1. Ref: None

Request

Please confirm that the Applicant has 134 schools operated by publicly funded school boards in its franchise area. Please advise how many schools, in each rate zone, are in each of the GS<50 and GS>50 classes.

<u>Response:</u>

There are 117 schools located in Veridian's franchise area, though some may have multiple accounts (portables, admin offices, etc.)

Veridian		Gravenhurst	
<50 kW Catholic	6	<50 kW Catholic	
>50kW Catholic	30	>50kW Catholic	
<50 Public	24	<50 Public	
>50 Public	54	>50 Public	3

2. Ref: Exhibit 1 / Tab 1 / Schedule 4
Exhibit 1 / Tab 2 / Schedule 1 / Page 16

Request

Please describe the precise approval being requested with respect to the use of account 1572 to record 2009 PCB testing costs. If the approval is solely to record the amounts, with no implications as to future clearance, please so state. If it is also intended to be approval for Z factor qualification of the costs, subject only to later prudence review, please provide evidence that each of the Z factor criteria has been met.

Response:

Veridian seeks approval to record the amounts, in recognition of having provided the Board with notice of the Z factor event as required in Chapter 3 of the Filing Requirements for Transmission and Distribution Applications. Veridian is not seeking to satisfy the Z factor eligibility criteria of causation, materiality and prudence at this time. The approval will have no implications as to future clearance.

3. Ref: Exhibit 1 / Tab 1 / Schedule 11

Request

(a) Page 1. Please confirm that no part of the cost of the Board of Directors of Veridian Corporation, including direct costs and overhead or support costs, is included in the revenue requirement in this Application. If any such costs are included, please provide details.

(b) VCI/VEI Agreement. Please:
   i. Advise the date this Agreement was actually signed by the parties.
   ii. Advise the status of this Agreement as of January 1, 2010.
   iii. File the 2009 invoices from the Applicant to VEI, with full breakdowns of all amounts charged and their calculation.

(c) VCI/VC Agreement. Please:
   i. Advise the date this Agreement was actually signed by the parties.
   ii. Advise the status of this Agreement as of January 1, 2010.
   iii. File the 2009 invoices from the Applicant to VEI, with full breakdowns of all amounts charged and their calculation.

Response:

(a) Costs associated with the Board of Directors of Veridian Corporation are not included in Veridian's proposed revenue requirement.

(b) With regard to the VCI/VEI Agreement:

   i. The Agreement was signed by the Parties on July 24, 2009.

   ii. The Agreement was amended twice during 2009, as follows:

      1. On November 26th 2009 to reflect the cessation of the provision of Fibre Optic Services by VCI to VEI effective October 1, 2009; and,

      2. On December 22nd 2009 to include an hourly rate for project support services provided to VEI by VCI's Manager of Grid Operations effective November 2, 2009.

   Signed copies of both of these amending agreements are appended to this interrogatory response as Attachment 1.

In Exhibit 4/Tab 6/Schedule 3/Pages 2 and 3 of its application, Veridian outlined its plans for the elimination of shared services as follows:

> *"By the end of the bridge year, Veridian plans to eliminate all shared services with its energy services affiliate. This will be facilitated through Veridian Energy Inc.'s sale of its fibre optic communications assets, and its retention of unaffiliated third party support for the operation of its rental equipment business. Veridian Energy Inc. will also instate a new President and CEO, thereby eliminating the current sharing arrangements with Veridian."*

While significant progress toward this goal was achieved with the sale of Veridian Energy Inc.'s fibre optic communications assets (effective October 1st 2009), the company has not yet finalized arrangements for the retention of unaffiliated third party support for the operation of its rental equipment business. It has also not yet instated a new President and CEO. However, it continues to be committed to the implementation of both measures, and now projects that this will be completed within the first quarter of 2010.

Given these circumstances, Veridian plans to renew its Transitional Services Agreement with Veridian Energy Inc. for the first three months of 2010. The services provided will be as detailed in the December 22nd 2009 amending agreement. Transfer prices will be updated to reflect projected 2010 fully allocated costs.

iii. Copies of all 2009 invoices are appended as Attachment 2 along with a covering table showing the breakdowns of amounts charged Note that invoicing for some services is done quarterly. Fourth quarter invoicing is pending for these items.

(c) With regard to the VCI/VC Agreement:

i. The Agreement was signed by the Parties on July 24, 2009.

ii. The Agreement will be replaced with a new Agreement having an effective date of January 1, 2010. See the response to VECC interrogatory number 31 for details of the transfer prices that will be contained within the Agreement.

iii. Copies of all 2009 invoices are appended as Attachment 3.

This **TRANSITIONAL SERVICES AGREEMENT AMENDING AGREEMENT** (the "**Agreement**") made as of the 26th day of November, 2009 between **VERIDIAN CONNECTIONS INC.** ("**VCI**") and **VERIDIAN ENERGY INC.** ("**VEI**") (VCI and VEI each being a "**Party**" and collectively the "**Parties**").

Recitals:

1. VCI and VEI entered into a Transitional Services Agreement on January 1, 2009 (the "**Transitional Services Agreement**").

2. Pursuant to the Transitional Services Agreement, VCI provided to VEI, among other things, management services, after hours telephone answering/dispatch, engineering services, construction services, and distribution pole attachments (collectively the "**Fibre Optic Services**") all of which relate to VEI's fibre optic network.

3. VEI completed a sale of its fibre assets effective October 1, 2009.

4. As a result of the foregoing, the Parties have agreed to amend the Transitional Services Agreement to reflect the cessation of the Fibre Optic Services by VCI to VEI effective October 1, 2009.

NOW THEREFORE, in consideration of the mutual covenants and promises herein contained, and for other good and valuable consideration, the receipt and sufficiency of which is acknowledged, the Parties covenant and agree as follows:

1. **Definitions.** In this Agreement , capitalized terms that are not otherwise defined in this Agreement shall have the meaning ascribed to them in the Transitional Services Agreement.

2. **Termination of Fibre Optic Services.** Effective October 1, 2009 such Fibre Optic Services are hereby terminated and at an end.

3. **Release.** Effective October 1, 2009, the Parties hereby release, remise and forever discharge the other from any and all rights, entitlements, duties and obligations in respect of the Fibre Optic Services.

4. **Amendment.** Effective the date of this Agreement, Schedule "A" of the Transitional Services Agreement is deleted and replaced with Schedule "A" attached to this Agreement.

5. **Miscellaneous Provisions.**

A <u>Confirmation.</u> Except as expressly provided herein, all term and conditions of the Transitional Services Agreement shall remain in full force and effect and unamended.

B <u>Further Assurances.</u> The Parties shall from time to time execute and deliver all such further documents and instruments and do all acts and things as the other Party may require to effectively carry out or better evidence or perfect the full intent and meaning of this Agreement.

C Successors and Assigns. This Agreement and all rights, entitlements, duties and obligations arising from it shall enure to the benefit of and be binding upon the parties and their respective successors and assigns.

D Governing Law. This Agreement and all documents, instruments and agreements related thereto shall be construed and enforced in accordance with the laws of the Province of Ontario.

E Whole Agreement. This Agreement together with all Schedules and the Transitional Services Agreement and Schedules attached thereto as modified herein constitute the whole and entire agreement between the Parties with respect to the subject matter hereof.

IN WITNESS WHEREOF the Parties hereto have executed this Agreement.

VERIDIAN CONNECTIONS INC.

Per: M. C. Angemeer

Name: Michael Angemeer
Title: President & CEO

Per: D. Clark

Name: Dave Clark
Title: Executive Vice President & CFO, Corporate Services

We have authority to bind the Corporation.

VERIDIAN ENERGY INC.

Per: M. C. Angemeer

Name: Michael Angemeer
Title: President & CEO

Per: D. Clark

Name: Dave Clark
Title: Executive Vice president & CFO, Corporate Services

We have authority to bind the Corporation.

::ODMA\PCDOCS\TOR01\4198129\1

SCHEDULE "A"
DESCRIPTION OF SERVICES AND PRICES

Veridian Connections Inc. services to Veridian Energy Inc.

October 1st to December 31st 2009

Transfer pricing:

<table>
<tr><th>Description</th><th>Price</th></tr>
<tr><td>Management and Clerical Services – Rental Equipment

▪ Provide management and clerical support services for VEI rental equipment service, including regular-hour customer and contractor contact and support.</td><td>Flat Fee of $5,845 monthly

Based on fully allocated costs for an estimated requirement of 48 clerical hours and 19 managerial hours.</td></tr>
<tr><td>~~Management Services – Fibre Optic Network~~

~~▪ Provide management services for VEI Fibre Optic Network, including contract and sales management.~~</td><td>~~Flat Fee of $2,580 monthly~~

~~Based on fully allocated costs for an estimated requirement of 13 managerial hours.~~</td></tr>
<tr><td>Financial Services – General Administration

▪ Provide financial services functions including accounts payable administration, general bookkeeping, financial statement preparation</td><td>Flat Fee of $2,000 monthly

Based on fully allocated costs for an estimated requirement of 13 clerical hours and 15 managerial hours.</td></tr>
<tr><td>Billing/Collecting – Rental Equipment

▪ Provide billing and collecting services for rental equipment accounts, including a charge for uncollectible accounts</td><td>Flat Fee of $2,350 monthly

Based on estimated 42,648 customer invoice statements annually and uncollectible accounts of 1.0% of total invoiced amounts.</td></tr>
<tr><td>Sentinel Light Maintenance

▪ Respond to reports of malfunctioning VEI rental sentinel lights, assess malfunctions, and carry out repairs as necessary.
▪ Install new rental sentinel lights as directed by VEI.
▪ Maintain adequate inventory levels to facilitate all repairs and requests for new installations with no longer than five working days.</td><td><table><tr><th>Activity</th><th>Unit Price</th></tr><tr><td>Supply and replace bulb, photocell, or fuse.</td><td>$178.30</td></tr><tr><td>Supply and replace existing 175-watt Mercury Vapour luminaire.</td><td>$330.00</td></tr><tr><td>Supply and replace existing 400-watt Mercury Vapour luminaire.</td><td>$350.00</td></tr><tr><td>Supply and install new 175-watt Mercury Vapour or equivalent High Pressure Sodium luminaire.</td><td>$491</td></tr><tr><td>Supply and install new 400-watt Mercury Vapour or equivalent High Pressure Sodium luminaire.</td><td>$511</td></tr></table></td></tr>
</table>

Description	Price
After Hours Telephone Answering/Dispatch ▪ Answer VEI rental equipment customer inquiries after normal business hours, and dispatch field service personnel in accordance with VEI procedures. ~~▪ Answer VEI fibre network customer inquiries, and dispatch service personnel in accordance with VEI procedures.~~	$150 per month standby fee, plus; ~~$1.05 per telephone call/dispatch order.~~
~~Engineering Services~~ ~~▪ Coordinate the supply and installation of fibre optic communications equipment, including:~~ ~~o Network design and route optimization.~~ ~~o Contract management for third party installation.~~ ~~o Modifications to VCI distribution apparatus to accommodate fibre optic cable installations.~~	~~Pricing to be provided on an individual project basis. All prices to be cost-based and calculated using the same methodology employed by VCI for charges to non-affiliated clients.~~
~~Construction Services~~ ~~▪ Modify configuration of VCI distribution apparatus to accommodate VEI fibre optic communications cable attachments.~~	~~Pricing to be provided on an individual project basis. All prices to be cost-based and calculated using the same methodology employed by VCI for charges to non-affiliated clients.~~
~~Distribution Pole Attachments~~ ~~▪ Attachment of VEI fibre optic communications equipment to VCI distribution poles.~~	~~$22.35 per pole per year.~~

This **TRANSITIONAL SERVICES AGREEMENT AMENDING AGREEMENT** (the "**Agreement**") made as of the 22nd day of December, 2009 between **VERIDIAN CONNECTIONS INC.** ("**VCI**") and **VERIDIAN ENERGY INC.** ("**VEI**") (VCI and VEI each being a "**Party**" and collectively the "**Parties**").

Recitals:

1. VCI and VEI entered into a Transitional Services Agreement on January 1, 2009 (the "**Transitional Services Agreement**").

2. VCI and VEI executed a Transitional Services Amending Agreement on November 26th 2009 (the "Amending Agreement") to reflect the cessation of the Fibre Optic Services, as defined by the Amending Agreement, by VCI to VEI effective October 1, 2009.

3. VEI initiated a business planning project for renewable electricity generation opportunities (the "Project") on November 2, 2009 and the Parties agreed that VCI's Manager of Grid Operations would provide business planning support for the project on a transitional basis ("Project Support Services").

4. As a result of the foregoing, the Parties have agreed to amend the Transitional Services Agreement to include an hourly rate for the Project Support Services provided to VEI by VCI's Manager of Grid Operations effective November 2, 2009.

NOW THEREFORE, in consideration of the mutual covenants and promises herein contained, and for other good and valuable consideration, the receipt and sufficiency of which is acknowledged, the Parties covenant and agree as follows:

1. **Definitions.** In this Agreement, capitalized terms that are not otherwise defined in this Agreement shall have the meaning ascribed to them in the Transitional Services Agreement.

2. **Amendment.** Effective the date of this Agreement, Schedule "A" of the Transitional Services Agreement is deleted and replaced with Schedule "A" attached to this Agreement.

3. **Miscellaneous Provisions.**

A Confirmation. Except as expressly provided herein, all term and conditions of the Transitional Services Agreement shall remain in full force and effect and unamended.

B Further Assurances. The Parties shall from time to time execute and deliver all such further documents and instruments and do all acts and things as the other Party may require to effectively carry out or better evidence or perfect the full intent and meaning of this Agreement.

C Successors and Assigns. This Agreement and all rights, entitlements, duties and obligations arising from it shall enure to the benefit of and be binding upon the parties and their respective successors and assigns.

D Governing Law. This Agreement and all documents, instruments and agreements related thereto shall be construed and enforced in accordance with the laws of the Province of Ontario.

E Whole Agreement. This Agreement together with all Schedules and the Transitional Services Agreement and Schedules attached thereto as modified herein constitute the whole and entire agreement between the Parties with respect to the subject matter hereof.

IN WITNESS WHEREOF the Parties hereto have executed this Agreement.

VERIDIAN CONNECTIONS INC.

Per: M. C. Angemeer
Name: Michael Angemeer
Title: President & CEO

Per: D. Clark
Name: Dave Clark
Title: Executive Vice President & CFO, Corporate Services

We have authority to bind the Corporation.

VERIDIAN ENERGY INC.

Per: M. C. Angemeer
Name: Michael Angemeer
Title: President & CEO

Per: D. Clark
Name: Dave Clark
Title: Executive Vice president & CFO, Corporate Services

We have authority to bind the Corporation.

::ODMA\PCDOCS\TOR01\4198129\1

SCHEDULE "A"
DESCRIPTION OF SERVICES AND PRICES

Veridian Connections Inc. services to Veridian Energy Inc.

November 2nd to December 31st 2009

Transfer pricing:

Description	Price
Management and Clerical Services – Rental Equipment ▪ Provide management and clerical support services for VEI rental equipment service, including regular-hour customer and contractor contact and support.	Flat Fee of $5,845 monthly Based on fully allocated costs for an estimated requirement of 48 clerical hours and 19 managerial hours.
Business Planning Support Services (Project Support Services) • Provide business planning support services related to renewable electricity generation opportunities.	Position: Manager of Grid Operations — Hourly Rate *: $111.00 *includes fully allocated overhead costs
~~Management Services – Fibre Optic Network~~ ~~▪ Provide management services for VEI Fibre Optic Network, including contract and sales management.~~	~~Flat Fee of $2,580 monthly~~ ~~Based on fully allocated costs for an estimated requirement of 13 managerial hours.~~
Financial Services – General Administration ▪ Provide financial services functions including accounts payable administration, general bookkeeping, financial statement preparation	Flat Fee of $2,000 monthly Based on fully allocated costs for an estimated requirement of 13 clerical hours and 15 managerial hours.
Billing/Collecting – Rental Equipment ▪ Provide billing and collecting services for rental equipment accounts, including a charge for uncollectible accounts	Flat Fee of $2,350 monthly Based on estimated 42,648 customer invoice statements annually and uncollectible accounts of 1.0% of total invoiced amounts.

<table>
<tr><th>Description</th><th>Price</th></tr>
<tr><td><u>Sentinel Light Maintenance</u>

▪ Respond to reports of malfunctioning VEI rental sentinel lights, assess malfunctions, and carry out repairs as necessary.
▪ Install new rental sentinel lights as directed by VEI.
▪ Maintain adequate inventory levels to facilitate all repairs and requests for new installations with no longer than five working days.</td><td><table>
<tr><th>Activity</th><th>Unit Price</th></tr>
<tr><td>Supply and replace bulb, photocell, or fuse.</td><td>$178.30</td></tr>
<tr><td>Supply and replace existing 175-watt Mercury Vapour luminaire.</td><td>$330.00</td></tr>
<tr><td>Supply and replace existing 400-watt Mercury Vapour luminaire.</td><td>$350.00</td></tr>
<tr><td>Supply and install new 175-watt Mercury Vapour or equivalent High Pressure Sodium luminaire.</td><td>$491</td></tr>
<tr><td>Supply and install new 400-watt Mercury Vapour or equivalent High Pressure Sodium luminaire.</td><td>$511</td></tr>
</table></td></tr>
<tr><td><u>After Hours Telephone Answering/Dispatch</u>

▪ Answer VEI rental equipment customer inquiries after normal business hours, and dispatch field service personnel in accordance with VEI procedures.
~~▪ Answer VEI fibre network customer inquiries, and dispatch service personnel in accordance with VEI procedures.~~</td><td>$150 per month standby fee, plus;

~~$1.05 per telephone call/dispatch order.~~</td></tr>
<tr><td>~~Engineering Services~~

~~▪ Coordinate the supply and installation of fibre optic communications equipment, including:~~
~~○ Network design and route optimization.~~
~~○ Contract management for third party installation.~~
~~○ Modifications to VCI distribution apparatus to accommodate fibre optic cable installations.~~</td><td>~~Pricing to be provided on an individual project basis. All prices to be cost-based and calculated using the same methodology employed by VCI for charges to non-affiliated clients.~~</td></tr>
<tr><td>~~Construction Services~~

~~▪ Modify configuration of VCI distribution apparatus to accommodate VEI fibre optic communications cable attachments.~~</td><td>~~Pricing to be provided on an individual project basis. All prices to be cost-based and calculated using the same methodology employed by VCI for charges to non-affiliated clients.~~</td></tr>
<tr><td>~~Distribution Pole Attachments~~

~~▪ Attachment of VEI fibre optic communications equipment to VCI distribution poles.~~</td><td>~~$22.35 per pole per year.~~</td></tr>
</table>

Attachment 3

VERIDIAN CONNECTIONS

2009 Connections Services Revenue from Energy
Account 4390

	Rate	Per	January Quantity	January Amount	February Quantity	February Amount	March Quantity	March Amount	April Quantity	April Amount	May Quantity	May Amount	June Quantity	June Amount	YTD
Sentinel Light Maintenance															
Supply & replace bulb, photocell or fuse	178.80	each	1	178.80		0.00		0.00		0.00	4	715.20		0.00	**894.00**
Supply & replace existing 175w MV luminaire	330.00	each		0.00		0.00		0.00		0.00	1	330.00		0.00	**330.00**
Supply & replace existing 400w MV luminaire	350.00	each	1	350.00		0.00	1	350.00	1	350.00		0.00		0.00	**1,050.00**
Removal of D-D light	178.80	each	1	178.80		0.00		0.00		0.00		0.00	1	178.80	**357.60**
After Hours Telephone Answering/Dispatch															
Monthly Stand-by Fee	150.00	per mo.	1	150.00	1	150.00	1	150.00	1	150.00	1	150.00	1	150.00	**900.00**
Rental Equipment Calls	1.05	each	10	10.50	11	11.55	7	7.35	13	13.65	9	9.45	5	5.25	**57.75**
Fibre Network Calls	1.05	each		0.00		0.00		0.00		0.00		0.00		0.00	**0.00**
Management/Clerical Services-Rental Equip.	5,845.00	per mo.		5,845.00		5,845.00		5,845.00		5,845.00		5,845.00		5,845.00	**35,070.00**
Management Services-Fibre Optic Network	2,580.00	per mo.		2,580.00		2,580.00		2,580.00		2,580.00		2,580.00		2,580.00	**15,480.00**
Financial Services-General Administration															
Sentinel Lights - 4% of $2,000.00	80.00	per mo.		80.00		80.00		80.00		80.00		80.00		80.00	**480.00**
Fibre Optics - 11% of $2,000.00	220.00	per mo.		220.00		220.00		220.00		220.00		220.00		220.00	**1,320.00**
Water Heaters - 85% of $2,000.00	1,700.00	per mo.		1,700.00		1,700.00		1,700.00		1,700.00		1,700.00		1,700.00	**10,200.00**
Billing/Collection - Rental Equipment	2,350.00	per mo.		2,350.00		2,350.00		2,350.00		2,350.00		2,350.00		2,350.00	**14,100.00**
Business Planning Support Services (Project Support Ser)	111.00	per hour													
See separate invoice															
	Total Connection Revenue			**13,643.10**		**12,936.55**		**13,282.35**		**13,288.65**		**13,979.65**		**13,109.05**	**80,239.35**

	Rate	Per	July Quantity	July Amount	August Quantity	August Amount	September Quantity	September Amount	October Quantity	October Amount	November Quantity	November Amount	December Quantity	December Amount	YTD
Sentinel Light Maintenance															
Supply & replace bulb, photocell or fuse	178.80	each	4	715.20		0.00	1	178.80	2	357.60	1	178.80		0.00	1,430.40
Supply & replace existing 175w MV luminaire	330.00	each		0.00		0.00		0.00		0.00		0.00		0.00	0.00
Supply & replace existing 400w MV luminaire	350.00	each	1	350.00		0.00	1	350.00	2	700.00		0.00	1	350.00	1,750.00
Removal of D-D light	178.80	each		0.00		0.00	3	536.40		0.00		0.00		0.00	536.40
After Hours Telephone Answering/Dispatch															
Monthly Stand-by Fee	150.00	per mo.	1	150.00	1	150.00	1	150.00	1	150.00	1	150.00	1	150.00	900.00
Rental Equipment Calls	1.05	each	12	12.60	8	8.40	13	13.65	14	14.70	15	15.75	15	15.75	80.85
Fibre Network Calls	1.05	each		0.00		0.00		0.00		0.00		0.00		0.00	
Management/Clerical Services-Rental Equip.	5,845.00	per mo.		5,845.00		5,845.00		5,845.00							17,535.00
Management Services-Fibre Optic Network	2,580.00	per mo.		2,580.00		2,580.00		2,580.00							7,740.00
Financial Services-General Administration															
Sentinel Lights - 4% of $2,000.00	80.00	per mo.		80.00		80.00		80.00							240.00
Fibre Optics - 11% of $2,000.00	220.00	per mo.		220.00		220.00		220.00							660.00
Water Heaters - 85% of $2,000.00	1,700.00	per mo.		1,700.00		1,700.00		1,700.00							5,100.00
Billing/Collection - Rental Equipment	2,350.00	per mo.		2,350.00		2,350.00		2,350.00							7,050.00
Business Planning Support Services (Project Support Ser)	111.00	per hour													
	Total Connection Revenue			14,002.80		12,933.40		14,003.85		1,222.30		344.55		515.75	43,022.65
														Total Energy:	$ 123,262.00
Fibre pole attachments - 1391	22.35	year	invoice January 30, 2009												31,088.85
												Total Services Revenue			154,350.85

55 Taunton Road East, Ajax, ON L1T 3V3
TEL 905-427-9870 (Ajax/Pickering)
TEL 1-888-420-0070 (Clarington)
FAX 905-619-0210
www.veridian.on.ca

VERIDIAN
CONNECTIONS INC.
The power to make your community better.

Invoice

Veridian Energy
1465 Pickering Parkway
Pickering, Ontario
L1V 7G7

December 1, 2009

E-02-09

Service transfer fees: To provide financial services functions including accounts payable administration, general bookkeeping and financial statement preparation for Fibre Optics January to September 2009 – @ $220.00 per month for 9 months.	$1,980.00
To provide management services for VEI Fibre Optic Network, including contract and sales management – January to September 2009 - @ $2,580.00 per month for 9 months.	$23,220.00
TOTAL CHARGES	$ 25,200.00
GST AMOUNT – N/A	.00
INVOICE TOTAL	$ 25,200.00

Attachment 3

VERIDIAN
CONNECTIONS INC.
The power to make your community better.

55 Taunton Road East, Ajax, ON L1T 3V3
TEL 905-427-9870 (Ajax/Pickering)
TEL 1-888-420-0070 (Clarington)
FAX 905-619-0210
www.veridian.on.ca

Invoice

Veridian Energy
1465 Pickering Parkway
Pickering, Ontario
L1V 7G7

December 1, 2009

E-03-09A

Service transfer fees: To provide financial services functions including accounts payable administration, general bookkeeping and financial statement preparation for Fibre Optics - January to September 2009 – @ $1,700.00 per month for 9 months.	$15,300.00
To provide management and clerical support services for VEI rental equipment, including regular hour customer and contractor contact and support – January to September 2009 - @ $5,845.00 per month for 9 months.	$52,605.00
Provide billing and collecting services for rental equipment accounts, including a charge for uncollectible accounts – January to September 2009 - @$2,350.00 per month for 9 months.	$21,150.00
TOTAL CHARGES	$ 89,055.00
GST AMOUNT – N/A	.00
INVOICE TOTAL	$ 89,055.00

VERIDIAN
CONNECTIONS INC.
The power to make your community better.

55 Taunton Road East, Ajax, ON L1T 3V3
TEL 905-427-9870 (Ajax/Pickering)
TEL 1-888-420-0070 (Clarington)
FAX 905-619-0210
www.veridian.on.ca

Invoice

Veridian Energy
1465 Pickering Parkway
Pickering, Ontario
L1V 7G7

December 1, 2009

E-01-09A

Service transfer fees to provide financial services functions including accounts payable administration, general bookkeeping and financial statement preparation for sentinel lights – January to September 2009 – @ $80.00 per month for 9 months.	$720.00

TOTAL CHARGES	$ 720.00
GST AMOUNT – N/A	.00
INVOICE TOTAL	$ 720.00

Attachment 3

VERIDIAN
CONNECTIONS INC.
The power to make your community better.

55 Taunton Road East, Ajax, ON L1T 3V5
TEL 905-427-9870 (Ajax/Pickering)
TEL 1-888-420-0070 (Clarington)
FAX 905-619-0210
www.veridian.on.ca

Invoice

Veridian Energy
1465 Pickering Parkway
Suite 200
Pickering, Ont L1V 7G7

Sales / Invoices	JC09-5263	**Date**	1/30/2009
Customer #	VRENR03	**Purchase Order**	

Pole Rentals for 2009

Fibre Attachments for :

PICKERING Year 2009	233 Poles @ $22.35	$5,207.55
BOWMANVILLE Year 2009	288 Poles @ $22.35	$6,436.80
PORT HOPE Year 2009	130 Poles @ $22.35	$2,905.50
AJAX Year 2009	296 Poles @ $22.35	$6,615.60
BELLEVILLE Year 2009	444 Poles @ $22.35	$9,923.40

For further information please contact Leanne Ireland at ext 2234.

Subtotal	31,088.85
Misc	0.00
GST	1,554.44
Payment	0.00
Total Due	32,643.29

Attachment 3

VERIDIAN
CONNECTIONS INC.
The power to make your community better.

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TEL 905-427-9870 (Ajax/Pickering)
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Invoice

Veridian Energy
1465 Pickering Parkway
Pickering, Ontario
L1V 7G7

Jan 30, 2009

CN2009-01

Connection Services fees for January 2009

See spreadsheet for details

Sentinel Lights	$707.60
After Hrs Calls – Water Heaters	160.50
Fibre Attachments	.00

TOTAL CHARGES	868.10
GST AMOUNT	.00
INVOICE TOTAL	$ 868.10

Attachment 3

VERIDIAN
CONNECTIONS INC.
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51 Taunton Road East, Ajax ON L1T 3V3
TEL 905-427-9870 (Ajax/Pickering)
TEL 1-888-420-0070 (Clarington)
FAX 905-619-0210
www.veridian.on.ca

Invoice

Veridian Energy
1465 Pickering Parkway
Pickering, Ontario
L1V 7G7

February 28, 2009

CN2009-02

Connection Services fees for February 2009

See spreadsheet for details

Sentinel Lights	$0.00
After Hrs Calls – Water Heaters	161.55
Fibre Attachments	.00

TOTAL CHARGES	161.55
GST AMOUNT	.00
INVOICE TOTAL	$ 161.55

Attachment 3

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Invoice

Veridian Energy
1465 Pickering Parkway
Pickering, Ontario
L1V 7G7

March 27, 2009

CN2009-03

Connection Services fees for March 2009

See spreadsheet for details

Sentinel Lights	$350.00
After Hrs Calls – Water Heaters	157.35
Fibre Attachments	.00

TOTAL CHARGES	507.35
GST AMOUNT	.00
INVOICE TOTAL	$ 507.35

55 Taunton Road East, Ajax, ON L1T 3V3
TEL 905-427-9870 (Ajax/Pickering)
TEL 1-888-420-0070 (Clarington)
FAX 905-619-0210
www.veridian.on.ca

VERIDIAN
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Invoice

Veridian Energy
1465 Pickering Parkway
Pickering, Ontario
L1V 7G7

April 30, 2009

CN2009-04

Connection Services fees for April 2009

See spreadsheet for details

Sentinel Lights	$350.00
After Hrs Calls – Water Heaters	163.65
Fibre Attachments	.00

TOTAL CHARGES	513.65
GST AMOUNT	.00
INVOICE TOTAL	$ 513.65

Attachment 3

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TEL 1-888-420-0070 (Clarington)
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www.veridian.on.ca

Invoice

Veridian Energy
1465 Pickering Parkway
Pickering, Ontario
L1V 7G7

May 29, 2009

CN2009-05

Connection Services fees for May 2009

See spreadsheet for details

Sentinel Lights	$1,045.20
After Hrs Calls – Water Heaters	159.45
Fibre Attachments	.00

TOTAL CHARGES	1,204.65
GST AMOUNT	.00
INVOICE TOTAL	$ 1,204.65

Attachment 3

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TEL 1-888-420-0070 (Clarington)
FAX 905-619-0210
www.veridian.on.ca

Invoice

Veridian Energy
1465 Pickering Parkway
Pickering, Ontario
L1V 7G7

June 30, 2009

CN2009-06

Connection Services fees for June 2009

See spreadsheet for details

Sentinel Lights	$178.80
After Hrs Calls – Water Heaters	155.25
Fibre Attachments	.00

TOTAL CHARGES	334.05
GST AMOUNT	.00
INVOICE TOTAL	$ 334.05

55 Taunton Road East, Ajax, ON L1T 3V3
TEL 905-427-9870 (Ajax/Pickering)
TEL 1-888-420-0070 (Clarington)
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VERIDIAN
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Invoice

Veridian Energy
1465 Pickering Parkway
Pickering, Ontario
L1V 7G7

July 30, 2009

CN2009-07

Connection Services fees for July 2009

See spreadsheet for details

Sentinel Lights	$1,065.20
After Hrs Calls – Water Heaters	162.60
Fibre Attachments	.00

TOTAL CHARGES	1,227.80
GST AMOUNT	.00
INVOICE TOTAL	$ 1,227.80

Attachment 3

55 Taunton Road East, Ajax, ON L1T 3V3
TEL 905-427-9870 (Ajax/Pickering)
TEL 1-888-420-0070 (Clarington)
FAX 905-619-0210
www.veridian.on.ca

VERIDIAN
CONNECTIONS INC.
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Invoice

Veridian Energy
1465 Pickering Parkway
Pickering, Ontario
L1V 7G7

August 28, 2009

CN2009-08

Connection Services fees for August 2009

See spreadsheet for details

$0.00

Sentinel Lights 158.40
After Hrs Calls – Water Heaters .00
Fibre Attachments

TOTAL CHARGES	158.40
GST AMOUNT	.00
INVOICE TOTAL	$158.40

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TEL 1-888-420-0070 (Clarington)
FAX 905-619-0210
www.veridian.on.ca

Invoice

Veridian Energy
1465 Pickering Parkway
Pickering, Ontario
L1V 7G7

September 30, 2009

CN2009-09

Connection Services fees for September 2009

See spreadsheet for details

Sentinel Lights	$1065.20
After Hrs Calls – Water Heaters	163.65
Fibre Attachments	.00

TOTAL CHARGES	1228.85
GST AMOUNT	.00
INVOICE TOTAL	$1228.85

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TEL 1-888-420-0070 (Clarington)
FAX 905-619-0210
www.veridian.on.ca

Invoice

Veridian Energy
1465 Pickering Parkway
Pickering, Ontario
L1V 7G7

October 30, 2009

CN2009-10

Connection Services fees for October 2009

See spreadsheet for details

Sentinel Lights	$1057.60
After Hrs Calls – Water Heaters	164.70
Fibre Attachments	.00

TOTAL CHARGES	1222.30
GST AMOUNT	.00
INVOICE TOTAL	$1222.30

Attachment 3

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TEL 1-888-420-0070 (Clarington)
FAX 905-619-0210
www.veridian.on.ca

Invoice

Veridian Energy
1465 Pickering Parkway
Pickering, Ontario
L1V 7G7

November 30, 2009

CN2009-11

Connection Services fees for November 2009

See spreadsheet for details

Sentinel Lights	$178.80
After Hrs Calls – Water Heaters	165.75
Fibre Attachments	.00

TOTAL CHARGES	344.55
GST AMOUNT	.00
INVOICE TOTAL	$344.55

Attachment 3

VERIDIAN
CONNECTIONS INC.
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55 Taunton Road East, Ajax, ON L1T 3V3
TEL 905-427-9870 (Ajax/Pickering)
TEL 1-888-420-0070 (Clarington)
FAX 905-619-0210
www.veridian.on.ca

Invoice

Veridian Energy
1465 Pickering Parkway
Pickering, Ontario
L1V 7G7

December 22, 2009

CN2009-12

Connection Services fees for December 2009

See spreadsheet for details

Sentinel Lights	$350.00
After Hrs Calls – Water Heaters	165.75
Fibre Attachments	.00

TOTAL CHARGES	515.75
GST AMOUNT	.00
INVOICE TOTAL	$515.75

Attachment 4

VERIDIAN
CONNECTIONS INC.
The power to make your community better.

55 Taunton Road East, Ajax, ON L1T 3V3
TEL 905-427-9870 *(Ajax/Pickering)*
TEL 1-888-420-0070 *(Clarington)*
FAX 905-619-0210
www.veridian.on.ca

Invoice

Veridian Corporation
55 Taunton Road
Ajax, Ontario
L1T 3V3

November 9, 2009

C-02-09

Shared services provided for Veridian Corporation from Veridian Connections (CEO, Exec Asst CEO, VP Corp, Exec Asst VP Corp, Fin Svs, Facilities Maintainer) $15,685.00 per month – January to October 2009	156,850.00
TOTAL CHARGES	$ 156,850.00
GST AMOUNT – N/A	.00
INVOICE TOTAL	$ 156,850.00

Attachment 4

VERIDIAN
CONNECTIONS INC.
The power to make your community better.

55 Taunton Road East, Ajax, ON L1T 3V3
TEL 905-427-9870 *(Ajax/Pickering)*
TEL 1-888-420-0070 *(Clarington)*
FAX 905-619-0210
www.veridian.on.ca

Invoice

Veridian Corporation
55 Taunton Road
Ajax, Ontario
L1T 3V3

December 22, 2009

C-03-09

Shared services provided for Veridian Corporation from Veridian Connections (CEO, Exec Asst CEO, VP Corp, Exec Asst VP Corp, Fin Svs, Facilities Maintainer) $15,685.00 per month – November & December 2009	31,370.00
TOTAL CHARGES	$ 31,370.00
GST AMOUNT – N/A	.00
INVOICE TOTAL	$ 31,370.00

4. Ref: Exhibit 1 / Tab 1 / Schedule 15

With respect to the 2008 Annual Report:

Request

(a) Page 6. Please confirm that the dividend from Veridian Corporation to its shareholders in 2008 was $4.2 million, but the dividend from the Applicant to Veridian Corporation in 2008 was $7.4 million [Ex. 1/1/17, p. 3].

(b) Page 6, 23. Please file a copy of any directive or other such communication from the shareholders of Veridian Corporation to that corporation or its directors or officers with respect to dividend policy or targets, or establishing any requirements for dividends that affect the amount of funds needed from the Applicant. Please provide a copy of any dividend policy of the Board of Veridian Corporation.

(c) Page 21. Please provide the current strategic or long-range plan of Veridian Corporation, or such other document as sets out the details of the "key business goals" referred to.

(d) Page 25. Please provide the "high level review of the major differences between current Canadian GAAP and IFRS".

(e) Page 36. Please provide a forecast, in the format set out in Note 1 (l) (iv), of the aged receivables as of December 31, 2009 and December 31, 2010.

Response:

(a) Confirmed. The dividend from Veridian Corporation to its shareholders in 2008 was $4.2 million. The dividend from the Veridian Connections Inc. to Veridian Corporation in 2008 was $7.4 million

(b) Veridian does not possess any directive or other communication from the shareholders of Veridian Corporation with respect to dividend policy or targets. The dividend policy of Veridian Corporation is appended

(c) Veridian has extracted the Veridian Connections Inc. Key Business Goals from Veridian Corporation's Key Business Goals document that was approved by the Veridian Board on May 28, 2009 and appended such to this response. The Key Business Goals for the period 2008 to 2012 are outlined within this document. The Key Business Goals for 2010 to 2014 is planned to be presented to the Veridian Board for approval at the March 2010 Board meeting.

(d) Deloitte Report - Comparison of Canadian Generally Accepted Accounting Principles and International Financial Reporting Standards is attached.

(e) Veridian does not have forecasts for aged receivables for December 31, 2009 and December 31, 2010. However, Veridian does forecast bad debt expense related to uncollectible accounts. This forecast of change in bad debt expense is provided at Exhibit 4/Tab 4/Schedule 4 page 8 for 2009 and Exhibit 4/Tab 4/Schedule 4 page 13 for 2010.

Deloitte.

Veridian Corporation Group of Companies

Comparison of Canadian Generally Accepted Accounting Principles and International Financial Reporting Standards

Preliminary Impact Assessment

November 2008

Contents

Executive summary

We have prepared a high-level scoping analysis to consider the potential impact of the convergence of Canadian generally accepted accounting principles ("Canadian GAAP") to International Financial Reporting Standards ("IFRS"), based on the standards in effect as at November 2008, to assist the Veridian Corporation Group of Companies with their own analyses. Our findings are presented in this report which completes the awareness stage of Phase 1 of an overall IFRS implementation plan.

This communication is prepared for the information of Veridian's management and is not intended for any other purpose. We accept no responsibility to any third party using this communication. The ultimate responsibility for all decisions on appropriately applying IFRS rests with management. Deloitte is not expressing any opinion in accordance with IFRS or Canadian generally accepted auditing standards, or with any other assurance standard, on the information contained in this document.

In preparing this report we followed the methodology that we previously discussed with management.

- Development of an initial assessment of priorities and challenges associated with IFRS conversion. A "heat map" document was prepared, which provides an executive summary of the potential financial statement implications and operational challenges arising from IFRS conversion; and

- Development of suggested conversion activities which will address the prioritization of required work, training and communication plans.

