



CREATING LONG-TERM VALUE



strategic direction
2012-2016

 **HydroOttawa**
Holding Inc.



OUR MISSION

To create long-term value for our shareholder, benefitting our customers and the communities we serve

OUR ORGANIZATIONAL VALUES

Teamwork, Integrity, Excellence and Service

OUR VISION

Hydro Ottawa—a leading, trusted, integrated utility services company

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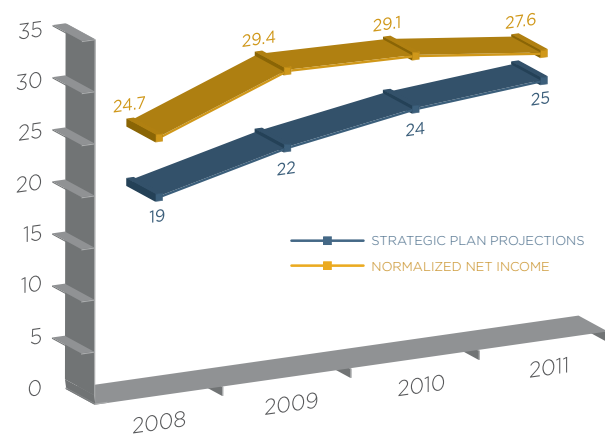
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1. overview of strategic direction

1.1 INTRODUCTION

Hydro Ottawa's 2012-2016 Strategic Direction presents a comprehensive overview of our business strategy and financial projections for the next five years. It builds on our strengths and achievements, and responds to a changing business environment that presents both challenges and opportunities for the Hydro Ottawa Group of Companies (Hydro Ottawa).

Since its creation in November 2000 through the amalgamation of five local electric utilities, Hydro Ottawa has become one of Ontario's leading utility companies—in terms of service delivery, financial performance and environmental leadership. In 2008, we set out financial targets for the five-year period 2008-2012. The company has surpassed expectations in each of the first four years of that plan, with normalized net income exceeding projections by 24 percent, dividends 40 percent higher than target, and shareholder value growing by more than \$135 million.



NET INCOME VS. PLAN > \$ MILLIONS

24% amount normalized net income has exceeded projections over the first four years of the 2008-2012 Strategic Direction and Financial Outlook



Hydro Ottawa has also been recognized as a leader by our peers and other third parties, with recognition including the Electricity Distributors Association Customer Service Excellence Award in 2012, the United Way Community Builder Award in 2011, One of Canada's 50 Greenest Employers for two years in a row in 2011 and 2012, One of the *National Capital Region's Top 25 Employers* for four consecutive years from 2009 to 2012, and One of the *50 Most Engaged Workplaces in Canada* for the second year in a row in 2011.

This solid performance is a testament to the commitment to excellence that Hydro Ottawa employees bring to their work every day.

We are proud of what we have achieved as a company. At the same time, we believe that a refreshed strategic direction is essential if we are to be a successful utility of tomorrow. As outlined in the pages that follow, our business environment is changing, and we must change with it.

To ensure Hydro Ottawa's continued success and sustainability in the years ahead, the Board and management engaged in a long-term strategic planning process in 2011. This process involved reviewing the company's strategic direction and performance over the period of the preceding strategic plan, identifying emerging trends, issues and opportunities in our business environment, and assessing the organization's capability to deliver longer-term results.

The outcome is a refreshed and realigned strategic plan that will ensure that the company not only survives but thrives over the next five years.

1.2 STRATEGY

Our mission as we move forward into our future remains the same—to deliver value, both as a community asset delivering

essential services to Ottawa residents, and as the City of Ottawa's single biggest investment.

With that mission in mind, our goal over the next five years is two-fold:

- > to continue to effectively fulfil our core mandate to provide a safe, reliable, affordable and sustainable supply of electricity to the over 305,000 homes and businesses in our City that rely upon it every day; and
- > to move the company from good to great, leveraging our position as a leading and trusted service provider to become one of Canada's most successful integrated utilities of tomorrow.

To achieve these goals, Hydro Ottawa's strategy is to put the customer at the centre of everything we do. Understanding and responding to the customer's needs and expectations—for service quality, cleaner energy, and greater control over the management of energy costs—will be key to Hydro Ottawa's continued success in an evolving landscape. The customer value we provide 'up to and beyond the meter' will drive all critical areas of performance—our financial strength and business growth, our operational efficiency and effectiveness, and our contributions to the well being of our community.

To enhance our ability to respond to customer needs and expectations, and ensure long-term financial sustainability, Hydro Ottawa will maintain a focus on

strategic business growth within our core areas of strength.

Taken as a whole, we believe this strategy for the company's future presents a balanced program for solid financial and operating performance, coupled with sustainable and profitable business growth. We are proud that in pursuing these goals, we will continue to contribute to the City of Ottawa's own objective of financial sustainability, while ensuring for our community a more sustainable energy future.

1.3 FOUR STRATEGIC OBJECTIVES

Hydro Ottawa has achieved good results by focusing on four critical areas of performance—our four Key Areas of Focus. In each of these areas, we have set one overarching objective:

- > **CUSTOMER VALUE:**
We will deliver value across the entire customer experience;
- > **FINANCIAL STRENGTH:**
We will create sustainable growth in our business and our earnings;
- > **ORGANIZATIONAL EFFECTIVENESS:**
We will achieve performance excellence; and
- > **CORPORATE CITIZENSHIP:**
We will contribute to the well being of the community.

These four areas of focus will continue to guide our activities throughout the current plan, but one, Customer Value, takes on central importance.





Delivering
essential
services



2. our business

Hydro Ottawa Holding Inc. (HOHI) was created in November 2000 following the amalgamation of the municipalities of the former Region of Ottawa-Carleton and the restructuring of the Ontario electricity sector as a result of the *Electricity Act, 1998*. This Act required all hydro utilities to operate as business corporations.

HOHI is a for-profit company that is wholly owned by the City of Ottawa, and governed by an independent Board of Directors appointed by its shareholder.

The company's core businesses are electricity distribution, renewable energy generation and related services. HOHI owns and operates two subsidiary companies.

Hydro Ottawa Limited

Hydro Ottawa Limited is a regulated electricity distribution company operating in the City of Ottawa and the Village of Casselman. As the third largest municipally-owned electrical utility in Ontario, Hydro Ottawa Limited maintains one of the safest, most reliable and cost-effective electricity distribution systems in the province,

and serves over 305,000 residential and commercial customers across a service area of 1,104 square kilometres. As a condition of its distribution licence, the company is required to meet conservation and demand management targets established by the Ontario Energy Board (OEB).

Hydro Ottawa Limited receives power from the provincial electricity grid and transports it across a distribution network comprising 85 distribution stations, 2,700 kilometres of underground cable, 2,900 kilometres of overhead lines, 43,000 transformers and 48,400 hydro poles.

The company's customer base grows by an average of 1 percent per year.

Energy Ottawa Inc. (Energy Ottawa)

A generator of renewable energy and provider of commercial energy management services, Energy Ottawa is the largest municipally-owned producer of green power in Ontario.

Its run of the river hydroelectric facilities at Chaudière Falls in the city's core produce on average more than 125,000 megawatt-hours (MWh) of EcoLogo certified green power and are under a 20-year power purchase agreement with the Ontario Power Authority (rates are guaranteed and include annual inflation protection until 2030). In addition, the Trail Road landfill gas-to-energy plant, PowerTrail Inc., a joint venture 60 percent owned by Energy Ottawa, converts millions of tonnes of previously flared-off methane gas into renewable energy. As of 2012, construction is underway on a second jointly-owned landfill gas-to-energy plant in Eastern Ontario, which is scheduled to begin production early in 2013.



- > Largest electricity distributor in eastern Ontario
- > Third largest municipally-owned electricity distributor in Ontario
- > More than 305,000 customers
- > More than 600 employees
- > Service area of 1,104 square kilometers
- > 85 distribution stations
- > 2,700 kilometres of underground cable
- > 2,900 kilometres of overhead lines
- > 43,000 transformers
- > 48,400 poles
- > Capital investment of \$100M per year



- > Ottawa's largest producer of green power
- > Energy services saved the City of Ottawa \$5.75 million over five years





Understanding the changing business environment



3. strategic context

At Hydro Ottawa, we believe that the successful *utilities of tomorrow* will continue to be those that are able to anticipate and meet the needs of their customers and other stakeholders, and respond to the requirements of a changing business environment.

