved to borrow \$5,500,000 for capital project at prime rate of interest less 0.65%. As of December 31, 2022, the Corporation had been advanced \$5,000,000 (2021 - \$5,000,000). The loan has interest only payments, TD Prime less 0.65% per annum, for two years after the final draw, which can be extended for one more year upon approved request. As a result, the \$5,000,000 has been reflected in the financial statements as long-term debt. A general security agreement provides collateral for the loan.

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

12. REGULATORY ASSETS AND LIABILITIES

The following expenses (recoveries) may be considered by the OEB in future rate applications and accordingly have been deferred until such time as direction is provided by the OEB.

	2021 Balance	Additions/ transfers	Recovery/ reversals	2022 Balance
Regulatory assets				
Retail settlement variances	938,572	462,358	-	1,400,930
Recovery of regulatory assets	15,525	1,361	-	16,886
Deferred tax asset	606,830	238,398	-	845,228
	1,560,927	702,117	-	2,263,044

	2020 Balance	Additions/ transfers	Recovery/ reversals	2021 Balance
Regulatory assets				
Retail settlement variances	569,710	368,862	-	938,572
Recovery of regulatory assets	15,120	405	-	15,525
Deferred tax asset	393,408	213,422	-	606,830
	978,238	582,689	-	1,560,927

	2021 Balance	Additions/ transfers	Recovery/ reversals	2022 Balance
Regulatory liabilities				
Retail settlement variances	-	-	-	-
Deferred costs	64,813	41,597	-	106,410
Deferred tax asset	-	-	-	-
	64,813	41,597	-	106,410

	2020 Balance	Additions/ transfers	Recovery/ reversals	2021 Balance
Regulatory liabilities				
Retail settlement variances	-	-	-	-
Deferred costs	31,903	32,910	-	64,813
Deferred tax asset	-	-	-	-
	31,903	32,910	-	64,813

The retail settlement variance accounts represent the difference between the amount charged by the IESO based on the settlement invoice and the amount billed to customers using the OEB approved rates. The disposition of these amounts is expected to be reflected in future rate adjustments.

The balance in the recovery of regulatory assets represents the amount that the OEB has considered final in prior applications and set a rate for recovery.

The Entity continually assesses the likelihood of recovery of each of its regulatory assets and liabilities into the setting of future rates. If, at some future date, the Entity judges that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be reflected in results of operations in the period that the assessment is made.

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

13. DEFERRED CONTRIBUTIONS

Deferred customer contributions in aid of construction or acquisition of property, plant, and equipment is as follows:

	2022	2021
Deferred contributions, beginning of year	3,831,067	3,341,927
Add: deferred contributions received	528,839	606,302
Less: amounts recognized as other revenue	(131,351)	(117,162)
Deferred contributions, end of year	4,228,555	3,831,067

14. PAYMENTS IN LIEU OF CORPORATE TAXES

	2022	2021
Total current and deferred taxes	328,813	222,831
Prior year underprovision	(75,737)	
Deferred tax liabilities - opening	606,830	393,408
Deferred tax liabilities - ending	<u>845,228</u>	<u>606,830</u>
Deferred tax provision	(238,398)	(213,422)
Total current tax payable (recovery)	14,678	9,409

Reconciliation of effective tax rate

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate are as follows:

	2022	2021
Income (loss) before income taxes	(128,687)	(45,270)
Add: net movement in regulatory balances	660,520	549,779
	531,833	504,509
Expected taxes based on a statutory rate of 26.5% (2021 - 26.5%)	140,936	133,695
Capital cost allowance in excess of depreciation	(91,575)	(97,154)
Other additions and deductions	(34,683)	(27,132)
Under (Over) provision of prior years	75,737	-
Income tax expense (recovery)	90,415	9,409

Components of the Entity's deferred tax balances:

	2022	2021
Regulatory balances	347,563	235,660
Property, plant and equipment	1,618,232	1,386,277
Deferred contributions	(1,120,567)	(1,015,232)
Non-utility capital assets	-	125
	845,228	606,830

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

15. SHARE CAPITAL	2022	2021
Authorized		
Unlimited - Common voting shares		
Unlimited - Class A shares non-voting, non-cumulative, redeemable		
Issued		
1 Common voting share	6,992,565	6,992,565

16. CAPITAL MANAGEMENT

The Entity defines capital as shareholders' equity and long term debt. As at December 31, 2022, shareholders equity amounts to \$12,370,738 (2021 - \$12,129,320) and long term debt amounts to \$5,000,000 (2021 - \$5,000,000) The Corporation's objectives when managing capital are to ensure sufficient liquidity to supports its financial obligations and execute its operating and strategic plans; maintain financial capacity and access to capital to support future development of the business while taking into consideration current and future industry, market and economic risks and conditions; and utilize short-term funding sources to manage its capital requirements.

17. EXPENSES

	2022	2021
Salaries and benefits	1,289,587	1,340,824
Materials	21,890	23,490
Contracted services	476,238	485,300
Amortization	789,938	733,345
Corporate charges	622,400	567,992
Other	675,617	556,021
	3,875,670	3,706,972

18. PRUDENTIAL SUPPORT

Tillsonburg Hydro Inc. has posted a letter of credit with the Independent Electricity System Operator (IESO) in the amount of \$956,406 (2021 - \$956,406). The IESO is responsible for ensuring that prudential support is posted by all market participants to satisfy their prudential support and obligation and, therefore, mitigate the impact of an event of default by a market participant on the rest of the market.

19. COMPARATIVE FIGURES

Certain of the prior year's figures, provided for purposes of comparison, have been reclassified to conform with the current year's presentation.

TILLSONBURG HYDRO INC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022

20. FUTURE ACCOUNTING PRONOUNCEMENTS

Certain new standard, amendments, improvements, and interpretations to the existing standards have been issued by the IASB, but are not yet effective for the year ended December 31, 2022, and have not been applied in preparing these financial statements:

IAS 1 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income, or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets, or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

The Entity anticipates that the adoption of these pronouncements will not have a material impact on the financial statements.