All the standards under IFRS and International Accounting Standards ("IAS"), including interpretations, were considered for relevancy to understand the financial and operational impacts on the Companies. We did not consider IAS 2, Inventories, in our analyses as Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031, Inventory, is converged with IAS 2. This new GAAP standard is effective for the Companies as of January 1, 2008. As part of implementing this GAAP standard, the Companies' spare parts will need to be reviewed to determine whether items should be included as inventory or property, plant and equipment.

The following subsidiaries were included in our analyses:

Subsidiary	Reference
Veridian Corporation	VC
Veridian Connections Inc.	VCI
Veridian Energy Inc.	VEI

The following table shows a preliminary assessment as to the extent of potential impacts. These impacts are discussed in further detail at Appendix B, *Business Impact Study*.

Standard	Potential difficulty of implementation	Subsidiaries Affected
First time adoption of IFRS	Significant	All
Business combinations	Significant (depending on transactions and IFRS election)	VC Consolidated
Presentation of financial statements	Moderate	All
Statement of cash flows	Average	All
Changes in accounting policies, accounting estimates and errors	Average	All
Events after balance sheet date	Average	All
Income taxes	Moderate	All

Property, plant and equipment	Significant	All
Leases	Moderate	All
Revenue	Significant	Potentially all depending on lease analysis outcome
Employee benefits	Moderate	All
Borrowing costs	Moderate	VCI, VEI
Related party disclosures	Moderate	All
Consolidated and separate financial statements	Average	VC Consolidated and non-consolidated
Investment in associates	Average	VC
Impairment of assets	Moderate	All
Provisions, contingent assets and contingent liabilities	Moderate	All
Intangible assets	Average	VCI, VEI
Financial Instruments	Moderate	VC
Accounting for the impacts of rate regulation	Significant	VCI, VEI

The **results of our assessment** suggest that IFRS 1, *First-time Adoption of IFRS, IAS 16: Property, Plant and Equipment and IAS 18: Revenues* will have the largest impacts on the Companies from an implementation point of view. This is not uncommon, as IFRS 1 is a complex standard, and requires a detailed knowledge thereof in order to effectively implement it. In addition the potential loss of rate regulated accounting guidance, which does not exist under IFRS, will have a significant impact on rate regulated enterprises and the treatment of PP&E and regulatory assets and liabilities. These are the areas of financial reporting most likely to be impacted by IFRS. However, there are many detailed differences in IFRS and many additional disclosures that need to be provided as well.

An efficient **implementation** requires that a flexible and robust **plan** be developed, which not only considers the results of our analysis, but also takes into account the development of an effective communication strategy and strong project management. Suggested conversion activities have been identified for management's consideration which takes some of these factors into account. A first draft of a work plan has been included as Appendix E.

Another important consideration for the Companies is whether sufficient and adequate **resources** are available to deal with the IFRS transition. This is important as it is a key cornerstone in the execution of an effective and efficient transition process. This needs to be addressed in light of the Companies' current resource needs/requirements. Based on our experience a dedicated resource will be required to accomplish an effective IFRS implementation.

With regard to **information systems**, the Companies need to consider the impact that each IFRS difference will have, including potential upgrades or changes that are required. Based on our preliminary assessment it is likely that significant system changes will be mostly isolated to the Property, Plant and Equipment and Financial Reporting cycles, but likely no significant changes will be required with respect to the Companies' billing system.
The most significant systems impact for the Companies will be during the parallel run year and/or the required reconciliation, and will be impacted by your regulatory requirements. Hence the Companies should prioritize efforts as soon as possible to design, develop and implement a strategy for the parallel run and/or required reconciliation during the conversion year. The Companies may want to consider using the IFRS conversion as an opportunity to undertake an overall review of its financial systems infrastructure to achieve better integration and flexibility to allow future growth.
At a minimum the systems conversion plan component of the overall IFRS conversion plan should address the following:

- Developing a strategy for parallel run and/or required reconciliation including: how opening balances will be determined, how the sets of books will be maintained and consolidated during the year for Canadian GAAP, IFRS and regulatory purposes, the reporting needs driven by the requirement to reconcile between the sets of books and financial statements;

- Identifying, designing and implementing revisions to the current chart of accounts to allow the detailed information capture and reporting needs;
- Identifying impacted interfaces. Designing, developing and testing changes to the impacted interfaces;
- Identifying impacted spreadsheets and designing, re-modeling and testing changes to the spreadsheet models ;
- Consideration of issues related to dependencies and the overall integration of changes;
- Identifying changes to requirements from relevant external services providers and integrating those into the overall plan;
- Project management and communications management; and
- Monitoring developments and guidance that may be issued by the OEB.

Within this report, we raise issues which are specific to Veridian Corporation Group of Companies and as a consequence, they should not be considered for entities outside this report.

Structure of this report

This Executive summary lays out the major areas of financial reporting differences between IFRS and Canadian GAAP (CGAAP) and also includes a high level discussion of implications related to the conversion to IFRS. Sections 1 and 2 include a high level description of IFRS and the mechanics of Veridian's conversion.

Appendix A presents a one page schematic, or "Heat Map", providing an overview of the various IFRS standards and the level of difficulty and potential impact to Veridian's statements on a financial statement line item basis. Section 3 at the front of this report explains the coding used in Appendix A and describes some of the wider business issues associated with these impacts.

Section 4 of the front part of this report provides, on a standard by standard basis, a high level description of the differences for each relevant IFRS standard. The existences of accounting policy choices and transition elections available are also provided. Because IFRS is not static, this section also describes any ongoing standard setting activities related to each standard. Suggested convergence activities that can be undertaken in relation to each topic are also provided.

Appendix B provides a more detailed standard by standard analysis and comparison with Canadian GAAP and Veridian's current accounting policies. This Appendix can serve as a more detailed reference source for the project team going forward.

Appendix C provides an overview of the various consideration points requiring attention regarding the impact transitioning to IFRS may have on systems.

Appendix D is based on the CICA's 20 questions audit committees and boards of directors should be asking about IFRS. We expect that the answers to these questions will be continuously updated and refined as the project progresses.

The draft work plan for the project is included as Appendix E.

1. Description of IFRS

Overview

IFRS is the term used to indicate the entire body of International Accounting Standards Board ("IASB") authoritative literature. This includes IFRS 1 to 8, International Accounting Standards ("IAS") 1 to 41, and all pronouncements issued by the International Financial Reporting Interpretations Committee ("IFRIC") and by IFRICs predecessor, the International Standing Interpretations Committee ("SIC").

IFRS and Canadian GAAP are based on conceptual frameworks that are substantially consistent. With some exceptions, they cover much the same topics and reach similar conclusions on many issues. The style and form of IFRS is generally quite similar to Canadian standards. They are laid out in the same way as Handbook Sections, highlight the principles and use similar language.

Similar to current Canadian GAAP, IFRSs are principles based. The IFRS framework exists as an aid to the drafting of new or revised IFRS, and is built upon concepts which are very similar to that employed in Canadian GAAP, such as fair presentation, relevance, materiality, comparability and substance over form.

IFRS have few "bright lines" and their application requires even greater use of professional judgment and increased financial statement disclosure compared to Canadian GAAP. This is mostly due to the influence US standards have had on the standard setting process in Canada. More accounting choices are available in IFRS, making early evaluation of these choices key to ensuring the best possible outcome over the long run.

While IFRS include some standards that appear to be very similar to current GAAP, the "devil is in the details", and the level of analysis required to fully understand and appropriately apply these standards should not be underestimated.[1] An understanding of IFRS is a priority in the conversion process.

Unlike Canadian GAAP, a true and fair override is permitted when compliance with IFRS would be misleading.[2]

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[1] Examples would include IAS 16 - Property Plant & Equipment and SIC-12 – Special-Purpose Entities.
[2] Provided the standards regulator does not prohibit the override.

2. Convergence with IFRS

Background

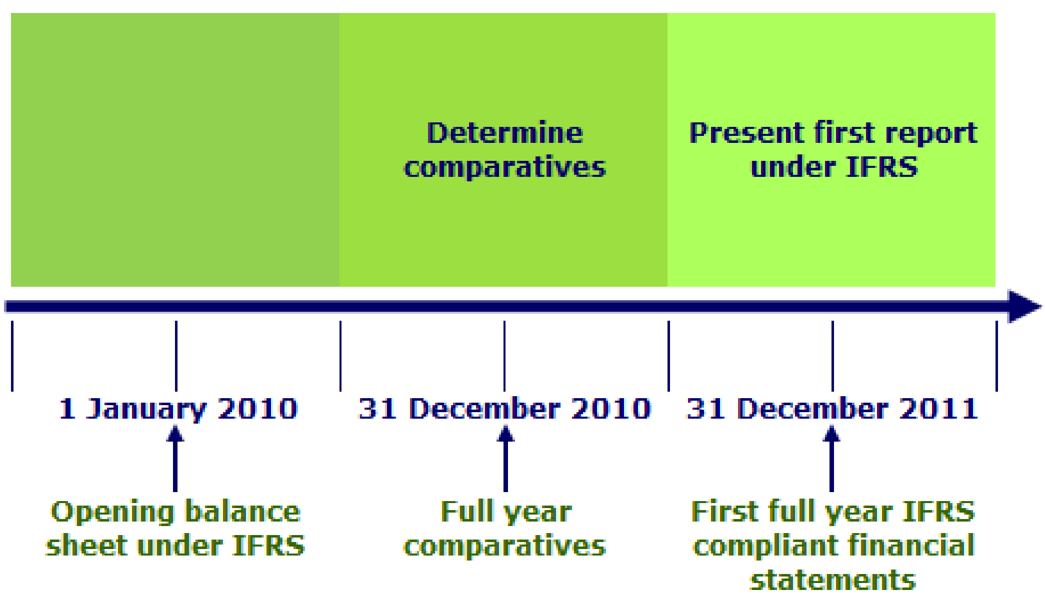
The Accounting Standards Board of Canada ("AcSB") has announced that Canadian GAAP, as we currently know them, will cease to exist for all publicly accountable enterprises ("PAEs") by 2011. From that point onward, the Companies defined as PAE's will be required to report under IFRS.

Given the OEB guidance, it is expected that Veridian Connections Inc. and the consolidated financial statements of its parent company, Veridian Corporation, will be considered PAE's and will be required to adopt IFRS. There appears to be an option to continue reporting under current GAAP for Veridian Energy's and Veridian Corporation's stand-alone financial statements, however, given the requirement to prepare consolidated IFRS financial statements, it may be more efficient for all entities to report under IFRS. A decision on these conversions will need to be made in consultation with senior management and the Board.

Listed companies in European Union ("EU") member countries, Australia, South Africa and Hong Kong converted to IFRS in or around 2005. Generally, these companies found that they underestimated the magnitude of effort required to convert. While some of the more significant conversion issues which they faced do not apply to Canadian companies, we can certainly learn from their experiences.

IFRS convergence – Timetable for the Companies

The below timeline outlines the Companies' required steps in preparing fully compliant financial statements:



Implications for the Companies on IFRS First Time Application

IFRS 1: "*First-time Adoption of International Financial Reporting Standards*" provides the 'framework' to be followed when Veridian first applies IFRS.

In accordance with IFRS, the Companies will prepare their financial reports under IFRS for the first time for the years ending December 31, 2011. The comparatives in these reports will need to be restated; as such the effective transitional date for application of the standards will be January 1, 2010. Any adjustment arising from the restatement of the opening balance sheet shall be recognized directly in retained earnings, or if appropriate, another category of equity (such as accumulated other comprehensive income), at the date of transition (i.e. January 1, 2010).

As a consequence, the Companies will be required to prepare opening balance sheets at January 1, 2010 in accordance with IFRS. These balance sheets will be subject to audit.

Under IFRS 1, retrospective application of IFRS as at January 1, 2010 is required for most account balances. However, upon first-time adoption, there are a number of exemptions and exceptions to this rule. It is important that the Companies investigate the alternatives available under IFRS 1 thoroughly to ensure any opportunities they provide are maximized.

3. Challenges for first time adoption

There are a number of differences between IFRS and current GAAP that will need to be assessed by the Companies and may require significant changes in the Companies' selected policies, methods of accounting and/or accounting systems. The adoption of IFRSs will affect both the calculation of profit, as well as the measurement of balance sheet items.

The Companies' implementation team will need to carefully monitor developments in order to understand fully the accounting and business implications of the new requirements.

Consideration should also be given to regulators (such as the OEB) who may pose challenges for first time adopters to the extent that they add additional convergence requirements or timelines or if the Companies are dependent on them to provide clarifying guidance.

Appendix A provides an executive summary ("heat map") of the IFRSs currently issued which were assessed as potentially being of greatest applicability to the Companies and provides a preliminary assessment of their likely impact. Both the potential difficulty of implementation and the potential financial impact of each standard have been ranked according to a preliminary view of the level of significance it will have on the Companies.

The color represents the potential level of difficulty of implementation (High, Medium or Low) which takes into consideration the following factors:

- The pervasiveness of the issue throughout the organization;
- The potential need for information system changes/amendments;
- The potential need to review/consider significant numbers of contracts/ agreements/transactions; and
- The potential challenges due to interpretive differences across Canadian GAAP and IFRS.

Potential difficulty of implementation					
	Significant		**Moderate**		**Average**

The letter within the cell reflects an initial estimate of the potential financial statement numerical impact from the adoption of the standard, assessed based on the recorded value of the transaction/balance in the financial statements or the degree of potential volatility which may result.

Potential level of financial impact							
H	**High**	**M**	**Medium**	**L**	**Low**	**P**	**Depends on policy choice**

A detailed review of each IFRS standard has been prepared which provides support for the conclusions made on the heat map. This detailed report is found at Appendix B. A summarized version is provided below at Section 4.

Please note that the information within these sections has been tailored to your business so it is not a full appraisal of all the differences between the IFRS and current Canadian GAAP.

Our judgment as to the relevance of the IFRS to the Companies is based solely on the information contained in the December 31, 2007 annual financial statements, our knowledge of the Companies; core businesses, and through discussions with management.

Convergence with IFRS is not just an issue of technical compliance with new accounting rules; it raises a number of wider business issues. There are numerous differences between IFRS and current GAAP which need to be understood by the Companies and may require significant changes in your methods of accounting. The adoption of IFRS will affect a number of areas including:

- Reported profit;
- Assets and liabilities;
- Shareholders' equity;
- Capital ratios; and
- Key performance indicators.

However these changes do not solely affect your reported figures; a number of wider business issues need to be considered as shown below:

Area	Issues
Shareholders and Board of Directors	Both the shareholders and Board of Directors should be fully aware of the impact that IFRS will have on Veridian's financial statements, including business impacts, so that there are no surprises on the date of transition. An analysis of the Canadian Institute of Chartered Accountants ("CICA") publication "20 Questions Directors and Audit Committees should ask about IFRS Conversions" has been included in Appendix D.
Information systems	Your existing management information will have to be revised to cope with the introduction of IFRS, including the enhanced disclosure requirements. The format and procedures around your budgeting and forecasting will also need to be re-assessed in light of IFRS. Refer to Appendix C for more detailed consideration points regarding systems.
Training	The transition to IFRS will require individuals within the finance department and potentially other business functions to have a relevant amount of understanding about the new accounting rules and how to apply them in practice. We would recommend that a tailored training program should be included in your IFRS implementation plan to deal with this area.
OEB reporting and rate setting process	The financial statements are also used for rate setting purposes and filing with the OEB. To the extent that differences between the GAAP financial statements and the requirements for rate setting purposes diverge, there will be the need for reconciliation and tracking processes. Deloitte and the company are actively managing OEB work in this area, as well as any relevant developments in IFRS.
Valuation models	Various IFRSs will require changes to existing valuation models or measurement models (such as IAS 36: Impairment of Assets) which may require changes to existing valuation models.
Risk management and controls	A strong internal control system should be an integral part of the Companies' implementation plans.
Capital ratio's	Adoption of IFRS may impact the Companies' capital ratios and potentially other key financial measures for the businesses.

4. Summary of scoping results and findings

Standard	First Time Adoption – IFRS 1
Implementation assessment	Potentially significant implementation difficulty
Points to consider	• Coded as potentially significant because the impact is pervasive • IFRS 1 requires restatement of all accounts affected by IFRS conversion, with certain exceptions. The following exemptions and exceptions are applicable to Veridian: – Business combinations – Fair value or revaluation as deemed cost – Employee benefits – Decommissioning liabilities – Leases – Borrowing costs – Separate financial statements • A balance sheet that complies with IFRS will need to be created as of January 1, 2010 • Magnitude of impacts is governed by application of all other IFRS, described below • Note disclosure of impacts of adoption of IFRS and reconciliations between GAAP and IFRS may be significant
Suggested conversion activities	• Consider exemptions and exceptions in conjunction with related topic areas discussed below. • Strategize as to whether you will apply the relevant exemptions and exceptions, whether it will ease implementation and the consequential impacts that it may have on your operations. • Consider the preparation of opening balance sheet and conversion disclosure on a trial run basis well before the date of adoption. • Decide if, and/or, how the Companies will design and implement the parallel runs for 2010. This may involve significant additional effort, given requirements to maintain multiple sets of books (both for financial and OEB reporting). • Monitor the impact of activities related to IFRS 1 (i.e. potential for additional exemption to be added relating to rate regulated assets and liabilities). • Plan a training session/workshop on IFRS 1 to fully understand its detailed requirements.

Standard	Business Combinations – IFRS 3
Implementation assessment	Significant implementation difficulty (if IFRS 1 elections are not made)
Points to consider	• Veridian Corporation has had a number of previous business combinations that may need to be accounted for under IFRS 3 depending on the policy chosen under IFRS 1. • At a minimum, the assets and liabilities associated with previous business combinations will need to be reviewed to ensure they qualify for recognition under IFRS (see IFRS 1, Appendix B. • The Companies' current growth strategy is through acquisitions, therefore any business combinations in 2010 and 2011 will need to be assessed under IFRS 3.
Suggested conversion activities	• If the Companies are planning business combinations for the year beginning on January 1, 2010, consider adopting the new Canadian

	standard on January 1, 2010 to avoid restatement on transition to IFRS in 2011. • Consider electing the IFRS 1 exemption not to restate business combinations that occurred prior to 2010. If the election is taken, work effort may be reduced. • A goodwill impairment test is still required on date of transition to IFRS (i.e., January 1, 2010), regardless of whether the exemption is taken or not. • Monitor future developments to identify any business combinations that will need to be assessed under IFRS 3. Update conversion plan as necessary.

Standard	Presentation of Financial Statements – IAS 1
Implementation assessment	Average implementation difficulty with Medium potential financial statement impact

Points to consider	• There are additional disclosure requirements under IFRS that are not required under Canadian GAAP, such as:
	  • Disclosure of judgments, other than estimates, made in the process of applying accounting policies that have the most effect on the financial statements.
	  • Disclosures of dividends per share (declared or proposed), domicile and legal form of entity, address of registered office, country of incorporation, nature of activities, and name of parent and ultimate parent of the group
	• IFRS 1 exemption – none available
	• Convergence activities - the IASB issued a revised IAS 1. The revisions to the standard are relatively minor and introduce a statement called "Other Comprehensive Income". The revised standard is effective for annual periods beginning on or after January 1, 2009, with early application permitted.

Suggested conversion activities	• Other than the enhanced disclosure requirements, the principles under IFRS are essentially aligned with Canadian GAAP. • Consider the enhanced disclosure requirements under IAS 1 and how easy it would be to access this information. • Plan a training session on IAS 1 to understand the enhanced disclosure requirements. • Consider creating mock IFRS compliant financial statements and disclosures before the conversion to test systems and data collection.

Standard	Cash Flow Statements– IAS 7
Implementation assessment	Average implementation difficulty with Low potential financial statement impact
Points to consider	• IFRS and Canadian GAAP are substantially aligned in this area. • Under IFRS, an entity has an accounting policy choice of classifying interest and dividends received as operating or investing, and interest and dividends paid as operating or financing activities. • Under Canadian GAAP, interest and dividends received must be classified as operating activities, interest paid is recorded as operating, and dividends paid charged to retained earnings must be presented as financing activities. • IAS allows for restricted cash balances to be classified as cash and cash equivalents under certain circumstances. • IFRS 1 exemption – none available • There are no convergence activities associated with IAS 7
Suggested conversion activities	• Select an accounting policy choice for classifying interest (paid and received) and dividends (paid and received). • Perform a review of restricted cash balances to ensure properly classified under IAS 7.

Standard	Changes in Accounting Policies, Changes in Accounting Estimates and Errors – IAS 8
Implementation assessment	Average Implementation Difficulty with Low expected financial statement impact
Points to consider	• IFRS and Canadian GAAP are fundamentally aligned in this area. • Both standards require a change in accounting policy to be applied retrospectively. Both standards also mandate that all material prior period errors should be corrected through retroactive restatement. • IFRS 1 exemption – none available • There are no convergence activities associated with IAS 8
Suggested conversion activities	• There are no suggested conversion activities as this is a low risk area.

Standard	Events after Balance Sheet Date – IAS 10
Implementation assessment	Average Implementation Difficulty with Low expected financial statement impact
Points to consider	• IFRS and Canadian GAAP are fundamentally aligned in this area. • The key differences relate to the post-reporting date, and the disclosure of the date the financial statements were authorized for issuance. • IFRS 1 exemption – none available • Convergence activities – there are none associated with IAS 10
Suggested conversion activities	• Consider the difference in post-reporting dates in light of any events that may occur after balance sheet date. • With regard to the disclosure of authorization for issue of the financial statements, the Companies' financial statements already disclose who authorized the financial statements for issue and the date. • This is a low risk area that need only be addressed on completion of the December 31, 2011 statements.

Standard	Income Taxes – IAS 12
Implementation assessment	Moderate Implementation Difficulty with Medium - Low expected financial statement impact
Points to consider	• The principles under both Frameworks are similar in many respects. • The tax impacts due to IFRS conversion needs to be assessed and definition of income taxes under IFRS should be considered. • IFRS 1 exemption – none available • There is a convergence project underway with the United States Financial Accounting Standards Board ("FASB") which will remove some of the exceptions in IAS 12 that currently do not exist under GAAP. An exposure draft is expected to be issued in the fourth quarter of 2008, with a final standard to be issued in 2010.
Suggested conversion activities	• Adopt accounting for future income taxes for the regulated businesses in 2009 as required by Canadian GAAP. • Consider and be aware of the related tax consequences from convergence with IFRS. • Consider the involvement of a tax specialist throughout the entire conversion process, not only to understand the impact on current and future income taxes, but also to assess how IFRS will impact any current tax planning/strategies. • Study the exposure draft when issued as it will provide a good basis for understanding the new IFRS standards that are likely to emerge in this area.

Standard	Property, Plant and Equipment – IAS 16
Implementation assessment	Significant Implementation Difficulty with High expected financial statement impact
Points to consider	• On class by class basis, accounting policy choice – revaluation or cost model; impact to capital assets recorded on balance sheet and amortization amounts • Cost capitalization policies may differ under IFRS. • Major parts of an asset may need to be depreciated separately. The level of detail for this componentization is based on the significance of the cost of component in relation to the whole asset and materiality • IFRS 1 exemption - on an asset by asset basis, may elect to remeasure the asset at fair value as at January 1, 2010 and use this value as its deemed cost for subsequent accounting purposes under the cost model. Considering that existing premises and equipment are close to being fully amortized, the exemption may have limited relevance. • IFRS 1 exemption – an exposure draft has been issued to allow rate-regulated entities to elect to use Canadian GAAP cost as opening IFRS cost. • There are no planned convergence projects underway • Disclosure – more detailed, reconciliations of opening / closing balance, recognized impairments
Suggested conversion activities	• Determine whether the IFRS 1 exemption will be selected for any assets. • Begin now to determine existence of unrealized gains on assets and consider whether revaluation is desirable • If assets are not to be recorded at fair value under the IFRS 1 election or revaluation model, consider existing cost capitalization policies under IFRS. Review of overhead burden rates, in particular, will need to be undertaken. • Begin to consider the existence of significant components and the use current components in place • Begin to gather data necessary to provide disclosure • Consider the impact that componentization, choice of model and enhanced disclosures will have on Veridian's current accounting/reporting model. • Plan a training session on IAS 16 to fully understand its details, accounting treatment and related implications.

Standard	Leases – IAS 17
Implementation assessment	Moderate Implementation Difficulty with Medium to Low expected financial statement impact
Points to consider	• There may be differences related to lease classification as operating or capital under IFRS and as such assessment of the following agreements should be done: - fibre optic rental agreements - water heater rental agreements - pole rental agreements - any building or land rental agreements • There is a convergence project underway with the FASB. A discussion paper is expected in 2009, and draft proposals in 2010. However, convergence is unlikely to be finished by 2011.
Suggested conversion activities	• Ensure that there is an up to date inventory of all lease and lease like arrangements. • Monitor international project on lease accounting • Consider IAS 17 standard when entering into new leases and arrangements • Begin to document considerations of items identified above • Plan a training session on lease accounting, particularly in light of the

	analysis performed on existing agreements and how these may be impacted by IFRS.

Standard	Revenue – IAS 18
Implementation assessment	Significant Implementation Difficulty with High to Medium expected financial statement impact
Points to consider	• The guidance under both Frameworks in similar in many respects. • Potential areas of difference relates to distribution revenue (as a result of loss of regulatory accounting), potential leasing changes and treatment of recoverable costs. • Exposure draft D24: Customer contributions may also have a significant impact on revenue recognition for these items. • IFRS 1 exemption – there is none • There is a convergence project underway with the FASB. A discussion paper is expected in 2009. However, convergence is unlikely to be finished by 2011.
Suggested conversion activities	• Monitor international project on revenue recognition, including additional guidance to be issued on agent vs. principal transactions. • Begin to decide on the appropriate revenue recognition policy for items noted above.

Standard	Employee Future Benefits– IAS 19
Implementation assessment	Moderate Implementation Difficulty with Medium expected financial statement impact
Points to consider	• Veridian has a defined benefit pension plan which also provides certain post-retirement benefits. • A key difference between IFRS and Canadian GAAP is the treatment of multi-employer plans, such as the OMERS plan in which the Companies participate. • Level of differences and work involved will depend on the assessment of the multi-employer plan and whether defined benefit accounting must be done under IFRS. • There is a convergence project underway with the FASB. An exposure draft is expected to be issued in the second half of 2009, with a final standard to be issued in 2011.
Suggested conversion activities	• Assess the need to apply defined benefit plan accounting under IFRS and, if so, develop appropriate actuarial and accounting processes under IAS 19 • With respect to this assessment, contact OMERS to determine if sufficient information regarding the plan is available to account for the plan as defined benefit (consider communications with others included in the multi-employer plan to ensure consistency)

Standard	Borrowing costs – IAS 23
Implementation assessment	Moderate Implementation Difficulty with Medium to High expected financial Impact
Points to consider	• Capitalization of borrowing costs is required for qualifying assets under IFRS. Veridian Connections already has a policy for capitalization of interest, so this may not be a significant difference, but the Companies will need to consider potential differences in the type of costs capitalized, the period of capitalization, etc. • Differences exist in the calculation of the weighted average cost of borrowings and the inability to use the allowance for cost of funds used during construction provided by the OEB. • IFRS 1 exemption available to being capitalizing borrowing costs from January 1, 2009 or from the date of transition (i.e. January 1, 2010)

Suggested conversion activities	• Consider appropriate capitalization rate from January 1, 2009 • Consider applicability of exemption for restatement of previously capitalized amounts.

Standard	Related Party Disclosures – IAS 24
Implementation assessment	Average Implementation Difficulty with Low expected financial statement impact
Points to consider	• Need to disclose information about executive remuneration in the financial statements as well as certain transactions with subsidiaries, associates, etc. • Amendment to exempt certain s owned enterprises from disclosing all related parties is expected to be approved in 2009. • IFRS 1 exemption – there are none • There are no convergence activities associated with IAS 24
Suggested conversion activities	• Begin to assess impact of IAS 24 from a disclosure and accounting perspective based on current related party transactions • Consider the definition of "key management personnel" under IAS 24 to understand whether current disclosure of management compensation and the required categories of compensation. • Monitor developments around government owned enterprise reporting.

Standard	Consolidated and Separate Financial Statements – IAS 27
Implementation assessment	Average Implementation Difficulty with Low expected financial statement impact
Points to consider	• IAS 27 provides specific guidance on treatment of investments in subsidiaries in stand-alone financial statements. This will allow the non-consolidated statements to fully comply with IFRS. • IFRS 1 exemption available for when a subsidiary adopts IFRS at a different time than parent. This is not applicable, as all of companies have December 31st year ends. • The IASB and FASB have commenced a project on consolidation, including special purpose entities ("SPE's"), to converge the standards. An exposure draft is expected in the fourth quarter of 2008, with a final standard expected to be issued in the second half of 2009.
Suggested conversion activities	• Make a policy choice for treatment of subsidiary investments.

Standard	Impairment of Assets – IAS 36
Implementation assessment	Moderate Implementation Difficulty with Medium expected financial statement impact
Points to consider	• Documentation of how cash generating units were determined and appropriate segmentation e.g. by product; will be very judgmental • Mechanics of impairment tests for intangibles and property, plant and equipment and goodwill are somewhat different • Disclose impairment losses and reversals, details of each cash generating unit • IFRS 1 exemption – there are none available • IAS 36 is part of the convergence project between IASB and FASB. Staff research has begun, but is unlikely to be converged pre-2011 as it is not on the IASB's current work plan.
Suggested conversion activities	• Monitor international convergence activities relating to impairment of assets • Begin to consider cash generating units • Consider performing a dry run IFRS impairment reviews before 2010

Standard	Provisions, contingent liabilities and contingent asset - IAS 37
Implementation assessment	Moderate Implementation Difficulty with Medium to Low expected financial statement impact
Points to consider	• Recognition threshold may be interpreted differently under IFRS. • IFRS requires the recognition of onerous contracts • Decommissioning liabilities are often recognized under IFRS, which may not meet the criteria for recognition under Canadian GAAP. • IFRS 1 mandatory exception - cannot retrospectively restate estimates using the benefit of hindsight. • Changes to IAS 37 expected in the second half of 2009
Suggested conversion activities	• Monitor international convergence activities • Review potential liabilities under IFRS recognition guidance • Consider the nature of disclosure required to meet the new rules • Plan a training session/workshop relating to IAS 37 to understand the principles, including the application of recognizing a constructive obligation.

Standard	Intangible assets- IAS 38
Implementation assessment	Average Implementation Difficulty with Low expected financial statement impact
Points to consider	• The Companies should revisit existing accounting policies under the new Canadian GAAP (CICA 3064) standard effective for fiscal years beginning on or after January 1, 2009, which are now substantially aligned with IFRS. Specific considerations of software or other systems related items that may need to be classified as intangible assets. • IFRS 1 exemption – option to re-measure at fair value, intangible assets on date of transition, and to use this as deemed cost going forward. The election can be made on an asset by asset basis, but is likely not relevant to the Companies as the intangible assets would need to be included in an active market. • There is no convergence projects associated with IAS 38.
Suggested conversion activities	• Revisit accounting policy for software capitalization in light of IAS 38 • Consider the need to include more detailed asset accounts at the sub ledger level to accommodate the enhanced disclosure requirements

Standard	Financial Instruments - IFRS 7, IAS 32, IAS 39
Implementation assessment	Average implementation difficulty with low financial statement impact
Points to consider	Accounting for financial instruments (e.g. investments and derivatives) is largely converged with IFRS given recent changes to Canadian GAAP. However, there are some areas of potential differences, a couple of which are indicated below. *Embedded Derivatives:* • Potential difference in date from which the search for embedded derivatives may begin under current Canadian GAAP vs. IFRS (i.e. policy choice under current Canadian GAAP for transition date for embedded derivatives to go back no further than January 1, 2003, where there is no grandfathering date under IAS 39 - therefore, all embedded derivatives must be accounted for according to the standard) *Liability vs. equity classification for various instruments:* • Scope of IAS 32 is broader than Canadian GAAP. As a result, presentation

	as liabilities or equity may differ from Canadian GAAP on many occasions. IAS 32 may result in all or a portion of certain instruments currently classified in equity under Canadian GAAP to be reclassified to liabilities *General Points to Consider:* • IFRS 1 allows for reclassification of financial instruments (e.g., into or out of held for trading) as of the date of adoption (January 1, 2010) if certain conditions are met.
Suggested conversion activities	• Adopt IFRS compliant disclosures for financial instruments and capital management in 2008 financial statements (i.e. application of CICA 3862) • Assess any other areas of difference, which are not expected to be significant

5. Next steps – IFRS implementation program

The impacts of convergence on the Companies, highlighted within this report, may be significant, hence it is important for management to understand that there are a number of areas within the business that will be affected and due consideration should be paid to each. It is vital that there is a coordinated approach which includes addressing the taxation and systems issues arising from convergence.

In addition, while Canada is aiming for January 1, 2011, many standards to be applied at that date are in process of convergence. This increases the level of complexity when planning for convergence and so particular attention will need to be paid to the level and skill base of resources that are assigned to the project taking account of competing requirements with business as usual and other projects. Due to the inevitable interdependencies between IFRS convergence and other projects the overall project will need to be carefully assessed and managed appropriately.

Conversion Plan Approach

The Companies will be required to provide IFRS comparative data for 2010 when they issue their first IFRS compliant financial statements in 2011. As a result, the Companies' date of transition will be January 1, 2010, and not January 1, 2011.

While the Companies' conversions to IFRS will take place over the three-year period from 2008 to 2011, all detailed diagnostics and impact analyses, decisions with respect to options available under IFRS, and process and system changes required to capture data for reporting under IFRS will largely have to be completed by December 31, 2009. Conversion activities in 2010 and 2011 will consist mostly of parallel data collection and reporting, preparation of the necessary reconciliations and disclosures required to be filed in 2011, education and communications.

The conversion plan will therefore be executed in three phases as follows:

Phase	Description	Timeline
Phase 1	Scoping	November 2008
Phase 2	Evaluation & Design	December 2008 – December 2009
Phase 3	Implementation & Review	September 2009 – March 2012

Phase 1 of the conversion plan consists of project initiation and awareness, identification of high-level differences between IFRS and GAAP and project planning and resourcing.

The first requirement under Phase 1 is to identify those IFRSs that are most applicable to the Companies, determine what the major differences are between these IFRS and current GAAP, and the impact of these differences on financial reporting by the Companies. The results of this high-level scoping analysis is the basis upon which more detailed diagnostics and impact analysis will be completed under Phase 2 of the conversion plan.

Note that this report addresses the phase 1 items.

Phase 2 consists of detailed diagnostics and evaluation of the financial impacts of various options and alternative methodologies provided for under IFRS, identification and design of operational and financial business processes, and development of required solutions to address identified issues.

The detailed analysis will be performed on the work streams identified in the project plan. Your assessment of the initial impact of the relevant standard may be updated based on the results obtained from your detailed analysis.

The draft work plan included as Appendix E reflects the prioritization of issues summarized in this report.

Phase 3 will involve building, implementing and communicating the changes required to report IFRS compatible information beginning in 2010 and the associated impacts[4].

The intended changes to GAAP and IFRS over the conversion period will require that the Companies' conversion plans be sufficiently flexible and dynamic to deal with standards changes as they arise. Some of the indicated changes will not come into effect until after the changeover to IFRS in 2011, therefore analysis and implementation will continue beyond the changeover date.

Communication, both internal and external will be emphasized throughout the conversion process. Internal communications will be required to ensure consistent understanding, education and resolution of critical issues. External communications will be required to ensure that investors and investment analysts understand that any changes in financial reporting as a result of IFRS have little to do with the Companies; operations, financial positions and profitability.

VERIDIAN CONNECTIONS INC.

FINANCIAL MEASURES

OPERATIONS, MAINTENANCE AND ADMINISTRATION COST PER CUSTOMER ($)					
A measure of the cost efficiency of operating Veridian Connections Inc. Lower operating costs demonstrate efficient processes and cost control. As distribution rates are set based upon investment in plant and projected operating costs, lower costs lead to lower customer rates. The average Ontario LDC OM&A cost per customer in 2007 was $259.					
2007 Actual	2008 Target	2009 Target	2010 Target	2011 Target	2012 Target
$163	$170	$181	$192	$192	$192

PLANNED CAPITAL EXPENDITURES COMPLETION RATE					
A measure of the successful completion of planned projects within Veridian Connections Inc. capital expenditure plan. Completion of projects will enhance customer benefits by leading to better reliability and better system cost efficiency					
2007 Actual	2008 Target	2009 Target	2010 Target	2011 Target	2012 Target
		90%	90%	90%	90%

CUSTOMER MEASURES

CUSTOMER SATISFACTION					
Veridian Connections Inc. conducts an annual survey that measures the level of satisfaction customers have with Veridian service. Achieving a service level that is in the 90th percentile (top 10%) of utilities that conduct surveys using Simul Corporation's annual utility survey.					
2007 Actual	2008 Target	2009 Target	2010 Target	2011 Target	2012 Target
90%	90%	90%	90%	90%	90%

LOW COST/HIGH VALUE SERVICE PROVIDER					
Veridian Connections Inc. distribution rates should be affordable for customers. Monthly residential bills for 1000 kwh consuming customers should be in the 50th percentile (lowest 50%) of Large Utilities as reported within the annual MEARIE statistical report					
2007 Actual	2008 Target	2009 Target	2010 Target	2011 Target	2012 Target
64%	50%	50%	50%	50%	50%

Service Reliability						
Veridian's power reliability improves levels of customer satisfaction for residential customers and improves operational and cost efficiencies for business customers. Veridian's target for reliability is to improve reliability so that it is within the 75th percentile (top 25%) of Ontario utilities. Standard duration and frequency utility reliability measures are employed.						
	2007 Actual	2008 Target	2009 Target	2010 Target	2011 Target	2012 Target
SAIDI	1.94	1.84	1.89	1.70	1.63	1.57
SAIFI	1.81	2.16	2.02	1.79	1.79	1.68
CAIDI	1.07	1.04	0.91	0.91	0.86	0.80

Saidi = System average interruption duration index – 2008 Ontario 75^{th} percentile is 1.09 hours

Saifi = System average interruption frequency index – 2008 Ontario 75^{th} percentile is 1.10 interruptions

Caidi = Customer average interruption duration index – 2008 Ontario 75^{th} percentile is 0.81 hours

Internal Measures

Low Impact Environmental Profile – Annual CO^2 Emissions (kg/customer)					
Veridian Connections Inc. will improve its carbon dioxide emissions related to vehicle and facility energy utilization. Customers benefit from an electricity distributor that has a low impact on the environment in delivering electricity to customers.					
2007 Actual	2008 Target	2009 Target	2010 Target	2011 Target	2012 Target
	9.8 kg	9.6 kg	9.3 kg	9.1 kg	8.9 kg

Learning and Growth Measures

Engaged Employees					
Veridian Connections Inc. will conduct periodic employee surveys to measure level of engagement. Surveys will be conducted once every two years. Results of first survey will be available in February of 2009. Studies have shown that engaged employees lead to lower operating costs and better service for customers. The measure is Veridian's employee engagement level as compared to the North American Utility Norm. (Towers Perrin Employee Survey). Veridian's 2008 survey scored employee engagement at 75%, 9% favourable to the North American Utility Norm. The target is to maintain this very favourable result as compared to the survey group.					
2007 Actual	2008 Target	2009 Target	2010 Target	2011 Target	2012 Target
N/A	+9%	N/A	+10%	N/A	+10%

Excellence in Safety						
Veridian Connections Inc. sets a high target for no lost time accidents. Employee safety also leads to better safety for the public and customers.						
	2007 Actual	2008 Target	2009 Target	2010 Target	2011 Target	2012 Target
Lost Time Injury	0	0	0	0	0	0
Lost time days per compensable injury	7 days	7 days	7 days	7 days	7 days	7 days

The 2005-2007 industry average for lost time days per compensable injury is 14.2 days.