This section of the Strategic Direction outlines some of the most significant trends in our business environment, which help shape the strategy that follows.

3.1 THE CUSTOMER: THE HEART OF TOMORROW'S UTILITIES

The stage has been set in Ontario for the utility of tomorrow — customer-centric, responsive, and a single point of contact for its customers' electricity requirements.

The emergence of the integrated utility is the outcome of strategic shifts in the energy sector in Ontario during the last five years: the emphasis on conservation; investments in green energy; a province-wide roll-out of smart meters; the beginnings of a smart grid; and the

integration of the customer in laying the foundation for a distributed generation system.

The central place now occupied by the customer represents the true change in the fundamentals of the utilities business. Customers are no longer just consumers of electricity, but also generators of electricity and managers of energy conservation.

Hydro Ottawa recognizes this centrality of the customer as the key driver of its strategy over the next five years. The customer value we provide “up to and beyond the meter” will drive our financial strength and business growth, our operational efficiency and effectiveness, and our contributions to the well being of our community.

3.1.1 DRIVING CUSTOMER VALUE

The new value proposition to the customer will be driven by a strategic emphasis on the following.

Investments in infrastructure

A Conference Board of Canada study estimates that utilities across Ontario must invest \$21 billion over the next 20 years for the replacement and refurbishment of aging infrastructure, and to facilitate smart grid developments.

In Ottawa, where two-thirds of the infrastructure is more than 25 years old, improvements to the distribution system must also consider the projected growth in population and substantial investments in municipal infrastructure, including public transit.



Customer Segmentation and Communication

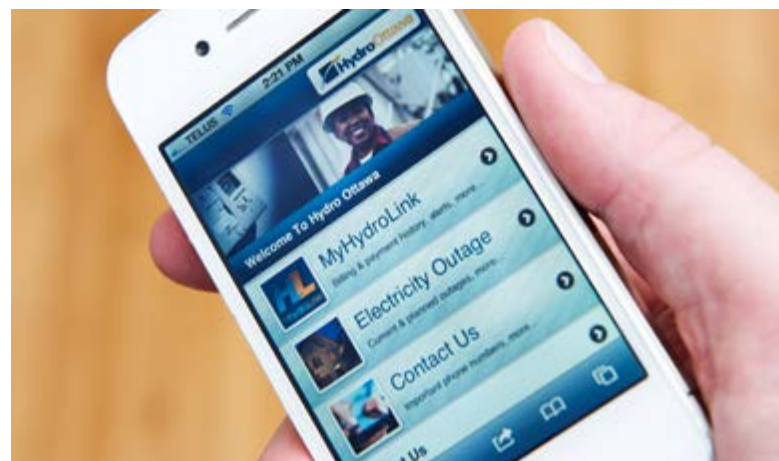
As the customer's place within the electricity system evolves, successful utilities will be those that recognize that customers are not all the same, and adapt and tailor their service delivery to the specific needs of individual customers, leveraging technology to enhance the customer experience.

Research shows that all customers—residential, small commercial, industrial, institutional—will look for ways to reduce the impact of rising rates, which are seen as inevitable, given the scale of capital investments needed to modernize decades-old infrastructure. Across the world, customers perceive their local utilities as the preferred partner in value-added services beyond the meter.

Tomorrow's leading utilities must not only meet customers' expectations for innovative tools and information to help them manage rising energy costs, but also recognize the business opportunities that arise from this expectation, and respond in ways that benefit customers, shareholders, and the environment.

3.2 TECHNOLOGY INVESTMENTS— NEED FOR ECONOMIES OF SCALE AND SCOPE

While foundational pieces of the smart grid infrastructure have been put in place, utilities will still need to make substantial investments in technology. Operational, administrative, and customer-facing technologies are converging, dramatically increasing the flow of information and the ability to respond to it. From advanced metering at the customer's home, to intelligent system controls based on real-time information, to more dynamic customer care and back-office support, and back to the energy user through web interfaces and web applications that put information and control in the hands of



the customer, modern utility service is built upon increasingly sophisticated and interlinking systems.

Technological advancement brings efficiencies, but also requires significant investments. Going it alone may no longer be a feasible option for many utilities. In this regard, a recent position paper of Ontario's Electricity Distributors Association highlights how crucial it will be to achieve economies of scale and economies of scope.

3.3 EVOLUTION OF THE POLICY AND REGULATORY ENVIRONMENT

Containing rising rates for consumers while at the same time facilitating infrastructure and technology investments is the key challenge facing regulators. An option that may be considered is a regulatory framework that recognizes interdependencies in the system and encourages achieving greater efficiency in the sector through economies of scale and scope, and more integrated utility services.

Fiscal pressures faced by the Province of Ontario have now prompted a rationalization of the regulatory framework, including a reduction in the number of regulatory agencies.



In parallel, initiatives such as the Ministry of Energy's *Ontario Distribution Sector Review Panel* and the Ontario Energy Board's consultations for the development of a *Renewed Regulatory Framework for Electricity* could pave the way for benefits to ratepayers through economies of scale, greater efficiency across entire regions and service areas, consolidation and integration.

Fiscal pressure in Ontario may induce a change in policy vis-à-vis municipally-owned utilities, which could be required to maintain standards of customer service, reliability, technological conformance and financial viability with less Provincial and regulatory support. In such a scenario, a relaxation or elimination of some of the more

restrictive aspects of the Ontario Energy Board Act would afford utilities opportunities (and imperatives) to achieve higher back-office efficiencies, develop additional revenue streams, and provide seamless energy-related offerings to customers.

Certain signals in recent years, such as transferring Conservation and Demand Management mandates to Local Distribution Companies (LDCs), or allowing LDCs to own and operate generation plants of up to 10 MW capacity, appear to reinforce a trend towards the integration of generation, distribution, and energy management.

There is also a distinct prospect of regulatory encouragement of greater collaboration, cooperation and, if



ELIGIBLE RETIREMENTS: 2012-2021

- > 42.3 percent of the total employee population
- > 50.4 percent of the trades and technical employee population



LOSS OF LABOUR FORCE EXPERIENCE 2012-2021

- > 6,216 years of experience are eligible for retirement, including 3,544 years of service in trades and technical jobs

necessary, consolidation of LDCs. The downward trend in utilities' distribution revenue, as a result of conservation, could also provide some impetus to this movement.

These areas of policy and regulation are evolving. The speed of this change and the direction it takes will have a significant impact on Hydro Ottawa's business strategy and success. The organization is well positioned to provide services to smaller utilities, or contemplate mergers and acquisitions. Put simply, Hydro Ottawa stands ready to embrace this new future.

3.4 STRENGTHENING CORE COMPETENCIES—WORKFORCE PLANNING

Utilities across Canada are facing challenges in replacing and renewing their aging workforce, while ensuring operational capacity and continuity.

Forecasting talent demands, anticipating supply gaps, expanding and strengthening apprenticeship, internship and succession planning programs, will all be crucial in maintaining organizational effectiveness. Sustaining the success achieved so far by Hydro Ottawa with its strategic workforce

planning will need to be an area of focus for the organization.

At the same time, workforce planning and the related training and development strategies may offer Hydro Ottawa another business opportunity, providing services to smaller utilities that may have greater difficulty renewing their aging workforce.

3.5 CHANGING AND ENHANCING VALUE STREAMS

The core competencies and value streams of integrated utilities will remain unchanged:

- > **GENERATION:**
Expand renewable generation capacity. Pursue distributed generation, co-generation and district energy opportunities.
- > **DISTRIBUTION:**
Examine opportunities to expand service territory through mergers or acquisitions.
- > **ENERGY MANAGEMENT:**
Take on a range of roles as conservation and energy management become pervasive. Offer specialized services to other utilities in transitioning to the smart grid and adapting to the new energy landscape.