4.2.

Deloitte.

Veridian Corporation Group of Companies

Comparison of Canadian Generally Accepted Accounting Principles and International Financial Reporting Standards

Preliminary Impact Assessment

4.2.1

Contents

4.2.2

Executive summary

We have prepared a high-level scoping analysis to consider the potential impact of the convergence of Canadian generally accepted accounting principles ("Canadian GAAP") to International Financial Reporting Standards ("IFRS"), based on the standards in effect as at November 2008, to assist the Veridian Corporation Group of Companies with their own analyses. Our findings are presented in this report which completes the awareness stage of Phase 1 of an overall IFRS implementation plan.

In preparing this report we followed the methodology that we previously discussed with management.

- Development of an initial assessment of priorities and challenges associated with IFRS conversion. A "heat map" document was prepared, which provides an executive summary of the potential financial statement implications and operational challenges arising from IFRS conversion; and

- Development of suggested conversion activities which will address the prioritization of required work, training and communication plans.

All the standards under IFRS and International Accounting Standards ("IAS"), including interpretations, were considered for relevancy to understand the financial and operational impacts on the Companies. We did not consider IAS 2, Inventories, in our analyses as Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031, Inventory, is converged with IAS 2. This new GAAP standard is effective for the Companies as of January 1, 2008. As part of implementing this GAAP standard, the Companies' spare parts will need to be reviewed to determine whether items should be included as inventory or property, plant and equipment.

The following subsidiaries were included in our analyses:

Subsidiary	Reference
Veridian Corporation	VC
Veridian Connections Inc.	VCI
Veridian Energy Inc.	VEI

The following table shows a preliminary assessment as to the extent of potential impacts. These impacts are discussed in further detail at Appendix B, *Business Impact Study*.

Standard	Potential difficulty of implementation	Subsidiaries Affected
First time adoption of IFRS	Significant	All
Business combinations	Significant (depending on transactions and IFRS election)	VC Consolidated
Presentation of financial statements	Moderate	All
Statement of cash flows	Average	All
Changes in accounting policies, accounting estimates and errors	Average	All
Events after balance sheet date	Average	All
Income taxes	Moderate	All
Property, plant and equipment	Significant	All
Leases	Moderate	All
Revenue	Significant	Potentially all depending on lease analysis outcome
Employee benefits	Moderate	All

Borrowing costs	Moderate	VCI, VEI
Related party disclosures	Moderate	All
Consolidated and separate financial statements	Average	VC Consolidated and non-consolidated
Investment in associates	Average	VC
Impairment of assets	Moderate	All
Provisions, contingent assets and contingent liabilities	Moderate	All
Intangible assets	Average	VCI, VEI
Financial Instruments	Moderate	VC
Accounting for the impacts of rate regulation	Significant	VCI, VEI

The **results of our assessment** suggest that IFRS 1, *First-time Adoption of IFRS, IAS 16: Property, Plant and Equipment* and *IAS 18: Revenues* will have the largest impacts on the Companies from an implementation point of view. This is not uncommon, as IFRS 1 is a complex standard, and requires a detailed knowledge thereof in order to effectively implement it. In addition the potential loss of rate regulated accounting guidance, which does not exist under IFRS, will have a significant impact on rate regulated enterprises and the treatment of PP&E and regulatory assets and liabilities. These are the areas of financial reporting most likely to be impacted by IFRS. However, there are many detailed differences in IFRS and many additional disclosures that need to be provided as well.

An efficient **implementation** requires that a flexible and robust **plan** be developed, which not only considers the results of our analysis, but also takes into account the development of an effective communication strategy and strong project management. Suggested conversion activities have been identified for management's consideration which takes some of these factors into account. A first draft of a work plan has been included as Appendix E.

Another important consideration for the Companies is whether sufficient and adequate **resources** are available to deal with the IFRS transition. This is important as it is a key cornerstone in the execution of an effective and efficient transition process. This needs to be addressed in light of the Companies' current resource needs/requirements. Based on our experience a dedicated resource will be required to accomplish an effective IFRS implementation.

With regard to **information systems**, the Companies need to consider the impact that each IFRS difference will have, including potential upgrades or changes that are required. Based on our preliminary assessment it is likely that significant system changes will be mostly isolated to the Property, Plant and Equipment and Financial Reporting cycles, but likely no significant changes will be required with respect to the Companies' billing system.
The most significant systems impact for the Companies will be during the parallel run year and/or the required reconciliation, and will be impacted by your regulatory requirements. Hence the Companies should prioritize efforts as soon as possible to design, develop and implement a strategy for the parallel run and/or required reconciliation during the conversion year. The Companies may want to consider using the IFRS conversion as an opportunity to undertake an overall review of its financial systems infrastructure to achieve better integration and flexibility to allow future growth.
At a minimum the systems conversion plan component of the overall IFRS conversion plan should address the following:

- Developing a strategy for parallel run and/or required reconciliation including: how opening balances will be determined, how the sets of books will be maintained and consolidated during the year for Canadian GAAP, IFRS and regulatory purposes, the reporting needs driven by the requirement to reconcile between the sets of books and financial statements;
- Identifying, designing and implementing revisions to the current chart of accounts to allow the detailed information capture and reporting needs;
- Identifying impacted interfaces. Designing, developing and testing changes to the impacted interfaces;

- Identifying impacted spreadsheets and designing, re-modeling and testing changes to the spreadsheet models ;
- Consideration of issues related to dependencies and the overall integration of changes;
- Identifying changes to requirements from relevant external services providers and integrating those into the overall plan;
- Project management and communications management; and
- Monitoring developments and guidance that may be issued by the OEB.

Within this report, we raise issues which are specific to Veridian Corporation Group of Companies and as a consequence, they should not be considered for entities outside this report.

Structure of this report

This Executive summary lays out the major areas of financial reporting differences between IFRS and Canadian GAAP (CGAAP) and also includes a high level discussion of implications related to the conversion to IFRS. Sections 1 and 2 include a high level description of IFRS and the mechanics of Veridian's conversion.

Appendix A presents a one page schematic, or "Heat Map", providing an overview of the various IFRS standards and the level of difficulty and potential impact to Veridian's statements on a financial statement line item basis. Section 3 at the front of this report explains the coding used in Appendix A and describes some of the wider business issues associated with these impacts.

Section 4 of the front part of this report provides, on a standard by standard basis, a high level description of the differences for each relevant IFRS standard. The existences of accounting policy choices and transition elections available are also provided. Because IFRS is not static, this section also describes any ongoing standard setting activities related to each standard. Suggested convergence activities that can be undertaken in relation to each topic are also provided.

Appendix B provides a more detailed standard by standard analysis and comparison with Canadian GAAP and Veridian's current accounting policies. This Appendix can serve as a more detailed reference source for the project team going forward.

Appendix C provides an overview of the various consideration points requiring attention regarding the impact transitioning to IFRS may have on systems.

Appendix D is based on the CICA's 20 questions audit committees and boards of directors should be asking about IFRS. We expect that the answers to these questions will be continuously updated and refined as the project progresses.

The draft work plan for the project is included as Appendix E.

4.2.5

1. Description of IFRS

Overview

IFRS is the term used to indicate the entire body of International Accounting Standards Board ("IASB") authoritative literature. This includes IFRS 1 to 8, International Accounting Standards ("IAS") 1 to 41, and all pronouncements issued by the International Financial Reporting Interpretations Committee ("IFRIC") and by IFRICs predecessor, the International Standing Interpretations Committee ("SIC").

IFRS and Canadian GAAP are based on conceptual frameworks that are substantially consistent. With some exceptions, they cover much the same topics and reach similar conclusions on many issues. The style and form of IFRS is generally quite similar to Canadian standards. They are laid out in the same way as Handbook Sections, highlight the principles and use similar language.

Similar to current Canadian GAAP, IFRSs are principles based. The IFRS framework exists as an aid to the drafting of new or revised IFRS, and is built upon concepts which are very similar to that employed in Canadian GAAP, such as fair presentation, relevance, materiality, comparability and substance over form.

IFRS have few "bright lines" and their application requires even greater use of professional judgment and increased financial statement disclosure compared to Canadian GAAP. This is mostly due to the influence US standards have had on the standard setting process in Canada. More accounting choices are available in IFRS, making early evaluation of these choices key to ensuring the best possible outcome over the long run.

While IFRS include some standards that appear to be very similar to current GAAP, the "devil is in the details", and the level of analysis required to fully understand and appropriately apply these standards should not be underestimated.[1] An understanding of IFRS is a priority in the conversion process.

Unlike Canadian GAAP, a true and fair override is permitted when compliance with IFRS would be misleading.[2]

[1] Examples would include IAS 16 - Property Plant & Equipment and SIC-12 – Special-Purpose Entities.
[2] Provided the standards regulator does not prohibit the override.

4.2.6

2. Convergence with IFRS

Background

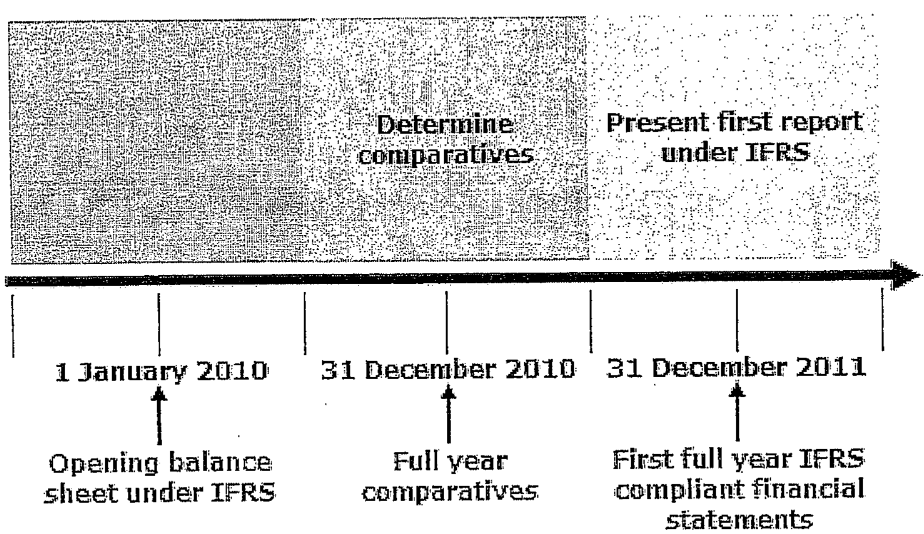
The Accounting Standards Board of Canada ("AcSB") has announced that Canadian GAAP, as we currently know them, will cease to exist for all publicly accountable enterprises ("PAEs") by 2011. From that point onward, the Companies defined as PAE's will be required to report under IFRS.

Given the OEB guidance, it is expected that Veridian Connections Inc. and the consolidated financial statements of its parent company, Veridian Corporation, will be considered PAE's and will be required to adopt IFRS. There appears to be an option to continue reporting under current GAAP for Veridian Energy's and Veridian Corporation's stand-alone financial statements, however, given the requirement to prepare consolidated IFRS financial statements, it may be more efficient for all entities to report under IFRS. A decision on these conversions will need to be made in consultation with senior management and the Board.

Listed companies in European Union ("EU") member countries, Australia, South Africa and Hong Kong converted to IFRS in or around 2005. Generally, these companies found that they underestimated the magnitude of effort required to convert. While some of the more significant conversion issues which they faced do not apply to Canadian companies, we can certainly learn from their experiences.

IFRS convergence – Timetable for the Companies

The below timeline outlines the Companies' required steps in preparing fully compliant financial statements:



Implications for the Companies on IFRS First Time Application

IFRS 1: "*First-time Adoption of International Financial Reporting Standards*" provides the 'framework' to be followed when Veridian first applies IFRS.

4.2.7

In accordance with IFRS, the Companies will prepare their financial reports under IFRS for the first time for the years ending December 31, 2011. The comparatives in these reports will need to be restated; as such the effective transitional date for application of the standards will be January 1, 2010. Any adjustment arising from the restatement of the opening balance sheet shall be recognized directly in retained earnings, or if appropriate, another category of equity (such as accumulated other comprehensive income), at the date of transition (i.e. January 1, 2010).

As a consequence, the Companies will be required to prepare opening balance sheets at January 1, 2010 in accordance with IFRS. These balance sheets will be subject to audit.

Under IFRS 1, retrospective application of IFRS as at January 1, 2010 is required for most account balances. However, upon first-time adoption, there are a number of exemptions and exceptions to this rule. It is important that the Companies investigate the alternatives available under IFRS 1 thoroughly to ensure any opportunities they provide are maximized.

4.2.8

3. Challenges for first time adoption

There are a number of differences between IFRS and current GAAP that will need to be assessed by the Companies and may require significant changes in the Companies' selected policies, methods of accounting and/or accounting systems. The adoption of IFRSs will affect both the calculation of profit, as well as the measurement of balance sheet items.

The Companies' implementation team will need to carefully monitor developments in order to understand fully the accounting and business implications of the new requirements.

Consideration should also be given to regulators (such as the OEB) who may pose challenges for first time adopters to the extent that they add additional convergence requirements or timelines or if the Companies are dependent on them to provide clarifying guidance.

Appendix A provides an executive summary ("heat map") of the IFRSs currently issued which were assessed as potentially being of greatest applicability to the Companies and provides a preliminary assessment of their likely impact. Both the potential difficulty of implementation and the potential financial impact of each standard have been ranked according to a preliminary view of the level of significance it will have on the Companies.

The color represents the potential level of difficulty of implementation (High, Medium or Low) which takes into consideration the following factors:

- The pervasiveness of the issue throughout the organization;
- The potential need for information system changes/amendments;
- The potential need to review/consider significant numbers of contracts/ agreements/transactions; and
- The potential challenges due to interpretive differences across Canadian GAAP and IFRS.

Potential difficulty of implementation					
	Significant		Moderate		Average

The letter within the cell reflects an initial estimate of the potential financial statement numerical impact from the adoption of the standard, assessed based on the recorded value of the transaction/balance in the financial statements or the degree of potential volatility which may result.

Potential level of financial impact							
H	High	M	Medium	L	Low	P	Depends on policy choice

A detailed review of each IFRS standard has been prepared which provides support for the conclusions made on the heat map. This detailed report is found at Appendix B. A summarized version is provided below at Section 4.

Please note that the information within these sections has been tailored to your business so it is not a full appraisal of all the differences between the IFRS and current Canadian GAAP.

Our judgment as to the relevance of the IFRS to the Companies is based solely on the information contained in the December 31, 2007 annual financial statements, our knowledge of the Companies; core businesses, and through discussions with management.

4.2.9

Convergence with IFRS is not just an issue of technical compliance with new accounting rules; it raises a number of wider business issues. There are numerous differences between IFRS and current GAAP which need to be understood by the Companies and may require significant changes in your methods of accounting. The adoption of IFRS will affect a number of areas including:

- Reported profit;
- Assets and liabilities;
- Shareholders' equity;
- Capital ratios; and
- Key performance indicators.

However these changes do not solely affect your reported figures; a number of wider business issues need to be considered as shown below:

Area	Issues
Shareholders and Board of Directors	Both the shareholders and Board of Directors should be fully aware of the impact that IFRS will have on Veridian's financial statements, including business impacts, so that there are no surprises on the date of transition. An analysis of the Canadian Institute of Chartered Accountants ("CICA") publication "20 Questions Directors and Audit Committees should ask about IFRS Conversions" has been included in Appendix D.
Information systems	Your existing management information will have to be revised to cope with the introduction of IFRS, including the enhanced disclosure requirements. The format and procedures around your budgeting and forecasting will also need to be re-assessed in light of IFRS. Refer to Appendix C for more detailed consideration points regarding systems.
Training	The transition to IFRS will require individuals within the finance department and potentially other business functions to have a relevant amount of understanding about the new accounting rules and how to apply them in practice. We would recommend that a tailored training program should be included in your IFRS implementation plan to deal with this area.
OEB reporting and rate setting process	The financial statements are also used for rate setting purposes and filing with the OEB. To the extent that differences between the GAAP financial statements and the requirements for rate setting purposes diverge, there will be the need for reconciliation and tracking processes. Deloitte and the company are actively managing OEB work in this area, as well as any relevant developments in IFRS.
Valuation models	Various IFRSs will require changes to existing valuation models or measurement models (such as IAS 36: Impairment of Assets) which may require changes to existing valuation models.
Risk management and controls	A strong internal control system should be an integral part of the Companies' implementation plans.
Capital ratio's	Adoption of IFRS may impact the Companies' capital ratios and potentially other key financial measures for the businesses.

4.2.10

4. Summary of scoping results and findings

Standard	First Time Adoption – IFRS 1
Implementation assessment	Potentially significant implementation difficulty
Points to consider	• Coded as potentially significant because the impact is pervasive • IFRS 1 requires restatement of all accounts affected by IFRS conversion, with certain exceptions. The following exemptions and exceptions are applicable to Veridian: – Business combinations – Fair value or revaluation as deemed cost – Employee benefits – Decommissioning liabilities – Leases – Borrowing costs – Separate financial statements • A balance sheet that complies with IFRS will need to be created as of January 1, 2010 • Magnitude of impacts is governed by application of all other IFRS, described below • Note disclosure of impacts of adoption of IFRS and reconciliations between GAAP and IFRS may be significant
Suggested conversion activities	• Consider exemptions and exceptions in conjunction with related topic areas discussed below. • Strategize as to whether you will apply the relevant exemptions and exceptions, whether it will ease implementation and the consequential impacts that it may have on your operations. • Consider the preparation of opening balance sheet and conversion disclosure on a trial run basis well before the date of adoption. • Decide if, and/or, how the Companies will design and implement the parallel runs for 2010. This may involve significant additional effort, given requirements to maintain multiple sets of books (both for financial and OEB reporting). • Monitor the impact of activities related to IFRS 1 (i.e. potential for additional exemption to be added relating to rate regulated assets and liabilities). • Plan a training session/workshop on IFRS 1 to fully understand its detailed requirements.

Standard	Business Combinations – IFRS 3
Implementation assessment	Significant implementation difficulty (if IFRS 1 elections are not made)
Points to consider	• Veridian Corporation has had a number of previous business combinations that may need to be accounted for under IFRS 3 depending on the policy chosen under IFRS 1. • At a minimum, the assets and liabilities associated with previous business combinations will need to be reviewed to ensure they qualify for recognition under IFRS (see IFRS 1, Appendix B. • The Companies' current growth strategy is through acquisitions, therefore any business combinations in 2010 and 2011 will need to be assessed under IFRS 3.
Suggested conversion activities	• If the Companies are planning business combinations for the year beginning on January 1, 2010, consider adopting the new Canadian

	standard on January 1, 2010 to avoid restatement on transition to IFRS in 2011. • Consider electing the IFRS 1 exemption not to restate business combinations that occurred prior to 2010. If the election is taken, work effort may be reduced. • A goodwill impairment test is still required on date of transition to IFRS (i.e., January 1, 2010), regardless of whether the exemption is taken or not. • Monitor future developments to identify any business combinations that will need to be assessed under IFRS 3. Update conversion plan as necessary.

Standard	Presentation of Financial Statements – IAS 1
Implementation assessment	Average implementation difficulty with Medium potential financial statement impact

Points to consider	• There are additional disclosure requirements under IFRS that are not required under Canadian GAAP, such as:
	  • Disclosure of judgments, other than estimates, made in the process of applying accounting policies that have the most effect on the financial statements.
	  • Disclosures of dividends per share (declared or proposed), domicile and legal form of entity, address of registered office, country of incorporation, nature of activities, and name of parent and ultimate parent of the group
	• IFRS 1 exemption – none available
	• Convergence activities - the IASB issued a revised IAS 1. The revisions to the standard are relatively minor and introduce a statement called "Other Comprehensive Income". The revised standard is effective for annual periods beginning on or after January 1, 2009, with early application permitted.

Suggested conversion activities	• Other than the enhanced disclosure requirements, the principles under IFRS are essentially aligned with Canadian GAAP. • Consider the enhanced disclosure requirements under IAS 1 and how easy it would be to access this information. • Plan a training session on IAS 1 to understand the enhanced disclosure requirements. • Consider creating mock IFRS compliant financial statements and disclosures before the conversion to test systems and data collection.

Standard	Cash Flow Statements– IAS 7
Implementation assessment	Average implementation difficulty with Low potential financial statement impact
Points to consider	• IFRS and Canadian GAAP are substantially aligned in this area. • Under IFRS, an entity has an accounting policy choice of classifying interest and dividends received as operating or investing, and interest and dividends paid as operating or financing activities. • Under Canadian GAAP, interest and dividends received must be classified as operating activities, interest paid is recorded as operating, and dividends paid charged to retained earnings must be presented as financing activities. • IAS allows for restricted cash balances to be classified as cash and cash equivalents under certain circumstances. • IFRS 1 exemption – none available • There are no convergence activities associated with IAS 7
Suggested conversion activities	• Select an accounting policy choice for classifying interest (paid and received) and dividends (paid and received). • Perform a review of restricted cash balances to ensure properly classified under IAS 7.

4.2.12

Standard	Changes in Accounting Policies, Changes in Accounting Estimates and Errors – IAS 8
Implementation assessment	Average Implementation Difficulty with Low expected financial statement impact
Points to consider	• IFRS and Canadian GAAP are fundamentally aligned in this area. • Both standards require a change in accounting policy to be applied retrospectively. Both standards also mandate that all material prior period errors should be corrected through retroactive restatement. • IFRS 1 exemption – none available • There are no convergence activities associated with IAS 8
Suggested conversion activities	• There are no suggested conversion activities as this is a low risk area.

Standard	Events after Balance Sheet Date – IAS 10
Implementation assessment	Average Implementation Difficulty with Low expected financial statement impact
Points to consider	• IFRS and Canadian GAAP are fundamentally aligned in this area. • The key differences relate to the post-reporting date, and the disclosure of the date the financial statements were authorized for issuance. • IFRS 1 exemption – none available • Convergence activities – there are none associated with IAS 10
Suggested conversion activities	• Consider the difference in post-reporting dates in light of any events that may occur after balance sheet date. • With regard to the disclosure of authorization for issue of the financial statements, the Companies' financial statements already disclose who authorized the financial statements for issue and the date. • This is a low risk area that need only be addressed on completion of the December 31, 2011 statements.

Standard	Income Taxes – IAS 12
Implementation assessment	Moderate Implementation Difficulty with Medium - Low expected financial statement impact
Points to consider	• The principles under both Frameworks are similar in many respects. • The tax impacts due to IFRS conversion needs to be assessed and definition of income taxes under IFRS should be considered. • IFRS 1 exemption – none available • There is a convergence project underway with the United States Financial Accounting Standards Board ("FASB") which will remove some of the exceptions in IAS 12 that currently do not exist under GAAP. An exposure draft is expected to be issued in the fourth quarter of 2008, with a final standard to be issued in 2010.
Suggested conversion activities	• Adopt accounting for future income taxes for the regulated businesses in 2009 as required by Canadian GAAP. • Consider and be aware of the related tax consequences from convergence with IFRS. • Consider the involvement of a tax specialist throughout the entire conversion process, not only to understand the impact on current and future income taxes, but also to assess how IFRS will impact any current tax planning/strategies. • Study the exposure draft when issued as it will provide a good basis for understanding the new IFRS standards that are likely to emerge in this area.

4.2.13

Standard	Property, Plant and Equipment – IAS 16
Implementation assessment	Significant Implementation Difficulty with High expected financial statement impact
Points to consider	• On class by class basis, accounting policy choice – revaluation or cost model; impact to capital assets recorded on balance sheet and amortization amounts • Cost capitalization policies may differ under IFRS. • Major parts of an asset may need to be depreciated separately. The level of detail for this componentization is based on the significance of the cost of component in relation to the whole asset and materiality • IFRS 1 exemption - on an asset by asset basis, may elect to remeasure the asset at fair value as at January 1, 2010 and use this value as its deemed cost for subsequent accounting purposes under the cost model. Considering that existing premises and equipment are close to being fully amortized, the exemption may have limited relevance. • IFRS 1 exemption – an exposure draft has been issued to allow rate-regulated entities to elect to use Canadian GAAP cost as opening IFRS cost. • There are no planned convergence projects underway • Disclosure – more detailed, reconciliations of opening / closing balance, recognized impairments
Suggested conversion activities	• Determine whether the IFRS 1 exemption will be selected for any assets. • Begin now to determine existence of unrealized gains on assets and consider whether revaluation is desirable • If assets are not to be recorded at fair value under the IFRS 1 election or revaluation model, consider existing cost capitalization policies under IFRS. Review of overhead burden rates, in particular, will need to be undertaken. • Begin to consider the existence of significant components and the use current components in place • Begin to gather data necessary to provide disclosure • Consider the impact that componentization, choice of model and enhanced disclosures will have on Veridian's current accounting/reporting model. • Plan a training session on IAS 16 to fully understand its details, accounting treatment and related implications.

Standard	Leases – IAS 17
Implementation assessment	Moderate Implementation Difficulty with Medium to Low expected financial statement impact
Points to consider	• There may be differences related to lease classification as operating or capital under IFRS and as such assessment of the following agreements should be done: - fibre optic rental agreements - water heater rental agreements - pole rental agreements - any building or land rental agreements • There is a convergence project underway with the FASB. A discussion paper is expected in 2009, and draft proposals in 2010. However, convergence is unlikely to be finished by 2011.
Suggested conversion activities	• Ensure that there is an up to date inventory of all lease and lease like arrangements. • Monitor international project on lease accounting • Consider IAS 17 standard when entering into new leases and arrangements • Begin to document considerations of items identified above • Plan a training session on lease accounting, particularly in light of the

	analysis performed on existing agreements and how these may be impacted by IFRS.

Standard	Revenue – IAS 18
Implementation assessment	Significant Implementation Difficulty with High to Medium expected financial statement impact
Points to consider	• The guidance under both Frameworks in similar in many respects. • Potential areas of difference relates to distribution revenue (as a result of loss of regulatory accounting), potential leasing changes and treatment of recoverable costs. • Exposure draft D24: Customer contributions may also have a significant impact on revenue recognition for these items. • IFRS 1 exemption – there is none • There is a convergence project underway with the FASB. A discussion paper is expected in 2009. However, convergence is unlikely to be finished by 2011.
Suggested conversion activities	• Monitor international project on revenue recognition, including additional guidance to be issued on agent vs. principal transactions. • Begin to decide on the appropriate revenue recognition policy for items noted above.

Standard	Employee Future Benefits– IAS 19
Implementation assessment	Moderate Implementation Difficulty with Medium expected financial statement impact
Points to consider	• Veridian has a defined benefit pension plan which also provides certain post-retirement benefits. • A key difference between IFRS and Canadian GAAP is the treatment of multi-employer plans, such as the OMERS plan in which the Companies participate. • Level of differences and work involved will depend on the assessment of the multi-employer plan and whether defined benefit accounting must be done under IFRS. • There is a convergence project underway with the FASB. An exposure draft is expected to be issued in the second half of 2009, with a final standard to be issued in 2011.
Suggested conversion activities	• Assess the need to apply defined benefit plan accounting under IFRS and, if so, develop appropriate actuarial and accounting processes under IAS 19 • With respect to this assessment, contact OMERS to determine if sufficient information regarding the plan is available to account for the plan as defined benefit (consider communications with others included in the multi-employer plan to ensure consistency)

Standard	Borrowing costs – IAS 23
Implementation assessment	Moderate Implementation Difficulty with Medium to High expected financial Impact
Points to consider	• Capitalization of borrowing costs is required for qualifying assets under IFRS. Veridian Connections already has a policy for capitalization of interest, so this may not be a significant difference, but the Companies will need to consider potential differences in the type of costs capitalized, the period of capitalization, etc. • Differences exist in the calculation of the weighted average cost of borrowings and the inability to use the allowance for cost of funds used during construction provided by the OEB. • IFRS 1 exemption available to being capitalizing borrowing costs from January 1, 2009 or from the date of transition (i.e. January 1, 2010)

4.2.15

Suggested conversion activities	• Consider appropriate capitalization rate from January 1, 2009 • Consider applicability of exemption for restatement of previously capitalized amounts.

Standard	Related Party Disclosures – IAS 24
Implementation assessment	Average Implementation Difficulty with Low expected financial statement impact
Points to consider	• Need to disclose information about executive remuneration in the financial statements as well as certain transactions with subsidiaries, associates, etc. • Amendment to exempt certain s owned enterprises from disclosing all related parties is expected to be approved in 2009. • IFRS 1 exemption – there are none • There are no convergence activities associated with IAS 24
Suggested conversion activities	• Begin to assess impact of IAS 24 from a disclosure and accounting perspective based on current related party transactions • Consider the definition of "key management personnel" under IAS 24 to understand whether current disclosure of management compensation and the required categories of compensation. • Monitor developments around government owned enterprise reporting.

Standard	Consolidated and Separate Financial Statements – IAS 27
Implementation assessment	Average Implementation Difficulty with Low expected financial statement impact
Points to consider	• IAS 27 provides specific guidance on treatment of investments in subsidiaries in stand-alone financial statements. This will allow the non-consolidated statements to fully comply with IFRS. • IFRS 1 exemption available for when a subsidiary adopts IFRS at a different time than parent. This is not applicable, as all of companies have December 31st year ends. • The IASB and FASB have commenced a project on consolidation, including special purpose entities ("SPE's"), to converge the standards. An exposure draft is expected in the fourth quarter of 2008, with a final standard expected to be issued in the second half of 2009.
Suggested conversion activities	• Make a policy choice for treatment of subsidiary investments.

Standard	Impairment of Assets – IAS 36
Implementation assessment	Moderate Implementation Difficulty with Medium expected financial statement impact
Points to consider	• Documentation of how cash generating units were determined and appropriate segmentation e.g. by product; will be very judgmental • Mechanics of impairment tests for intangibles and property, plant and equipment and goodwill are somewhat different • Disclose impairment losses and reversals, details of each cash generating unit • IFRS 1 exemption – there are none available • IAS 36 is part of the convergence project between IASB and FASB. Staff research has begun, but is unlikely to be converged pre-2011 as it is not on the IASB's current work plan.
Suggested conversion activities	• Monitor international convergence activities relating to impairment of assets • Begin to consider cash generating units • Consider performing a dry run IFRS impairment reviews before 2010

4.2.16

Standard	Provisions, contingent liabilities and contingent asset - IAS 37
Implementation assessment	Moderate Implementation Difficulty with Medium to Low expected financial statement impact
Points to consider	• Recognition threshold may be interpreted differently under IFRS. • IFRS requires the recognition of onerous contracts • Decommissioning liabilities are often recognized under IFRS, which may not meet the criteria for recognition under Canadian GAAP. • IFRS 1 mandatory exception - cannot retrospectively restate estimates using the benefit of hindsight. • Changes to IAS 37 expected in the second half of 2009
Suggested conversion activities	• Monitor international convergence activities • Review potential liabilities under IFRS recognition guidance • Consider the nature of disclosure required to meet the new rules • Plan a training session/workshop relating to IAS 37 to understand the principles, including the application of recognizing a constructive obligation.

Standard	Intangible assets- IAS 38
Implementation assessment	Average Implementation Difficulty with Low expected financial statement impact
Points to consider	• The Companies should revisit existing accounting policies under the new Canadian GAAP (CICA 3064) standard effective for fiscal years beginning on or after January 1, 2009, which are now substantially aligned with IFRS. Specific considerations of software or other systems related items that may need to be classified as intangible assets. • IFRS 1 exemption – option to re-measure at fair value, intangible assets on date of transition, and to use this as deemed cost going forward. The election can be made on an asset by asset basis, but is likely not relevant to the Companies as the intangible assets would need to be included in an active market. • There is no convergence projects associated with IAS 38.
Suggested conversion activities	• Revisit accounting policy for software capitalization in light of IAS 38 • Consider the need to include more detailed asset accounts at the sub ledger level to accommodate the enhanced disclosure requirements

Standard	Financial Instruments - IFRS 7, IAS 32, IAS 39
Implementation assessment	Average implementation difficulty with low financial statement impact
Points to consider	Accounting for financial instruments (e.g. investments and derivatives) is largely converged with IFRS given recent changes to Canadian GAAP. However, there are some areas of potential differences, a couple of which are indicated below. *Embedded Derivatives:* • Potential difference in date from which the search for embedded derivatives may begin under current Canadian GAAP vs. IFRS (i.e. policy choice under current Canadian GAAP for transition date for embedded derivatives to go back no further than January 1, 2003, where there is no grandfathering date under IAS 39 - therefore, all embedded derivatives must be accounted for according to the standard) *Liability vs. equity classification for various instruments:* • Scope of IAS 32 is broader than Canadian GAAP. As a result, presentation

4.2.17

	as liabilities or equity may differ from Canadian GAAP on many occasions. IAS 32 may result in all or a portion of certain instruments currently classified in equity under Canadian GAAP to be reclassified to liabilities *General Points to Consider:* • IFRS 1 allows for reclassification of financial instruments (e.g., into or out of held for trading) as of the date of adoption (January 1, 2010) if certain conditions are met.
Suggested conversion activities	• Adopt IFRS compliant disclosures for financial instruments and capital management in 2008 financial statements (i.e. application of CICA 3862) • Assess any other areas of difference, which are not expected to be significant

4.2.18

5. Next steps – IFRS implementation program

The impacts of convergence on the Companies, highlighted within this report, may be significant, hence it is important for management to understand that there are a number of areas within the business that will be affected and due consideration should be paid to each. It is vital that there is a coordinated approach which includes addressing the taxation and systems issues arising from convergence.

In addition, while Canada is aiming for January 1, 2011, many standards to be applied at that date are in process of convergence. This increases the level of complexity when planning for convergence and so particular attention will need to be paid to the level and skill base of resources that are assigned to the project taking account of competing requirements with business as usual and other projects. Due to the inevitable interdependencies between IFRS convergence and other projects the overall project will need to be carefully assessed and managed appropriately.

Conversion Plan Approach

The Companies will be required to provide IFRS comparative data for 2010 when they issue their first IFRS compliant financial statements in 2011. As a result, the Companies' date of transition will be January 1, 2010, and not January 1, 2011.

While the Companies' conversions to IFRS will take place over the three-year period from 2008 to 2011, all detailed diagnostics and impact analyses, decisions with respect to options available under IFRS, and process and system changes required to capture data for reporting under IFRS will largely have to be completed by December 31, 2009. Conversion activities in 2010 and 2011 will consist mostly of parallel data collection and reporting, preparation of the necessary reconciliations and disclosures required to be filed in 2011, education and communications.

The conversion plan will therefore be executed in three phases as follows:

Phase	Description	Timeline
Phase 1	Scoping	November 2008
Phase 2	Evaluation & Design	December 2008 – December 2009
Phase 3	Implementation & Review	September 2009 – March 2012

Phase 1 of the conversion plan consists of project initiation and awareness, identification of high-level differences between IFRS and GAAP and project planning and resourcing.

The first requirement under Phase 1 is to identify those IFRSs that are most applicable to the Companies, determine what the major differences are between these IFRS and current GAAP, and the impact of these differences on financial reporting by the Companies. The results of this high-level scoping analysis is the basis upon which more detailed diagnostics and impact analysis will be completed under Phase 2 of the conversion plan.

Note that this report addresses the phase 1 items.

Phase 2 consists of detailed diagnostics and evaluation of the financial impacts of various options and alternative methodologies provided for under IFRS, identification and design of operational and financial business processes, and development of required solutions to address identified issues.

The detailed analysis will be performed on the work streams identified in the project plan. Your assessment of the initial impact of the relevant standard may be updated based on the results obtained from your detailed analysis.

The draft work plan included as Appendix E reflects the prioritization of issues summarized in this report.

4.2.19

Phase 3 will involve building, implementing and communicating the changes required to report IFRS compatible information beginning in 2010 and the associated impacts4.

The intended changes to GAAP and IFRS over the conversion period will require that the Companies' conversion plans be sufficiently flexible and dynamic to deal with standards changes as they arise. Some of the indicated changes will not come into effect until after the changeover to IFRS in 2011, therefore analysis and implementation will continue beyond the changeover date.

Communication, both internal and external will be emphasized throughout the conversion process. Internal communications will be required to ensure consistent understanding, education and resolution of critical issues. External communications will be required to ensure that investors and investment analysts understand that any changes in financial reporting as a result of IFRS have little to do with the Companies; operations, financial positions and profitability.

5. Ref: Exhibit 1 / Tab 1 / Schedule 17

Request

(a) Page 3. Please provide an explanation of the large difference in dividends between 2007 and 2008. Please file a copy of any directive or other such communication from the shareholders of Veridian Corporation, or from Veridian Corporation, to the Applicant or its directors or officers with respect to dividend policy or targets, or establishing any requirements for dividends. Please provide a copy of any dividend policy of the Board of the Applicant.

(b) Page 6. Please identify and describe any differences between the amortization rates for accounting purposes and the depreciation rates being used by the Applicant for regulatory purposes.

(c) Page 18. Please provide a detailed breakdown of the figure of $4,766,400 in Note 6, and identify if any amounts for similar purposes are expected to arise in the Test Year.

Response:

(a) In 2007, Veridian Connections Inc. paid dividends to Veridian Corporation for the first time since Veridian Connections Inc. was incorporated. The Board of Veridian Connections Inc. approved a dividend distribution in 2007 of $16 million to return to Veridian Corporation shareholder retained earnings that had accumulated within Veridian Connections Inc. To this point in time, Veridian Connections Inc. had not paid dividends to the parent company. The $16 million dividend along with new 2007 parent debt financing moved Veridian Connections Inc.'s capital structure closer to the deemed capital structure that is employed by the Ontario Energy Board in determining regulatory cost of capital.

A dividend policy was established in 2007 that established a formula for dividends that would keep Veridian Connections Inc.'s capital structure close to the deemed capital structure. Under the 2007 VCI policy, the dividend amount paid by VCI for 2008 was $7.4 million.

Veridian does not possess any directive or communication from the shareholders of Veridian Corporation with respect to dividend policy or targets, or establishing any requirements for dividends.

Appended to this response are Veridian Corporation's and Veridian Connections Inc.'s 2007 and 2009 Board resolutions which establish the dividend policy for Veridian Corporation and Veridian Connections Inc.

(b) Amortization rates for accounting purposes are the same as depreciation rates used for regulatory purposes. Veridian does not use the half year rule for accounting depreciation. The application has been prepared using the half year rule for depreciation for regulatory purposes.

(c) Of the $4,766,400 payable to Veridian Corporation, $4,578,266 relates to distribution assets purchased by Veridian Corporation in 2008 at market prices from arms length third party vendors. A description of the circumstances that lead to Veridian Corporation purchasing distribution assets is found at Exhibit 4 /Tab 6/Schedule 3/page 2. Veridian Corporation's purchase was made in accordance with its procurement policy; a policy held in common with Veridian. All distribution assets were purchased by Veridian Connections Inc. at prices equal to those paid to third party vendors by Veridian Corporation. Veridian Connections does not anticipate that any distribution assets will be purchased from Veridian Corporation during the Test Year.
The other item included in the payable to Veridian Corporation is $188,134 in amounts owed to Veridian Corporation for amounts paid on behalf of Veridian Connections Inc. or amounts owed to Veridian Corporation related to Service Level Agreements.

CERTIFIED RESOLUTION

CERTIFIED to be a true copy of a Resolution Number 07-B63 passed at a meeting of the board of directors of Veridian Corporation duly held on the 13th day of December, 2007, as set forth in the minutes of the said meeting and which resolution remain in full force and effect, unamended.

Veridian Corporation Dividend Policy

THAT the Veridian Corporation Board approve a dividend policy that provides for minimum dividend payments to shareholders of:

2007	$4.0 million
2008	$4.2 million
2009	$4.4 million
2010	$4.6 million
2011	$4.9 million

And that:

1. Dividends shall be paid quarterly.
2. The Board shall annually consider extra dividends
3. Dividend amounts shall be reviewed if promissory note interest decreases.

David Clark, Secretary-Treasurer of
Veridian Corporation

CERTIFIED RESOLUTION

CERTIFIED to be a true copy of a Resolution Number 07-B65 passed at a meeting of the board of directors of Veridian Corporation duly held on the 13th day of December, 2007, as set forth in the minutes of the said meeting and which resolution remain in full force and effect, unamended.

<u>**Veridian Connection Inc. Dividend Policy**</u>

THAT the Dividend Policy for Veridian Connections Inc. be set such that

- The Veridian Connections Inc. dividend is approved by the Board of Veridian Connections Inc. and paid to Veridian Corporation once a year in the last quarter of each year
- The amount of the dividend will be consistent with the amount as calculated by the policy formula
- The dividend will be calculated by the CFO and shall not exceed the amount of retained earnings that can be distributed by Veridian Connections to maintain a capital structure of 60% debt and 40% equity.
- The formula calculation for estimating the amount of the dividend will be:

Estimated long term liabilities at end of year plus forecast additional debt for next fiscal period
Divided by

Estimated retained earnings at end of year minus intangible assets not included in regulatory rate base minus recommended dividend plus forecast earnings for next fiscal period

Equals

1.5
(60% divided by 40%)

David Clark, Secretary-Treasurer of
Veridian Corporation

CERTIFIED RESOLUTION

CERTIFIED to be a true copy of a Resolution Number 07-C38 passed at a meeting of the board of directors of Veridian Connections Inc. duly held on the 13th day of December, 2007, as set forth in the minutes of the said meeting and which resolution remain in full force and effect, unamended.

__Veridian Connection Inc. Dividend Policy__

THAT the Dividend Policy for Veridian Connections Inc. be set such that

- The Veridian Connections Inc. dividend is approved by the Board of Veridian Connections Inc. and paid to Veridian Corporation once a year in the last quarter of each year
- The amount of the dividend will be consistent with the amount as calculated by the policy formula
- The dividend will be calculated by the CFO and shall not exceed the amount of retained earnings that can be distributed by Veridian Connections to maintain a capital structure of 60% debt and 40% equity.
- The formula calculation for estimating the amount of the dividend will be:

Estimated long term liabilities at end of year plus forecast additional debt for next fiscal period

Divided by

Estimated retained earnings at end of year minus intangible assets not included in regulatory rate base minus recommended dividend plus forecast earnings for next fiscal period

Equals

1.5
(60% divided by 40%)

David Clark, Secretary-Treasurer of
Veridian Connections Inc.

CERTIFIED RESOLUTION

CERTIFIED to be a true copy of a Resolution Number 09-VC35 passed at a meeting of the board of directors of Veridian Corporation duly held on the 17th day of December, 2009, as set forth in the minutes of the said meeting and which resolution remain in full force and effect, unamended.

Veridian Corporation
Amendment to Veridian Connections Inc. Dividend Policy

THAT the Veridian Connections Inc. Dividend Policy be amended to the following effective for the 2009 dividend and subsequent years.

Veridian Connections Inc. Dividend Policy:

THAT the Dividend Policy for Veridian Connections Inc. be set such that:

- The Veridian Connections Inc. dividend is approved by the Board of Veridian Corporation and paid to Veridian Corporation quarterly
- The total of quarterly dividend paid by Veridian Connections Inc. to Veridian Corporation will be equal to the total of the quarterly dividends paid by Veridian Corporation to its shareholders
- Dividends paid by Veridian Connections Inc. should not significantly impact the regulatory debt position. Debt to regulatory rate base projected for the end of the year should remain within 5% plus or minus of the deemed debt ratio as established by the Ontario Energy Board, currently 60%.
- In the event that the debt to regulatory rate base is below 55% or greater than 65%, the Veridian Corporation Board will review and determine whether the annual dividend should be amended. If an amendment is required by the Veridian Corporation Board, the last quarterly dividend instalment will be adjusted as directed by the Veridian Corporation Board.

David Clark, Secretary –Treasurer of
Veridian Corporation

CERTIFIED RESOLUTION

CERTIFIED to be a true copy of a Resolution Number 09-VCI22 passed at a meeting of the board of directors of Veridian Connections Inc. duly held on the 17th day of December, 2009, as set forth in the minutes of the said meeting and which resolution remain in full force and effect, unamended.

Amendment to Veridian Connections Inc. Dividend Policy

THAT the Veridian Connections Inc. Dividend Policy be amended to the following effective for the 2009 dividend and subsequent years.

Veridian Connections Inc. Dividend Policy

THAT the Dividend Policy for Veridian Connections Inc. be set such that:

- The Veridian Connections Inc. dividend is approved by the Board of Veridian Corporation and paid to Veridian Corporation quarterly
- The total of quarterly dividend paid by Veridian Connections Inc. to Veridian Corporation will be equal to the total of the quarterly dividends paid by Veridian Corporation to its shareholders
- Dividends paid by Veridian Connections Inc. should not significantly impact the regulatory debt position. Debt to regulatory rate base projected for the end of the year should remain within 5% plus or minus of the deemed debt ratio as established by the Ontario Energy Board, currently 60%.
- In the event that the debt to regulatory rate base is below 55% or greater than 65%, the Veridian Corporation Board will review and determine whether the annual dividend should be amended. If an amendment is required by the Veridian Corporation Board, the last quarterly dividend instalment will be adjusted as directed by the Veridian Corporation Board.

David Clark, Secretary-Treasurer of
Veridian Connections Inc.

6. Ref: Exhibit 1 / Tab 1 / Schedule 18

Request

Please file any rating agency reports related to Veridian Corporation.

Response:

Veridian Corporation is rated by DBRS. The last three rating reports are filed for Veridian Corporation issued in 2006, 2007 and 2009.

Insight beyond the rating.

Veridian Corporation

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The Company

Veridian Corporation is a holding company that wholly owns Veridian Connections Inc. (VCI) (96% of EBIT), a regulated electricity distribution company that services nine municipalities in Eastern Ontario, as well as Veridian Energy Inc., which provides water heater and equipment rentals, fibre communications and other energy-related services. Veridian is 41%-owned by the City of Pickering, 32.1% by the Town of Ajax, 13.6% by the Municipality of Clarington, and 13.3% by the City of Belleville. Its service area is an amalgamation of the former municipal electric utilities of the aforementioned municipalities, and, in addition, Veridian has acquired the former utilities of Brock, Port Hope, Uxbridge, Gravenhurst and Scugog.

Recent Actions

November 27, 2007
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable

Rating Rationale

DBRS has confirmed the Issuer Rating of Veridian Corporation (Veridian or the Company) at "A", with a Stable trend. Veridian continues to benefit from a low level of business risk, on account of its regulated electricity distribution operation, its solid financial profile, and the stable regulatory environment in which it operates.

The Company's operational and financial performance indicators remain robust, underpinned by the consistent earnings and cash flows generated by its regulated distribution business. While operating cash flows have remained relatively stable, higher dividends and capital expenditure requirements resulted in a modest free cash flow deficit for the 12 months ended September 30, 2008. Deficits have been funded out of cash on hand, with no increases in debt. The Company's demonstrated ability to internally fund increasing dividends and capital expenditures, while paying down incremental debt, has resulted in an improving financial profile over the past three years.

Until scheduled re-basing of rates takes place in 2010, Veridian's distribution business will continue to operate on a performance-based regulation/rate-of-return model with a return on equity (ROE) set at 9.0%. While its distribution rates are subject to annual formulaic increases (see Regulation on page 4), Veridian's earnings and cash flows are expected to decline modestly, reflecting a number of factors, including: (1) a decrease in deemed equity thickness of Veridian Connections Inc.'s (VCI) capital structure to 40% in 2009 from 45% in 2007; (2) weaker electricity demand due to deteriorating economic conditions in its service territory; (3) higher operating costs, reflecting increases in annual wages and maintenance of aging assets, as well as higher provisions for bad debt expense; and (4) lower margins from non-regulated businesses. (Continued on page 2.)

Rating Considerations

Strengths

(1) Regulated electricity distribution provides long-term stability to earnings and cash flows
(2) Robust balance sheet/credit metrics
(3) Reasonably stable franchise area
(4) Supportive shareholders
(5) Non-regulated operations provide higher margins

Challenges

(1) Low regulatory returns
(2) Earnings are sensitive to volume of electricity sold
(3) Lack of access to the public equity markets and small size
(4) Non-regulated operations have greater operating risks

Financial Information

	12 mos. ended	For the year ended December 31			
(CAD millions)	Sept. 2008	2007	2006	2005	2004
Total debt (CAD millions)	61.0	61.4	62.1	76.4	75.6
Total debt-to-capital (%)	40.0%	40.6%	42.3%	48.3%	49.0%
Cash flow/total debt (%)	32.8%	30.9%	39.6%	30.7%	22.7%
Cash flow/capital expenditures (times)	1.45	1.39	1.53	3.10	2.64
EBIT gross interest coverage (times)	3.09	3.47	3.26	2.68	2.45
Operating cash flow (CAD millions)	20.0	19.0	24.6	23.4	17.1
Core net income (bef. extras.) (CAD millions)	7.8	8.9	8.7	7.8	4.6
Return on average equity (bef. extras.)	8.5%	9.8%	10.0%	9.7%	5.9%

Rating Rationale (Continued from page 1.)

As a result of its ongoing capital requirements, the Company is expected to incur increasing free cash flow deficits over the near to medium term. DBRS expects free cash flow deficits to be funded out of cash on hand ($22.2 million as of September 2008) and incremental debt, resulting in modestly higher leverage on a forward-looking basis. While credit metrics may deteriorate modestly from the high levels witnessed in recent years, DBRS believes that the Company's financial ratios will remain well within ranges to support its "A" rating and strong liquidity profile. In addition, Veridian has stated that it may divest some of its non-regulated operations, which would further strengthen liquidity and improve its overall business mix.

DBRS notes that the Company's exposure to the auto sector is minimal, contributing approximately 1.3% of distribution revenues in 2007. Given Veridian's diversified customer base, DBRS expects credit losses related to any one industry segment to remain manageable, with no material impact on earnings.

DBRS believes that Veridian may consider growth via acquisitions; however, the timing and scope of these acquisitions remains uncertain. Should an acquisition opportunity arise, the Company has considerable financial flexibility with its cash on hand, and the shareholder option to convert the $60.8 million Subordinated Promissory Notes (the Notes) into equity.

Rating Considerations Details

Strengths

(1) Almost all of Veridian's operating income (96% of EBIT) is generated from its regulated distribution subsidiary, VCI, which provides stability to earnings and cash flow. VCI receives roughly 40% of its distribution revenues from fixed monthly connection fees, with the remaining 60% from variable volume throughput.

(2) The underlying strength of Veridian's electric distribution business combined with a conservative capital structure has resulted in relatively stable financial metrics, with debt-to-capital at 40%, EBIT gross interest coverage at 3.09 and cash flow-to-debt at 32.8% for the 12 months ended September 30, 2008. Prospectively, DBRS believes that the Company will continue to fund a large portion of its dividends and capital expenditure requirements with internally generated funds and cash balances on hand, which will underpin Veridian's credit metrics over the medium term.

(3) VCI serves nine municipalities in east-central Ontario, with a customer mix consisting predominately of residential and small commercial customers, with modest exposure to larger cyclical industrial customers (the auto sector contributes approximately 1.3% of distribution revenues); this provides a relatively stable demand load year-over-year. Solid residential customer growth, which averaged 5% over the past three years, has also contributed positively to Veridian's customer mix.

(4) The four shareholder municipalities (City of Pickering 41%, Town of Ajax 32.1%, Municipality of Clarington 13.6% and City of Belleville 13.3%) have the ability to provide financial support to protect their investment, if necessary. The $60.8 million Subordinated Promissory Notes held by the four shareholder municipalities are convertible to equity (at the option of the noteholders) on or before maturity on November 1, 2009, and could be utilized to provide equity support to the Company's capital structure. Furthermore, should a large investment opportunity arise that is favourable to the shareholders, the debt would likely be converted into equity. This provides the Company with financial flexibility and debt capacity. Having more than one shareholder, each with a minority interest, reduces the risk of being influenced by the special interests of a single municipal council, although it may make the decision-making process more challenging.

(5) Non-regulated operations such as contracted services to local distribution companies (LDCs), including water heater and sentinel light rentals, and telecommunications (leasing of fibre-optic cable), earn high margins, require minimal capital and provide a source of earnings growth beyond its regulated distribution subsidiary. The Company has stated that it is likely to divest some of its non-regulated operations that it feels are not a strategic fit with its overall business strategy. This will further strengthen Veridian's overall business mix, although water heaters and rentals account for only 3.2% of consolidated EBIT.

Challenges

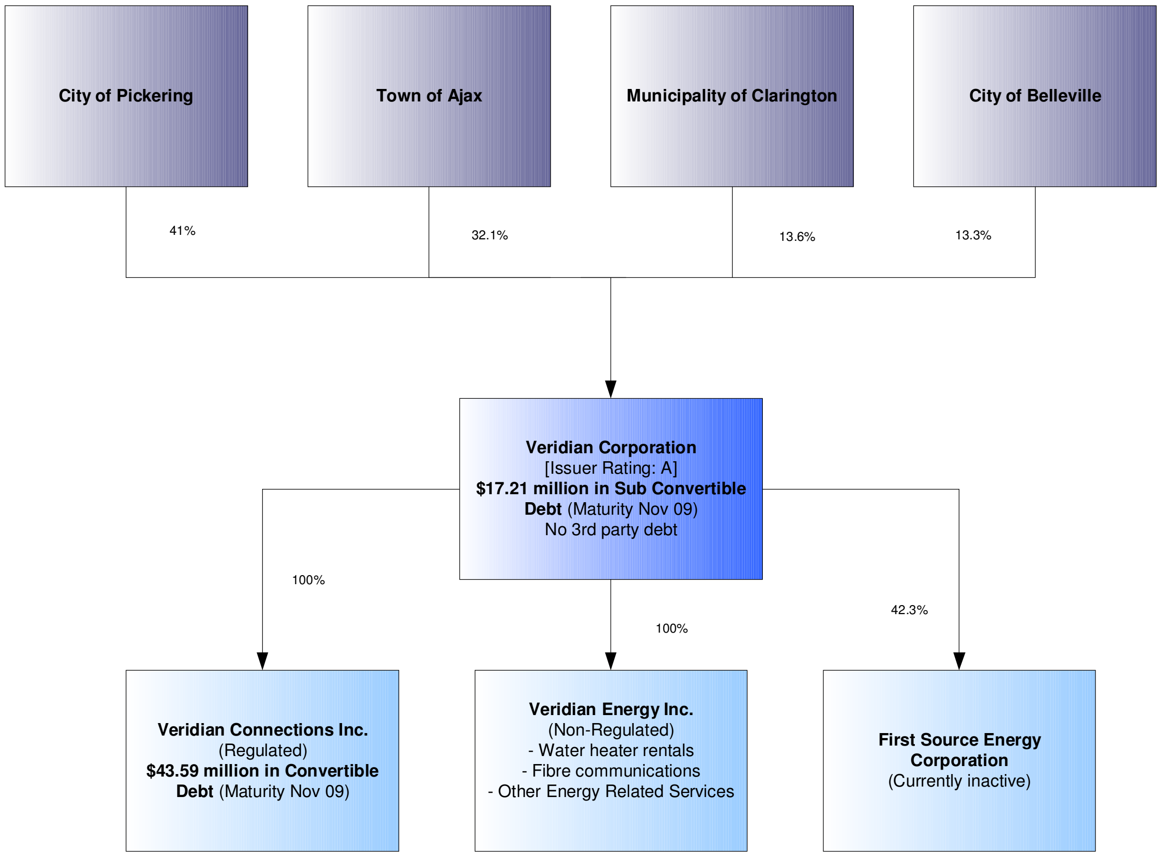
(1) Regulatory-allowed ROE levels are low and could continue to decline if longer-term interest rates go down. DBRS notes that VCI's approved ROE is set at 9.0%, until re-basing of rates in 2010.

(2) Earnings and cash flow for electricity-distribution companies are partially dependent on the volume of electricity sold and, hence, on revenue earned from electricity sales. Seasonality, economic cyclicality and year-over-year changes in weather patterns directly affect the volume of electricity sold and the revenue earned from electricity sales.

(3) Veridian does not have access to the capital markets for common equity, which, along with its small size, limits its financial flexibility, especially its ability to fund a large strategic acquisition or invest in a significant capital project. Veridian's equity base is limited to internal earnings growth, a reduction of dividends to shareholders or increases in equity from the conversion of subordinated debt into equity. However, DBRS expects that Veridian will continue to seek strategic investments in additional LDCs in Ontario to continue to grow its asset base, as it has in the past.

(4) Non-regulated operations have greater operating risk than does regulated electricity distribution, which may affect the stability of consolidated earnings and cash flow. However, it is expected that non-regulated operations will continue to constitute only a minor segment of Veridian's consolidated operations over the longer term. Although Veridian has decided to continue to invest in higher-margin non-regulated operations, it has taken a conservative approach to these operations through Veridian Energy Inc.: (a) Earnings from electric water heater rentals are relatively stable. The key risk associated with this operation is competition from natural gas water heaters. (b) With telecommunications, long-term contracts with anchor tenants, largely in the MUSH (municipalities, universities, schools and hospitals) sector, are secured prior to investing capital. This business is dependent on the creditworthiness of the anchor tenants. (c) Investments in electricity generation will likely be as a minority equity owner.

Ownership and Organizational Structure



Regulation

Veridian's electricity distribution operations are regulated by the Ontario Energy Board (OEB) under the *Ontario Electricity Act, 1998* (the Electricity Act). Currently, Veridian operates on a performance-based regulation/rate-of-return model. ROE is set at 9.0%, with a deemed capital structure transitioning to 60%/40% (debt/equity) in 2009 from 55%/45% in 2007. Veridian's deemed capital structure for 2008 is 57.5% debt/42.5% equity.

In December 2006, the OEB released its final decision on the Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors. The decision included implementation of the performance-based regulation (PBR) that will be in effect for the LDCs until the 2010 rate year. This PBR, which took effect in May 2007, comprises an inflation factor minus a productivity factor of about 1%, as well as an additional adjustment for the recovery of one-time costs. As such, there is no measurable financial impact for the distributors, apart from a marginal increase in revenues due to the inflation factor generally being slightly higher than the productivity factor.

Starting in 2008, the OEB began re-basing the rates with a full cost-of-service proceeding for all LDCs. The roughly 90 LDCs are to be divided into four groups. The first group was re-based in April 2008. By 2011, all electricity distributors in Ontario will have undergone a re-basing of rates with a full cost-of-service proceeding. VCI is scheduled for re-basing in 2010.

As of May 2008, all distributors were required to transition to a single deemed capital structure (60%/40%) over a three-year period. This will negatively impact earnings and cash flows as VCI's prior capital structure was set at 55%/45% (debt/equity). In July 2008, the Board issued its *Report of the Board on 3rd Generation*

Incentive Regulation for Ontario's Electricity Distributors, which sets out the OEB's policies and approach to 3rd generation incentive regulation (3rd Generation IR). At that time, the OEB deferred its determination on the value of certain parameters pending further consultation.

In September 2008, the OEB issued its Supplemental Report, which sets out the OEB's determination of the values for the productivity factor, the stretch factors, and the capital module materiality threshold for use in 3rd Generation IR. It also sets out the OEB's determination on the issue of tax changes in relation to the Z-factor.

The Board has determined that the plan term for 3rd Generation IR will be fixed at three years (i.e., re-basing year plus three years). The rates of the distributor are not expected to be subject to re-basing before the end of the plan term, other than through an eligible off-ramp.

Political risk and regulatory uncertainty remain a challenge for LDCs in Ontario. Political risk stems from the possibility of political intervention, such as the imposition of rate caps, which occurred with the passing of Bill 210 in December 2002. While not expected, future negative regulatory decisions could negatively impact creditworthiness.

Earnings and Outlook

	12 mos. ended	For the year ended December 31			
(CAD millions)	30-Sep-08	2007	2006	2005	2004
Net electricity distribution revenues	43.4	43.3	42.9	38.5	32.6
Ancillary revenues	5.4	5.7	5.1	2.5	5.5
Net operating revenues	48.7	49.0	48.1	41.1	38.1
Operating costs	32.6	30.1	28.1	24.6	24.3
EBITDA	27.8	30.1	30.5	26.2	23.3
EBIT	16.1	19.0	20.0	16.4	13.8
Net interest expense	5.2	5.5	6.1	6.1	5.7
Net income (before extras.)	7.8	8.9	8.7	7.8	4.6
Extraordinary items	0	0.0	0.2	0.0	(0.1)
Net income	7.8	8.9	9.0	7.9	4.5

Summary

Earnings, as measured by EBIT, declined for the 12 months ended September 2008, driven mainly by increased operating costs, which included higher provisions for bad debt expense.

Weaker electricity demand and a decrease in equity thickness, to 42.5% in 2008 from 45% in 2007, also had a negative impact on financial results.

These operational challenges were offset in part by solid residential customer growth and formulaic increases in distribution rates under the PBR model.

Interest expense declined modestly, which was due to lower debt levels and interest rates on regulatory liabilities, as well as to the elimination of the Independent Electricity System Operator's (IESO) prudential requirements.

While Veridian recorded higher provisions for bad debt expense, the Company reviews the credit status for its larger accounts on a regular basis. Veridian's exposure to the auto sector is minimal, contributing approximately 1.3% of distribution revenues in 2007. Given Veridian's diversified customer base, DBRS expects that credit losses related to any one industry segment will remain limited and not have a material impact on earnings.

Outlook

DBRS expects the Company to continue to generate reasonable earnings, although at lower levels than in the recent past, due to weakening customer demand, decreasing equity thickness in VCI's capital structure and higher operating expenses associated with the maintenance of aging assets as well as provisions for bad debt expense.

However, the underlying fundamentals of Veridian's regulated distribution business remain favourable and will continue to provide a high degree of stability to earnings over the longer term.

Financial Profile and Outlook

(CAD millions)	12 mos. ended 30-Sep-08	For the years ended December 31 2007	2006	2005	2004
Net income (bef. extras)	7.8	8.9	8.7	7.8	4.6
Depreciation	12.2	11.6	10.8	9.8	9.5
Other non-cash items	(0.0)	(1.5)	5.1	5.8	3.0
Cash flow from operations	**20.0**	**19.0**	**24.6**	**23.4**	**17.1**
Common dividends	(7.2)	(4.0)	(6.0)	(4.8)	(1.1)
Capital expenditures	(13.9)	(13.7)	(16.1)	(7.5)	(6.5)
Free cash flow before w/c changes	**(1.0)**	**1.3**	**2.5**	**11.1**	**9.6**
Change in working capital	(0.3)	9.8	(16.6)	16.1	(5.9)
Net free cash flow	**(1.3)**	**11.1**	**(14.1)**	**27.1**	**3.7**
Acquisitions/Divestitures	0.0	0.0	0.3	(14.1)	0.0
Regulatory recovery	0.0	0.0	0.0	0.0	0.0
Other	(0.7)	(0.5)	0.4	(1.3)	(0.2)
Cash Flow before Financing	**(1.9)**	**10.6**	**(13.4)**	**11.8**	**3.4**
Net debt financing	0.0	0.0	(14.5)	0.0	0.0
Net equity financing	0.0	0.0	0.0	0.0	0.0
Net Change in Cash	**(1.9)**	**10.6**	**(27.9)**	**11.8**	**3.4**
Key Ratios					
Total debt (CAD millions)	61.0	61.4	62.1	76.4	75.6
Total debt-to-capital (%)	40.0%	40.6%	42.3%	48.3%	50.2%
EBITDA gross interest coverage (times)	5.34	5.50	4.97	4.27	4.12
EBIT gross interest coverage (times)	3.09	3.47	3.26	2.68	2.45
Cash flow/total debt (%)	32.8%	30.9%	39.6%	30.7%	22.7%

Summary

Consistent operating cash flows have largely funded higher dividends and capital expenditure requirements. Modest deficits have been funded out of cash on hand, with no increases in debt.

The Company's ability to internally fund dividend commitments and higher capital expenditures, while paying down bank debt, has resulted in an improving financial profile over the past three years.

DBRS notes that Veridian cancelled its $5.6 million revolving credit facility in 2007, following the decision by the IESO to lower its prudential requirements, resulting in Veridian no longer being required to provide prudential support to the IESO.

The Company's liquidity profile will remain strong over the near to medium term, given its relatively stable cash flows, which should fund a significant portion of its dividends, capital expenditures and working capital requirements.

Outlook

DBRS expects operating cash flow to decline slightly over the medium term, trending in line with lower net income partially offset by higher depreciation levels.

Capital expenditures are expected to average $19.6 million through 2010, as the Company continues to spend on smart meters as well as on new and existing system upgrades to support customer growth and improve reliability. This, in conjunction with Veridian's current dividend commitments (estimated to average $5.7 million), will result in modestly higher cash flow deficits.

These free cash flow deficits are expected to be funded with cash on hand in an effort to maintain fairly stable financial metrics, in spite of lower cash flows during 2009 and beyond.

The Company may also look to divest some of its non-regulated operations, which would further support its strong liquidity profile.

DBRS notes that the $60.8 million Subordinated Promissory Notes held by the four shareholder municipalities is convertible to equity on or before maturity on November 1, 2009, and could be utilized to provide equity support to the Company's capital structure. Furthermore, should a large investment opportunity arise that is favourable to the shareholders, the debt would likely be converted into equity. This provides the Company with a significant amount of financial flexibility and debt capacity.

Long-Term Debt Maturities and Bank Lines

Long-Term Debt

Veridian's long-term debt consists of Subordinated Promissory Notes payable to its shareholder municipalities of $60.8 million, convertible to equity (only at the option of the noteholders) prior to expiry on November 1, 2009, making the notes quasi-equity. The Notes bear interest at 7.6%.

DBRS notes that $43.6 million of these notes are issued at VCI and $17.21 million are issued at Veridian (see tables below). Veridian's Issuer Rating incorporates that all senior unsecured obligations of the Company rank ahead of the subordinated notes of Veridian and VCI. DBRS notes that although Veridian and VCI's subordinated notes are not contractually subordinated to senior unsecured obligations, they are subordinated to any debt that Veridian and VCI would have with financial institutions or lenders due to the terms of the inter-creditor agreement.

Furthermore, DBRS is of the view that the owner municipalities would refrain from taking any action on their subordinated notes that would impair Veridian's ability to meet its senior unsecured obligations.

Subordinated Notes Payable at VCI

Municipality Lender	Amount
Pickering	$17.97 million
Ajax	$14.06 million
Clarington	$5.97 million
Belleville	$5.59 million
Total	$43.59 million

Subordinated Notes Payable at Veridian

Municipality Lender	Amount
Pickering	$7.10 million
Ajax	$5.55 million
Clarington	$2.35 million
Belleville	$2.21 million
Total	17.21 million

With no bank facilities, the Company is dependent on operating cash flow and cash on hand ($22.2 million as of September 30, 2008) for liquidity. DBRS notes that Veridian cancelled its $5.6 million revolving credit facility in 2007, following the decision by the IESO to lower its prudential requirements, which resulted in Veridian no longer being required to provide prudential support to the IESO. The facility was used solely to back-stop its prudential requirements.

Veridian Corporation

Report Date:
February 19, 2009

Veridian Corporation

Balance Sheet

(CAD millions)	As at	As at Dec. 31			As at	As at Dec. 31	
Assets	Sept. 08	2007	2006	**Liabilities & Equity**	Sept. 08	2007	2006
Cash	22.2	21.3	10.7	Short-term debt	0.2	0.3	0.6
Accounts receivable + unbilled revenue	43.4	51.7	57.1	A/P + accr'ds	40.2	44.2	38.5
Inventories	1.9	2.3	1.4	Regulatory liab.	-	6.7	0.6
Prepaids & other, current portion reg.	1.8	0.3	0.3	Customer deposits	2.0	2.8	3.3
Current Assets	69.3	75.5	69.5	**Current Liabilities**	42.4	53.9	43.0
Net fixed assets	134.2	131.4	129.3	Customer deposits	-	0.3	0.7
Deferred charges	-	-	0.2	Long-term debt	60.8	60.8	60.8
Regulatory assets	7.08	6.50	0.5	Other	25.2	18.0	19.4
Other assets	9.3	9.3	9.2	Shareholders' equity	91.5	89.7	84.8
Total	219.9	222.7	208.7	**Total**	219.9	222.7	208.7

Ratio Analysis	12 mos. ended	For the year ended December 31			
Liquidity Ratios	Sept. 2008	2007	2006	2005	2004
Current ratio	1.64	1.40	1.62	0.71	2.55
Total gross debt-to-capital (1)	40.0%	40.6%	42.3%	48.3%	49.0%
Net debt-to-capital	29.8%	30.9%	37.8%	31.6%	38.2%
Senior debt-to-capital	39.9%	40.2%	41.4%	9.2%	9.4%
Cash flow/total debt	32.8%	30.9%	39.6%	30.7%	22.7%
Debt/EBITDA	2.19	2.04	2.04	2.91	3.24
Cash flow/capital expenditures (2)	1.45	1.39	1.53	3.10	2.64
Common dividend payout	45.0%	68.9%	61.2%	23.0%	15.0%
Coverage Ratios					
EBIT gross interest coverage	3.09	3.47	3.26	2.68	2.45
EBITDA gross interest coverage	5.34	5.50	4.97	4.27	4.12
Profitability/Operating Efficiency					
Operating margin	33.1%	38.7%	41.6%	40.0%	36.3%
Net margin (before extras.)	16.1%	18.1%	18.1%	19.1%	12.2%
Return on avg. common equity (bef. extras.)	8.5%	9.8%	10.0%	9.7%	5.9%
GWh sold/employee	14.0	14.5	16.7	16.1	15.0
Customers/employee	604	621	706	687	616
OM&A/customer ($)	171.6	161.0	138.3	141.8	165.1
Rate base	146	146	146	145	145

Electricity Throughputs	2007					
Residential	38%	955	961	929.4	911.5	831.0
Commercial	52%	1,355	1,314	1,326.4	1,307.6	1,248.6
Large users	10%	226	253	257.5	214.1	184.7
Street lighting	1%	19	19	19.0	19.5	13.6
Total (GWh)		2,554.2	2,547.6	2,532.3	2,452.7	2,277.9

Number of Customers	2007					
Residential	90.6%	100,148	98,952	97,026	94,342	84,662
Commercial	9.4%	10,353	10,266	10,197	10,045	8,968
Large users	0.0%	7	7	7	5	4
Street lighting	0.0%	9	9	9	7	7
Total		110,517	109,234	107,239	104,399	93,641

(1) Subordinated convertible notes given 100% debt treatment. (2) Net of customer contributions.

Veridian Corporation

Report Date:
February 19, 2009

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable

Rating History

	Current	2007	2006	2005	2004
Issuer Rating	A	A	A	A	A (low)

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report

Report Date:
November 26, 2007

Previous Report:
August 25, 2006

Insight beyond the rating.

Veridian Corporation

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The Company

Veridian Corporation is a holding company that owns Veridian Connections Inc. (VCI) (96% of EBIT), a regulated electricity distribution company and Veridian Energy Inc., which provides water heater and equipment rentals, fibre communications and other energy-related services.

Recent Actions

August 25, 2006
Confirmed at "A"

May 9, 2005
Upgraded to "A"

January 31, 2003
Downgraded to A (low)

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable

Rating Rationale

DBRS has confirmed the Issuer Rating of Veridian Corporation (Veridian or the Company) at "A", with a Stable trend. The rating confirmation reflects Veridian's low business risk profile, continuing improvement in its financial metrics and a modestly improving regulatory environment in Ontario.

Veridian's financial metrics have continued to improve over the years, as a result of the strong financial performance of its regulated distribution business, due to growth in revenues and distribution customers served. Veridian paid down approximately $14.5 million in bank debt in 2006 from surplus cash balances and the company's debt-to-capital ratio now stands at just over 42%. Veridian's debt is comprised of $60.8 million in Convertible Subordinated Promissory Notes payable to its shareholder municipalities.

The Company generated sufficient cash flow from operations to fully fund dividends and capital expenditures from 2003 through 2005; however, in 2006, the Company incurred a free cash flow deficit as a result of increased capital expenditures, bank debt reduction and payment of price rebates to customers. Higher capital expenditures are expected to continue in the near term as the Company spends on smart meters, new plant additions that are required to meet customer growth, and new plant additions in an effort to improve reliability and outage response. DBRS anticipates that the Company will not need external financing to fund these expenditures but will fund the cash flow deficits with internally generated funds and with cash balances on hand. Therefore, DBRS expects that the Company's financial profile going forward will fully support the current rating.

The new regulatory framework of the Ontario Energy Board (OEB) under the 2nd Generation Incentive Regulation Model (IRM) and Cost of Capital is viewed by DBRS as reasonable, providing sufficient earnings and cash flow stability. Over the next three years, the OEB will re-base the rates (Continued on page 2.)

Rating Considerations

Strengths

(1) Regulated electricity distribution provides long-term stability to earnings and cash flows
(2) Favourable franchise area
(3) Supportive shareholders
(4) Non-regulated operations provide higher margins

Challenges

(1) Low regulatory returns
(2) Earnings are sensitive to volume of electricity sold
(3) Lack of access to the public equity markets and small size
(4) Political risk and regulatory uncertainty
(5) Non-regulated operations have greater operating risks

Financial Information

(CAD millions)	12 mos. ended	For the year ended December 31				
	June 30, 2007	2006	2005	2004	2003	2002
EBIT interest coverage	3.15	3.50	3.06	2.45	2.23	1.93
Gross debt-to-capital	41.1%	42.3%	48.3%	49.0%	50.0%	53.6%
Cash flow/total debt	36.6%	39.6%	30.7%	22.7%	24.5%	19.3%
Cash flow/capital expenditures (times)	2.37	1.53	3.10	2.64	2.81	3.07
Cash flow from operations ($ millions)	22.7	24.6	23.4	17.1	18.4	16.2
Net income (before extras.) ($ millions)	7.4	8.7	7.8	4.6	3.7	3.5
Return on average equity (before extras.)	8.2%	10.0%	9.7%	5.9%	5.0%	4.8%
Electricity throughputs (millions kWh)	2,562	2,532	2,453	2,278	2,263	2,282

Rating Rationale (Continued from page 1.)

with full-cost-of-service proceedings for all distributors in Ontario. At the current time, it is unknown whether Veridian will self-nominate itself or be elected to go through the re-basing of rates for the 2009 or 2010 rate year, with the 3rd Generation Incentive Rate Mechanism applied in succeeding years, up to the 2010 rate year. The regulatory framework beyond 2010 remains uncertain, but DBRS expects the OEB will maintain a reasonable regulatory framework that should likely include cost-of-service recovery, a market-based rate of return and a performance-based incentive mechanism.

DBRS believes that Veridian may consider growth via acquisitions, however, the timing and scope of these acquisitions remains uncertain. Should an acquisition opportunity come available, the Company has considerable financial flexibility with its cash on hand and the ability to convert the promissory notes into equity (at the option of the shareholders).

Rating Considerations Details

Strengths

(1) Almost all of Veridian's operating income (96% of EBIT) is generated from its regulated distribution subsidiary, Veridian Connections Inc. (VCI), which provides stability to earnings and cash flow. VCI receives roughly 40% of its distribution revenues from fixed monthly connection fees with the remaining 60% from variable volume throughput. The Company will invest in its non-regulated businesses on a limited basis.

(2) Veridian serves nine municipalities in east-central Ontario. Through various affiliated companies, Veridian provides energy-related services to approximately 107,000 customers. The Company predominantly serves residential and small commercial customers, with limited exposure to larger cyclical industrial customers, providing a relatively stable and predictable demand load year-over-year. Customer growth over the past three years has averaged 5.8%. Population growth is expected to continue to be strong for the medium term, providing a basis for continued stable earnings growth.

(3) The four shareholder municipalities (City of Pickering 41%, Town of Ajax 32.1%, Municipality of Clarington 13.6% and City of Belleville 13.3%) have the ability to provide financial support to protect their investment, if necessary. The $60.8 million Subordinated Promissory Note held by the four shareholder municipalities is convertible to equity (at the option of the noteholders) on or before maturity on November 1, 2009, which could be utilized to provide equity support to the Company's capital structure. Furthermore, should a large investment opportunity arise that is favourable to the shareholders, then the debt would likely be converted into equity. This provides the Company with financial flexibility and debt capacity. Having more than one shareholder, each with a minority interest, reduces the risk of being influenced by the special interests of a single municipal council, although it may make the decision-making process more challenging.

(4) Non-regulated operations such as contracted services to local distribution companies (LDCs) including an outsourcing billing and call centre, water heater and sentinel light rentals, and telecommunications (leasing of fibre-optic cable) earn high margins, require minimal capital and provide a source of earnings growth beyond its regulated distribution subsidiary. The Company has stated that it is likely to divest some of its non-regulated operations that it feels are not a strategic fit with the Company's overall business strategy. This will further strengthen the overall business mix of the company. Waterheaters and rentals account for approximately 3.2% of consolidated EBIT.

Challenges

(1) The approved ROE of 9.0% for Ontario LDCs is low and has been in decline in recent years, largely due to the lower interest-rate environment in Canada. As such, lower ROEs will limit earnings, cash flow and coverage ratios, although the Company has mitigated this impact with a conservative financial structure.

(2) Earnings and cash flow for electricity-distribution companies are partially dependent on the volume of electricity sold and, hence, revenue earned from electricity sales. Seasonality, economic cyclicality and year-over-year changes in weather patterns directly impact the volume of electricity sold and hence the revenue earned from electricity sales and interest-coverage ratios. In addition, economic growth impacts customer growth. However, Veridian's well diversified and growing customer base helps to mitigate these risks.

(3) Veridian does not have access to the capital markets for common equity, which, along with its small size, limits its financial flexibility, especially its ability to fund a large strategic acquisition or invest in a significant capital project. Veridian's equity base is limited to internal earnings growth, a reduction of dividends to shareholders or increases in equity from the conversion of subordinated debt into equity. However, DBRS expects that Veridian will continue to seek strategic investments in additional LDCs in Ontario to continue to grow its asset base, as it has in the past.

(4) Political risk and regulatory uncertainty are a challenge for LDCs in Ontario. The possibility of political intervention remains a risk (as in 2002 when the Province imposed rate caps with the passing of Bill 210) should the cost of electricity to end-consumers rise too quickly. Higher prices will arise from (a) costs associated with new generation capacity being added within the province; (b) higher distribution costs following a re-basing during the 2008-to-2010 period and (c) the recovery of approximately $4 billion in transmission upgrades in the Province during the next ten years. Should prices increase too quickly, there is a risk that the government would intervene in the rate-setting process. DBRS considers this risk to be reasonably low. Furthermore, there is regulatory uncertainty arising from the OEB's decision on December 20, 2006, concerning the Cost of Capital, and the 2nd Generation Incentive Regulation, which is effective only until 2010. The OEB has not indicated what the regulatory framework will resemble after 2010.