The value streams of the future will derive from utilities' capacity to capture their expertise in each of these core

competencies and translate them into revenue-earning propositions for diverse customers. These customers may include not only users of electricity but also other utilities, even non-electrical utilities, who will be on the lookout for expertise in a range of business activities and processes, including project management; workforce planning; training and development; billing and collection activities; asset planning and management; system hosting and sharing.

Hydro Ottawa is positioned to achieve excellence not only in its core competencies but also to scale up and monetize the cutting-edge expertise it has achieved in a number of areas.





Ensuring
a more
sustainable
energy
future



4. strategic direction

4.1 OUR MISSION

To create long-term value for our shareholder, benefitting our customers and the communities we serve.

Hydro Ottawa is both a community asset and an investment for our shareholder, the City of Ottawa. As a community asset, our purpose is to continue to provide effective, efficient and reliable services to our customers, and to continue to be a strong strategic partner with the City, helping to deliver on its economic development and environmental agendas. As an investment, our purpose is to provide stable, reliable and growing returns, and to increase shareholder value both in the short and long-term.

4.2 OUR GUIDING PRINCIPLES

Hydro Ottawa is committed to creating long-term value in a manner that will withstand the test of public scrutiny and inspire confidence and trust. To that end, we strive to achieve excellent operating and financial results while

abiding by professional standards of conduct. We are guided not only by legal obligations, but also by best governance and business practices, and standards established by independent agencies. These expectations provide the foundation for our commitments to all of our stakeholders, and are reflected in our organizational values, our *Code of Business Conduct*, and our operating policies and procedures.

4.2.1 OUR ORGANIZATIONAL VALUES

At Hydro Ottawa we are committed to an organizational environment that fosters and demonstrates ethical business conduct at all levels and reflects our shared values of teamwork, integrity, excellence and service. Every employee must lead by example in this endeavour.

4.2.2 OUR COMMITMENTS TO OUR STAKEHOLDERS

Hydro Ottawa takes into account the interests of all our stakeholders including employees, customers, suppliers, and the communities and environment in which we operate.

Employees

The quality of our workforce is our strength and we will strive to hire and retain the best-qualified people available and maximize their opportunities for success. We are committed to maintaining a safe, secure and healthy work environment enriched by diversity and characterized by open communication, trust, and fair treatment.

Customers

Our continued success depends on the quality of our customer interactions, and we are committed to delivering value across the entire customer experience. We are honest and fair in our relationships with our customers, and provide reliable, responsive and innovative products and services in compliance with legislated rights and standards for access, safety, health and environmental protection.



Suppliers and Contractors

We are honest and fair in our relationships with our suppliers and contractors and purchase equipment, supplies and services on the basis of merit. We pay suppliers and contractors in accordance with agreed terms, encourage them to adopt responsible business practices, and require them to adhere to our health, safety and environment standards when working for Hydro Ottawa.

Community and the Environment

We are committed to being a responsible corporate citizen and will contribute to making the communities in which we operate better places to

live and do business. We are sensitive to the community's needs, and dedicated to protecting and preserving the environment where we operate.

Shareholder and Other Suppliers of Finance

We are financially accountable to our shareholder and to the institutions that underwrite our operations, and communicate to them all matters material to the organization. We protect our shareholder's funds, and manage risks effectively. We communicate to our shareholder all matters that are material to an understanding of our corporate governance.





Achievers



4.3 OUR VISION AND STRATEGY

4.3.1 OUR VISION

Hydro Ottawa — a leading, trusted, integrated utility services company.

Hydro Ottawa's vision is to be a leading and trusted integrated utility services company. This vision is built upon the objectives that were set out for the company at its inception — to increase the value of the company for its shareholder, to deliver efficient and effective service to our customers, and to grow competitive businesses that maximize the value of our existing assets and core competencies.

Hydro Ottawa has worked steadily towards these objectives since its creation in November 2000. Today, the company is a recognized leader in each of its core businesses, has grown significantly in value, and has delivered solid financial returns for several consecutive years.

The goal of Hydro Ottawa's five-year Strategic Direction is to move the company from good to great, leveraging our position as a leading and trusted service provider to become one of Canada's most successful *integrated utilities of tomorrow*.

Leading

For Hydro Ottawa, leading means consistently being among the top performers in the business, in every critical area of our operations; and being regarded as a credible and trusted voice in our industry, helping to shape policy, regulatory and operational responses to the critical issues of the day.

As our industry evolves in response to customer needs and technological and policy change, our goal is to ensure Hydro Ottawa continues to be a leader in this shifting strategic context, becoming one of the most successful utility companies in Canada.

Trusted

Trust is fundamental to Hydro Ottawa's success — a continuing belief among our stakeholders that we will deliver on our mission, reliably, in a transparent and accountable fashion.

We are a company with very deep roots in our community, established over more than 100 years of service, and we continue to be recognized as a service leader, receiving the Electricity Distributors Association's *Customer Service Excellence Award* in 2011.

In the years to come, we will continue to demonstrate that we have the

strength and ability to deliver on our mandate, coupled with a commitment to transparency, accountability, and the well-being of our community.

Integrated

While yesterday's most successful utilities were vertically integrated — providing generation, transmission and distribution services — a new model of integrated utility is emerging based on a well-connected value chain in 'close to the customer' utility services. These horizontally integrated utilities are leveraging the synergies between utility functions to deliver efficiencies to customers, and value to shareholders.

The distribution of utility commodities is similar, whether the commodity is electricity, water, or heat. The skill sets employed to develop renewable energy facilities and install electrical infrastructure can be applied to other energy systems, such as district energy and distributed generation.

Hydro Ottawa's strategic vision involves realizing synergies and economies of scale in 'close to the customer' utility services, to create additional value for the company's shareholder, and savings and enhanced service to customers.

4.3.2 OUR STRATEGY

The essence of Hydro Ottawa's strategy is to put the customer at the centre of everything we do. Understanding and responding to the customer's needs and expectations—for service quality, cleaner energy, and greater control over the management of energy costs—will be key to Hydro Ottawa's continued success in an evolving landscape. The customer value we provide 'up to and beyond the meter' will drive all critical areas of performance—our financial strength and business growth, our operational efficiency and effectiveness, and our contributions to the well being of our community.

This means reorienting our business around the customer, focusing our efforts on enhancing the customer



experience. It means viewing our business from the customer point of view to understand customer perceptions and requirements, simplifying and improving interactions to make it easier to do business with us, and introducing new and innovative solutions to meet customer needs.

To enhance our ability to respond to customer needs and expectations, and ensure long-term financial sustainability, Hydro Ottawa will also maintain a focus on strategic business growth within our core areas of strength. Our growth agenda involves three basic components:

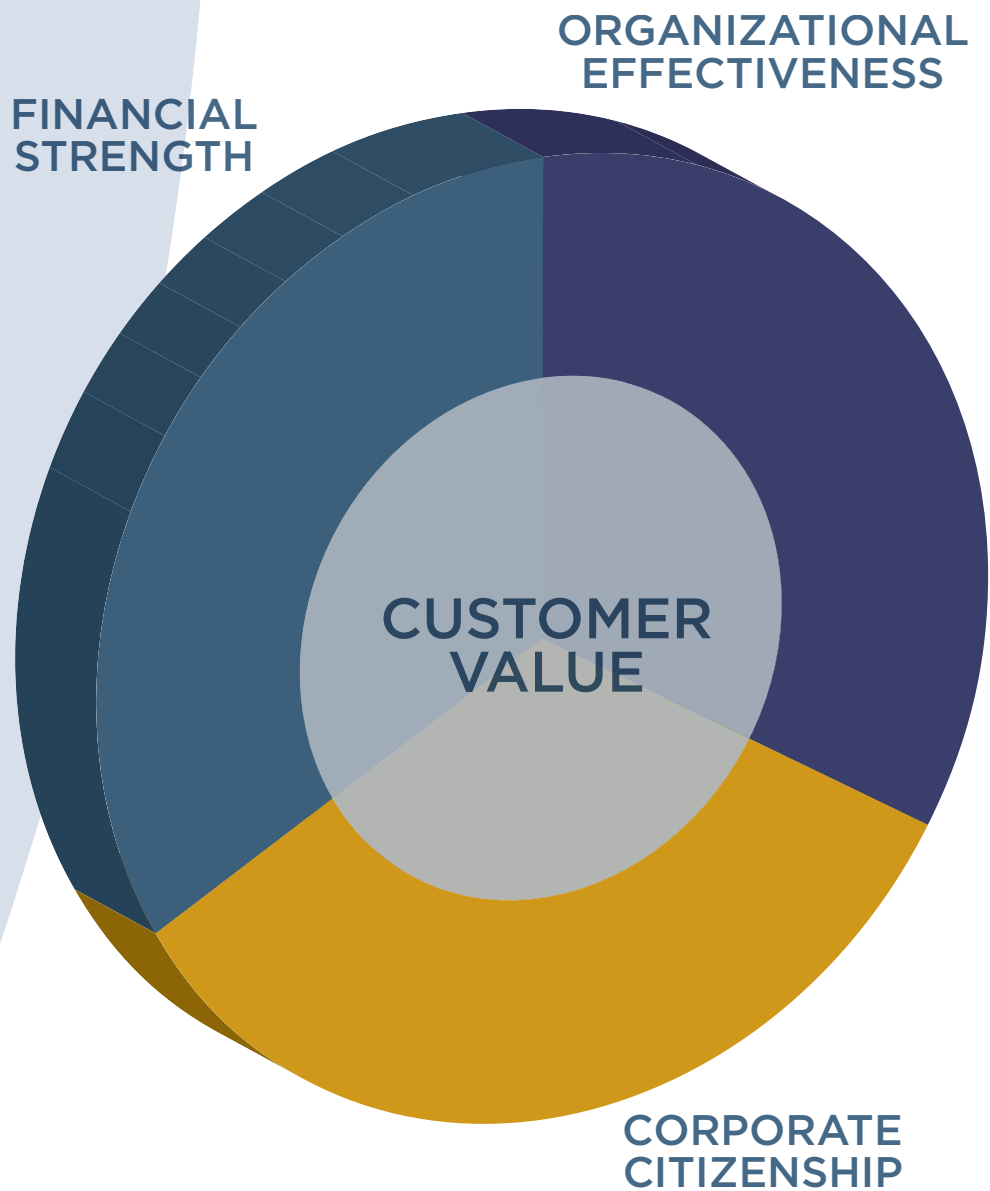
- > achieving economies of scale by expanding our electricity distribution business beyond its current service territory, and leveraging our core systems to support other utility services;
- > increasing the supply of clean energy for customers and earnings for our shareholder by expanding our renewable generation; and
- > bringing innovative solutions to energy-conscious consumers and businesses, while meeting mandatory conservation targets set by the province of Ontario, by growing our energy management expertise.

To achieve our strategy, the plan is structured around four critical areas of performance that have driven our success to date—our four Key Areas of Focus. These four areas of focus will continue to guide our activities throughout the current plan, but one, Customer Value, takes on central importance.



www.hydroottawa.com

4.4 DELIVERING ON OUR VISION — FOUR KEY AREAS OF FOCUS



CUSTOMER VALUE

Strategic Objective

We will deliver value across the entire customer experience

- > by providing reliable, responsive and innovative services at competitive rates

FINANCIAL STRENGTH

Strategic Objective

We will create sustainable growth in our business and our earnings

- > by improving productivity and pursuing business growth opportunities that leverage our strengths — our core capabilities, our assets and our people

ORGANIZATIONAL EFFECTIVENESS

Strategic Objective

We will achieve performance excellence

- > by cultivating a culture of innovation and continuous improvement

CORPORATE CITIZENSHIP

Strategic Objective

We will contribute to the well-being of the community

- > by acting at all times as a responsible and engaged corporate citizen

4.4.1 CUSTOMER VALUE

As a company that provides an essential service to the public, nothing is more critical to Hydro Ottawa's success than the ability to deliver value to our customers.

The fundamentals of customer value in the electricity business are quality and cost — delivering a reliable service, while operating efficiently and effectively to keep rates competitive. Hydro Ottawa is consistently among the top performers in Ontario in both these areas.

But the customer's place within the electricity system is also evolving. Customers are no longer just consumers of electricity, but also generators of electricity and managers of energy conservation, thereby making them integral and active participants in the management of our electricity system.

Furthermore, the transformation and empowerment of the Canadian consumer in general has been growing steadily over the past decade, with more than 80 percent of Canadians over the age of 16 now connected to the internet and the large amount of information it puts in their hands. Consequently,



consumers are becoming increasingly informed and enabled — and they want the highest quality of tailored service they can get. The traditional monopolistic service offering is no longer sufficient and will need to evolve to support the unique needs of our customers.

As more and more of our customers embrace technology and mobile devices — from smartphones to iPads and whatever new product tomorrow will bring — they are necessarily going to become that much more empowered and have even higher expectations of Hydro Ottawa.

Our objective is to meet or exceed their diverse needs and requirements by delivering the greatest possible value across the entire customer experience.

To achieve this, Hydro Ottawa will focus on service quality and responsiveness, assisting our customers in managing their energy consumption and electricity costs, and maintaining overall system reliability.

Our approach will include:

- > a focus on detailed customer knowledge to guide us in understanding, anticipating and responding to customer needs;
- > the revision of our conditions of service — our operating practices, levels of service and connection policies — to be more customer-centric; and
- > effective and innovative use of technology and communication to enhance the customer experience, and provide solutions to help customers conserve energy and manage costs.

Talent management strategies will likewise shift to support the organization in becoming a leader in customer satisfaction, including enhanced training for all Hydro Ottawa employees to support them as ambassadors for our company, our brand, our expectations, and our commitments to all our stakeholders.

Moreover, Hydro Ottawa will continue to make significant investments to maintain and enhance the reliability of our distribution infrastructure, and will undertake to develop and implement a Smart Grid roadmap — our Grid Transformation Action Plan — to enhance system operations and our relationship with our customers.

4.4.2 FINANCIAL STRENGTH

Hydro Ottawa has achieved strong financial results over the past several years, surpassing the financial targets set out in our previous five-year plan by a substantial margin. Our objective over the next five years is to continue this trend of solid financial performance, while creating sustainable growth in our business and our earnings.

The financial targets set out in the Financial Outlook section of this document significantly exceed those set out in the previous plan. They are aggressive but achievable targets. While delivering on this five-year plan, we also want to build a foundation for further growth and value-creation in the future.

As with all other elements of this five-year strategy, Hydro Ottawa's plan for financial strength is based on our strategic focus on the customer. Meeting the customer's needs — for efficient service, cleaner energy, and greater control over energy costs — is not only good service, it is also good business. Continuing to be a leader in these areas is the key to Hydro Ottawa's continued financial success.



Our ability to meet customer needs can be enhanced through strategic growth. Economies of scale can be achieved by expanding our electricity distribution business beyond its current service territory and leveraging our core systems to support other utility services. Expanding renewable generation increases the supply of clean energy for customers and earnings for our shareholder. Growing our energy management expertise will allow us to bring innovative solutions to energy-conscious consumers and businesses while meeting mandatory conservation targets set by the province of Ontario.

As such, Hydro Ottawa will maintain a focus on strategic growth within our core areas of strength.

Electricity Distribution

For more than 100 years, Hydro Ottawa and its predecessor companies have delivered a reliable supply of electricity to Ottawa homes and businesses. That core service is the bedrock of our success, and will continue to be the dominant element of our business operations.

The approval of the company's 2012 Electricity Distribution Rate Application puts these operations on a stable

financial footing for the next few years. This will allow Hydro Ottawa to make important investments in our distribution system to maintain reliable service for the future, without compromising the company's financial strength.

At the same time, revenue growth under the current regulatory model is modest, and this is projected to continue throughout the term of the current plan. In order to successfully manage the challenges of aging infrastructure and high retirement rates in the skilled trades, which require investments in new equipment and apprenticeship programs, Hydro Ottawa will need to maintain its focus on cost containment and productivity improvement. These strategies have been an essential part of Hydro Ottawa's healthy financial performance over the past several years.

Another important factor is customer growth, since electricity distribution involves significant economies of scale. Some customer growth occurs organically as development occurs within Hydro Ottawa's service territory, with the company's customer base growing by approximately 1 percent year. More significant growth could

occur through the amalgamation of Hydro One customers within the City of Ottawa boundaries, or through consolidation with other local electricity distribution companies. Hydro Ottawa will continue to examine opportunities to expand our service territory through mergers or acquisitions where there is a clear benefit to our customers and our shareholder.

Both the rate regulation model within the province, and the potential for further consolidation within the electricity distribution sector, are currently under review at the provincial level. The outcomes of these reviews may present opportunities for Hydro Ottawa. As a service leader, and one of the largest and most efficient local electrical utilities in the province, Hydro Ottawa is well-positioned to respond.

Renewable Energy

Hydro Ottawa is a leader in renewable energy generation. With its EcoLogo III certified run-of-the-river hydroelectric facilities at Chaudière Falls on the Ottawa River, and the Trail Road landfill gas-to-energy plant, the company is the largest producer of green energy in eastern Ontario.

Chaudière Falls Ring Dam



Significant investments were made in refurbishing and expanding the Chaudière facilities beginning in 2000-2001, and they have produced consistent revenue and growing returns since that time. A new long-term pricing agreement was negotiated for the output from these facilities in 2010, ensuring consistent pricing for 20 years, with no risk from electricity spot market price volatility.



Ontario Local Distribution Companies

Source: Electricity Distributors Association

Given the company's expertise and track-record with this type of project, Hydro Ottawa continues to examine opportunities to expand its hydroelectric generation capacity. Under the right circumstances, including stable revenues from long-term power purchase agreements with guaranteed pricing, strategic growth of this nature could occur within the time frame of the current plan.

In addition to its waterpower assets, Hydro Ottawa is the majority owner of a landfill gas-to-energy plant at Trail Road, with another similar plant under construction at Moose Creek. This technology has matured in the past

five years, and is providing growing production and revenues, along with the environmental benefits of producing clean energy from previously flared-off landfill gas. In 2012, the PowerTrail facility was expanded through the addition of a sixth engine. The new facility at Moose Creek, which is also a joint-venture partnership, is expected to be in full operation in early 2013.

Solar power, distributed generation, co-generation, and district energy

Energy Ottawa's
commercial electricity
management dashboard



opportunities also remain a focus for future growth. In particular, agreements are in place with the City of Ottawa to install solar panels on 20 municipal buildings, and a 12 megawatt ground-mounted solar facility at the former Nepean landfill. It is expected that within the time frame of the current plan, upgrades will be completed to the provincial transmission system that will enable these projects to move forward.

Energy Management and Conservation

Hydro Ottawa has also been a leader in energy management and conservation, creating innovative conservation programs that have now been adopted province-wide, and operating a growing commercial energy management service business.

Conservation and energy management have become more pervasive in Hydro Ottawa's operations and culture in recent years. They are now part of our everyday interaction with customers.

Our focus for the next five years will be two-fold: to meet and exceed the aggressive conservation targets mandated by the province of Ontario, by providing innovative and user-friendly conservation options to

our customers; and continuing to be a leader in commercial energy-management services, helping businesses and institutions to enhance their financial and environmental performance while generating returns for our shareholder.

Beginning in 2011, Hydro Ottawa, like all utilities in Ontario, is mandated to meet aggressive multi-year targets for reduced energy consumption through conservation programs, as a condition of our electricity distribution license. The first round of targets must be achieved by 2014, and Hydro Ottawa is investing significant resources to do just that. Utilities that meet and exceed their targets will benefit from financial incentives. In the process, we have

the opportunity to interact even more closely with our customers to help them manage their bills.

At the same time, and separate from these conservation programs and targets, Hydro Ottawa continues to expand its leading commercial energy services business, helping companies and institutions to reduce their energy costs. Revenues from this business line are projected to grow throughout the period of this plan, based on recognized expertise in a broad range of services, from opportunity analysis to design and implementation of “turnkey” energy efficiency projects. Our “Energy Dashboard” service, being launched in 2012, will provide monitoring, display and reporting of water, gas and



electricity usage for large commercial buildings, assisting customers in their conservation efforts.

As part of this business line, our Energy Services team continues to be the City of Ottawa's preferred partner for energy management initiatives, with numerous energy cost reduction projects planned and under way in facilities ranging from OC Transpo buildings to waste-water plants.

Integrated Utility Services

Achieving economies of scale is a common business strategy. And it is perhaps especially relevant to modern utilities. 21st century utilities require sophisticated and expensive systems for customer service management, billing and collections, and the safe and efficient operation of increasingly "smart" distribution networks. These systems may be out of reach for smaller utilities.

The core capabilities of electricity distributors are also very similar to those required to provide other utility services, from street lighting to water and wastewater. By leveraging assets and expertise to provide similar products and services, utilities can create synergies that deliver savings to ratepayers, and additional value to shareholders.



Over the term of this Strategic Direction, Hydro Ottawa will proactively seek opportunities to partner with municipalities and other utilities in service delivery.

4.4.3 ORGANIZATIONAL EFFECTIVENESS

Performance excellence. These two simple words convey Hydro Ottawa's objective in the area of Organizational Effectiveness. Our aim is to sustain a high performance workforce and operations that deliver ever-improving value to our customers and stakeholders, and ensure our company's success and sustainability.

We will do this by cultivating a culture of innovation and continuous improvement, and focusing on three outcomes in particular: a safe and healthy work environment; an engaged, aligned and prepared workforce; and efficient and effective operations that enhance the customer experience.

Health and Safety

A fundamental component of Hydro Ottawa's commitment to operating efficiently and effectively is the very high priority we place on protecting the health and safety of our employees and our community.

We have established an integrated health, safety and environment management system (HSE) that has achieved and maintained certification to the international standards of Occupational Health and Safety Assessment Series (OHSAS) 18001 and International Organization for Standardization (ISO) 14001 since November 2007; we provide safe work practices training for all employees consistent with industry best practices; and our company's safety performance has been solid over the past several years.

Health and Safety will continue to be a primary focus for the company throughout the period of this Strategic Direction.



Workforce Capacity and Capability

Recruiting, developing and retaining highly skilled employees is crucial to Hydro Ottawa's continued success. Like many other companies and utilities, Hydro Ottawa faces challenging workforce demographics that require a concerted response.

Hydro Ottawa stands to lose approximately 25 percent of our employees to retirement by 2017. In the next 10 years, more than half of the existing trades and technical talent within the company will be eligible for retirement.

To ensure success, we must not only recruit replacements for retiring workers, but also plan for and facilitate an effective transfer of knowledge and skills from our veteran workforce to the next generation.

Our comprehensive talent management strategy includes initiatives such as strategic workforce planning, in-house apprenticeship and intern programs, succession planning, training and development, reward and recognition, and employee and retiree engagement. This strategy will help to ensure operational capacity and continuity,



including the capability of our workforce to build and sustain relationships with our customers; innovate and transition to new technologies; develop new products, services and work processes; and meet changing business and regulatory demands.

Operational Performance and Productivity

As we prepare for a future of smart grids, evolving customer expectations, and increasing emphasis on conservation and renewable energy, efficient and effective operations that enhance the customer experience have never been more important to Hydro Ottawa.

Since 2007, Hydro Ottawa has set and achieved annual productivity

improvement targets, focusing on maximizing the efficiency and effectiveness of our operations by reducing waste and optimizing productivity at every opportunity. We have also continued to leverage new technologies to allow us to identify and respond to problems in our distribution system more quickly, and to provide more information, more control, and added value to customers.

A focus on productivity and leveraging innovation and technology to improve efficiency and enhance service is a commitment we will continue over the course of this plan. Our approach will include listening to our customers to identify opportunities for innovation, reviewing our key work systems and



processes with a view to simplifying and improving interactions to make it easier to do business with us, and introducing new and innovative solutions that respond to customer needs and requirements.

As in the past, our technology decisions in the future will be based on two simple considerations: will they enhance service to the customer, or create efficiencies that will increase our competitiveness?

We will continue to invest in technologies that meet these criteria, and continue to integrate our existing technology to maximize benefits for our customers and our shareholder.