(5) Non-regulated operations have greater operating risk than do regulated electricity distribution, which may affect the stability of consolidated earnings and cash flow. However, it is expected that non-regulated operations will continue to comprise only a minor segment of Veridian's consolidated operations over the longer term. Although Veridian has decided to continue to invest in higher-margin non-regulated operations, it has taken a conservative approach to these operations through Veridian Energy Inc.: (a) Earnings from electric water heater rentals are relatively stable. The key risk associated with this operation is competition from natural gas water heaters. (b) With telecommunications, long-term contracts with anchor tenants, largely in the MUSH (municipalities, universities, schools and hospitals) sector, are secured prior to investing capital. This business is dependent on the creditworthiness of the anchor tenants. (c) Investments in electricity generation will likely be as a minority equity owner.

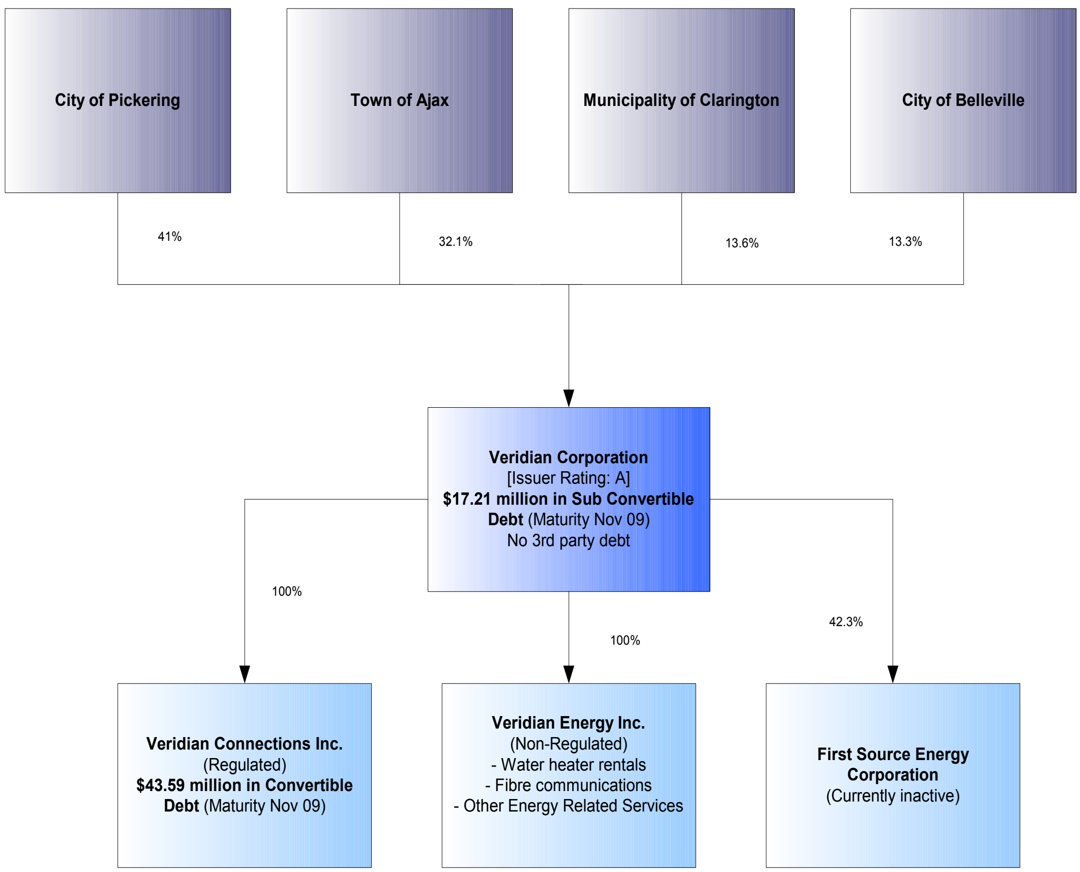
Veridian Corporation

Report Date:
November 26, 2007

The Company

Veridian Corporation is a holding company that owns: (1) Veridian Connections Inc. (VCI), a regulated electricity distribution company; and (2) Veridian Energy Inc., which provides (a) water heater and equipment rentals, (b) fibre communications, and (c) other energy related services. Veridian Corporation is 41%-owned by the City of Pickering, 32.1% by the Town of Ajax, 13.6% by the Municipality of Clarington, and 13.3% by the City of Belleville. Its service area is an amalgamation of the former municipal electric utilities of the aforementioned municipalities, and, in addition, Veridian has acquired the former utilities of Brock, Port Hope, Uxbridge, Gravenhurst and Scugog.

Ownership and Organizational Structure



Veridian Corporation

Report Date:
November 26, 2007

Regulation

Veridian's electricity distribution operations are regulated by the OEB under the *Ontario Electricity Act, 1998* (the Electricity Act), with the following noteworthy amendments:

- The *Electricity Pricing, Conservation and Supply Act, 2002* (Bill 210) – December 9, 2002.
- The *Ontario Energy Board Amendment Act (Electricity Pricing), 2003* (Bill 4) – December 18, 2003.
- The *Electricity Restructuring Act, 2004* (Bill 100) – December 9, 2004.

Summary

- Veridian's current deemed debt/equity is 55/45.
- On November 11, 2005, the OEB set the allowable ROE for all Ontario LDCs at 9.00% (down from 9.88% in 2005).
- On April 12, 2006, the OEB issued its rate decision on Veridian's 2006 distribution rate application, with new distribution rates becoming effective on May 1, 2006. The following are highlights of this rate decision:
  - An approved rate base for distribution operations of $144.1 million (including Scugog and Gravenhurst). This represents the first rate-base adjustment since the Electricity Act was implemented, which was set based on a 1999 rate-base equivalent to $145 million ($155.7 million including Scugog and Gravenhurst).
  - An approved debt rate of 7.6% for the promissory notes.
- The purchased power included in distribution rates is a flow-through to consumers determined by the OEB based on a blend of fluctuating, fixed and capped prices paid to generators under the Regulated Price Plan (RPP). The RPP is based on a forecast of expected costs over the next 12 months. If the cost of supplying electricity differs from that forecast, the OEB may readjust electricity prices accordingly in the next price period, in order to true up the RPP prices with the prices paid to generators.
- A $0.30 charge per residential customer per month as a result of the OEB's generic decision on Smart Metering. The costs associated with the installation of the Smart Meters is expected to be recovered through the imposition of a rate rider and the maintenance of a capital-variance account that will incorporate return-on-investment and amortization components, as well as an Operations Maintenance & Administration (OM&A) variance account that will reflect actual amounts spent plus carrying costs.
- A total approved revenue requirement of $44 million.

Generic Cost of Capital and Incentive Regulation

- On April 27, 2006, the OEB indicated its intention to establish a multi-year electricity distribution rate-setting plan for all LDCs in Ontario, which would include:
  - A generic cost of capital to be used in adjusting annual revenue requirements for 2007 and beyond.
  - A mechanistic incentive-rate adjustment for the period.
- The initial term of the multi-year plan would be three years, beginning with the 2007 rate adjustment.
- On December 20, 2006, the OEB issued a 2007 rate adjustment model (2nd Generation Incentive Regulation Model) and corresponding instructions to distributors for the purpose of adjusting distributor rates effective May 1, 2007. As a result, base distribution rates, exclusive of rate riders, were adjusted formulaically to reflect an allowance for inflation of 1.9%, a fixed productivity offset of 1.0% and removal of the federal large corporation tax. As such, there was no major financial impact for distributors, only a marginal increase in revenues due to the inflation factor generally being slightly higher than the productivity factor. In each of three subsequent years, approximately one-third of the electricity distributors will have their distribution rates reviewed and reset by the OEB through a cost-of-service-type of rate proceeding. LDCs re-based in 2008 will be subject to an Incentive Rate Mechanism applied in succeeding years up to the 2010 rate year. By 2010, all electricity distributors in Ontario will have undergone a re-basing of rates. At the present time, it is unknown when VCI will undergo its re-basing.
- The OEB's December 20, 2006, decision also required that starting May 1, 2008, all distributors will transition to a single deemed capital structure (60%/40%) over a three-year period. Veridian's regulated cash flow generation will be modestly negatively impacted by the decision.

Veridian Corporation

Report Date:
November 26, 2007

Earnings and Outlook

(CAD millions)	12 mos. ended	For the year ended December 31				
	30-Jun-07	2006	2005	2004	2003	2002
Net electricity distribution revenues	39.0	44.5	38.5	32.6	32.5	32.7
Ancillary revenues	2.5	5.2	2.5	5.5	5.0	3.3
Net operating revenues	41.5	49.7	41.1	38.1	37.5	36.1
Operating costs	25.8	29.6	24.6	24.3	24.9	24.7
EBITDA	25.8	30.9	26.2	23.3	22.0	20.8
EBIT	15.8	20.1	16.4	13.8	12.6	11.4
Interest Expense	5.8	6.1	6.1	5.7	5.7	5.9
Net income (before extras.)	7.4	8.7	7.8	4.6	3.7	3.5
Extraordinary items	0	0.2	0.0	(0.1)	(0.4)	(1.7)
Net income	7.4	9.0	7.9	4.5	3.3	1.8

Summary

- Veridian's financial performance has steadily improved over the years. EBIT increased from $11.4 million in 2004 to $20.1 million in 2006 due largely to customer growth, cost controls and synergies realized from the acquisition of Gravenhurst Hydro and Scugog Hydro in 2005, and the addition of earnings from acquisitions. Customer growth over the past three years has averaged 5.8% (2.9% excluding customers acquired through the acquisitions). Key factors contributing to the 36% increase in EBIT in 2006 are a direct result of cost controls, customer growth in the Company's service area and net income contributions from the acquisitions made in 2005.
- Veridian's interest expense has remained faily constant over the years at approximately $6 million per year.
- While Veridian Corporation continues to exhibit strong operating performance and maintains strong credit metrics for the current rating, it is limited by its modest asset and rate base size, and somewhat limited access to the capital markets.

Outlook

- Veridian's 2007 EBIT is expected to decline modestly due to decreasing margins from the Company's non-regulated operations.
- The Company's objective is to achieve annual operating efficiencies in order to earn returns on equity better than the 9.0% regulated rate of return allowed by the OEB. The Company is expecting a return on equity of 9.6% for 2007.
- Veridian's regulated electricity distribution operations will continue to drive earnings stability over the medium term. Furthermore, the Company's strong franchise area and anticipated customer growth will continue to provide a high degree of certainty to revenues and stability to consolidated earnings and cash flow over the longer term.

Veridian Corporation

Report Date:
November 26, 2007

Financial Profile and Outlook

Cash Flow Statement	12 mos. ended	For the year ended December 31				
(CAD millions)	30-Jun-07	2006	2005	2004	2003	2002
Net income (before extras.)	7.4	8.7	7.8	4.6	3.7	3.5
Depreciation & amortization	10.1	10.8	9.8	9.5	9.4	9.5
Other non-cash adjustments	5.2	5.1	5.8	3.0	5.3	3.2
Cash Flow From Operations	22.7	24.6	23.4	17.1	18.4	16.2
Dividends paid	(2.8)	(6.0)	(4.8)	(1.1)	(0.6)	(1.0)
Capex (net of capital contributions)	(9.6)	(16.1)	(7.5)	(6.5)	(6.6)	(5.3)
Free Cash Flow Bef. Work. Cap. Changes	10.3	2.5	11.1	9.6	11.3	9.9
Changes in working capital	37.8	(16.6)	16.1	(5.9)	9.3	(11.9)
Net Free Cash Flow	48.2	(14.1)	27.1	3.7	20.6	(1.9)
Acquisitions/divestitures	(14.1)	0.3	(14.1)	0.0	0.0	(2.2)
Other	(1.3)	0.4	(1.3)	(0.2)	1.0	(0.1)
Cash flow before financing	32.7	(13.4)	11.8	3.4	21.7	(4.2)
Net change in equity	0.0	0.0	0.0	0.0	0.0	0.0
Net change in debt: new/(repay.)	0.0	(14.5)	0.0	0.0	(8.6)	(1.3)
Change in Net Cash	32.7	(27.9)	11.8	3.4	13.1	(5.5)
Key Figures and Ratios						
Total debt in capital structure	61.9	62.1	76.4	75.6	75.3	83.9
Total debt-to-capital	41.1%	42.3%	48.3%	49.0%	50.0%	53.6%
EBITDA interest coverage (times)	4.90	5.25	4.65	4.12	3.90	3.54
EBIT interest coverage (times)	3.15	3.50	3.06	2.45	2.23	1.93

Summary

- Veridian has generated sufficient cash flow from operations to fully fund dividends and capital expenditures since 2003; however, in 2006, the Company ran a net free cash flow deficit as a result of increased capital expenditures, bank debt paid down during the year and payment of price rebates to customers.
- The Company's debt-to-capital ratio has improved since 2002. As of December 31, 2006, the Company's debt-to-capital ratio improved to 42% from 48% in 2005, due to the repayment of $14.5 million in debt during the year.
- Stronger cash flow from operations and lower debt levels have significantly increased cash flow-to-debt and interest coverage ratios, which strongly support the Company's "A" rating.
- During 2006, the Company used $27.9 million of cash on hand primarily to retire the above mentioned $14.5 million long-term debt that matured in December 2006,pay the extra 2006 dividends and fund working capital.

Outlook

- Despite higher forecast capital expenditures, cash flow from operations is expected to remain adequate to fully fund capital expenditures and dividends over the medium term. Capital expenditures are expected to increase to approximately $20.8 million as the Company spends on smart meters, new plant additions required to meet customer growth as well as on new plant additions, in an effort to improve reliability and outage response.
- DBRS anticipates that the Company would fund any free cah flow deficit with internally generated funds and cash balances on hand. Therefore, DBRS expects the Company's financial profile going forward will fully support the current rating.
- The $60.8 million Subordinated Promissory Note held by the four shareholder municipalities is convertible to equity on or before maturity on November 1, 2009, which could be utilized to provide equity support to the Company's capital structure. Furthermore, should a large investment opportunity arise that is favourable to the shareholders, then the debt would likely be converted into equity. This provides the Company with a significant amount of financial flexibility and debt capacity.

Veridian Corporation

Report Date:
November 26, 2007

Long-Term Debt Maturities and Bank Lines

Long-Term Debt
Veridian's long-term debt consists of Subordinated Promissory Notes payable to its shareholder municipalities of $60.8 million, convertible to equity (only at the option of the noteholders) prior to expiry on November 1, 2009, making the notes quasi-equity. The notes bear interest at 7.6%.

DBRS notes that $43.6 million of these notes are issued at VCI and $17.21 million are issued at Veridian (see tables below). Veridian's Issuer Rating assumes that all senior unsecured obligations of the Company rank ahead of the subordinated notes. DBRS notes that although the subordinated notes are not contractually subordinated to senior unsecured obligations, they are subordinated to any debt that Veridian and VCI would have with financial institutions or lenders due to the terms of the inter-creditor agreement.

Furthermore, DBRS is of the view that the owner municipalities would refrain from taking actions on their subordinated notes that would impair Veridian's ability to meet its senior unsecured obligations.

Subordinated Notes Payable at VCI

Municipality Lender	Amount
Pickering	$17.97 million
Ajax	$14.06 million
Clarington	$5.97 million
Belleville	$5.59 million
Total	$43.59 million

Subordinated Notes Payable at Veridian

Municipality Lender	Amount
Pickering	$7.10 million
Ajax	$5.55 million
Clarington	$2.35 million
Belleville	$2.21 million
Total	17.21 million

Bank Lines
Veridian cancelled its $5.6 million revolving credit facility provided by the Bank of Nova Scotia in August 2007, as a result of the Independent Electricity Market Operator's (IESO) lowering of its IMO prudential requirements, which resulted in Veridian not being required to provide support at this time.

With no bank facilities, the Company is dependent upon internal cash flow and cash on hand ($25 million as of June 30, 2007) for liquidity. DBRS believes that the Company will generate a sufficient amount of cash flow and combined with the cash on hand, it will meet its financial obligations over the near to medium term.

Veridian Corporation

Report Date:
November 26, 2007

Veridian Corporation

Balance Sheet

(CAD millions)	As at	As at Dec. 31			As at	As at Dec. 31	
Assets	30-Jun-07	2006	2005	**Liabilities & Equity**	30-Jun-07	2006	2005
Cash	24.9	10.7	38.6	Short-term debt	0.6	0.6	75.7
Accounts receivable + unbilled revenue	47.8	56.5	49.3	A/P + accr'ds	43.0	37.8	50.4
Inventories	1.4	1.4	1.3	Regulatory liab.	-	0.6	2.2
Prepaids & other, current portion reg.	0.7	0.3	3.2	Customer deposits	2.3	3.3	1.7
Current Assets	74.8	68.9	92.3	**Current Liabilities**	45.9	42.3	130.0
Net fixed assets	130.4	129.3	124.0	Customer deposits	0.5	0.7	0.6
Deferred charges	0.01	0.2	0.3	Long-term debt	60.8	60.8	-
Regulatory assets	0.53	0.5	1.6	Other	19.3	19.4	14.9
Other assets	9.3	9.2	9.2	Shareholders' equity	88.6	84.8	81.8
Total	215.0	208.0	227.4	**Total**	215.0	208.0	227.4

Ratio Analysis	12 mos. ended	For the year ended December 31				
Liquidity Ratios	30-Jun-07	2006	2005	2004	2003	2002
Current ratio	1.63	1.63	0.71	2.55	2.42	1.63
Accumulated depr./gross fixed assets	45.8%	49.8%	49.8%	49.8%	47.1%	44.5%
Total gross debt-to-capital (1)	41.1%	42.3%	48.3%	49.0%	50.0%	53.6%
Net debt-to-capital	29.4%	37.8%	31.6%	38.2%	40.8%	50.3%
Senior debt-to-capital	40.4%	41.4%	9.2%	9.4%	9.6%	14.7%
Cash flow/total debt	36.6%	39.6%	30.7%	22.7%	24.5%	19.3%
Debt/EBITDA	2.40	2.01	2.91	3.24	3.42	4.03
Cash flow/capital expenditures (2)	2.37	1.53	3.10	2.64	2.81	3.07
Average coupon on long-term debt	7.60%	7.22%	7.22%	7.22%	7.22%	7.22%
Common dividend payout	68.9%	61.2%	23.0%	15.0%	28.5%	0.0%
Deemed equity in the capital structure	45%	145%	245%	345%	445%	545%
Coverage Ratios (3)						
EBIT interest coverage	3.15	3.50	3.06	2.45	2.23	1.93
EBITDA interest coverage	4.90	5.25	4.65	4.12	3.90	3.54
Fixed-charges coverage	3.15	3.50	3.06	2.45	2.23	1.93
Note: Interest for 2003 was prepaid in previous years, hence interest for 2003 will be a non-cash payment.						
Profitability/Operating Efficiency						
Operating margin	37.9%	40.4%	40.0%	36.3%	33.7%	31.5%
Net margin (before extras.)	17.8%	17.5%	19.1%	12.2%	9.8%	9.7%
Return on avg. common equity (bef. extras.)	8.2%	10.0%	9.7%	5.9%	5.0%	4.8%
GWh sold/employee	15.5	15.6	15.4	15.0	14.9	15.0
Customers/employee	656	662	657	616	598	599
OM&A/customer ($)	174.0	138.3	141.8	165.1	167.8	119.5
Rate base	145	146	145	145	145	
Electricity Throughputs						
Residential	957.9	929.4	911.5	831.0	827.1	865.6
Commercial	1,300.3	1,326.4	1,307.6	1,248.6	1,263.3	1,257.6
Large users	285.2	257.5	214.1	184.7	156.3	158.8
Street lighting	18.8	19.0	19.5	13.6	16.1	-
Total (GWh)	2,562.2	2,532.3	2,452.7	2,277.9	2,262.8	2,282.0
Number of Customers						
Residential	97,968	97,026	94,342	84,662	82,018	82,807
Commercial	10,229	10,197	10,045	8,968	8,845	8,232
Large users	7	7	5	4	4	4
Street lighting	9	9	7	7	7	-
Total	108,213	107,239	104,399	93,641	90,874	91,043

(1) Subordinated convertible notes given 100% debt treatment. (2) Net of customer contributions.

(3) EBIT includes interest income, interest expense excludes capitalized interest, AFUDC, and debt amortizations.

Veridian Corporation

Report Date:
November 26, 2007

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable

Rating History

	Current	2006	2005	2004	2003
Issuer Rating	A	A	A	A (low)	A (low)

Related Research

- DBRS Comments on the OEB's Rate Decision for Electricity Distributors, April 18, 2006.
- Veridian Corporation, August 25, 2006.

Note:
All figures are in Canadian dollars unless otherwise noted.

Rating Report

Veridian Corporation

Report Date: August 25, 2006
Press Release: August 25, 2006
Previous Report: May 12, 2005
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RATING

Rating	Trend	Rating Action	Debt Rated
A	Stable	Confirmed	Issuer Rating

RATING HISTORY

	Current	2005	2004	2003	2002	2001
Issuer Rating	A	A	A (low)	A (low)	A	NR

RATING UPDATE

The financial profile of Veridian Corporation (Veridian or the Company) remains strong and continues to support the Company's A-rated Issuer Rating. Fixed charges coverage and cash flow-to-debt improved materially as leverage remained largely unchanged and earnings grew following the acquisition of Gravenhurst Hydro and Scugog Hydro in Q3 2005, favourable customer growth and a minimal increase in operating costs. Debt-to-capital remains favourable at below 50%, which is below the Company's deemed regulatory debt level of 55%. The majority of Veridian's debt is comprised of $60.8 million in convertible subordinated promissory notes payable to its shareholder municipalities, with the remaining $14.5 million as bank debt due on December 16, 2006.

Since 2002, the Company has continued to generated sufficient cash flow from operations to fully fund dividends and capital expenditures. This is expected to continue over the medium term despite an anticipated doubling in capital expenditures to roughly $15 million annually beginning this year, with the increase primarily due to spending on government-mandated conservation initiatives (i.e., smart meters). As such, no new borrowing is anticipated over the near to medium term, and the Company's financial profile is expected to remain well within the "A" rating range, given its stable regulated distribution operations.

On May 1, 2006, new rates became effective for Veridian. This included a lower allowable ROE at 9.00% (down from 9.88% in 2005), which came into effect for all Ontario local distribution companies (LDCs). The impact of this lower ROE on Veridian's earnings and cash flow is expected to be minimal.

The key challenge/uncertainty for regulated distribution companies in Ontario over the medium term is the regulatory framework beyond 2006. However, Dominion Bond Rating Service (DBRS) expects that the Ontario Energy Board (OEB) will maintain a supportive regulatory framework for electricity distributors, which would likely continue to include full cost-of-service recovery, a market-based rate of return, and a performance-based incentive mechanism.

Future acquisitions for Veridian remain uncertain, especially while the transfer tax remains in place. However, should the transfer tax be waived again and an acquisition opportunity become available, the Company has considerable financial flexibility with its cash on hand and the ability to convert the promissory notes into equity (at the option of the shareholders).

RATING CONSIDERATIONS

Strengths

- Regulated electricity distribution provides long-term stability to earnings and cash flows
- Favourable franchise area
- Financially strong and supportive shareholders
- Efficiencies gained from acquisitions/mergers
- Non-regulated operations provide higher margins

Challenges

- Regulatory risk and risk of political intervention
- Low regulatory returns
- Earnings are sensitive to volume of electricity sold
- Lack of access to the public equity markets and small size
- Non-regulated operations have greater operating risks

FINANCIAL INFORMATION

	12 mos. ended	For the year ended December 31				
	Mar. 31, 2006	2005	2004	2003	2002	2001P
Fixed-charges coverage (times)	3.37	3.06	2.45	2.23	1.93	0.28
Gross debt-to-capital	47.3%	48.1%	49.0%	50.0%	53.6%	54.1%
Net debt-to-capital	34.2%	31.2%	38.2%	40.8%	50.3%	48.9%
Cash flow/total debt	32.8%	30.9%	22.7%	24.5%	19.3%	11.5%
Cash flow/capital expenditures (times)	3.45	3.11	2.64	2.81	3.07	0.64
Cash flow from operations ($ millions)	25.0	23.4	17.1	18.4	16.2	9.8
Net income (before extras.) ($ millions)	9.3	7.9	4.6	3.7	3.5	(2.6)
Return on average equity (before extras.)	10.5%	9.2%	5.8%	5.0%	4.8%	(3.6%)
Electricity throughputs (millions kWh)	n/a	2,453	2,278	2,263	2,282	2,232

P = Pro forma of historical data for all seven former municipal utilities. n/a = not applicable.

THE COMPANY

Veridian Corporation is a holding company that owns: (1) Veridian Connections Inc. (VCI), a regulated electricity distribution company; and (2) Veridian Energy Inc., which provides: (a) non-regulated billing and management services to VCI and external customers, (b) water heater rentals, and (c) the leasing of fibre-optic cables. Veridian Corporation is 41%-owned by the City of Pickering, 32.1% by the Town of Ajax, 13.6% by the Municipality of Clarington, and 13.3% by the City of Belleville. Along with its service area being an amalgamation of the former municipal electric utilities of the aforementioned municipalities, it has acquired the former utilities of Brock, Port Hope, Uxbridge, Gravenhurst, and Scugog.

Notes:
All figures in Canadian dollars, unless otherwise noted.
Issuer ratings apply to all general senior unsecured obligations of the issuer corporation.

RATING CONSIDERATIONS

Strengths

(1) Almost all of Veridian's operating income (95% of EBIT) is generated from its regulated distribution subsidiary, VCI, which provides stability to earnings and cash flow. VCI receives roughly 40% of its distribution revenues from the fixed monthly connection fee with the remaining 60% from variable volume throughput. The Company divested its interest in higher risk non-regulated retail energy marketing in 2003 and future involvement in non-regulated business is expected to remain limited.

(2) Veridian has a favourable franchise area, with a total combined population of approximately 310,000 and has experienced annual load growth that has averaged around 1.5% since 2000 (excluding acquisitions). Population growth is expected to continue to be strong for the medium term, providing a basis for continued stable earnings growth. Veridian's distribution network has substantial unused capacity, which reduces the amount of capital investment required to accommodate future customer growth. Also, a well diversified, predominately residential and small commercial customer base of 104,400 and limited exposure to larger cyclical industrial customers provide Veridian with a relatively stable and predictable demand load year-over-year, with limited influence from economic cycles.

(3) The four shareholder municipalities are financially strong and have the ability to provide financial support to protect their investment, if necessary. The $60.8 million subordinated promissory note held by the four shareholder municipalities is convertible to equity on or before maturity on November 1, 2006, which could be utilized to provide equity support to the Company's capital structure. However, the shareholders cannot provide formal guarantees to Veridian's debt obligations as the Ontario municipal legislation prohibits municipalities from doing so. Having more than one shareholder, each with a minority interest, reduces the risk of being influenced by the special interests of a single municipal council, although it may make the decision-making process more challenging.

(4) Consolidating the operations of nine former municipal utilities provides an opportunity to significantly reduce operating costs.

(5) Non-regulated operations such as contracted services to LDCs (outsourcing billing and call centre), water heater and sentinel light rentals, and telecommunications (leasing of fibre-optic cable) earn high margins, require minimal capital, and provide a source of earnings growth beyond its regulated distribution subsidiary.

Challenges

(1) The key challenge facing electricity distributors in Ontario is regulatory risk and the risk of political intervention. Regulatory risk is an inherent challenge for any regulated utility given that the regulatory framework essentially dictates the maximum profitability that can be achieved and the degree of protection to bondholders. While some uncertainty exists regarding the regulatory framework beyond 2006, DBRS expects the OEB to remain supportive by continuing to allow full cost of service recovery with a market-based rate of return on regulated distribution operations. The key risk with respect to political intervention would be the imposition of a rate freeze, as was seen in 2002, which was at a time of high electricity prices and near a provincial election. However, DBRS believes the risk of political intervention in the rate-setting process is relatively low under the current provincial government's tenure, in light of its strong commitment to passing along the full cost of power to electricity ratepayers.

(2) The 9.0% ROE for Ontario electricity distributors is low in comparison with similar regulated utilities in the United States. As such, cash flow and coverage ratios for regulated distribution utilities in Ontario will typically be lower than for similarly-regulated distribution utilities in the United States. However, the current regulated ROE for Ontario utilities is in line with the lower ROEs typically granted to regulated utilities in Canada.

(3) Earnings and cash flow for distribution companies are partially dependent on the volume of electricity sold. Seasonality, economic cyclicality, and year-over-year changes in weather patterns directly impact the volume of electricity sold, and hence revenue earned from electricity sales and interest coverage ratios. In addition, economic growth impacts customer growth. However, Veridian's well diversified and growing customer base helps mitigate most of these risks, as does its fixed monthly connection fee.

(4) Veridian does not have access to the capital markets for common equity, this along with its small size limits its financial flexibility, especially its ability to make a strategic acquisition or invest in a significant capital project. Veridian's equity base is limited to internal earnings growth, a reduction of dividends to shareholders, or increases in equity from the conversion of subordinated debt into equity. However, DBRS expects that Veridian will continue to seek out strategic investments in additional LDCs in Ontario to continue to grow its asset base, as it has in the past.

(5) Non-regulated operations have greater operating risk than regulated electricity distribution, which may affect the stability of consolidated earnings and cash flow. However, it is expected that non-regulated operations will continue to comprise only a minor segment of Veridian's consolidated operations over the longer term (roughly 5% of consolidated EBIT in 2005). Veridian has taken a conservative approach to these operations through Veridian Energy Inc.: (a) Earnings from electric water heater rentals are relatively stable. The key risk associated with this operation is competition from natural gas water heaters. (b) With telecommunications, long-term contracts with anchor tenants, largely in the MUSH (municipalities, universities, schools, and hospitals) sector, are secured prior to investing capital. This business is dependent on the creditworthiness of the anchor tenants. (c) Investment in electricity generation will likely be as a minority equity owner.

REGULATION

Veridian's electricity distribution operations are regulated by the OEB under the *Electricity Act, 1998* (the Electricity Act), with the following noteworthy amendments:

- The *Electricity Pricing, Conservation and Supply Act, 2002* (Bill 210) – December 9, 2002.
- The *Ontario Energy Board Amendment Act (Electricity Pricing), 2003* (Bill 4) – December 18, 2003.
- The *Electricity Restructuring Act, 2004* (Bill 100) – December 9, 2004.

Summary

- Veridian's current deemed debt/equity is 55/45.
- On November 11, 2005, the OEB set the allowable ROE for all Ontario LDCs at 9.00% (down from 9.88% in 2005).
- On April 12, 2006, the OEB issued its rate decision on Veridian's 2006 distribution rate application, with new distribution rates becoming effective on May 1, 2006. The following are highlights of this rate decision:
  - An approved rate base for distribution operations of $144.1 million (including Scugog and Gravenhurst). This represents the first rate base adjustment since the Electricity Act was implemented, which was set based on a 1999 rate base equivalent to $145 million ($155.7 million including Scugog and Gravenhurst).
  - An approved debt rate of 7.6% for the promissory notes.
- A $0.30 charge per residential customer per month as a result of the OEB's generic decision on Smart Metering.
- A total approved revenue requirement of $44 million.

Generic Cost of Capital

- On April 27, 2006, the OEB indicated its intent to establish a multi-year electricity distribution rate-setting plan for all LDCs in Ontario, which will include:
  – A generic cost of capital to be used in adjusting annual revenue requirements for 2007 and beyond.
  – A mechanistic incentive rate adjustment for the period.
- The initial term of the multi-year plan will be three years, beginning with the 2007 rate adjustment.
- On June 26, 2006, the OEB posted on its website a draft report of Board staff containing staff's initial proposals for both the cost of capital and the second generation incentive regulation mechanism. A subsequent Board staff proposal was posted on the OEB's website on July 25, 2006, which incorporated stakeholder comments on its June 26 proposal. DBRS notes that the following Board staff proposals, if implemented, would have a negative impact on earnings and cash flow for LDCs like Veridian: (1) A proposed allowed ROE of less than 9.0%, based on Board staff's view of the equity risk premium and current forecast interest rates, and (2) a deemed equity thickness of 40%, versus Veridian's current deemed equity thickness of 45%. However, it is too early to determine the impact on Veridian's credit metrics until the consultation and review process is completed and a final decision is made.

EARNINGS AND OUTLOOK

	12 mos. ended	For the year ended December 31				
($ millions)	Mar. 31, 2006	2005	2004	2003	2002	2001P
Net electricity distribution revenues	41.0	38.5	32.6	32.5	32.7	18.6
Ancillary revenues	5.1	4.9	5.5	5.0	3.3	1.8
Net operating revenues	46.1	43.4	38.1	37.5	36.1	20.4
Operating costs	25.7	24.6	24.3	24.9	24.7	19.1
EBITDA	30.3	28.6	23.3	22.0	20.8	9.5
EBIT	20.3	18.8	13.8	12.6	11.4	1.3
Net income (before extras.)	9.3	7.9	4.6	3.7	3.5	(2.6)
Extraordinary items	-	-	(0.1)	(0.4)	(1.7)	-
Net income	9.3	7.9	4.5	3.3	1.8	(2.6)

P = Pro forma of historical statements for seven former municipal utilities.

Summary

- Key factors contributing to the 36% increase in EBIT in 2005 include the following:
  – The acquisition of Gravenhurst Hydro and Scugog Hydro in 2005 increased Veridian's customer base by approximately 9%.
  – Favourable customer growth of about 4% (excluding the acquisitions).
  – A minimal increase in operating costs as a result of continued efficiency improvements.

Outlook

- Annual EBIT will experience a modest increase again in 2006, as this will be the first full year with the inclusion of Gravenhurst Hydro and Scugog Hydro.
- Beyond 2006, EBIT will depend on the outcome of the OEB's multi-year rate plan discussed above.
- However, the Company's regulated electricity distribution operations at VCI, together with its strong franchise area, will continue to provide a high degree of certainty to revenues and stability to consolidated earnings and cash flow over the longer term. Regulated distribution operations will likely continue to comprise over 95% of consolidated EBIT.

FINANCIAL PROFILE AND OUTLOOK

Cash Flow Statement	12 mos. ended	For the year ended December 31				
($ millions)	Mar. 2006	2005	2004	2003	2002	2001P
Net income (before extras.)	9.3	7.9	4.6	3.7	3.5	(2.6)
Depreciation & amortization	10.0	9.8	9.5	9.4	9.5	8.2
Other non-cash adjustments	5.8	5.8	3.0	5.3	3.2	4.2
Cash Flow From Operations	25.0	23.4	17.1	18.4	16.2	9.8
Dividends paid	(3.0)	(4.8)	(1.1)	(0.6)	(1.0)	-
Capex (net of capital contributions)	(7.3)	(7.5)	(6.5)	(6.6)	(5.3)	(15.2)
Free Cash Flow Bef. Work. Cap. Changes	14.8	11.1	9.6	11.3	9.9	(5.5)
Changes in working capital	2.5	16.1	(5.9)	9.3	(11.9)	3.9
Net Free Cash Flow	17.3	27.2	3.7	20.6	(1.9)	(1.5)
Acquisitions/divestitures	(14.1)	(14.1)	-	-	(2.2)	(9.0)
Other	(1.3)	(1.3)	(0.2)	1.0	(0.1)	2.9
Cash flow before financing	1.9	11.8	3.4	21.7	(4.2)	(7.6)
Net change in equity	-	-	-	-	-	-
Net change in debt: new/(repay.)	-	-	-	(8.6)	(1.3)	21.5
Change in Net Cash	1.9	11.8	3.4	13.1	(5.5)	13.9
Key Figures and Ratios						
Total debt in capital structure	76.2	75.7	75.6	75.3	83.9	85.2
Total debt-to-capital	47.3%	48.1%	49.0%	50.0%	53.6%	54.1%
EBITDA interest coverage (times)	5.02	4.66	4.12	3.90	3.54	2.07
EBIT interest coverage (times)	3.37	3.06	2.45	2.23	1.93	0.28
Cash flow/total adjusted debt	32.8%	30.9%	22.7%	24.5%	19.3%	11.5%

P = Pro forma of historical data for all seven former utilities.

Summary

- Veridian continues to generate sufficient cash flow from operations to fully fund capital expenditures and dividends.
- Debt-to-capital improved modestly in 2005 as debt levels remained constant and the Company's equity base increased.
- Stronger cash flow from operations led to significantly stronger cash flow-to-debt and interest coverage ratios, which continue to support the Company's "A" rating given its regulated distribution operations.

Outlook

- Despite higher forecast capital expenditures, cash flow from operations is expected to remain adequate to fully fund capital expenditures and dividends over the medium term.
  - Capital expenditures are expected to double, from about $7.5 million in 2005 to about $15 million annually over the next five years, with the increase primarily due to spending on government-mandated conservation initiatives (i.e., smart meters), which will ultimately be added to the rate base.
- Any borrowing requirements over the medium term would be to fund working capital requirements.
- Veridian's debt-to-capital is expected to remain below 50% over the medium term. As such, cash flow-to-debt and interest coverage ratios are expected to remain strong.

Long-Term Debt Maturities and Bank Lines

Long-Term Debt

- Veridian's long-term debt consists of subordinated promissory notes payable to its shareholder municipalities of $60.8 million, convertible to equity (only at the option of the noteholders) prior to expiry on November 1, 2006. It is expected that these notes will be extended for a three-year term. DBRS notes that $44.6 million of these notes are issued at VCI and $17.21 million are issued at Veridian (see tables below). Veridian's Issuer Rating assumes that all senior unsecured obligations of the Company rank ahead of the subordinated notes. DBRS notes that although the subordinated notes are not contractually subordinated to senior unsecured obligations, they are effectively subordinated due to the terms of the Company's inter-creditor agreement. Furthermore, DBRS is of the view that the owner municipalities would refrain from taking actions on their subordinated notes that would impair Veridian's ability to meet its senior unsecured obligations.

Subordinated Notes Payable at VCI

Municipality Lender	Amount
Pickering	$17.97 million
Ajax	$14.06 million
Clarington	$5.97 million
Belleville	$5.59 million
Total	$44.59 million

Subordinated Notes Payable at Veridian

Municipality Lender	Amount
Pickering	$7.10 million
Ajax	$5.55 million
Clarington	$2.35 million
Belleville	$2.21 million
Total	17.21 million

Bank Lines

- Veridian currently has two separate credit facilities totalling $58 million, as follows:
  - A five-year term loan facility (maturing December 16, 2006) in the amount of $48 million to be used for refinancing of acquisitions, capital expenditures and funding new investments. DBRS expects that this term facility will be extended prior to maturity.
  - A 364-day term renewable revolving letter of credit facility of $10 million for Independent Electricity Market Operator (IESO) prudential support for its regulated distribution business.
- At December 31, 2005, Veridian had borrowed $14.5 million (noted above) against the loan facility and utilized $5.6 million of the letter of credit facility for IMO prudential requirements.