4.4.4 CORPORATE CITIZENSHIP

As a community company that delivers essential services to Ottawa residents — and whose predecessor companies have done so for more than 100 years — contributing to the well-being of the community has always been a part of Hydro Ottawa's core mandate. It's an integral part of our mission, to create long-term value for our shareholder, benefitting our customers and the communities we serve.

Out of this mandate, a commitment to fulfill our governance, environmental and social responsibilities as a company has naturally evolved. This is a commitment we will continue to enhance over the course of this plan.

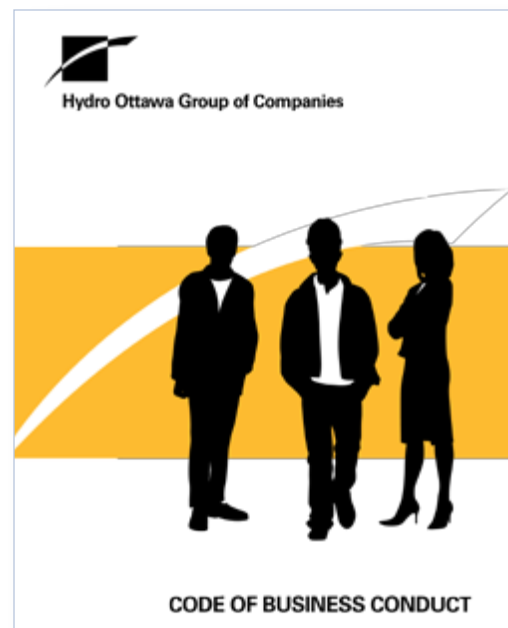
This approach is not only true to our roots as a company; it enhances our corporate performance as well. As leading companies have come to realize, good corporate citizenship can and does drive growth in value, as stakeholder trust creates new opportunities, reassures regulators, increases customer loyalty, and attracts good business partners and talented employees.

To deliver on our commitment, we will continue to emphasize four aspects of good corporate citizenship: good

governance; stakeholder engagement; environmental sustainability; and investing in our community.

Corporate Governance

Hydro Ottawa has long recognized that good corporate governance is the glue that holds together responsible business practices. By making governance a core focus over the past several years, Hydro Ottawa has established leading governance practices for a company of its size and mandate, and adheres to high standards of integrity, transparency and disclosure. We will continue to ensure that this is the case, by regularly assessing emerging best practices, and comparing ourselves to the best-governed private and public sector organizations.



Stakeholder Engagement

We also recognize that maintaining the trust and confidence of our stakeholders is essential to the company's performance. We are committed to taking into account the concerns and interests of all our stakeholders including employees, customers, suppliers, our shareholder and the communities and environment in which we operate, and have entrenched our pledges to them as guiding principles to this strategic direction. We will continue to operate with the interests of these groups in mind, and will actively encourage their participation in shaping the future of the company. Our emphasis will be on increasing our understanding



of stakeholder requirements and perceptions, and timely, accurate, and transparent disclosure mechanisms and communication.

Environmental Sustainability

Hydro Ottawa is already making an important contribution to environmental sustainability by generating renewable energy and actively promoting energy conservation. Equally important, though, is the need to continuously reduce the impact of our own operations on the environment through the use of “green” technology, resource-conserving activities and practices, and other means. This has been an increasing focus for Hydro Ottawa in recent years through our Environmental Sustainability Strategy, and will continue to be a key goal over the course of the current plan.

Community Investment

Our company has a proud tradition of contributing to quality of life in our community, be it through our United Way campaigns that have raised over one million dollars since the company was formed over eleven years ago, our electricity safety and conservation presentations that have educated over 100,000 children and youth, our continuing efforts to help mitigate the impact of energy costs for those in need, and the volunteer contributions of our employees that have benefitted many community initiatives. These efforts will continue and grow as part of our community investment program going forward.





Creating
long-term
value for our
shareholder




5. financial outlook

5.1 FINANCIAL OUTLOOK

This Financial Outlook presents high-level projections for Hydro Ottawa's revenues, expenses and major capital expenditures that support the company's business lines, and the key assumptions and risks that underlie these projections.

All financial data presented in the Financial Outlook is in accordance with Modified International Reporting Standards (MIFRS). In January 2006, the Canadian Accounting Standards Board announced the decision to replace Canadian Generally Accepted Accounting Principles (CGAAP) with IFRS. As a Government Business Enterprise, Hydro Ottawa is required to convert to IFRS. Hydro Ottawa has adopted Modified IFRS as the reporting standard, where the modification is to recognize regulatory assets and liabilities as incurred and as approved by the Ontario Energy Board (OEB). Hydro Ottawa had a cost of service electricity distribution rate application approved on this basis for rates effective January 1, 2012.

Hydro Ottawa's objective is to continue to provide efficient, reliable electricity distribution services to our customers at a competitive cost, and to generate electricity from renewable resources, while creating sustainable growth in our business and our earnings. We will achieve this by continuing to invest in our core distribution assets, improving productivity across all of our businesses, and pursuing business growth opportunities that leverage our strengths. Our main indicator of financial performance is our ability to create value for Hydro Ottawa's sole shareholder, the City of Ottawa, including dividends and growth in the company's equity.



Historically, Hydro Ottawa has achieved solid financial results, with growth in net income and shareholder equity. Since the introduction of a dividend policy in 2004, the company has delivered \$121.3 million to its shareholder.

The financial projections outlined in this five-year *Financial Outlook* continue this trend of solid performance, with annual net income from current operations in the range of \$26 to \$31 million per annum, and projected dividends totalling \$90 million by 2016.

When growth in equity and dividends are combined, the plan is expected to generate \$150 million in shareholder value over the five-year period. This projection significantly exceeds that of the previous *2008-2012 Strategic Direction and Financial Outlook*, where shareholder value was projected to increase by \$117 million.

Revenue and cost projections are derived from analysis of current and future economic trends, the regulatory environment, and capital investments required to maintain and upgrade our electricity distribution and generation infrastructure.

5.1.1 REVENUE PROJECTIONS

Hydro Ottawa's total revenues are projected to grow moderately over the period of the Financial Outlook, due largely to projected customer growth in our regulated business, and growth in generation and other non-distribution revenues.

The largest component in Hydro Ottawa's forecast of total revenues is the cost of power recovered from the customer through provincially established rates. The cost of power is a flow-through amount, which poses limited risk to Hydro Ottawa's financial performance either positively or negatively.

Hydro Ottawa's electricity distribution revenue — the portion of revenues that is collected from electricity customers and retained by Hydro Ottawa — makes up only 20 percent of a typical residential customer's electricity bill, with the balance being commodity charges and provincially regulated transmission charges, wholesale market charges, debt retirement charges, and harmonized sales tax.

Electricity distribution revenues in 2012 retained by Hydro Ottawa reflect the

impact of the distribution rate application approved on December 28, 2011.

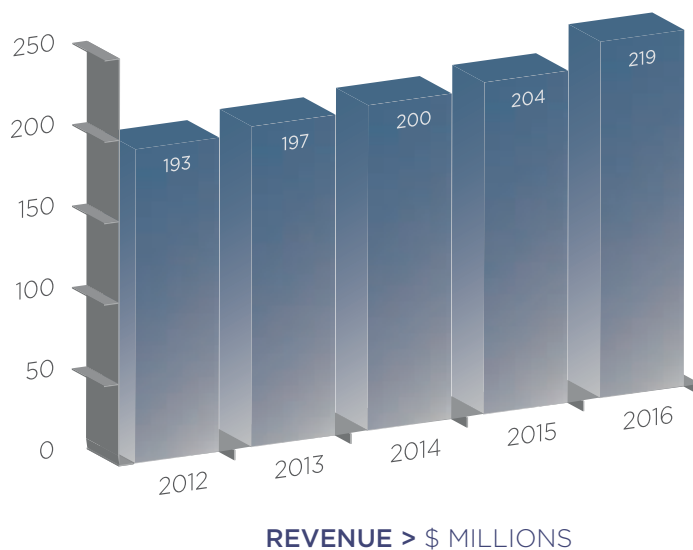
Distribution revenues beyond 2012 assume only a modest annual increase of 1.5 percent per annum arising from the OEB 3rd Generation Incentive Rate Making (3GIRM) mechanism, which adjusts rates annually based upon an inflationary index minus a productivity improvement factor. For the period 2009 to 2011, 3GIRM rate increases have been 1.18 percent, 0.18 percent, and 0.18 percent respectively. The assumption of 1.5 percent per annum also factors in organic growth in customers within the service territory.