Veridian Corporation

Balance Sheet

($ millions)	As at	As at Dec. 31			As at	As at Dec. 31	
Assets	Mar. 2006	2005	2004	**Liabilities & Equity**	Mar. 2006	2005	2004
Cash	32.1	38.6	26.8	Short-term debt	61.0	61.2	0.3
Accounts receivable + unbilled revenue	38.4	49.3	40.8	A/P + accr'ds	28.5	50.4	26.6
Inventories	1.3	1.3	1.1	Regulatory liab.	-	2.2	0.6
Prepaids & other, current portion reg.	3.0	3.2	2.0	Customer deposits	-	1.7	0.3
Current Assets	74.8	92.3	70.7	**Current Liabilities**	89.5	115.5	27.7
Net fixed assets	122.8	124.0	117.4	Customer deposits	-	0.6	0.8
Deferred charges	0.28	0.3	0.4	Long-term debt	0.7	-	60.8
Regulatory assets	1.34	1.6	1.4	Other	18.9	14.9	11.2
Other assets	9.2	9.2	4.0	Shareholders' equity	84.9	81.8	78.8
Total	208.4	227.4	193.9	**Total**	193.9	212.9	179.4

Ratio Analysis	12 mos. ended	For the year ended December 31						
Liquidity Ratios	Mar. 31, 2006	2005	2004	2003	2002	2001P	2000P	1999P
Current ratio	0.72	0.71	2.55	2.42	1.63	1.08	1.09	1.37
Accumulated depr./gross fixed assets	45.8%	49.8%	49.8%	47.1%	44.5%	41.3%	41.7%	40.3%
Total gross debt-to-capital (1)	47.3%	48.1%	49.0%	50.0%	53.6%	54.1%	52.2%	52.4%
Net debt-to-capital	34.2%	31.2%	38.2%	40.8%	50.3%	48.9%	49.8%	46.2%
Senior debt-to-capital	9.4%	9.2%	9.4%	9.6%	14.7%	14.7%	9.5%	10.1%
Cash flow/total debt	32.8%	30.9%	22.7%	24.5%	19.3%	11.5%	9.0%	7.7%
Debt/EBITDA	2.51	2.65	3.24	3.42	4.03	8.96	10.50	14.14
Cash flow/capital expenditures (2)	3.45	3.11	2.64	2.81	3.07	0.64	0.85	0.62
Average coupon on long-term debt	-	7.21%	7.21%	7.21%	7.21%	7.60%	7.60%	-
Common dividend payout	-	61.0%	23.0%	15.0%	28.5%	-	-	-
Deemed equity in the capital structure	45%	45%	45%	45%	45%	45%	-	-
Coverage Ratios (3)								
EBIT interest coverage	3.37	3.06	2.45	2.23	1.93	0.28	0.18	-0.70
EBITDA interest coverage	5.02	4.66	4.12	3.90	3.54	2.07	5.14	8.52
Fixed-charges coverage	3.37	3.06	2.45	2.23	1.93	0.28	0.18	-0.70

Note: Interest for 2003 was prepaid in previous years, hence interest for 2003 will be a non-cash payment.

Profitability/Operating Efficiency	12 mos. ended Mar. 31, 2006	2005	2004	2003	2002	2001P	2000P	1999P
Operating margin	44.1%	43.3%	36.3%	33.7%	31.5%	6.2%	(2.2%)	(8.0%)
Net margin (before extras.)	20.1%	18.1%	12.2%	9.8%	9.7%	(12.9%)	(6.3%)	(6.8%)
Return on avg. common equity (bef. extras.)	10.5%	9.2%	5.8%	5.0%	4.8%	(3.6%)	(1.8%)	(1.3%)
GWh sold/employee	-	16.1	15.0	14.9	15.0	14.7	14.2	14.0
Customers/employee	-	687	616	598	599	598	538	498
OM&A/customer ($)	-	142.0	158.1	170.1	167.5	122.0	154.8	171.1
Rate base		145	145	145	145	145		

Electricity Throughputs	2005		2005	2004	2003	2002	2001P	2000P	1999P
Residential	37%		911.5	831.0	827.1	865.6	817.5	790.5	766.0
Commercial	54%		1,327.1	1,248.6	1,263.3	1,257.6	1,268.3	1253.6	1192.8
Large users	9%		214.1	184.7	156.3	158.8	145.9	115.6	164.6
Street lighting	0%			13.6	16.1	-	-	-	-
Total (GWh)		0.0	2,452.7	2,277.9	2,262.8	2,282.0	2,231.7	2,159.7	2,123.4

Number of Customers	2005		2005	2004	2003	2002	2001P	2000P	1999P
Residential	90.4%		94,342	84,662	82,018	82,807	80,992	n/a	n/a
Commercial	9.6%		10,045	8,968	8,845	8,232	8,179	n/a	n/a
Large users	0.0%		5	4	4	4	4	n/a	n/a
Street lighting	0.0%		7	7	7	-	-	n/a	n/a
Total		0	104,399	93,641	90,874	91,043	89,175	88,760	86,202

P = Pro forma of historical data for all seven former municipal utilities. n/a = not applicable.

(1) Subordinated convertible notes given 100% debt treatment. (2) Net of customer contributions.

(3) EBIT includes interest income, interest expense excludes capitalized interest, AFUDC, and debt amortizations.

7. Ref: Exhibit 1 / Tab 1 / Schedule 21

Request

Please update the statements in this Exhibit to be consistent with the Board's Report on Cost of Capital dated December 11, 2009, using the most recent information available for the calculation of all components of the cost of capital.

Response:

The amount of Veridian's Revenue Requirement for the 2010 Test Year has changed as a result of Veridian's Application Update. This interrogatory has been answered on the basis of the updated values.

Veridian provides here updates to the pro-forma statements as referenced to be consistent with the Board's Report on Cost of Capital dated December 11^{th}, 2009. Veridian has used the most recent information available for calculation of all components of the cost of capital as follows;

- ROE – 9.75% - As per the value published in the referenced report.
- Deemed Debt Rate – 7.62 % - Veridian has not updated its proposed cost of debt from that originally filed. No value for the deemed debt rate was published in the referenced report and Veridian is unable to calculate an estimate of an updated debt rate as it does not have access to the referenced sources of information.

Veridian notes that any changes in net income provided in this response are not representative of the total changes or impacts anticipated by the Board's referenced report as Veridian's proposed long term debt rate was based on the Board's deemed debt rate. Veridian used the 2009 deemed debt rate of 7.62% as a placeholder, however Veridian expects that the 2010 deemed debt rate will be lower than 7.62%.

VERIDIAN CONNECTIONS INC.
PRO-FORMA INCOME STATEMENT

REVENUE	2009 Bridge Year ($000's)	2010 Test Year (at new rates) ($000's)
Sale of Energy	195,629	197,281
Distribution Revenue	44,037	49,945
Other Revenue	4,057	3,843
Total Revenue	243,723	251,069
Cost of Power	195,629	197,281
NET REVENUES	48,094	53,788
EXPENSES		
O&M	6,287	7,029
Administration	13,742	15,207
Total OM&A Expenses	20,029	22,236
EBITDA	28,065	31,551
Amortization	11,985	12,948
Interest	6,255	7,571
EBT	9,825	11,033
PILs	3,644	3,713
NET INCOME	**6,181**	**7,320**

Note: 2010 Test Year at new rates uses deemed interest and regulatory PILs and assumes calendar year = rate year

VERIDIAN CONNECTIONS INC.
PRO-FORMA BALANCE SHEET

	2009 Bridge Year	2010 Test Year (at new rates)
ASSETS	($000's)	($000's)
Current Assets	75,037	65,505
Non-Current Assets		
Regulatory Assets	11,010	500
Other non-current assets	41	41
Gross Capital Assets	312,319	344,707
Accumulated Amortization	(170,263)	(183,912)
Goodwill	8,746	8,746
Total Assets	**236,890**	**235,587**
LIABILITIES AND EQUITY		
Current Liabilities	50,663	50,663
Regulatory Liabilities	17,244	8,622
Long Term Debt	85,910	85,910
Other	6,039	6,039
Shareholder's Equity		
Share Capital	64,326	64,326
Retained Earnings	12,708	20,028
Total Liabilities and Equity	**236,890**	**235,587**

8. Ref: Exhibit 1 / Tab 2 / Schedule 1

Request

(a) Page 4. Please provide any plan or other document, if not already included in the filing, detailing the plan or approach in place or expected to be put in place to achieve standardization and/or modernization of the assets in the distribution system.

(b) Pages 7-11. Please update Tables 1 through 4 to be consistent with the Board's Report on Cost of Capital dated December 11, 2009, using the most recent information available for the calculation of all components of the cost of capital and PILs.

Response:

The amount of Veridian's Revenue Requirement for the 2010 Test Year has changed as a result of Veridian's Application Update. This interrogatory has been answered on the basis of the updated values.

(a) No over-arching formal and specific document exists for this effort. Veridian attempts to achieve maximum useful life from all of its assets and does not arbitrarily replace plant only for modernization or standardization purposes. Such advancements are being achieved through centralized engineering and procurement, and through the application of new standards when possible whenever work is performed.

(b) Veridian provides here updates to Tables 1 through 4 to be consistent with the Board's Report on Cost of Capital dated December 11th, 2009. Veridian has used the most recent information available for calculation of all components of the cost of capital as follows;

- ROE – 9.75% - As per the value published in the referenced report.
- Deemed Debt Rate – 7.62 % - Veridian has not updated its proposed cost of debt from that originally filed. No value for the deemed debt rate was published in the referenced report and Veridian is unable to calculate an estimate of an updated debt rate as it does not have access to the referenced sources of information.

Veridian notes that any changes in net income provided in this response are not representative of the total changes or impacts anticipated by the Board's referenced report as Veridian's proposed long term debt rate was based on the Board's deemed debt rate. Veridian used the 2009 deemed debt rate of 7.62% as a placeholder, however Veridian expects that the 2010 deemed debt rate will be lower than 7.62%.

Revised Table 1: Test Year Deficiency

Cost of Capital		
Rate Base	187,675,529	
Requested Rate of Return	7.93%	14,890,342
Cost of Service		
OM&A Expenses	22,236,324	
Amortization	12,947,743	
Payment in Lieu of Taxes (PILs)	3,713,078	38,897,145
Service Revenue Requirement		53,787,487
Less: Revenue Offsets		(4,218,100)
Distribution Revenue Requirement		49,569,387
Distribution Revenue at Existing Rates		43,890,892
Revenue Deficiency		(5,678,495)

Revised Table 2: Rate Base Summary

($000's)	2006 Board Approved	2006 Actual	2007 Actual	2008 Actual	2009 Forecast	2010 Forecast
Net Fixed Assets	$ 116,743	$ 115,666	$ 124,952	$ 134,660	$ 143,355	$ 154,748
Working Capital Allowance	$ 27,417	$ 29,967	$ 31,438	$ 30,837	$ 32,349	$ 32,928
Total Rate Base	**$ 144,160**	**$ 145,633**	**$ 156,390**	**$ 165,497**	**$ 175,704**	**$ 187,676**

Revised Table 3 – Summary OM&A Expenses ($000)

	2006 Board Approved	2006 Actual	2007 Actual	2008 Actual	2009 Forecast	2010 Forecast
Operations	2,592	3,337	3,492	3,717	3,976	4,191
Maintenance	2,281	2,541	1,731	1,941	2,311	2,838
O & M Total	4,873	5,878	5,222	5,659	6,287	7,029
Administration	14,861	13,536	12,407	13,930	13,742	15,207
Total O M & A Expenses	19,734	19,413	17,629	19,589	20,029	22,236
$ Change		(321)	(1,784)	1,960	439	2,208
%age Change		-1.63%	-9.19%	11.12%	2.24%	11.02%
%age Change 2006 Board Approved to 2010 Forecast						12.68%
Annual Average % Change 2006 Board Approved to 2010 Forecast						2.11%

Note: Based on 6 years as 2006 Board Approved is 2004 Actuals)

Revised Table 4: Proposed Capital Structure and Cost of Capital

	Test Year 2010			
	Deemed Capitalization Ratio		Cost Rate	Return
	(%)	($000)	(%)	($000)
Long Term Debt	56.00%	105,098	7.11%	7,471
Short Term Debt	4.00%	7,507	1.33%	100
Total Debt	60.00%	112,605	6.72%	7,571
Common Equity	40.00%	75,070	9.75%	7,319
Total	100.00%	187,676	7.93%	14,890

9. Ref: Exhibit 1 / Tab 2 / Schedule 2

With respect to the Applicant's 2010 capital and operating budgets:

Request

(a) Page 1. Please file the 2010 capital and operating budgets that were presented to the Applicant's Board of Directors for approval, together with all materials (such as supporting schedules, powerpoints, memos, explanatory notes, etc.) used in describing or supporting the budgets or obtaining approval for them. If the formal process includes presentation to, or approval by, the Audit and Finance Committee, or any other committee, of the Board of Directors, please file the materials provided to that committee, if different from what was provided to the Board of Directors.

(b) Page 1. In the event that the 2010 capital and operating budgets do not yet have Board of Directors approval, please advise the planned date that such approval will be sought, and any other components of the budgeting schedule that are not described in this exhibit.

Response:

(a) Veridian declines this request on the basis of relevance. Veridian filed its 2010 capital and operating budgets as evidence in support of just and reasonable distribution rates. The budgets have been supported by extensive evidence that demonstrates the prudence of the underlying costs. That evidence complies with the OEB's filing requirements, and the OEB is able to make a ruling on the Application with the evidence before it. The OEB has issued many decisions without budgets presented to Boards of Directors, along with supporting schedules, powerpoints, memos, explanatory notes, etc. The reason for this is that prudence can establish based on the information required by the Board's filing requirements. If capital and operating budgets presented to an Applicant's Board of Directors for approval, together with all materials (such as supporting schedules, powerpoints, memos, explanatory notes, etc.) were truly relevant, we believe that the OEB would require that such materials be filed as part of its filing requirements. Rather, the OEB's filing requirements only require Applicants to file the following statement with respect to budget approval by Boards of Directors:

"A statement is to be provided as to when the forecast was prepared and when it was approved by utility management and/or Board of Directors for use in the application"

Veridian provides this information at Exhibit 1, Tab 2, Schedule 2, page 1, lines 20-26.

Subsequently, the 2010 operating and capital budgets were approved by Veridian's Board of Directors on December 17th, 2009.

(b) Not applicable.

10. Ref: Exhibit 1 / Tab 2 / Schedule 4

With respect to the Revenue Requirement Work Form:

Request

(a) Please re-run all pages of the Revenue Requirement Work Form using updated values consistent with the Board's Report on Cost of Capital dated December 11, 2009. Please use the most recent information available for the calculation of all components of the cost of capital and PILs.

(b) Page 7. Please provide a table in the form set out on page 7, setting out the calculation of the deficiency for each of 2007 and 2008, using actual figures, and 2009, using the most recent forecast data, all using the tax rates, equity component, and cost of capital rates applicable to those years.

(c) Page 7. Please reconcile the numbers on this table with the Table at Ex. 6/1/2, page 2.

Response:

The amount of Veridian's Revenue Requirement for the 2010 Test Year and proposed Tariff of Rates and Charges has changed as a result of Veridian's Application Update. This interrogatory has been answered on the basis of the updated values.

(a) Veridian provides as Attachments 1 and 2 re-run versions of the Revenue Requirement Work Form and the Addendum using updated values consistent with the Board's Report on Cost of Capital dated December 11th, 2009. Veridian has used the most recent information available for calculation of all components of the cost of capital as follows;

- ROE – 9.75% - As per the value published in the referenced report.
- Deemed Debt Rate – 7.62 % - Veridian has not updated its proposed cost of debt from that originally filed. No value for the deemed debt rate was published in the referenced report and Veridian is unable to calculate an estimate of an updated debt rate as it does not have access to the referenced sources of information.

Veridian notes that any changes in revenue requirement provided in this response are not representative of the total changes or impacts anticipated by the Board's referenced report as Veridian's proposed long term debt rate was based on the Board's deemed debt rate. Veridian used the 2009 deemed debt rate of 7.62% as a placeholder, however Veridian expects that the 2010 deemed debt rate will be lower than 7.62%.

(b) The requested table is provided as Attachment 3.

(c) A reconciliation of page 7 of the Updated Revenue Requirement Work Form provided in Veridian's Application Update and Table 2: Test Year Revenue Deficiency provided in Veridian's Application Update is provided as Attachment 4.

REVENUE REQUIREMENT WORK FORM

Name of LDC: Veridian Connections Inc. (1)

File Number: EB-2009-0140

Rate Year: 2010

Version: *1.0*

Table of Content

Notes:

(1) Pale green cells represent inputs

(2) ***Please note that this model uses MACROS. Before starting, please ensure that macros have been enabled.***

REVENUE REQUIREMENT WORK FORM

Name of LDC: Veridian Connections Inc.
File Number: EB-2009-0140
Rate Year: 2010

Ontario

		Data Input				(1)
		Application		**Adjustments**	**Per Board Decision**	
1	**Rate Base**					
	Gross Fixed Assets (average)	$331,835,322	**(4)**		$331,835,322	
	Accumulated Depreciation (average)	($177,087,447)	**(5)**		($177,087,447)	
	Allowance for Working Capital:					
	Controllable Expenses	$22,236,324	(6)		$22,236,324	
	Cost of Power	$197,281,376			$197,281,376	
	Working Capital Rate (%)	15.00%			15.00%	
2	**Utility Income**					
	Operating Revenues:					
	Distribution Revenue at Current Rates	$43,890,892				
	Distribution Revenue at Proposed Rates	$49,569,387				
	Other Revenue:					
	Specific Service Charges	$1,772,300				
	Late Payment Charges	$618,650				
	Other Distribution Revenue	$983,000				
	Other Income and Deductions	$844,150				
	Operating Expenses:					
	OM+A Expenses	$22,236,324			$22,236,324	
	Depreciation/Amortization	$12,947,743			$12,947,743	
	Property taxes					
	Capital taxes	$259,013				
	Other expenses					
3	**Taxes/PILs**					
	Taxable Income:					
	Adjustments required to arrive at taxable income	$81,498	**(3)**			
	Utility Income Taxes and Rates:					
	Income taxes (not grossed up)	$2,348,764				
	Income taxes (grossed up)	$3,454,065				
	Capital Taxes	$259,013				
	Federal tax (%)	18.00%				
	Provincial tax (%)	14.00%				
	Income Tax Credits					
4	**Capitalization/Cost of Capital**					
	Capital Structure:					
	Long-term debt Capitalization Ratio (%)	56.0%				
	Short-term debt Capitalization Ratio (%)	4.0%	**(2)**			**(2)**
	Common Equity Capitalization Ratio (%)	40.0%				
	Prefered Shares Capitalization Ratio (%)					
					Capital Structure must total 100%	
	Cost of Capital					
	Long-term debt Cost Rate (%)	7.11%				
	Short-term debt Cost Rate (%)	1.33%				
	Common Equity Cost Rate (%)	9.75%				
	Prefered Shares Cost Rate (%)					

Notes:

This input sheet provides all inputs needed to complete sheets 1 through 6 (Rate Base through Revenue Requirement), except for Notes that the utility may wish to use to support the components. Notes should be put on the applicable pages to understand the context of each such note.

(1) All inputs are in dollars ($) except where inputs are individually identified as percentages (%)
(2) 4.0% unless an Applicant has proposed or been approved for another amount.
(3) Net of addbacks and deductions to arrive at taxable income.
(4) Average of Gross Fixed Assets at beginning and end of the Test Year
(5) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.

REVENUE REQUIREMENT WORK FORM

Name of LDC: Veridian Connections Inc.
File Number: EB-2009-0140
Rate Year: 2010

Ontario

Rate Base

Line No.	Particulars		Application	Adjustments	Per Board Decision
1	Gross Fixed Assets (average)	(3)	$331,835,322	$ -	$331,835,322
2	Accumulated Depreciation (average)	(3)	($177,087,447)	$ -	($177,087,447)
3	Net Fixed Assets (average)	(3)	$154,747,875	$ -	$154,747,875
4	Allowance for Working Capital	(1)	$32,927,655	$ -	$32,927,655
5	**Total Rate Base**		$187,675,530	$ -	$187,675,530

	(1) Allowance for Working Capital - Derivation				
6	Controllable Expenses		$22,236,324	$ -	$22,236,324
7	Cost of Power		$197,281,376	$ -	$197,281,376
8	Working Capital Base		$219,517,700	$ -	$219,517,700
9	Working Capital Rate %	(2)	15.00%		15.00%
10	Working Capital Allowance		$32,927,655	$ -	$32,927,655

Notes

(2) Generally 15%. Some distributors may have a unique rate due as a result of a lead-lag study.
(3) Average of opening and closing balances for the year.

REVENUE REQUIREMENT WORK FORM

Name of LDC: Veridian Connections Inc.
File Number: EB-2009-0140
Rate Year: 2010

Line No.	Particulars		Utility income: Application	Utility income: Adjustments	Utility income: Per Board Decision
	Operating Revenues:				
1	Distribution Revenue (at Proposed Rates)		$49,569,387	$ -	$49,569,387
2	Other Revenue	(1)	$4,218,100	$ -	$4,218,100
3	Total Operating Revenues		$53,787,487	$ -	$53,787,487
	Operating Expenses:				
4	OM+A Expenses		$22,236,324	$ -	$22,236,324
5	Depreciation/Amortization		$12,947,743	$ -	$12,947,743
6	Property taxes		$ -	$ -	$ -
7	Capital taxes		$259,013	$ -	$259,013
8	Other expense		$ -	$ -	$ -
9	Subtotal		$35,443,080	$ -	$35,443,080
10	Deemed Interest Expense		$7,572,332	$ -	$7,572,332
11	Total Expenses (lines 4 to 10)		$43,015,412	$ -	$43,015,412
12	**Utility income before income taxes**		$10,772,075	$ -	$10,772,075
13	Income taxes (grossed-up)		$3,454,065	$ -	$3,454,065
14	**Utility net income**		$7,318,010	$ -	$7,318,010

Notes

(1)

Other Revenues / Revenue Offsets	Application	Per Board Decision
Specific Service Charges	$1,772,300	$1,772,300
Late Payment Charges	$618,650	$618,650
Other Distribution Revenue	$983,000	$983,000
Other Income and Deductions	$844,150	$844,150
Total Revenue Offsets	$4,218,100	$4,218,100

REVENUE REQUIREMENT WORK FORM

Name of LDC: Veridian Connections Inc.
File Number: EB-2009-0140
Rate Year: 2010

Ontario

Taxes/PILs

Line No.	Particulars	Application	Per Board Decision
	Determination of Taxable Income		
1	Utility net income	$7,319,346	$7,319,346
2	Adjustments required to arrive at taxable utility income	$81,498	$81,498
3	Taxable income	$7,400,844	$7,400,844
	Calculation of Utility income Taxes		
4	Income taxes	$2,348,764	$2,348,764
5	Capital taxes	$259,013	$259,013
6	Total taxes	$2,607,777	$2,607,777
7	Gross-up of Income Taxes	$1,105,301	$1,105,301
8	Grossed-up Income Taxes	$3,454,065	$3,454,065
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	$3,713,078	$3,713,078
10	Other tax Credits	$ -	$ -
	Tax Rates		
11	Federal tax (%)	18.00%	18.00%
12	Provincial tax (%)	14.00%	14.00%
13	Total tax rate (%)	32.00%	32.00%

Notes

REVENUE REQUIREMENT WORK FORM

Name of LDC: Veridian Connections Inc.
File Number: EB-2009-0140
Rate Year: 2010

Capitalization/Cost of Capital

Line No.	Particulars	Capitalization Ratio (%)	Capitalization Ratio ($)	Cost Rate (%)	Return ($)
	Application				
	Debt				
1	Long-term Debt	56.00%	$105,098,297	7.11%	$7,472,489
2	Short-term Debt	4.00%	$7,507,021	1.33%	$99,843
3	**Total Debt**	60.00%	$112,605,318	6.72%	$7,572,332
	Equity				
4	Common Equity	40.00%	$75,070,212	9.75%	$7,319,346
5	Preferred Shares	0.00%	$ -	0.00%	$ -
6	**Total Equity**	40.00%	$75,070,212	9.75%	$7,319,346
7	**Total**	100%	$187,675,530	7.93%	$14,891,678
	Per Board Decision				
	Debt				
8	Long-term Debt	56.00%	$105,098,297	7.11%	$7,472,489
9	Short-term Debt	4.00%	$7,507,021	1.33%	$99,843
10	**Total Debt**	60.00%	$112,605,318	6.72%	$7,572,332
	Equity				
11	Common Equity	40.0%	$75,070,212	9.75%	$7,319,346
12	Preferred Shares	0.0%	$ -	0.00%	$ -
13	**Total Equity**	40.0%	$75,070,212	9.75%	$7,319,346
14	**Total**	100%	$187,675,530	7.93%	$14,891,678

Notes

(1) 4.0% unless an Applicant has proposed or been approved for another amount.

REVENUE REQUIREMENT WORK FORM

Name of LDC: Veridian Connections Inc.
File Number: EB-2009-0140
Rate Year: 2010

Ontario

Revenue Sufficiency/Deficiency

Line No.	Particulars	Per Application: At Current Approved Rates	Per Application: At Proposed Rates	Per Board Decision: At Current Approved Rates	Per Board Decision: At Proposed Rates
1	Revenue Deficiency from Below		$5,708,516		$5,708,516
2	Distribution Revenue	$43,890,892	$43,860,871	$43,890,892	$43,860,871
3	Other Operating Revenue Offsets - net	$4,218,100	$4,218,100	$4,218,100	$4,218,100
4	**Total Revenue**	$48,108,992	$53,787,487	$48,108,992	$53,787,487
5	Operating Expenses	$35,443,080	$35,443,080	$35,443,080	$35,443,080
6	Deemed Interest Expense	$7,572,332	$7,572,332	$7,572,332	$7,572,332
	Total Cost and Expenses	$43,015,412	$43,015,412	$43,015,412	$43,015,412
7	**Utility Income Before Income Taxes**	$5,093,580	$10,772,075	$5,093,580	$10,772,075
8	Tax Adjustments to Accounting Income per 2009 PILs	$81,498	$81,498	$81,498	$81,498
9	**Taxable Income**	$5,175,078	$10,853,573	$5,175,078	$10,853,573
10	Income Tax Rate	32.00%	32.00%	32.00%	32.00%
11	**Income Tax on Taxable Income**	$1,656,025	$3,473,143	$1,656,025	$3,473,143
12	**Income Tax Credits**	$ -	$ -	$ -	$ -
13	**Utility Net Income**	$3,437,555	$7,318,010	$3,437,555	$7,318,010
14	**Utility Rate Base**	$187,675,530	$187,675,530	$187,675,530	$187,675,530
	Deemed Equity Portion of Rate Base	$75,070,212	$75,070,212	$75,070,212	$75,070,212
15	Income/Equity Rate Base (%)	4.58%	9.75%	4.58%	9.75%
16	Target Return - Equity on Rate Base	9.75%	9.75%	9.75%	9.75%
	Sufficiency/Deficiency in Return on Equity	-5.17%	0.00%	-5.17%	0.00%
17	Indicated Rate of Return	5.87%	7.93%	5.87%	7.93%
18	Requested Rate of Return on Rate Base	7.93%	7.93%	7.93%	7.93%
19	Sufficiency/Deficiency in Rate of Return	-2.07%	0.00%	-2.07%	0.00%
20	Target Return on Equity	$7,319,346	$7,319,346	$7,319,346	$7,319,346
21	Revenue Sufficiency/Deficiency	$3,881,791	($1,336)	$3,881,791	($1,336)
22	**Gross Revenue Sufficiency/Deficiency**	$5,708,516 **(1)**		$5,708,516 **(1)**	

Notes:
(1) Revenue Sufficiency/Deficiency divided by (1 - Tax Rate)

Ontario

REVENUE REQUIREMENT WORK FORM

Name of LDC: Veridian Connections Inc.
File Number: EB-2009-0140
Rate Year: 2010

Line No.	Particulars	Revenue Requirement	
		Application	Per Board Decision
1	OM&A Expenses	$22,236,324	$22,236,324
2	Amortization/Depreciation	$12,947,743	$12,947,743
3	Property Taxes	$ -	$ -
4	Capital Taxes	$259,013	$259,013
5	Income Taxes (Grossed up)	$3,454,065	$3,454,065
6	Other Expenses	$ -	$ -
7	Return		
	Deemed Interest Expense	$7,572,332	$7,572,332
	Return on Deemed Equity	$7,319,346	$7,319,346
8	Distribution Revenue Requirement before Revenues	$53,788,823	$53,788,823
9	Distribution revenue	$49,569,387	$49,569,387
10	Other revenue	$4,218,100	$4,218,100
11	**Total revenue**	$53,787,487	$53,787,487
12	**Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)**	($1,336) **(1)**	($1,336) **(1)**

Notes

(1) Line 11 - Line 8

REVENUE REQUIREMENT WORK FORM

Name of LDC: Veridian Connections Inc.
File Number: EB-2009-0140
Rate Year: 2010

		Selected Delivery Charge and Bill Impacts Per Draft Rate Order							
		Monthly Delivery Charge				**Total Bill**			
		Current	Per Draft Rate Order	Change $	Change %	Current	Per Draft Rate Order	Change $	Change %
Residential	**800 kWh/month**	$ 30.39	$ 30.37	-$ 0.02	-0.1%	$ 91.25	$ 91.23	-$ 0.02	0.0%
GS < 50kW	**2000** kWh/month	$ 64.48	$ 59.50	-$ 4.98	-7.7%	$ 223.38	$ 218.40	-$ 4.98	-2.2%

Notes:

Provided for Veridian_Main Classes Only as no mechanism exists within the model to add rows for Veridian_Gravenhurst classes

Revenue Requirement Work Form
Name of LDC: Veridian Connections Inc.
File Number: EB-2009-0140
Rate Year: 2010

		Selected Delivery Charge and Bill Impacts Per Draft Rate Order								
		Monthly Delivery Charge					**Total Bill**			
		Current	Per Draft Rate	Change $	Change %		Current	Per Draft Rate	Change $	Change %
Residential - Urban	**800 kWh/month**	$ 34.44	$ 42.48	$ 8.04	23.3%		$ 97.77	$ 106.56	$ 8.79	9.0%
Residential - Suburban	**800 kWh/month**	$ 38.61	$ 48.20	$ 9.59	24.8%		$ 101.94	$ 112.28	$ 10.34	10.1%
Residential - Seasonal	**800 kWh/month**	$ 58.63	$ 71.97	$ 13.34	22.8%		$ 121.96	$ 136.05	$ 14.09	11.6%
GS < 50kW	**2000** kWh/month	$ 69.85	$ 87.20	$ 17.35	24.8%		$ 234.92	$ 254.23	$ 19.31	8.2%

Notes:

Veridian Gravenhurst provided here as no lines could be added to Revenue Requirement Work Form

Veridian_SEC_IRR_10-Attachment 3

Line No.	Particulars	2007	2008	2009	Evidence Reference
1	Revenue Deficiency from Below				
2	Distribution Revenue	$41,218,549	$41,541,561	$41,207,818	Ex 3/ Tab 2 / Sched 1 / page 1
3	Other Operating Revenue Offsets - net	$4,963,332	$5,180,575	$4,431,600	Ex 3/ Tab 8 / Sched 1 / page 1
4	**Total Revenue**	$46,181,881	$46,722,136	$45,639,418	
5	Operating Expenses	$17,629,146	$19,589,207	$20,028,558	Ex 4/ Tab 2 / Sched 1 / Attachment 3
5a	Capital Taxes	$449,707	$398,080	$361,583	Ex 4/Tab 9/ Sched 5/ page 1
5b	Amortization	$10,006,000	$11,086,000	$11,985,000	Ex 4/ Tab 8 / Sched 3 / page 1
6	Deemed Interest Expense	$6,537,102	$7,232,219	$8,012,102	Line 14 X (1- Line 15) X Deemed Debt Rate
	Total Cost and Expenses	$34,621,955	$38,305,506	$40,387,243	
7	**Utility Income Before Income Taxes**	$11,559,926	$8,416,630	$5,252,175	
8	Tax Adjustments to Accounting Income per PILs	$ -	$ -	$ -	Not Available, Assumed as zero
9	**Taxable Income**	$11,559,926	$8,416,630	$5,252,175	
10	Income Tax Rate	36.12%	33.50%	33.00%	
11	**Income Tax on Taxable Income**	$4,175,445	$2,819,571	$1,733,218	
12	**Income Tax Credits**	($19,506)	($19,506)	($19,506)	Not Available, assume Test Year Levels
13	**Utility Net Income**	$7,403,987	$5,616,565	$3,538,463	
14	**Utility Rate Base**	$156,390,000	$165,497,000	$175,704,000	
	Deemed Equity Portion of Rate Base	$70,375,500	$70,336,225	$70,281,600	
**	Deemed Debt Rate	7.6%	7.6%	7.6%	
15	Income/Equity Rate Base (%)	45.00%	42.50%	40.00%	
16	Target Return - Equity on Rate Base	9.00%	9.00%	9.00%	
	Sufficiency/Deficiency in Return on Equity	36.00%	33.50%	31.00%	
17	Indicated Rate of Return	8.91%	7.76%	6.57%	
18	Requested Rate of Return on Rate Base	8.23%	8.20%	8.16%	
19	Sufficiency/Deficiency in Rate of Return	0.68%	-0.43%	-1.59%	
20	Target Return on Equity	$6,333,795	$6,330,260	$6,325,344	
21	Revenue Sufficiency/(Deficiency)	$1,070,192	($713,695)	($2,786,881)	
22	**Gross Revenue Sufficiency/Deficiency**	$1,675,316	($1,073,226)	($4,159,524)	

Note: Lines 5a,5b and ** added for clarity

Veridian_SEC IRR#10 - Attachment 4

Reconciliation of Revenue Requirement Work Form and Table 2: Test Yar Revenue Deficiency

	As per Revenue Requirement Work Form		As per Table 2		
	At Current Rates	**At Proposed Rates**	**At Current Rates**	**At Proposed Rates**	
Revenue Deficiency from Below		3,758,916		3,757,603	
Distribution Revenue	43,890,892	43,889,556	43,890,892	43,890,892	
Other Operating Revenue Offsets - net	4,218,100	4,218,100	4,218,100	4,218,100	
Total Revenue	48,108,992	51,866,572	48,108,992	51,866,595	
Operating Expenses	35,443,080	35,443,080	35,184,067	35,184,067	*Capital Taxes
Deemed Interest Expense	7,572,332	7,572,332	7,570,996	7,570,996	** In Requested Return
Total Cost and Expenses	43,015,412	43,015,412	42,755,063	42,755,063	
Utility Income Before Income Taxes	5,093,580	8,851,160	5,353,929	9,111,532	
Tax Adjustments to Accounting					
Income per 2009 PILs	81,498	81,498		81,498	
Taxable Income	5,175,078	8,932,658		9,193,030	
Income Tax Rate	32%	32%		32%	
Income Tax on Taxable Income	1,656,025	2,858,450		3,098,385	***PILs
Income Tax Credits	(19,506)	(19,506)			
Utility Net Income	3,457,061	5,983,102		6,013,147	
Utility Rate Base	187,675,530	187,675,530	187,675,529	187,675,529	
Deemed Equity Portion of Rate Base	75,070,212	75,070,212	75,070,212	75,070,212	
Income/Equity Rate Base (%)	4.61%	7.97%		8.01%	
Target Return - Equity on Rate Base	8.01%	8.01%	8.01%	8.01%	
Sufficiency/Deficiency in Return on Equity	-3.40%	-0.04%			
Indicated Rate of Return	5.88%	7.22%		7.24%	
Requested Rate of Return on Rate Base	7.24%	7.24%	7.24%	7.24%	
Sufficiency/Deficiency in Rate of Return	-1.36%	-0.02%			
Target Return on Equity	6,013,124	6,013,124		6,013,147	
Revenue Sufficiency/Deficiency	2,556,063	(30,022)			
Gross Revenue Sufficiency/Deficiency	3,758,916	-			

Notes:

* - Capital Tax included in PILs in Table 3

** - Return of $13,584,142

Deemed Interest	7,570,996
Return	6,013,124
	13,584,120

*** - PILs of $3,098,385

PILs grossed up	2,839,372
Capital Tax	259,013

11. Ref: Exhibit 2 / Tab 2 / Schedule 1 / Page 2

Request

Please confirm that the Applicant is proposing an increase in rate base from 2006 actual to 2010 budget of 27.8%, and that this is a compounded annual increase of 6.3% per year.

Response:

Veridian understands the correct reference for this interrogatory to be Exhibit 2, Tab 1, Schedule 1, page 2 and has answered on this basis.

The amount of Veridian's forecast capital expenditures for the 2010 Test Year has changed as a result of Veridian's Application Update. This interrogatory has been answered on the basis of the updated values.

Below is a revised version of Table 1:Summary of Rate Base – 2006 Board Approved to 010 (000's).

REVISED Table 1: Summary of Rate Base - 2006 Board Approved to 2010 - ($000's)

	2006 Board Approved			2006 Actual	2007 Actual	2008 Actual	2009 Forecast	2010 Forecast
	VC_Scugog	VC_Gravenhurst	Total					
Net Fixed Assets	*$ 109,727*	*$ 7,016*	$ 116,743	$ 115,666	$ 124,952	$ 134,660	$ 143,355	$ 154,748
Cost of Power	*$ 154,321*	*$ 6,444*	$ 160,765	$ 180,367	$ 191,960	$ 185,991	$ 195,629	$ 197,281
Controllable Expenses	*$ 20,320*	*$ 1,698*	$ 22,018	$ 19,413	$ 17,629	$ 19,589	$ 20,029	$ 22,236
Total for Working Capital Allowance	*$ 174,641*	*$ 8,142*	$ 182,783	$ 199,780	$ 209,589	$ 205,580	$ 215,657	$ 219,518
15%	*$ 26,196*	*$ 1,221*	$ 27,417	$ 29,967	$ 31,438	$ 30,837	$ 32,349	$ 32,928
Total Rate Base	***$ 135,923***	***$ 8,237***	**$ 144,160**	**$ 145,633**	**$ 156,390**	**$ 165,497**	**$ 175,704**	**$ 187,676**

%age change in Rate Base - 2006 Board Approved to 2010	30.2%
Annual %age change (using 6 year period as 2006 Board Approved is based on 2004 values)	5.0%

Using the updated values in the revised Table 1 above, Veridian calculates the increase in rate base from 2006 actual to 2010 budget as 28.9%, a 6.5% compounded annual increase.

12. Ref: Exhibit 2 / Tab 2 / Schedule 2 / Attachment

Request

Please explain why the accumulated amortization of account 1808 did not increase from 2006 actual to 2008 actual, but once more started to increase with 2009 and 2010 forecasts.

Response:

For internal recording keeping, the accumulated amortization of accounts 1808, 1908 and 1910 are calculated separately, but grouped together on continuity schedules and shown under account 1908. The continuity schedules provided at Exhibit 2, Tab 2, Schedule 2, Attachment 1included this grouping practice from Veridian's internal use continuity schedules for 2007 and 2008. For clarity in the bridge and test years, the amortization for these accounts was shown separately.

Provided below is a summary showing the total accumulated amortization across the 3 accounts for 2007 and 2008.

From Ex 2/Tab 2/Sch 2/Attachment Accumulated Amortization	As Filed 2007 Ending	Restated 2007 Ending	As Filed 2008 Ending	Restated 2008 Ending
1808-Building & Fixtures	$ (471,244)	$ (481,702)	$ (471,244)	$ (492,159)
1908-Building &Fixtures	$ (2,642,994)	$ (2,506,226)	$ (2,926,911)	$ (2,700,984)
1910-Leasehold Improvements	$ (500,714)	$ (627,025)	$ (500,714)	$ (705,726)
Total	$ (3,614,952)	$ (3,614,952)	$ (3,898,869)	$ (3,898,869)

13. Ref: Exhibit 2 / Tab 2 / Schedule 2 / Page 5

With respect to Table 1:

Request

(a) Please advise whether the first column is 2006 Board Approved or 2006 Actual.

(b) Please add two rows to the bottom of Table 1:

i. Net investment after deducting contributed capital; and

ii. Net additions to rate base.

Response:

The amount of Veridian's forecast capital expenditures for the 2010 Test Year has changed as a result of Veridian's application update. This interrogatory has been answered on the basis of the updated values.

(a) The first column is 2006 Actual.

(b) A revision to Table 1 with the requested two rows is below.

Revised Table 1 - Ex2/2/3, page 5

	2006	2007	2008	2009	2010	2011	2012
Total Investment	22,447	20,920	23,934	19,877	***29,271***	22,722	21,726
Less: Contributed Capital	(7,320)	(5,813)	(6,968)	(3,301)	*(3,527)*	(2,245)	(2,880)
Net Investment after deducting Contributed Capital	**15,127**	**15,107**	**16,966**	**16,576**	***25,744***	**20,477**	**18,846**
Less: Non Rate Base Investment		(196)	(162)				
Adj: SM Variance Account entries			1,444				
Net additions to Rate Base	**15,127**	**14,911**	**18,248**	**16,576**	***25,744***	**20,477**	**18,846**

Note:
2010 Forecast show updated values to reflect 2010 capital expenditures as per Veridian's Application Update related to its Ajax Facility Expansion Project.

14. Ref: Exhibit 2 / Tab 3 / Schedule 2

With respect to Fleet capital spending:

Request

(a) Page 3. Please provide details of any changes since 2006 to the replacement cycles set out in Table 2.

(b) Page 5. Please explain the meaning of "2006 Board approved to 2006 Actual".

(c) Page 5. Please reconcile the figure of \$823,000 in Table 3 with the figure of \$665,000 in Ex. 2/2/3, p. 5.

(d) Page 5. Please show the calculation of the figure \$1.34 million on line 17.

(e) Page 8. Please provide a table showing the number of staff having their primary place of work at the Ajax facility for each of the years 2006 through 2010 inclusive. Please break the numbers down into executive, management, non-union and union categories if possible.

Response:

(a) There have been no changes to the replacement cycles as shown in Table 2.

(b) This column represents the change in value in Fleet assets from the values included in the 2006 Board Approved rate base to the 2006 Actuals. 2006 Board Approved values were based on the 2004 historic test year.

(c) The amount of \$665,000 in Exhibit 2, Tab 2, Schedule 3, page 5 is the amount of Fleet spending in 2006. The amount of \$823,000 is, as explained in (b) above, the change in the value in Fleet assets from the 2006 Board approved level to the 2006 Actuals. As 2006 Board Approved is based on the 2004 historic test year, \$823,000 represents Fleet spending in 2005 and 2006.

(d) The calculation for the average fleet spend from 2006 to 2008 is (\$665,000 + \$1,602,000 + \$773,000 = \$3,040,000/3 = \$1,013,333). The value on line 17 was incorrectly stated and should read the average fleet spend from 2006 to 2008 was \$1,013,333.

(e) This interrogatory has been answered consistent with the changes that have been presented in Veridian's Application Update. The following table shows the number of staff having their primary place of work at the Ajax facility for the years 2006 through 2010 forecast.

Veridian Connections Inc.
Year End Headcount - Ajax as Primary Place of Work

Position Category	2006 (actual)	2007 (actual)	2008 (actual)	2009 (actual)	2010 (forecast)
Executive	3	3	3	3	5
Management	16	16	20	26	37
Non-Union	11	11	15	16	26
Unionized	57	63	65	68	123
Part time	1	1	1	1	15
Students	0	0	0	3	3
Total	88	94	104	117	209

2010 includes 69 employees that will be relocated from Veridian's Pickering location to Ajax. Veridian forecasts that these employees will be transferred in December 2010 coincident with the completion of the Ajax building expansion.

15. Ref: Exhibit 2 / Tab 4 / Schedule 2

With respect to the capital plan:

Request

(a) Please advise which of the 2010 capital projects could be deferred until subsequent years in order to smooth the capital spending plans and reduce the high level in 2010 relative to the years before and after.

(b) Please advise why none of the projects appear to continue over the end of a calendar year. Please identify those projects that are expected to do so. Please advise the amount expected to be in CWIP at the end of the calendar year with respect to each such project on this list.

Response:

(a) None of the projects planned for 2010 can be deferred as they are all needed in that year. However, the following two 2010 projects will be deferred beyond the Test Year as a result of postponements by the requesting parties:

- Bayly Street Rebuild, Ajax: Ex 2, Tab 5, Schedule 1, Page 34 (postponed by Region of Durham); and

- Westney Road Rebuild, Ajax: Ex 2, Tab 5, Schedule 1, Page 35 (postponed by the Region of Durham).

It should be noted that although these two projects will be deferred beyond the Test Year, other projects will be carried over from 2009 to 2010. This is explained in the response to Energy Probe interrogatory number 4. As a result, capital spending in the Test Year will not be reduced by the two deferred projects.

(b) As illustrated by the response to Energy Probe interrogatory number 4, some projects do carry-over the calendar year. There will be no CWIP though, since the portions of the projects completed in each calendar year will be used and useful in that year.

16. Ref: Exhibit 2 / Tab 5 / Schedule 4 / Page 4

With respect to the expansion and improvements of the Ajax facility:

Request

(a) Please file the existing project plan, as well as any business case.

(b) Please file the detailed cost breakdown as soon as it is available.

(c) Please describe how the renovations and other spending on the Ajax facility in 2009 are not duplicative of the major work to be done in 2010, and how the two projects fit together.

(d) Please confirm that these costs will be added to account 1908, and that the amortization rate applicable is 2% per annum.

Response:

(a) See Veridian's Application Update – Amended Building Expansion for details of the Ajax facility project plan.

(b) See Veridian's Application Update – Amended Building Expansion for details of the Ajax facility project plan Veridian's application update.

(c) See the response to Consumers Council of Canada's interrogatory number 7 for details regarding the 2009 improvements to the Ajax facility.

The expansion planned for 2010 and explained in Veridian's Application Update is a two story structure that will be constructed adjacent to the footprint of the existing building. While it will be connected to the existing building, it will have minimal impact on the existing infrastructure.

The 2009 upgrades are preparatory in nature and planned to improve the current facilities to accommodate the larger employee base expected in the future.

(d) The building component costs for the expansion will be charged to account 1908 and will amortized over the remaining life of the Ajax facility. The Ajax facility is being amortized over 50 years to the year 2041.

17. Ref: Exhibit 2 / Tab 9 / Schedule 3

With respect to capitalization of overheads:

Request

(a) Pages 1, 3. Please provide the stores overhead percentage, the base labour overhead percentage, and the engineering labour overhead percentage, for each of the years 2006 through 2010.

(b) Page 2. Please provide details of all changes in the fleet overhead rates from 2006 through 2010.

(c) Attachment. Please provide the capitalization policy in place prior to December 2008.

Response:

(a) The table below provides the 2006 – 2010 details on overhead percentages as requested.

Overhead %ages	**2006**	**2007**	**2008 (Jan-April)**	**2008 (May-Dec)**	**2009**	**2010**
Stores	11%	11%	11%	11%	11%	11%
Base Labour	50%	55%	60%	63%	63%	63%
Eng. Labour	45%	45%	45%	51%	59%	59%

(b) Fleet overhead rates have remained unchanged from 2006 - 2010.

(c) Veridian did not have a written capitalization policy in place prior to December 31, 2008.

18. Ref: Exhibit 2 / Tab 9 / Schedule 4

Request

Please confirm that account #1905 should read #1908.

Response:

Veridian confirms that account #1905 should read #1908.

19. Ref: Exhibit 2 / Tab 10 / Schedule 1

Request

Please file all information in the Applicant's possession relating to the actual lead or lag for any categories of its revenue or expenses. Please advise whether any formal lead/lag or working capital studies have been done, or are planned.

Response:

Veridian has not completed a lead-lag study for this application and does not have information related to actual lead or lag for its revenue or expenses.

No formal lead/lag or working capital studies have been done. Veridian is relying on the Board's 15% practice for determining working capital allowance. Veridian will perform a formal lead-lag study in the future if required to do so by the Board.

20. Ref: Exhibit 3 / Tab 6 / Schedule 1

With respect to the forecast of customer connections in the GS>50 kW class:

Request

(a) Please advise the actual number of customers in this class as of December 31, 2009 or, if that is not yet available, as of the most recent information available to the Applicant.

(b) Please advise what steps were taken, if any, to determine new building plans in 2009 and 2010 by MUSH sector customers, including school boards. Please advise if the Applicant is aware of any schools being built in Ajax or Pickering in 2009 or 2010.

(c) Please confirm that average growth in customer connections in this class from 2003 through 2008 is 1.5% per year, and that if this trend continued the number of customers in the Test Year would be 1,069.

(d) Please provide an estimate of the changes to costs and to rates for this class that would result if the number of customers in this class continued to grow in 2009 and 2010 at the same rate as the prior years' average of 1.5% per annum.

Response:

(a) The actual number of customers in this class for the VCI_Main rate zone as of November 2009 was 1,003.

(b) Veridian does not seek out new building plans from specific customer sectors. Forecasting of new building construction (in other words, new connections) is generally segregated only into the broad categories of Residential or General Service for purposes of asset planning and system loading. As noted in Exh. 2/3/1/Pg. 10, information is obtained from municipal economic development offices, land developers, and municipal community planners. The latter 2 sources will often identify land parcels set aside for future schools or other institutions. Specific projects are first brought to Veridian's attention via the municipal development application review process, a circulation system common to most Ontario municipalities in which all prospective new customers, including those in the MUSH sector, must provide preliminary information for municipal and utility comments.

As of the end of December 2009, Veridian is not aware of any new schools being built in Ajax or Pickering.

(c) Confirmed.

(d) Veridian has no reasonably accurate methodology of estimating increases in costs for this class (both capital and operating expenses) that would result if the number of customers in this class continued to grow in 2009 and 2010 at the same rate as the prior years' average. As costs cannot be reasonably estimated, neither can rates. Veridian proposes that should the revenue to cost ratios be held constant, rates would rise in proportion to costs.

21. Ref: Exhibit 3 / Tab 8 / Schedule 1

With respect to Other Revenue:

Request

(a) Please confirm that Specific Service Charges and Late Payment Charges have grown from $1,943,998 in 2006 to $2,390,950 in 2009, an increase of 23%, which is 7.2% per year over three years.

(b) Please confirm that, if those categories grew by the same rate in the Test Year, the Other Revenues for the Test Year would increase by $172,148.

(c) Please provide an explanation why Pole Rentals have been decreasing since 2006.

Response:

(a) Confirmed.

(b) Veridian confirms the calculation, but disagrees with the underlying premise proposed that revenues from specific service charges and late payment Charges would grow at the same rate as the 3 year average from 2007 - 2009.

Revenue from specific service charges and late payment charges vary directly with customer growth, as well as other factors.

The table below shows the year-over-year percentage increases in these revenues and the year-over-year percentage increases in average customer connections for the period 2006 – 2009.

From Ex 3/ T8 / S1/Table 10	**2006**	**2007**	**2008**	**2009**
Specific Service Charges	1,398,572	1,628,942	1,664,987	1,772,300
Late Payment Charges	545,426	573,032	583,221	618,650
	1,943,998	**2,201,974**	**2,248,208**	**2,390,950**
Year-over-Year %age increase		13.3%	2.1%	6.3%

Average Annual Customer Connections (From Ex3/T6/S1/ Table 6)	**2006**	**2007**	**2008**	**2009**
Residential	90,518	92,815	94,490	95,570
GS < 50 kW	7,565	7,604	7,655	7,706
GS > 50 kW	1,012	1,020	1,038	1,038
	99,095	101,439	103,183	104,314
		2.4%	1.7%	1.1%

As can be seen the percentage increase in customer count in 2007 is higher than that in 2008 and 2009, similar to the percentage increases in revenues over the same period.

Another factor contributing to the large percentage increase in 2007 was the change in rates associated with specific service charges as approved in its 2006 Tariff of Rates and Charges, effective May 1st, 2006. Most rates for specific service charges increased as Veridian adopted the Board Approved standard recovery rates for common specific service charges. 2007 would be the first full year of recovery of specific service charges at these higher rates.

(c) In 2008, a field audit of pole attachments was undertaken for Veridian's major pole attachment customers. The number of attachments resulting from the field audit was lower than the numbers previously on record and a credit was calculated and issued to the appropriate customers. The credit applied to 2008 as well as prior years. As a result 2008 pole rental revenues were suppressed and are not representative of a full year of pole rental revenues.

The table below provides revised pole rental revenues for the period 2006 – 2008, applying the prior years' credits to the appropriate periods.

	2006	**2007**	**2008**
Pole Rental Revenues (From Ex3/T8/S1/Table 10)	482,372	500,562	301,940
Prior year credits applied in 2008 based on pole count audit	(39,962)	(40,029)	134,363
Revised Revenues	**442,410**	**460,533**	**436,303**

As can be seen from the revised revenues, the 2009 and 2010 forecast of pole rental revenues of $438,000 represents an increase of 0.4% in revenues over 2008 levels.

22. Ref: Exhibit 3 / Tab 8 / Schedule 3 / Page 2

Request

Please add to Table 11 three columns showing the actuals/forecast for each of 2007 through 2009 for each of the service charges listed.

Response:

Below is a revision to Table 11 which includes the three requested columns. 2009 actuals are to September 30th.

Specific Service Charge	2007 Actuals	2008 Actuals	2009 Actuals to September 30th	2010 Forecast
Change of Occupancy	$543,147	$508,194	$318,561	$500,000
Reconnection Charge	$230,302	$307,703	$244,620	$310,000
Dispute Meter Test Charges	Zero	$240	$330	$200
Lawyer's Letters	$3,051	$1,243	$1,490	$1,200
Collection Charges	$843,323	$837,038	$762,472	$950,000
Easement Letters	$1,228	$1,003	$555	$950
Account History	$166	Zero	Zero	$150
Credit Reference Checks	$7,725	$9,566	$6,322	$9,800
Total	$1,628,942	$1,664,987	$1,334,350	$1,773,300

23. Ref: Exhibit 4 / Tab 2 / Schedule 1

With respect to the Cost Drivers exhibit:

Request

(a) Page 1. Please restate the 2006 Actuals in Table 1 on the same basis as the following years, i.e. assuming that the services provided by affiliates have been internalized as part of the 2007 corporate restructuring. Please disaggregate the $2,495,488 OM&A impact into the 2006 categories of Operations, Maintenance, and Administration, and recalculate the table.

(b) Page 1. Please confirm that, after adjusting for the 2007 corporate restructuring, the Applicant is proposing an OM&A budget in the Test Year that is 32.4% higher than 2006 Actual, and that this represents a compound annual increase over four years of 7.3% per year.

(c) Page 4. Please confirm that, after adjusting for the 2007 corporate restructuring, the actual OM&A per customer in 2006 would be $157.76, and the Applicant is proposing to increase that by 25.4% to $197.85 over four years, an annual increase of 5.8%.

(d) Appendix 2-G. Please restate the 2006 Actuals on this table on the basis set out in (a) above, so that the figures on each line are on a comparable basis to the figures for each of 2007 through 2010.

(e) Appendix 2-I. Please confirm that the amounts on lines 2 and 11 for the Test Year are intended to be 25% of the total costs in these categories relating to the 2010 cost of service application.

<u>Response:</u>

The amount of Veridian's forecast OM&A for the 2010 Test Year has changed as a result of Veridian's Application Update. This interrogatory has been answered on the basis of the updated values.

(a) Below is a restatement of 2006 Actuals in Table 1, disaggregating the $2,495,488 OM&A impacts from the 2007 corporate restructuring (from Table 3) into the 2006 categories of Operations, Maintenance and Administration.

Restatement of Table 1 - Summary OM&A Expenses - Restating 2006 Actuals as requested

	2006 Board Approved	*2006 Actual Restated*	2007 Actual	2008 Actual	2009 Forecast	2010 Forecast
Operations	2,592	***3,527***	3,492	3,717	3,976	4,191
Maintenance	2,281	***2,262***	1,731	1,941	2,311	2,838
O & M Total	4,873	***5,789***	5,222	5,659	6,287	7,029
Administration	14,861	***11,129***	12,407	13,930	13,742	15,207
Total O M & A Expenses	19,734	***16,918***	17,629	19,589	20,029	22,236
$ Change		***(2,816)***	711	1,960	439	2,208
%age Change		***-14.27%***	4.21%	11.12%	2.24%	11.02%
%age Change 2006 Board Actual Restated to 2010 Forecast						***31.44%***
Annual Average % Change 2006 Actual Restated to 2010 Forecast						***7.86%***
Compound annual increase over four years						***7.07%***

Veridian would like to note, that the restatement of 2006 Actual OM&A expenses does not include the amortization and return on rate base for assets transferred to Veridian as part of the 2007 corporate restructuring. These costs were included in the cost of services provided by affiliates in 2006 and have been removed in the restatement exercise provided above. As part of this restatement, amortization expenses within Veridian Connections would be increased in 2006 by $917,524. The table below shows an alternate calculation, which includes the comparable impact on amortization resulting from a restatement of 2006 values for the 2007 corporate restructuring.

Restatement of Table 1 - Summary OM&A Expenses - Restating 2006 Actuals as requested including impact of amortization

	2006 Board Approved	*2006 Actual Restated*	2007 Actual	2008 Actual	2009 Forecast	2010 Forecast
Operations	2,592	***3,527***	3,492	3,717	3,976	4,191
Maintenance	2,281	***2,262***	1,731	1,941	2,311	2,838
O & M Total	4,873	***5,789***	5,222	5,659	6,287	7,029
Administration	14,861	***11,129***	12,407	13,930	13,742	15,207
Total O M & A Expenses	19,734	***16,918***	17,629	19,589	20,029	22,236
Add: Increase in Amortization		***918***				
	19,734	***17,835***	17,629	19,589	20,029	22,236
$ Change		***(1,899)***	711	1,960	439	2,208
%age Change		***-9.62%***	3.99%	11.12%	2.24%	11.02%
%age Change 2006 Board Actual Restated to 2010 Forecast						***26.01%***
Annual Average % Change 2006 Actual Restated to 2010 Forecast						***6.50%***
Compound annual increase over four years						***5.67%***

(b) Using the restated 2006 values, the percentage change in OM&A from 2006 Restated Actuals to 2010 Test Year is 31.44%, 7.07% on a compounded annual basis.

(c) Using the restated 2006 values, the restated 2006 OM&A per customer would be $157.76, the percentage change in OM&A from 2006 Restated Actuals to 2010 Test Year is $24.5%, 5.63% on a compounded annual basis.

(d) Please see attachment 1.

(e) This is incorrect. The amounts relating to 2010 rate application costs are shown in rows 5 and 6. Please see the response to Energy Probe interrogatory number 24 for details.

Veridian_SEC IRR_23-Attachment 1

Appendix 2-G

Detailed, Account by Account, OM&A Expense Table

	2006 A	***2006 Actuals Restated***	2007 A	2008 A	2009 B	2010 T
OPERATIONS						
5005-Operation Supervision and Engineering	472,803	***472,803***	331,019	400,174	475,607	623,566
5010-Load Dispatching	692,400	***692,400***	689,747	734,782	812,025	816,017
5012-Station Buildings and Fixtures Expense	185,801	***185,801***	217,225	221,088	242,216	235,433
5014-Transformer Station Equipment - Operation Labour	-	-	-	-	63,031	64,920
5015-Transformer Station Equipment - Operation Supplies and Expenses	58,623	***58,623***	-	-	-	-
5016-Distribution Station Equipment - Operation Labour	-	-	117,809	135,508	77,435	78,996
5017-Distribution Station Equipment - Operation Supplies and Expenses	-	-	-	-	-	-
5020-Overhead Distribution Lines and Feeders - Operation Labour	728,670	***728,670***	652,533	850,078	846,541	648,238
5025-Overhead Distribution Lines & Feeders - Operation Supplies and Exp	-	-	-	-	-	-
5030-Overhead Subtransmission Feeders - Operation	10,252	***10,252***	13,683	14,602	31,153	20,805
5035-Overhead Distribution Transformers- Operation	9,803	***9,803***	10,599	9,576	11,635	251,501
5040-Underground Distribution Lines and Feeders - Operation Labour	611,140	***611,140***	666,210	665,788	694,672	637,669
5045-Underground Distribution Lines & Feeders - Operation Supplies & Ex	-	-	-	-	-	-
5050-Underground Subtransmission Feeders - Operation	188	***188***	1,637	1,970	3,059	2,948
5055-Underground Distribution Transformers - Operation	66,766	***66,766***	62,971	101,552	85,850	85,100
5060-Street Lighting and Signal System Expense	-	-	-	-	-	-
5065-Meter Expense	197,693	***387,490***	414,125	253,000	275,370	225,950
5070-Customer Premises - Operation Labour	103,918	***103,918***	95,726	92,763	74,723	79,355
5075-Customer Premises - Materials and Expenses	-	-	490	-	-	-
5085-Miscellaneous Distribution Expense	109,661	***109,661***	136,321	144,574	129,858	261,802
5090-Underground Distribution Lines and Feeders - Rental Paid	86,286	***86,286***	-	-	-	-
5095-Overhead Distribution Lines and Feeders - Rental Paid	3,227	***3,227***	78,056	88,655	152,574	158,215
5096-Other Rent	-	-	3,447	3,284	-	-
Total Operations	**3,337,231**	***3,527,028***	**3,491,598**	**3,717,394**	**3,975,748**	**4,190,516**
MAINTENANCE						
5105-Maintenance Supervision and Engineering	137,650	***137,650***	127,650	111,794	229,708	375,660
5110-Maintenance of Buildings and Fixtures - Distribution Stations	37,950	***37,950***	48,805	55,810	50,809	49,570
5112-Maintenance of Transformer Station Equipment	-	-	-	-	-	-
5114-Maintenance of Distribution Station Equipment	128,663	***128,663***	137,502	203,709	145,282	105,930
5120-Maintenance of Poles, Towers and Fixtures	54,467	***54,467***	34,147	58,602	24,800	34,747
5125-Maintenance of Overhead Conductors and Devices	189,176	***189,176***	180,421	253,014	303,222	400,308
5130-Maintenance of Overhead Services	60,488	***60,488***	28,796	17,246	4,468	15,632
5135-Overhead Distribution Lines and Feeders - Right of Way	380,746	***380,746***	626,255	544,341	762,341	920,679
5145-Maintenance of Underground Conduit	12,127	***12,127***	9,299	22,114	16,424	17,107
5150-Maintenance of Underground Conductors and Devices	55,857	***55,857***	49,184	117,046	153,794	154,417
5155-Maintenance of Underground Services	127,202	***127,202***	109,045	223,908	181,790	249,458
5160-Maintenance of Line Transformers	217,776	***217,776***	151,025	124,863	117,860	178,990
5165-Maintenance of Street Lighting and Signal Systems	-	-	-	-	-	-
5170-Sentinel Lights - Labour	10,308	***10,308***	12,271	16,279	4,033	-
5172-Sentinel Lights - Materials and Expenses	-	-	-	-	-	-

Appendix 2-G **Detailed, Account by Account, OM&A Expense Table**

	2006 A	*2006 Actuals Restated*	2007 A	2008 A	2009 B	2010 T
5175-Maintenance of Meters	1,128,101	849,744	216,209	192,763	316,676	335,943
Total Maintenance	**2,540,511**	***2,262,154***	**1,730,609**	**1,941,489**	**2,311,205**	**2,838,442**
BILLING AND COLLECTING						
5305-Supervision	-	-		-		-
5310-Meter Reading Expense	491,426	***331,554***	533,059	429,520	387,880	192,880
5315-Customer Billing	4,088,659	***1,519,368***	1,689,496	1,892,785	2,050,238	2,357,046
5320-Collecting	737,915	***784,852***	893,575	1,015,439	1,079,300	1,174,351
5325-Collecting- Cash Over and Short	(13)	***(13)***	(5)	36	-	-
5330-Collection Charges	-	-	-	-	-	-
5335-Bad Debt Expense	581,987	***581,987***	1,007,305	1,505,608	945,000	945,000
5340-Miscellaneous Customer Accounts Expenses	1,641,018	***863,049***	933,762	1,065,183	984,137	1,136,590
Total Billing and Collecting	***7,540,992***	***4,080,797***	***5,057,192***	***5,908,571***	***5,446,555***	***5,805,867***
COMMUNITY RELATIONS						
5405-Supervision	-	-	-	-	-	-
5410-Community Relations - Sundry	34,221	***64,448***	117,477	186,961	176,750	183,431
5415-Energy Conservation	-	-	-	-	28,845	29,554
5420-Community Safety Program	-	-	-	-	-	-
5515-Advertising Expense	-	-	-	-	-	-
5425-Miscellaneous Customer Service and Informational Expenses	215	***215***	59,724	88,695	98,509	176,758
Total Community Relations	***34,436***	***64,663***	***177,201***	***275,656***	***304,104***	***389,743***
ADMINISTRATIVE AND GENERAL						
5605-Executive Salaries and Expenses	103,624	***289,261***	1,339,378	1,403,092	1,500,223	1,816,896
5610-Management Salaries and Expenses	-	-	-	-	-	-
5615-General Administrative Salaries and Expenses	83,896	***3,482,706***	2,521,947	2,951,091	3,235,756	3,945,832
5620-Office Supplies and Expenses	257,520	***447,151***	522,887	550,479	560,700	576,244
5625-Administrative Expense Transferred Credit	-	-	(42,723)	(41,809)	(42,759)	(45,009)
5630-Outside Services Employed	2,916,440	***321,054***	387,818	354,517	474,500	457,460
5635-Property Insurance	-	-	-	55,501	55,000	55,000
5640-Injuries and Damages	248,957	***248,957***	254,183	274,210	259,000	259,000
5645-Employee Pensions and Benefits	-	-	-	-	3,000	3,000
5650-Franchise Requirements	-	-	-	-	-	-
5655-Regulatory Expenses	246,920	***246,920***	369,381	547,105	438,400	555,899
5660-General Advertising Expenses	382,729	***450,291***	263,887	198,763	147,100	150,483
5665-Miscellaneous General Expenses	179,056	***296,968***	221,933	237,283	179,603	180,524
5670-Rent	1,056,032	***73,357***	466,120	370,190	368,000	50,001
5675-Maintenance of General Plant	478,872	***1,120,249***	681,822	791,631	757,423	946,428
6205-Donations	-	-	185,706	36,242	55,000	60,000
6215-Penalties	6,190	***6,190***	207	17,802	-	-
5680-Electrical Safety Authority Fees	-	-	-	-	-	-
Total Administrative and General	***5,960,236***	***6,983,104***	***7,172,546***	***7,746,097***	***7,990,946***	***9,011,758***
Total OM&A Expenses	**19,413,406**	***16,917,746***	**17,629,146**	**19,589,207**	**20,028,558**	**22,236,325**

24. Ref: Exhibit 4 / Tab 3 / Schedule 3

With respect to Customer Services:

Request

(a) Pages 2, 3. Please advise whether any reductions in the previously planned resource increases for LEAP are now expected and, if so, what the impact is on the OM&A budget.

(b) Page 2. Please provide the basis for the estimate of 175,000 calls in 2010. Please confirm that it is expected the increase will not be sustained, but will revert to the previous levels in subsequent years.

(c) Page 4. Please advise the actual number of notices to date in 2009.

Response:

(a) No, Veridian does not plan any reductions in the previously planned increase in resources. See the response to VECC interrogatory number 27 for details.

(b) As stated in the pre-filed evidence, the estimate of 175,000 calls is based on a 40% increase from baseline levels; the projected increase is due to the introduction of time-of-use rates and bi-monthly billing. The magnitude of the projected increase is based Veridian's experience in 2002 when the electricity market was opened to competition. Call volumes increased by 40% in that year.

As of November 30, 2009 Veridian's call centre had processed 115,943 calls during 2009. The straight line projection of this volume to the end of the year provides for a projection of 125,167 calls for 2009. An increase of 40% above the projected 2009 volume provides for the 2010 forecast of 175,000 calls.

The increase in number of calls is expected to remain constant to April 2011 as Veridian rolls out time-of-use rates concurrent with the move to bi-monthly billing.

(c) The total number of notices (mailed and hand delivered) for 2009 is approximately 96,000.

25. Ref: Exhibit 4 / Tab 3 / Schedule 4 / Page 4

Request

Please provide the current strategic plan of the Applicant, if it is different from the Strategic Plan of Veridian Corporation.

Response:

See response to School Energy Coalition Interrogatories, question 4 c).

26. Ref: Exhibit 4 / Tab 5 / Schedule 2

With respect to Employee Headcount:

Request

(a) Page 1. Please confirm that the figures in Table 1 denote average FTEE for the year in each case.

(b) Page 1. Please provide the end of year headcount for each year and each category, including actuals at the end of 2009, and forecast for 2010.

(c) Page 1. Please confirm that Table 1 includes both FTEE allocated to OM&A and FTEE allocated to capital, but does not include FTEE allocated to non-utility activities.

(d) Page 1. Please provide, for each new position proposed for 2009 and 2010, the dollar benefit the Applicant will achieve from adding the new position (e.g. saved overtime, increased collections, etc.), when that benefit is expected to occur, and where that benefit can be expected to be reflected in the OM&A or capital budget for the Test Year.

(e) Page 3. Please advise the increases in the number of FTEEs in each category for 2009 and 2010 caused by the increase in the size of the capital program.

Response:

(a) Table 1 denotes average FTEE for the year in each case.

(b) The end of year headcount for each year is provided in the following table:

Veridian Connections Inc.
Year End Headcount

Position Category	2006 (actual)	2007 (actual)	2008 (actual)	2009 (actual)	2010 (forecast)
Executive	4	4	4	4	5
Management	29	29	34	40	42
Non-Union	14	15	21	22	27
Unionized	120	126	126	132	155
Part time	5	5	9	11	15
Students	0	0	0	3	3
Total	172	179	194	212	247

(c) Table 1 includes both FTEE allocated to OM&A and FTEE allocated to capital but does not include FTEE allocated to non-utility activities.

(d) Veridian cost projections for 2009 and 2010 have been prepared assuming that all planned 2009 and 2010 positions have been hired. Were these positions not hired, then projected costs for overtime, consulting and contracted labour would be higher. Veridian does not have data that would attribute estimated cost savings to each planned individual hire. While Veridian cannot attribute cost savings to each planned individual hire, the application does identify cost savings that will be achieved which are directly attributable to additional hires. For example, at Exhibit 4/Tab 5/Schedule 6, overtime reductions from 2008 to 2010 of $407,386 is forecast. ($1,254,846 – $847,460). At Exhibit 4/Tab 4/Schedule 4/page 13 $500,000 in bad debt savings is identified. Extra staff required to move from quarterly billing to bi-monthly billing in 2010 supports this bad debt cost reduction.

(e) Veridian does not have the ability to attribute the proportion of the increase in the size of capital program to individual FTEE's or employee categories. Total compensation is projected to increase from $18.4M in 2009 to $21.3M in 2010. Of this increase in total compensation, 45.7%, or $1.3M of the increase is estimated to be attributable to compensation that will be related to new capital addition requirements.

27. Ref: Exhibit 4 / Tab 5 / Schedule 8

Request

Please advise the numbers of new employees actually hired and starting in each of Q1, Q2, and Q3 of 2009, and also advise those hired and starting so far in Q4 2009.

Response:

See response to Vulnerable Energy Consumer Coalition Interrogatory 29 a) for a schedule that updates the Bridge and Test Year Hiring Schedule for actual 2009 hires and the revised hiring schedule plan for 2010.

28. Ref: Exhibit 4 / Tab 5 / Schedule 9 / Attachment 1 / Page 5

Request

Please advise where, on the Balanced Scorecard, the metric for "achieve net income growth" appears.

Response:

Veridian Connections does not have a Balanced Scorecard metric for achieving net income growth.

Veridian notes that there is an error in the Non-union and Management Incentive Pay Plan filed at Exhibit 4/Tab5/Schedule 9/Attachment 1. On page 5 of 6 of this document, it incorrectly states that "the focus is on managers and employees to achieve net income growth by achieving cost reductions and by creating other income generating opportunities" This is not correct. The document filed in response to School Energy Coalition interrogatory 4 c) names the corporate key business goals that are presently used for assessing incentive pay for non-union and management employees.

29. Ref: Exhibit 4 / Tab 6 / Schedule 3

With respect to the purchase of assets from affiliates in 2007 and 2008:

Request

(a) Please provide the purchase agreement for each transaction.

(b) Please provide any valuations done to show that the assets had a value at least equal to the book value at which they were transferred.

(c) Please file any tax opinions or rulings received with respect to the transactions.

Response:

(a) Asset purchases from Veridian Corporation and Veridian Energy are detailed at Exhibit 4/Tab 6/Schedule 5/Attachment 2. There are no purchase agreements related to these asset transfers.

(b) With regard to the 2007 purchase, please see response to Board Staff interrogatory number 4, part (a).

The distribution assets acquired by Veridian in 2008 were purchased by Veridian Corporation (Veridian's parent company) in 2008 at market prices from arms length third party vendors. Veridian Corporation's purchases were made in accordance with its procurement policy; a policy that includes provisions such as the use of competitive bidding to ensure that market prices are paid for goods and services. The procurement policy is held in common with Veridian. All distribution assets were purchased by Veridian at prices equal to those paid to third party vendors by Veridian Corporation. A separate valuation was not completed.

(c) Veridian Connections Inc. does not have any tax opinions or rulings received with respect to the transactions.

30. Ref: Exhibit 4 / Tab 9 / Schedule 4

With respect to PILs:

Request

(a) Please advise whether the Applicant is seeking a ruling, decision or interpretation by the Board as to qualification of the impact of the anticipated re-assessments for Account 1592 true-up.

(b) Please advise whether the Applicant is seeking a ruling, decision or interpretation by the Board as to whether when the changes to CCA rates and rules expire in 2011, any subsequent impact can be charged to Account 1592.

Response:

(a) Veridian is not seeking a ruling, decision or interpretation by the Board as to qualification of the impact of the anticipated re-assessments for Account 1592 true-up. Veridian is simply advising the Board of its intention in the anticipated situation.

(b) Veridian is not seeking a ruling, decision or interpretation by the Board as to whether when the changes to CCA rates and rules expire in 2011, any subsequent impact can be charged to Account 1592. Veridian is simply advising the Board of its intention in the anticipated situation.

31. Ref: [Ex. 5/1/1]

With respect to the proposed Return on Equity:

Request

(a) Please provide all formal valuations done within the last seven years of the Applicant or any of its predecessors, or of any significant portions of its assets.

(b) Please provide all reports, valuations, opinions, estimates, and other communications relating to the value of the Applicant, or referring to the issue value of shares of the Applicant if offered to the public.

(c) Please provide all reports, valuations, opinions, estimates, and other communications relating to the value of Veridian Corporation, or referring to the issue value of shares of Veridian Corporation if offered to the public.

(d) Please provide all documentation in the possession of the Applicant relating to:

i. The business and financial risks of the Applicant;

ii. The return on equity expected from an investment in common shares of the Applicant by the existing or any potential shareholders of the Applicant.

Response:

(a) through (d)

Veridian relies on the Board's methodology for determining return on equity as set out in the December 11, 2009 *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities.* In light of the existence of a Board-approved methodology for determining return on equity, Veridian does not believe that the information requested is relevant.

32. Ref: Exhibit 5 / Tab 2 / Schedule 1

With respect to Long Term Debt:

Request

(a) Please provide details of any bank financing arrangements of the Applicant currently in place or proposed, whether to provide long term financing or otherwise, and for each such arrangement provide the commitment letter or term sheet, the loan agreement, and any promissory note or notes.

(b) Page 1. Please provide any legal opinions or other material in the possession of the Applicant relating to whether, as a result of the ability of the Lender to change the term of the Second Amended and Restated Promissory Notes unilaterally, the notes are unenforceable and therefore repayable at any time at the option of the Applicant.

(c) Page 1. Please provide detailed information on all investigations, market reviews, requests for proposals, or other steps the Applicant has taken to obtain replacement financing for the Second Amended and Restated Promissory Notes from arms-length third parties. Please provide copies of all communications from third party lenders or potential lenders, or advisors, with respect to such replacement financing including any terms proposed or discussed.

(d) Page 1. Please provide details of any direction or instruction the Applicant has received, whether from Veridian Corporation, or from the shareholders of Veridian Corporation or any of them, with respect to seeking replacement financing for the Second Amended and Restated Promissory Notes, or with respect to refraining from doing so, or in any way limiting the freedom of management to carry out such investigations.

(e) Page 1. Please provide details of any direction or instruction the Board of Directors has given to management of the Applicant with respect to seeking replacement financing for the Second Amended and Restated Promissory Notes, or with respect to refraining from doing so, or in any way limiting the freedom of management to carry out such investigations.

(f) Page 2. Please provide the commitment letter or term sheet, the loan agreement, and the promissory note or notes with respect to the proposed $21 million loan from Veridian Corporation.

(g) Page 2. Please provide details of any financing Veridian Corporation is obtaining contemporaneously with, or for the purposes of making, the loan to the Applicant, including the commitment letter or term sheet, the loan agreement, and the promissory note or notes with respect to such financing.

(h) Page 2. Please provide detailed information on all investigations, market reviews, requests for proposals, or other steps the Applicant has taken to obtain alternative financing to this loan, from arms-length third parties instead of from the parent company. Please provide copies of all communications from third party lenders or potential lenders, or advisors, with respect to such alternative financing including any terms proposed or discussed.

(i) Attachments. Please provide details of any valuation, formal or informal, done with respect to the conversion right contained in the notes. Please provide a calculation showing the percentage common share ownership of Veridian Corporation (and indirectly the Applicant) by the Town of Ajax before and after a hypothetical conversion of its promissory note into shares, and assuming that the other shareholders do not convert.

(j) Attachments. Please provide a copy of any shareholders agreement between the municipal owners of Veridian Corporation (and indirectly the Applicant).

<u>Response:</u>

(a) An uncommitted demand facility for up to $20 million in short term credit was put in place on December 17, 2009. The loan letter agreement is appended.

(b) Veridian has no reason to believe that the notes are unenforceable. Veridian does not have any legal opinions or material relating to the enforceability of the notes.

(c) Veridian has not taken any steps to replace the Second Amended and restated Promissory Notes. Please see the Veridian Financing Strategy appended to the response to Energy Probe interrogatory #39.

(d) Please see the Veridian Financing Strategy appended to the response to Energy Probe interrogatory #39 for a description of the process involved with renewing the Second Amended and Restated Promissory notes.

(e) Please see the Veridian Financing Strategy appended to the response to Energy Probe interrogatory #39 for a description of the process involved with renewing the Second Amended and Restated Promissory notes.

(f) The promissory note with respect to the $21 million loan advanced from Veridian Corporation to Veridian Connections Inc. is appended.

(g) Veridian submits that Veridian Corporation's cost of debt is not relevant to this application.