This moderate inflationary adjustment is assumed through 2015, while full re-basing of electricity distribution rates is assumed again for 2016, in accordance with current OEB procedures for rate re-basing.

Electricity generation revenue from the Chaudière Falls generation stations on the Ottawa River are based on production assumptions derived from 40 years of historic water levels, and pricing in accordance with a 20 year Heritage Contract Pricing agreement secured in April 2010.

The Energy Services business line assumes the continuation and expansion of the existing business model and annual revenue growth.

The five-year revenue profile for Hydro Ottawa, excluding flow-through revenue, is as indicated in the chart below.



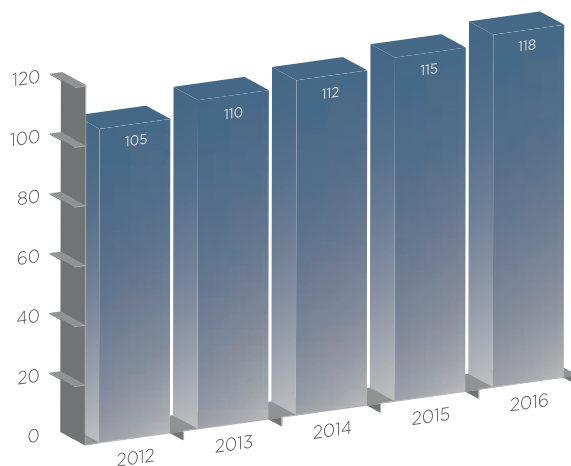
5.1.2 COST DRIVERS

Similar to its total revenues, Hydro Ottawa's largest component of operating expense is the cost of power purchased from the provincial grid, which will fluctuate based on the commodity price for electricity. This cost is designed by the OEB to be fully recoverable through the commodity rates charged to the customer. In the absence of regulatory change, there is limited risk to Hydro Ottawa's financial performance from the cost of power. Risk arises from Hydro Ottawa Limited's full responsibility for bad debts, and cash flow impacts from commodity rate increases, as the cost

of power is the single largest monthly expenditure of the company.

Operating, Maintenance and Administration Costs

The most significant cost directly controllable by management is operating, maintenance and administration (OM&A) expenses. This includes internal labour costs, materials, and external service contracts.



OPERATING, MAINTENANCE AND ADMINISTRATION EXPENSES > \$ MILLIONS

A key financial challenge for Hydro Ottawa is that as noted above, under the current 3rd Generation Incentive Rate Making mechanism, the largest revenue source is projected to inflate by 1.5 percent per annum on average through 2015. Curtailing annual spending increases to

that rate with a growing customer base and a primarily unionized labour force is a challenge. Even with cost control and productivity improvement, OM&A costs escalate faster than revenue in years between rate rebasing.

The 2012 projection reflects cost control in accordance with the OEB decision on the 2012 Rate Application. Hydro Ottawa's 2012 OM&A level reflects an annual increase of 2.5 percent per annum since the previous rate re-basing in 2008. This reflects controlled OM&A growth, while ensuring that all strategic priorities are advanced within this funding envelope.

Hydro Ottawa achieves annual productivity improvements to enhance financial performance and contain costs. This practice will be continued throughout the period of the plan. Productivity improvements are a must to partially offset the rising cost of labour, materials, and external service contracts integral to our business.

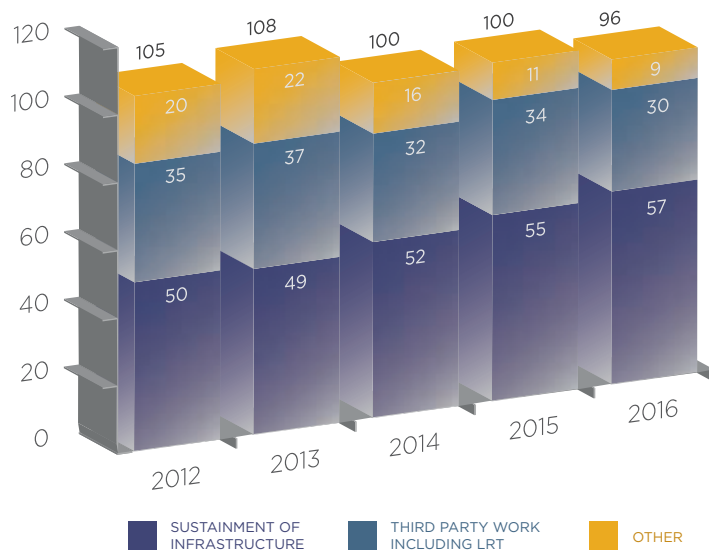
Capital Expenditures

Another significant cost driver for Hydro Ottawa is the capital expenditure program required for the maintenance and enhancement of infrastructure. Hydro Ottawa's electricity distribution

and generation reliability is contingent upon life-cycle investment programs accelerating in the coming years. The regulated distribution business will incur the majority of capital expenditures, as we continue to invest to sustain the reliability of the distribution system. Programs include station and distribution system rehabilitation and upgrades, and expansion of sub-stations to accommodate customer growth and provide sufficient capacity for emergency and peak load situations.

While the majority of capital investment is attributable to ensuring the ongoing reliability and replacement of aging infrastructure, additional investments are necessary for the upgrade of the Customer Care and Billing System in order to respond to increasing market and regulatory changes, and for expansion and changes to third party electrical infrastructure.

Hydro Ottawa will also be a key strategic partner in the City's Light Rail project (LRT) over the period of this financial plan, as critical capital investments are required to ensure the operation and the reliability of the system.



GROSS CAPITAL EXPENDITURES > \$ MILLIONS

Capital investment plans are in line with those presented to the OEB as part of the approved 2012 electricity distribution rate application, and are consistent with the needs identified in Hydro Ottawa's Asset Management Plan.

Hydro Ottawa's amortization expense and financing charges are reflective of the capital investment described above, and as a result are projected to increase over the period.

In summary, with the rate rebasing approved for 2012, Hydro Ottawa's electricity distribution operations are appropriately funded. Over the subsequent years, in the absence of new opportunities, electricity revenue growth is not projected to keep pace with cost increases arising from customer growth and contractual and inflationary pressures. With cost control and productivity improvements in place, current operations are projected to generate \$140 million in net income.

Revenues and Expenses — Financial Projections

	FINANCIAL OUTLOOK				
Consolidated Statement of Income (\$ Millions)	2012	2013	2014	2015	2016
Revenues					
Power Recovery	693	725	763	803	845
Distribution and Other Revenues	193	197	200	204	219
	885	922	963	1007	1064
Expenses					
Purchased Power	693	725	763	803	845
Operating, Maintenance & Administration	106	110	112	115	118
	798	835	875	918	963
EBITDA	87	88	88	89	101
Amortization, Interest, Taxes	59	60	61	63	70
Net Income from Current Operations	28	28	27	26	31

5.1.3 GROWTH IN BUSINESS AND EARNINGS

Hydro Ottawa is committed to expanding existing business lines and growing earnings beyond the projections arising from current operations. Hydro Ottawa will continue to pursue business growth opportunities that will leverage its operational and financial strengths, and increase shareholder value, as follows:

- i) **BUSINESS DEVELOPMENT** expanding the electricity distribution business beyond its current service territory, expanding hydroelectric and other renewable generation capacity, and diversification of business lines with a focus on compatible, low risk opportunities that offer stable long-term returns.

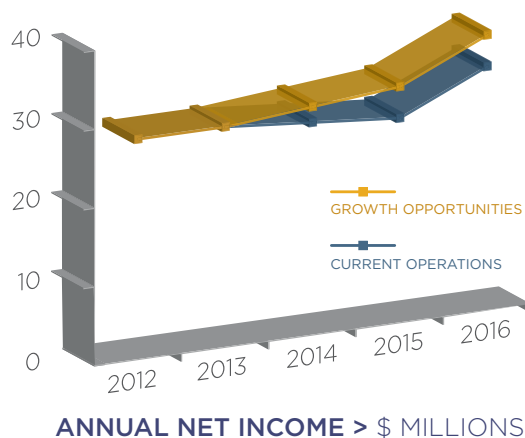
For example, In accordance with the Shareholder Declaration issued by Ottawa City Council, Hydro Ottawa continues to pursue the objective of having all electricity customers within the City of Ottawa receive electricity distribution services from its Local Distribution Company. In addition, strategic partnerships with the City of Ottawa are under review, to ensure common services are provided in the most efficient and effective manner for the ratepayer.

- ii) **REGULATORY MODEL REVIEW** For the subsequent three years of the plan in which no cost-of-service application is expected to be filed, adjustments to distribution rates under 3GIRM may be permitted for incremental capital costs above a prescribed threshold, which may be attained as Hydro Ottawa is required to invest in replacement and expansion of aging infrastructure. In addition, Hydro Ottawa will continue to monitor and influence the Renewed Regulatory Framework for Electricity proceeding underway at the Ontario Energy Board.

iii) CONSERVATION AND DEMAND MANAGEMENT PROGRAM INCENTIVES

The current contract with the Ontario Power Authority has prescribed very aggressive conservation targets for the period 2011-2014. To the extent Hydro Ottawa can exceed these targets by promoting and empowering conservation in local customers, financial incentives may be achieved beyond those assumed in the current financial projections.

As noted above, current business operations are projected to generate \$140 million in net income over the five-year plan. Business growth opportunities should add as much as \$10 million over the period, for a combined net income projection of \$150 million, and resulting dividends of \$90 million. Returns on growth are expected to be realized primarily in the outer years of the plan, while investments will take place throughout.



Business development initiatives may require additional capital investment over the period of the Financial Outlook. It is anticipated that any new financing requirements can be met through unused capacity in existing credit facilities or project financing, and will not compromise the sustainment of existing electricity distribution and generation infrastructure.

5.2 RISKS AND UNCERTAINTIES

The ability to manage and mitigate risk, to maintain flexibility, and to respond effectively to changes in our business environment will be critical to Hydro Ottawa's continued success.

While we are confident in our assessment of Hydro Ottawa's business environment as a whole, future events may differ significantly from what we expect. Some of our assumptions may prove unwarranted, subsequent events will change the complexion of current trends, and not all opportunities currently envisaged will turn out to be viable.

Our Enterprise Risk Management (ERM) system establishes the infrastructure to allow us to predict and respond to risks and opportunities impacting our

Strategic Direction and business activities, and to do so in an effective, consistent and integrated manner. Our three-year Business Planning cycle, with annual updates, also enables continuous review of assumptions and the state of the market in which we operate.

Some of the key factors that could adversely impact the achievement of the projected results outlined above include the following.

Policy and Regulatory Environment

Hydro Ottawa's largest businesses operate in a regulated environment. Our business performance could be adversely affected by significant policy and regulatory changes, including but not limited to changes in rate regulation, policies relating to the production and procurement of renewable and clean energy, conservation and demand management, the consolidation of electrical utilities, restrictions on utility service provision, or changes to license requirements.

The OEB approves local electricity distribution rates based on projected consumption levels. If actual experience varies from the projections, Hydro Ottawa's net income will be affected.

Provincial Conservation Demand Management programs call for a 1,330 megawatt reduction in Ontario's peak electricity demand and 6,000 gigawatt hours of reduced electricity consumption by 2014. The OEB has recognized the need to compensate for such lost revenue, but there is no certainty that such compensation will be sufficient to cover all lost revenue.

Should adverse regulatory decisions impact revenues or costs by as little as 1 percent, a reduction of over \$1.5 million per year in net income could result.

Weather

Severe weather can significantly impact financial results. Storms increase maintenance costs to repair or replace damaged equipment and infrastructure needed to ensure the reliability of the electricity distribution system. Weather fluctuations also influence distribution revenues, which tend to increase with severe weather and decrease with moderate weather, and renewable energy production, which depends upon factors such as water flows (hydroelectric).

Economy

The state of the local, provincial, and national economy could have a significant impact on Hydro Ottawa's business performance, through factors such as interest rates, inflation, customer credit conditions, and weakening demand for electricity and/or value-added services. Net income risk arising from uncertain economic conditions comes in many forms. A change of 0.5 percent on long-term interest rates could impact the plan


from 2015 forward by \$1.25 million per year. A 1 percent reduction in electricity use creates a risk of over \$1 million per year in loss of revenue and net income, unless there is a corresponding reduction in expenses, which may not be feasible in a sector heavily driven by fixed costs. A 1 percent reduction in customer growth creates a risk of over \$0.5 million per year.

Dependence on Partners

The growth opportunities identified in the strategic plan may depend upon the presence of willing partners, and/or partners that perform to expectations. An absence of willing merger or acquisition partners, or of municipalities willing to partner on utility service delivery, could negatively impact Hydro Ottawa's ability to deliver on its financial objectives, as could the underperformance of key business partners.

Labour Force Demographics

An inability to recruit and retain a sufficient number of skilled employees could negatively impact Hydro Ottawa's ability to deliver on the objectives set out in the strategic plan. Current workforce demographics across the electricity sector present an emerging



risk that must be managed, particularly in the trades, as retirements are outpacing new entrants to the workforce. Apprentice training and succession planning programs are underway to mitigate this risk.

Technology Infrastructure

Hydro Ottawa's business performance is dependent upon complex technology systems, including administrative information technology, customer care and billing information systems, advanced metering, and operational technologies. The failure of one or more of these key systems, or a failure of the company to plan effectively for future technology needs or transition effectively to technology systems such as the provincial Meter Data Management and Repository system could adversely impact the company's business performance.

5.3 CONCLUSION

Subject to the risks and uncertainties presented in this document, Hydro Ottawa will continue to provide efficient, reliable electricity distribution services to customers at a competitive cost, generate power from renewable sources, and provide energy services and conservation expertise while maintaining sustainable earnings. The company will achieve this by continuing to invest in core distribution assets, improving productivity, and pursuing business growth opportunities that leverage corporate strengths.

With the successful approval of the 2012 Electricity Distribution Rate Application by the OEB on December 28, 2011, the company's regulated subsidiary is well positioned for 2012, but faces the financial challenge of cost increases that are projected to outpace organic revenue growth.

The company continues to actively pursue opportunities for expansion in non-regulated business lines in accordance with the endorsed strategy, as evidenced by the commencement of construction of a second landfill gas collection and utilization system by its newly formed joint venture: Moose Creek Energy LP.

Despite the financial challenges and risks noted, Hydro Ottawa will generate significantly greater shareholder value than the previous five-year plan.



Monitoring progress



6. governance and reporting

Accountability for the effective operation of the Corporation and its subsidiaries rests with an eleven member Board of Directors, which provides direction to the Corporation on behalf of the shareholder, the City of Ottawa. The Board provides leadership for the company within a framework of effective controls that enables risks to be assessed and managed, and is responsible for supervising the management of the business and affairs of the company and its subsidiaries.

In carrying out its oversight function, the Board of Directors is guided by a Shareholder Declaration issued by Ottawa City Council and revised from time to time.

In 2006, a separate Board of Directors was established to oversee the operations of Hydro Ottawa Limited, in accordance with the Affiliate Relationships Code for Electricity Distributors and Transmitters issued by the Ontario Energy Board. The powers and functions of that Board are set out

in a Shareholder Declaration issued by the Hydro Ottawa Holding Inc. Board of Directors.

On a day-to-day basis, the Corporation is led by an Executive Management Team, comprising the Corporation's President and Chief Executive Officer, the Chief Financial Officer and the senior executives of the subsidiaries and critical function areas. This team oversees the alignment of business practices and strategies with the goals of the Corporation, and drives

performance by managing risks and opportunities. The Executive Management Team is accountable to the Corporation's Board of Directors through the President and Chief Executive Officer.

The Board will monitor progress against the strategic plan on a quarterly basis and make adjustments as required by changing circumstances. The Corporation will report on progress annually to the Shareholder, at the time of the Annual General Meeting. A summary of the Corporation's financial results is provided to the shareholder on a quarterly basis through the City Manager.





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