(h) Veridian preferred to enter into a loan with the parent at a rate that would fluctuate with the deemed long term debt rate as set annually by the Ontario Energy Board. As such, Veridian did not compile information or take steps to obtain financing from third parties. Please see the Veridian Financing Strategy appended to the response to Energy Probe interrogatory #39 for a description of the process involved with obtaining the $21 million loan provided by its parent company.

(i) Annually, the value of the conversion options of the promissory notes have been reviewed with Veridian's auditors. Veridian's shareholder agreement provides that no shareholder may take any step to amend, convert, exchange, or enforce its Promissory Notes without the agreement of each other Shareholder which holds Promissory Notes to amend, convert, exchange or enforce its own Promissory Notes on the identical terms and conditions. Veridian management and Veridian's auditors have agreed that given the requirement that all shareholders must act in unison, that the conversion option has no value. The hypothetical conversion that is suggested cannot occur as it is prohibited by Veridian's shareholder agreement.

(j) The Veridian Corporation Shareholders' Agreement, dated September 28, 2001 and the First Amending Agreement, dated September 30, 2003 that amends certain provisions of the September 28, 2001 Agreement are appended.

TD Commercial Banking

South-East Ontario Commercial Banking Center
2 King Street East
Oshawa, Ontario

Telephone No.: (905) 576-6264
Fax No.: (905) 576-9147

November 30, 2009

Veridian Connections Inc
55 Taunton Rd E
Ajax,ON
L1T 3V3

Attention: Dave Clark,

Dear Mr. Clark,

DEMAND OPERATING FACILITY AGREEMENT

This Agreement between: **The Toronto-Dominion Bank** (the "Bank"), through its South-East Ontario Commercial Banking Centre branch in Oshawa, Ontario.

and

Borrower's Legal Name: Veridian Connections Inc (herein called the "Borrower")

Borrower's Address:
55 Taunton Rd E
Ajax,ON
L1T 3V3

Whereas:

(i) the Bank has agreed to establish a revolving demand credit facility (the "Facility");

(ii) the Facility is uncommitted and made available at the sole discretion of the Bank. The Facility may be cancelled at any time even if the Borrower complies with all of the terms and conditions;

(iii) the Facility will operate on the basis established in this Demand Operating Facility Agreement including without limitation the Standard Terms and Conditions attached as Schedule "A" (the "Agreement"), the terms of which may be changed by the Bank from time to time at the Bank's sole discretion.

In consideration of the Bank establishing the Facility, the Borrower hereby agrees with the Bank to the following terms and conditions:

CREDIT LIMIT

Amounts outstanding under the Facility will at all times be no greater than :
1) CDN $20,000,000

PURPOSE

The Borrower will use the Facility to fund working capital.

BORROWING OPTIONS

The Bank will make the Facility available by way of:
- Prime Rate Based Loans in CDN$ ("Prime Based Loans")
- Bankers Acceptances in CDN$ or US$ ("B/As")
- Letters of Credit in CDN$ or US$ ("L/Cs")
- Stand-by Letters of Guarantee in CDN$ ("L/Gs")

AVAILABILITY OF THE FACILITY

The Borrower acknowledges that the Facility is uncommitted and is not automatically available upon satisfaction of the terms and conditions, including without limitation the Representations & Warranties, Positive Covenants, Negative Covenants, or Financial Covenants set out herein.

The Bank can demand repayment and/or cancel the availability of the Facility at any time in its sole discretion.

INTEREST RATES AND STAMPING FEES

For the Borrowing Options available to the Borrower, interest rates and fees are as follows:
- Prime Based Loans: Prime Rate + 0.00% per annum
- B/As: Stamping Fee at 1.00% per annum
- L/Cs: As advised by the Bank at the time of issuance of the L/C and as set out in the Letter of Credit Indemnity Agreement applicable to the issued L/C.
- L/Gs: 0.50% per annum As set out in the Letter of Credit Indemnity Agreement applicable to the issued L/G.

Information on Interest Rate Definitions, Interest Calculations and Payment is set out in the Schedule "A" attached hereto.

ARRANGEMENT FEE

The Borrower will pay a non-refundable arrangement fee of $2,000 prior to the first drawdown hereunder.

DRAWDOWN

The Borrower can use the Facility on a revolving basis.
The Borrower will follow the provisions set out in this Agreement with respect to notice periods, minimum amounts of draws, interest periods, and applicable terms.

DISBURSEMENT CONDITIONS

The Borrower will not avail itself of the Facility nor will the Bank make the Facility available to the Borrower until the Borrower has fulfilled the standard Disbursement Conditions contained in Schedule "A" and the following disbursement conditions:

Completion of due diligence, security and documentation satisfactory to the Bank, including but not limited to:

a) All conditions to be in compliance pre and post drawdown.
b) All security and documentation to be on-hand and in good order.
c) There has been no material adverse change in the financial condition and/or operations of the Borrower or its subsidiaries.
d) Provision of a 3-year business plan forecast.
e) Provision of a copy of the distribution license for Veridian Connections Inc. from the OEB and indication in good standing.
f) Executed copy and satisfactory review of the terms of the inter-creditor agreement as it relates to subordination/postponement of any shareholder debt to these facilities.
g) Provide written confirmation of the dissolution of First Source Energy Corporation
h) Year-to-date financial statements (minimum 2nd quarter as of June 30, 2009) to be on-hand prior to funding.
i) Municipalities' notes are to be renewed with terms and conditions deemed satisfactory.

BUSINESS CREDIT SERVICE

The Borrower will have access to Prime Based Loans via Loan Account Number TBO (the "Loan Account") up to the Credit Limit, by withdrawing funds from the Borrower's Current Account Number <1805-5207159> (the "Current Account"). The Borrower agrees that each advance from the Loan Account will be in an amount equal to $100,000 (the "Transfer Amount") or a multiple thereof. If the Transfer Amount is NIL, the Borrower agrees that an advance from its Loan Account may be in an amount sufficient to cover the debits made to the Current Account. The Borrower agrees that:

a) all other overdraft privileges which have governed the Current Account are hereby cancelled.
b) all outstanding overdraft amounts under any such other agreements are now included as indebtedness under the Facility.

The Bank may, but is not required to, automatically advance the Transfer Amount or a multiple thereof or any other amount from the Loan Account to the Current Account in order to cover the debits made to the Current Account if the amount in the Current Account is insufficient to cover the debits. The Bank may, but is not required to, automatically and without notice apply the funds in the Current Account in amounts equal to the Transfer Amount or any multiple thereof or any other amount to repay the outstanding amount in the Loan Account.

REPAYMENT

The Borrower agrees to repay the Bank on demand. If the Bank demands repayment, the Borrower will pay to the Bank all amounts outstanding under the Facility, including without limitation, as applicable, the amount of all unmatured B/As and the amount of all drawn and undrawn L/Gs and L/Cs. All costs to the Bank and all loss suffered by the Bank in re-employing the amounts so repaid will be paid by the Borrower.

SECURITY

The following security shall be provided, shall, unless otherwise indicated, support all present and future indebtedness and liability of the Borrower and the grantor of the security to the Bank including without limitation indebtedness and liability under guarantees, foreign exchange contracts, cash management products, and derivative contracts, shall be registered in first position, and shall be on the Bank's standard form, supported by resolutions and solicitor's opinion, all acceptable to the Bank:

a) Evidence of Business insurance for a minimum amount of $70,000,000.

All of the above security and guarantees shall be referred to collectively in this Agreement as "Bank Security".

Documentation :

a) Inter-Creditor Agreement amongst all four municipal note holders (at Veridian Connections Inc.'s level), is to restrict their rights to acceleration of their debt, is to restrict all principal payment except with the Bank's prior written consent, interest payment is permitted subject to pre and post compliance of all covenants.

PERMITTED LIENS

Permitted Liens as referred to herein and in Schedule "A" are defined as:
Purchase Money Security Interests, not to exceed at any time:

a) For the Borrower and its Subsidiaries, $5,000,000 in the aggregate.

REPRESENTATIONS & WARRANTIES

The Borrower makes the Standard Representations and Warranties set out in Schedule "A".

All representations and warranties shall be deemed to be continually repeated so long as the Borrower has any dealings with the Bank.

POSITIVE COVENANTS

The Borrower will observe the Standard Positive Covenants set out in Schedule "A" and in addition will :

a) Maintain all shareholder debt on an unsecured basis or fully subordinated secured basis per the Inter-Creditor agreement;
b) Remain in the regulated business of electricity distribution and maintain all requisite licenses;
c) Maintain adequate insurance on assets, undertakings, and business risks;
d) Comply with all contractual obligations and laws, including payment of taxes;
e) Ensure all existing indebtedness is held directly or indirectly on an unsecured basis with no acceleration rights by the municipal shareholder and is bound by the distribution restrictions outlined under the Inter-creditor Agreement;
f) Comply with all applicable environmental regulations at all times;
g) Veridian Corporation is to maintain a DBRS rating of not less than "A Low" (one notch below current rating of "A Stable"). Advise the Bank immediately of changes to DBRS debt ranking of A.;
h) Adhere to Affiliate Relationship Code restrictions as per the Ontario Energy Board as applicable;
i) File all OEB rate submissions as outlined in the business plan forecast;
j) Comply with all terms of all licenses and immediately advise the Bank if OEB should notify the Borrower of a default under a license, or if the license is materially amended, cancelled, suspended or revoked (any of such circumstances will be an event of default);

Reporting Conditions:

1. Provide audited financial statements along with a Compliance certificate within 150 days after each fiscal year end for Veridian Corporation (Consolidated) and Veridian Connections (Unconsolidated)
2. Provide Notice to Reader financial statements within 150 days after each fiscal year end for Veridian Corporation (unconsolidated) and Veridian Energy Inc .;
3. Provide Operating and Capital Budgets for the next fiscal year within 150 days after each fiscal year end;
4. Provide unaudited consolidated financial statements for Veridian Corporation along with a Compliance certificate within 60 days after the end of the first, second, and third quarters;
5. Provide the Ontario Energy Board rate submission, and the subsequent approval within 30 days after approval by the Ontario Energy Board; (to be provided when applicable)
6. Provide Service Quality Indicators within 30 days after submission to the Ontario Energy Board; (to be provided when applicable).

NEGATIVE COVENANTS

The Borrower will observe the Standard Negative Covenants set out in Schedule "A" and in addition will not:

1. Exceed Limited Distributions allowance: Distribution are limited to [EBITDA - Interest - Cash Taxes - Unfinanced CAPEX (net of contributed capital) - Principal payments on long term debt (if any) Providing no other default has occurred.
2. Enter into any acquisitions or investments (except in the ordinary course of business) in excess of $2,500,000, or any mergers, amalgamations, or consolidations, without the prior consent of the Bank, such consent not to be unreasonably withheld;
3. Sell, lease, assign, transfer, convey, or otherwise dispose of any now owned or hereafter acquired assets, except in the ordinary course of business without the prior consent of the Bank, such consent not to be unreasonably withheld.
4. Take on additional debt or contingencies including guarantees without the Bank's prior consent, such consent not to be unreasonably withheld, except for debt secured by Permitted Liens.
5. Permit the pledge of or encumbrance of any of its issued and outstanding equity securities.

FINANCIAL COVENANTS

The Borrower agrees at all times on a consolidated* basis to:

1. Maintain a ~~consolidated*~~ Funded Debt to Capitalization ratio of no greater than 0.60:1. To be tested quarterly and on an annual basis.

- Funded Debt is defined as all interest-bearing debt (including but not limited to (i) short term debt, (ii) long term debt including the current portion, (iii) capital leases, (iv) non-subordinated debt, and (v) unpostponed shareholder loans and guarantees.
- Total Capitalization is defined as Funded Debt (as above), plus shareholders equity, plus any debt formally subordinated to the Bank, less advances to or investments in shareholders/related parties, less intangible assets (including but not limited to deferred debt issue costs, goodwill, etc);

2. Maintain a Debt Service coverage ratio of not less than 1.25:1 to be tested quarterly and on an annualized basis.

- Debt Service coverage ratio is defined as EBITDA** less cash taxes, less 40% of Capex divided by total Principal and Interest.

* Consolidated is defined as : Veridian Corporation, Veridian Connections Inc. and Veridian Energy Inc.

** EBITDA is defined as Earnings before Interest, Taxes, Depreciation and Amortization

SCHEDULE "A" TERMS AND CONDITIONS

Schedule "A" sets out the Standard Terms and Conditions ("Standard Terms and Conditions") which are applicable to the Borrower and which apply to this Facility. The Standard Terms and Conditions, including the defined terms set out therein, form part of this Agreement, unless this letter states specifically that one or more of the Standard Terms and Conditions do not apply or are modified.

AMENDMENTS TO SCHEDULE "A" TERMS AN CONDITIONS

The following amendments to the Standard Terms and Conditions apply:

- Throughout the entire Schedule A any reference to Guarantor(s) is deemed to be deleted.
- "text from existing clause" appearing in section #3 Interest Calculation and Payment (Last paragraph) is hereby deleted and replaced with the following : "For loans not secured by real property, all overdue amounts of principal and interest and all amounts outstanding in excess of the Credit limit shall bear interest from the date on which the same became due or from when the excess was incurred, as the case may be, until the date of payment or until the date the excess is repaid at Prime Rate + 5.00% per annum. Nothing in this clause shall be deemed to authorize the Borrower to incur loans in excess of the Credit Limit."
- "text from existing clause" appearing in section 6. Standard Representations and Warranties (#4) is hereby deleted and replaced with the following: "There are no actions, suits or proceedings, including appeals or applications for review, or any knowledge of pending actions, suits, or proceedings against the Borrower and its subsidiaries, before any court or administrative agency which would result in any material adverse change in the property, asset, financial condition, business or operations of the Borrower except for the LDC late payment penalties class action suit as described in note11(b) of the Consolidated Year End Financial Statements for the Borrower as of December 31, 2008 ("Class Action Litigation")."
- "text from existing clause" appearing in Section 7. Standard Positive Covenants (#vii) is hereby deleted and replaced with the following: "Permit the Bank or its authorized representatives full and reasonable access to its premises, business, financial and computer records and allow duplication or extraction of pertinent information therefrom during regular business hours and"
- "text from existing clause" appearing in Section 8. Standard Negative Covenants (#ii, iii) shall not apply to this transaction.
- "text from existing clause" appearing in Section 9. Additional Information and Security is hereby deleted and replaced with the following: "Section 9. ADDITIONAL INFORMATION The Borrower will provide or cause to be provided, whatever information the Bank may request from time to time. "
- "text from existing clause" appearing in Section 13 Environmental Representation and Undertakings (second paragraph) is hereby deleted and replaced with the following: "The Borrower shall, at the request of the Bank from time to time acting reasonably, and at the Borrower's expense, obtain and provide to the Bank an environmental audit or inspection report of the property from auditors or inspectors acceptable to the Bank"

We trust you will find these Facilities helpful in meeting your ongoing financing requirements. We ask that you acknowledge this offer of financing (which includes the Standard Terms and Conditions) by signing and returning the attached duplicate copy of this agreement to the undersigned by **December 22, 2009.**

Yours truly,

THE TORONTO-DOMINION BANK

Steven Ireland
Manager Business Development/Relationship
Manager Commercial Banking

Patricia Trump
Manager Commercial Credit

TO THE TORONTO-DOMINION BANK:

Veridian Connections Inc hereby accepts the foregoing offer this 17th day of December, 2009. The Borrower confirms that, except as may be set out above, the credit facility(ies) detailed herein shall not be used by or on behalf of any third party.

m.c. Angemeer
Signature

Michael Angemeer
President + CEO
Print Name & Position

December 17, 2009
Date:

Signature

Glenn Rainbird, Chair, Veridian Connections Inc.
Print Name & Position

December 17, 2009
Date:

SCHEDULE "A" - STANDARD TERMS AND CONDITIONS

1. DEFINITIONS

Capitalized Terms used in this Agreement shall have the following meanings:

"All-in Rate" means the highest of the Interest Rate that the Borrower pays for Prime Based Loans (which for greater certainty includes the percent per annum added to the Prime Rate).

"Business Day" means any day (other than a Saturday or Sunday) that the Branch/Centre is open for business.

"Branch / Centre" means the Bank branch or banking centre noted on the first page of the Letter, or such other branch or centre as may from time to time be designated by the Bank.

"Face Amount" means in respect of:

(i) a B/A, the amount payable to the holder thereof on its maturity;

(ii) a L/C or L/G, the maximum amount payable to the beneficiary specified therein or any other Person to whom payments may be required to be made pursuant to such L/C or L/G.

"Inventory Value" means, at the time of determination, the total value (based on the lower of cost or market) of the Borrower's inventories that are subject to the Bank Security (other than (i) those inventories supplied by trade creditors who at that time have not been fully paid and would have a right to repossess all or part of such inventories if the Borrower were then either bankrupt or in receivership, (ii) those inventories comprising work in process and (iii) those inventories that the Bank may from time to time designate in its sole discretion) minus the total amount of any claims, liens or encumbrances on those inventories having or purporting to have priority over the Bank.

"Letter" means the letter from the Bank to the Borrower to which this Schedule "A" - Standard Terms and Conditions is attached.

"Letter of Credit" or *"L/C"* means a documentary letter of credit or similar instrument in form and substance satisfactory to the Bank.

"Letter of Guarantee" or *"L/G"* means a stand-by letter of guarantee or similar instrument in form and substance satisfactory to the Bank.

"Purchase Money Security Interest" means a security interest on equipment which is granted to a lender or to the seller of such equipment in order to secure the purchase price of such equipment or a loan to acquire such equipment, provided that the amount secured by the security interest does not exceed the cost of the equipment, the Borrower provides written notice to the Bank prior to the creation of the security interest, and the creditor under the security interest has, if requested by the Bank, entered into an inter-creditor agreement with the Bank, in a format acceptable to the Bank.

"Receivable Value" means, at any time of determination, the total value of those of the Borrower's trade accounts receivable that are subject to the Bank Security other than (i) those accounts then outstanding for 90 days, (ii) those accounts owing by Persons, firms or corporations affiliated with the Borrower, (iii) those accounts that the Bank may from time to time designate in its sole discretion, (iv) those accounts subject to any claim, liens, or encumbrance having or purporting to have priority over the Bank, (v) those accounts which are subject to a claim of set-off by the obligor under such account, MINUS the amount of all the Borrower's unremitted source deductions and unpaid taxes.

"Receivables / Inventory Summary" means a summary of the Borrower's trade account receivables and inventories, in form as the Bank may require and certified by the Borrower's senior officer or authorized representative.

"The TD Bank Financial Group" means The Toronto-Dominion Bank and its subsidiaries and affiliates providing deposit, investment, loan, securities, trust, insurance and other products or services.

"US$ Equivalent" means, on any date, the equivalent amount in United States Dollars after giving effect to a conversion of a specified amount of Canadian Dollars to United States Dollars at the Bank's noon spot rate of exchange.

2. INTEREST RATE DEFINITIONS

Prime Rate means the rate of interest per annum (based on a 365 day year) established and reported by the Bank to the Bank of Canada from time to time as the reference rate of interest for determination of interest rates that the Bank charges to customers of varying degrees of creditworthiness in Canada for Canadian dollar loans made by it in Canada.

The Stamping Fee rate per annum for CDN$ B/As is based on a 365 day year and the Stamping Fee is calculated on the Face Amount of each B/A presented to the Bank for acceptance. The Stamping Fee rate per annum for US$ B/As is based on a 360 day year and the Stamping Fee is calculated on the Face Amount of each B/A presented to the Bank for acceptance.

LIBOR means the rate of interest per annum (based on a 360 day year) as determined by the Bank (rounded upwards, if necessary to the nearest whole multiple of 1/16th of 1%) at which the Bank may make available United States dollars which are obtained by the Bank in the Interbank Euro Currency Market, London, England at approximately 11:00 a.m. (Toronto time) on the second Business Day before the first day of, and in an amount similar to, and for the period similar to the interest period of, such advance.

USBR means the rate of interest per annum (based on a 365 day year) established by the Bank from time to time as the reference rate of interest for the determination of interest rates that the Bank charges to customers of varying degrees of creditworthiness for US dollar loans made by it in Canada.

Any interest rate based on a period less than a year expressed as an annual rate for the purposes of the Interest Act (Canada) is equivalent to such determined rate multiplied by the actual number of days in the calendar year in which the same is to be ascertained and divided by the number of days in the period upon which it was based.

3. INTEREST CALCULATION AND PAYMENT

Interest on Prime Based Loans and USBR Loans is calculated daily (including February 29 in a leap year) and payable monthly in arrears based on the number of days for which the subject loan is outstanding. Interest is charged on February 29 in a leap year.

The Stamping Fee is calculated based on the amount and the term of the B/A and payable upon acceptance by the Bank of the B/A. The net proceeds received by the Borrower on a B/A advance will be equal to the Face Amount of the B/A discounted at the Bank's then prevailing B/A discount rate for CDN$ B/As or US$ B/As as the case may be, for the specified term of the B/A less the Stamping Fee.

Interest on LIBOR Loans is calculated and payable on the earlier of contract maturity or quarterly in arrears, for the number of days in the LIBOR interest period.

L/C and L/G fees are payable at the time set out in the Letter of Credit Indemnity Agreement applicable to the issued L/C or L/G.

Interest is payable both before and after maturity or demand, default and judgment.

Each payment under this Agreement shall be applied to any indebtedness or amounts owing in any order at the sole discretion of the Bank.

For loans not secured by real property, all overdue amounts of principal and interest and all amounts outstanding in excess of the Credit Limit shall bear interest from the date on which the same became due or from when the excess was incurred, as the case may be, until the date of payment or until the date the excess is repaid at 21% per annum.

4. DRAWDOWN PROVISIONS

Prime Based and USBR Loans

There is no minimum amount of drawdown by way of Prime Based Loans and USBR Loans. The Borrower shall provide the Bank with 3 Business Days' notice of a requested Prime Based Loan over $1,000,000.

B/As
The Borrower shall advise the Bank of the requested term or maturity date for B/As issued hereunder. The Bank shall have the discretion to restrict the term or maturity dates of B/As. The minimum amount of a drawdown by way of B/As is $1,000,000 and in multiples of $100,000 thereafter. The Borrower shall provide the Bank with 3 Business Days' notice of a requested B/A drawdown. The Borrower will pay to the Bank the Face Amount of the B/A at the maturity of the B/A.

The Borrower appoints the Bank as its attorney to and authorizes the Bank to (i) complete, sign, endorse, negotiate and deliver B/As on behalf of the Borrower in handwritten form, or by facsimile or mechanical signature or otherwise, (ii) accept such B/As, and (iii) purchase, discount, and/or negotiate B/As.

LIBOR
The Borrower shall advise the Bank of the requested LIBOR contract maturity or interest period. The Bank shall have the discretion to restrict the LIBOR contract maturity. The minimum amount of a drawdown by way of a LIBOR Loan is $1,000,000, and shall be in multiples of $100,000 thereafter. The Borrower will provide the Bank with 3 Business Days' notice of a requested LIBOR Loan.

L/C and/or L/G
The Bank shall have the discretion to restrict the maturity date of L/Gs or L/Cs.

B/A - Prime Conversion
The Borrower will provide the Bank with at least 3 Business Days' notice of the Borrower's intention either to convert a B/A to a Prime Based Loan or vice versa, failing which, the Bank may decline to accept such additional B/As or may charge interest on the amount of Prime Based Loans resulting from maturity of B/As at the rate of 115% of the rate applicable to Prime Based Loans for the 3 day period immediately following such maturity. Thereafter, the rate shall revert to the rate applicable to Prime Based Loans.

Cash Management
The Bank may, and the Borrower hereby authorizes the Bank to, drawdown under the Facility to satisfy any obligations of the Borrower to the Bank in connection with any cash management service provided by the Bank to the Borrower. The Bank may drawdown under the Facility even if the drawdown results in amounts outstanding in excess of the Credit Limit.

5. STANDARD DISBURSEMENT CONDITIONS
The Bank shall have received the following documents which should be in form and substance satisfactory to the Bank:

1. a copy of a duly executed resolution of the Borrower's Board of Directors empowering the Borrower to enter into this Agreement;
2. all of the Bank Security and supporting resolutions and solicitors' letters of opinion required under this Agreement;
3. all operation of account documentation;
4. a completed Environmental Questionnaire; and
5. For drawdowns under the Facility by way of L/C or L/G, the Bank's standard form Letter of Credit Indemnity Agreement.
6. a copy of any necessary or desirable government approvals authorizing the Borrower to enter into this Agreement.

6. STANDARD REPRESENTATIONS AND WARRANTIES
The Borrower hereby represents and warrants, which representations and warranties shall be deemed to be repeated each day hereafter, that:

1. The Borrower is a duly incorporated corporation, a limited partnership, partnership, or sole proprietorship, duly organized, validly existing and in good standing under the laws of the jurisdiction where the Branch/Centre is located and each other jurisdiction where the Borrower has property or assets or carries on business and the Borrower has adequate corporate power and authority to carry on its business, own property, borrow monies and enter into agreements therefore, execute and deliver the Agreement, the Bank Security, and documents required hereunder, and observe and perform the terms and provisions of this Agreement.
2. There are no laws, statutes or regulations applicable to or binding upon the Borrower and no provisions in its charter documents or in any by-laws, resolutions, contracts, agreements, or arrangements which would be contravened, breached, violated as a result of the execution, delivery, performance, observance, of any terms of this Agreement.
3. No event of default has occurred nor has any event occurred which, with the passage of time or the giving of notice, would constitute an event of default under any other agreement for borrowed money.
4. There are no actions, suits or proceedings, including appeals or applications for review, or any knowledge of pending actions, suits, or proceedings against the Borrower and its subsidiaries, before any court or administrative agency which would result in any material adverse change in the property, assets, financial condition, business or operations of the Borrower.
5. All material authorizations, approvals, consents, licenses, exemptions, filings, registrations and other requirements of governmental, judicial and public bodies and authorities required to carry on its business have been or will be obtained or effected and are or will be in full force and effect.
6. The financial statements and forecasts delivered to the Bank fairly present the present financial position of the Borrower, and have been prepared by the Borrower and its auditors in accordance with Canadian Generally Accepted Accounting Principles consistently applied.
7. All of the remittances required to be made by the Borrower to the federal government and all provincial and municipal governments have been made, are currently up to date and there are no outstanding arrears. Without limiting the foregoing, all employee source deductions (including income taxes, Employment Insurance and Canada Pension Plan), sales taxes (both provincial and federal), corporate income taxes, corporate capital taxes, payroll taxes and Workers' Compensation dues are currently paid and up to date.

7. STANDARD POSITIVE COVENANTS

In addition to all of the other obligations in this Agreement the Borrower will:

(i) pay all amounts outstanding to the Bank when due or demanded,
(ii) maintain its existence as a sole proprietorship, corporation, partnership or limited partnership, as the case may be, and keep all material agreements, rights, franchises, licenses, operations, contracts or other arrangements in full force and effect,
(iii) pay all taxes,
(iv) maintain its property, plant and equipment in good repair and working condition,
(v) continue to carry on the business now being carried on,
(vi) maintain adequate insurance on all of its assets, undertakings, and business risks,
(vii) permit the Bank and its authorized representatives full access to its premises, business, financial and computer records and allow the duplication or extraction of pertinent information therefrom, and
(viii) comply with all applicable laws.

8. STANDARD NEGATIVE COVENANTS

The Borrower will not:

(i) create, incur, assume, or suffer to exist, any mortgage, deed of trust, pledge, lien, security interest, assignment, charge, or encumbrance (including without limitation, any conditional sale, or other title retention agreement, or finance lease) of any nature, upon or with respect to any of its property, now owned or hereafter acquired except for those Permitted Liens set out in the Letter.
(ii) merge or amalgamate with any other entity or permit any change of ownership or change its capital structure, and

(iii) sell, lease, assign, or otherwise dispose of all or substantially all of its assets.

Compliance by the Borrower with these Positive Covenants and Negative Covenants shall not automatically entitle the Borrower to the continued availability of the Facility and shall not restrict or limit the Bank's ability to demand repayment of all or any part of amounts outstanding under the Facility.

9. ADDITIONAL INFORMATION AND SECURITY

The Borrower will provide, or cause to be provided, whatever information the Bank may request from time to time. The Borrower will provide, or cause to be provided, any security or guarantees required by the Bank from time to time.

10. CURRENCY INDEMNITY

US$ loans must be repaid with US$ and CDN$ loans must be repaid with CDN$ and the Borrower shall indemnify the Bank for any loss suffered by the Bank if US$ loans are repaid with CDN$ or vice versa, whether such payment is made pursuant to an order of a court or otherwise.

11. TAXATION ON PAYMENTS

All payments made by the Borrower to the Bank will be made free and clear of all present and future taxes (excluding the Bank's income taxes), withholdings or deductions of whatever nature. If these taxes, withholdings or deductions are required by applicable law and are made, the Borrower shall, as a separate and independent obligation, pay to the Bank all additional amounts as shall fully indemnify the Bank from any such taxes, withholdings or deductions.

12. FX CLOSE OUT

The Borrower hereby acknowledges and agrees that in the event any of the following occur: (i) Default by the Borrower under any forward foreign exchange contract("FX Contract"); (ii) Default by the Borrower in payment of monies owing by it to anyone, including the Bank; (iii) Default in the performance of any other obligation of the Borrower under any agreement to which it is subject; or (iv) the Borrower is adjudged to be or voluntarily becomes bankrupt or insolvent or admits in writing to its inability to pay its debts as they come due or has a receiver appointed over its assets, the Bank shall be entitled without advance notice to the Borrower to close out and terminate all of the outstanding FX Contracts entered into hereunder, using normal commercial practices employed by the Bank, to determine the gain or loss for each terminated FX contract. The Bank shall then be entitled to calculate a net termination value for all of the terminated FX Contracts which shall be the net sum of all the losses and gains arising from the termination of the FX Contracts which net sum shall be the "Close Out Value" of the terminated FX Contracts. The Borrower acknowledges that it shall be required to forthwith pay any positive Close Out Value owing to the Bank and the Bank shall be required to pay any negative Close Out Value owing to the Borrower, subject to any rights of set-off to which the Bank is entitled or subject.

13. ENVIRONMENTAL REPRESENTATION AND UNDERTAKINGS

The Borrower represents, warrants and covenants (which representation, warranty and covenant shall continue each day hereafter) that its property and business is being operated in compliance with applicable environmental, health and safety laws and regulations and that there are no judicial or administrative proceedings in respect thereto.

The Borrower shall, when asked by the Bank, at the Borrower's expense, obtain and provide to the Bank an appraisal, environmental audit or inspection report of any of its property from appraisers, auditors or inspectors acceptable to the Bank.

The Borrower will defend, indemnify and hold harmless the Bank, its officers, directors, employees, agents and shareholders, against all loss, costs, claims, damages and expenses (including legal, audit and inspection expenses) which may be suffered or incurred in connection with the breach of this environmental representation, warranty and covenant and against environmental damage occasioned by the Borrower's activities or by contamination of or from any of the Borrower's property.

14. REPRESENTATION
No representation or warranty or other statement made by the Bank concerning any of the credit facilities shall be binding on the Bank unless made by it in writing as a specific amendment to the Agreement.

15. BANK MAY CHANGE AGREEMENT
The Bank may change the provisions of this Agreement from time to time. These changes include, without limitation, changes to the Credit Limit, interest rate, or fees payable by the Borrower. The Bank will notify the Borrower of any change in this Agreement by mail, hand delivery, electronic mail or facsimile transmission or for a change in any interest rates or interest rate definitions by posting a notice in all of the Bank's branches. The Bank is not required to notify a Guarantor of any change in the Agreement, including without limitation, any increase in the Credit Limit, Overdraft Limit or Loan Amount. If more than one Person signs this Agreement, communication with any one Person will serve as notice to all.

16. METHOD OF COMMUNICATION
The Bank may communicate with the Borrower by ordinary, uninsured mail or other means, including hand delivery, electronic mail or facsimile transmission. Mailed information is deemed to be received by the Borrower five days after mailing. Delivered information is deemed to be received when delivered or left at the Borrower's address. Electronically delivered information is deemed to be received when sent. Messages sent by facsimile are deemed to be received when the Bank receives a fax confirmation.

17. EXPENSES
The Borrower shall pay all fees and expenses (including but not limited to all legal fees) incurred by the Bank in connection with the preparation, registration and ongoing administration of this Agreement and the Bank Security and with the enforcement of the Bank's rights and remedies under this Agreement and the Bank Security whether or not any amounts are advanced under the Agreement. These fees and expenses shall include, but not be limited to, all outside counsel expenses and all in-house legal expenses, if in-house counsel are used, and all outside professional advisory expenses. The Borrower shall pay interest on unpaid amounts due pursuant to this paragraph at the All-In Rate plus 2% per annum.

Without limiting the generality of Section 23, the Bank or it's agent, is authorized to debit any of the Borrower's accounts with the amount of the fees and expenses owed by the Borrower hereunder, including the registration fee in connection with the Bank Security, even if that debiting creates an overdraft in any such account. If there are insufficient funds in the Borrower's accounts to reimburse the Bank or it's agent for payment of the fees and expenses owed by the Borrower hereunder, the amount debited to the Borrower's accounts shall be deemed to be a Prime Based Loan under the Facility.

The Borrower will, if requested by the Bank, sign a Pre-Authorized Payment Authorization in a format acceptable to the Bank to permit the Bank's agent to debit the Borrower's accounts as contemplated in this Section.

18. NON WAIVER
Any failure by the Bank to object to or take action with respect to a breach of this Agreement or any Bank Security shall not constitute a waiver of the Bank's right to take action at a later date on that breach. No course of conduct by the Bank will give rise to any reasonable expectation which is in any way inconsistent with the terms and conditions of this Agreement and the Bank Security or the Bank's rights thereunder.

19. EVIDENCE OF INDEBTEDNESS
The Bank shall record on its records the amount of all advances made hereunder, payments made in respect thereto, and all other amounts becoming due to the Bank under this Agreement. The Bank's records constitute, in the absence of manifest error, conclusive evidence of the Borrower's indebtedness to the Bank pursuant to this Agreement.

The Borrower will sign the Bank's standard form Letter of Credit Indemnity Agreement for all L/Cs and L/Gs issued by the Bank.

With respect to chattel mortgages taken as Bank Security, this Agreement is the Promissory Note referred to in same chattel mortgage, and the indebtedness incurred hereunder is the indebtedness secured by the chattel mortgage.

20. ENTIRE AGREEMENTS

This Agreement replaces any previous letter agreements dealing specifically with the Facility. Agreements relating to other credit facilities made available by the Bank continue to apply for those other credit facilities. This Agreement, and if applicable, the Letter of Credit Indemnity Agreement are the entire agreements relating to the Facility described in this Agreement.

21. ASSIGNMENT

The Bank may assign or grant participation in all or part of this Agreement or in any loan made hereunder without notice to and without the Borrower's consent.

The Borrower may not assign or transfer all or any part of its rights or obligations under this Agreement.

22. RELEASE OF INFORMATION

The Borrower hereby irrevocably authorizes and directs its accountant, (the "Accountant") to deliver all financial statements and other financial information concerning the Borrower to the Bank and agrees that the Bank and the Accountant may communicate directly with each other.

23. SET-OFF

In addition to and not in limitation of any rights now or hereafter granted under applicable law, the Bank may at any time and from time to time without notice to the Borrower or any other Person, any notice being expressly waived by the Borrower, set-off and apply any and all deposits, general or special, time or demand, provisional or final, matured or unmatured, in any currency, and any other indebtedness or amount payable by the Bank (irrespective of the place of payment or booking office of the obligation), to or for the Borrower's credit or for the Borrower's account, including without limitation, any amount owed by the Bank to the Borrower under any FX Contract or other treasury or derivative product, against and on account of the indebtedness and liability under this Agreement notwithstanding that any of them are contingent or unmatured or in a different currency than the indebtedness and liability under this Agreement.

When applying a deposit or other obligation in a different currency than the indebtedness under this Agreement to the indebtedness under this Agreement, the Bank will convert the deposit or other obligation to the currency of indebtedness under this Agreement using the Bank's noon spot rate of exchange for the conversion of such currency.

24. LIMITATION ACT

The Borrower and the Bank hereby agree that the limitation period for commencement of any court action or proceeding against the Borrower with respect to the Facility shall be six (6) years rather than the period of time that is set out in the applicable limitation legislation.

25. MISCELLANEOUS

i) The Borrower has received a signed copy of this Agreement;

ii) If more than one Person, firm or corporation signs this Agreement as the Borrower, each party is jointly and severally liable hereunder, and the Bank may require payment of all amounts payable under this Agreement from any one of them, or a portion from each, but the Bank is released from any of its obligations by performing that obligation to any one of them. Each Borrower hereby acknowledges that each Borrower is an agent of each other Borrower and payment by any Borrower hereunder shall be deemed to be payment by the Borrower making the payment and by each other Borrower. Each payment, including interest payments, made will constitute an acknowledgement of the indebtedness and liability hereunder by each Borrower;

iii) Accounting terms will (to the extent not defined in this Agreement) be interpreted in accordance with accounting principles established from time to time by the Canadian Institute of Chartered Accountants (or any successor) consistently applied, and all financial statements and information provided to the Bank will be prepared in accordance with those principles;

iv) This Agreement is governed by the law of the Province or Territory where the Branch/Centre is located.

v) Unless stated otherwise, all amounts referred to herein are in Canadian dollars.

Term Promissory Note

Maturity Date: December 17, 2019 Principal Amount: $21,000,000.00

FOR VALUE RECEIVED, Veridian Connections Inc. (the "Corporation"), hereby promises to pay to or to the order of Veridian Corporation (the "Holder"), in lawful money of Canada, at the principal office of the Holder, the principal amount of TWENTY-ONE MILLION dollars ($21,000,000) (the "Principal Amount") together with interest on the unpaid Principal Amount and the ***Principal*** in equal installments of TWO MILLION, ONE HUNDRED THOUSAND dollars ($2,100,000) each from December 17, 2010 and including December 17, 2019.

1. Interest Rate. Interest on the Principal Amount shall be calculated annually, not in advance, for the period from December 17, 2009 until the Maturity Date, at a rate equal to the Ontario Energy Board ("**OEB**") deemed long-term debt rate as set forth on an annual basis in the OEB's Cost of Capital Parameter Updates for Cost of Service Applications, or as the deemed long-term debt rate may otherwise be established by the OEB (the "**Interest Rate**"). Interest at the Interest Rate shall be payable on December 17 in each year up to and including the Maturity Date. The Corporation acknowledges that the Interest Rate payable pursuant to this note shall be automatically amended from time to time to reflect the deemed rate established by the OEB from time to time and this note shall be automatically amended from time to time to reflect any change to the Interest Rate as determined by the OEB. Notwithstanding that the Interest Rate pursuant to this note shall be amended, the effective date of any change in the Interest Rate pursuant to this note will be as of May 1st each year with interest payable on the previous Interest Rate from December 17 of the previous year to April 30th of the next year, and interest payable at the amended Interest Rate from May 1st to December 16th of the current year.

2. Acceleration on Default

   Upon the occurrence of the following defaults:

   (a) the failure to make payment when due of any principal or interest due hereunder,

   (b) the undersigned shall become insolvent or bankrupt or make a proposal in bankruptcy,

   (c) the undersigned breaches the terms of its operating licenses or if a license is materially amended, cancelled, suspended or revoked or if the undersigned receives notice from the Ontario Energy Board of default under such licenses;

   (d) the undersigned ceases or threatens to cease to carry on its business as a regulated electricity distributor or any substantial part thereof;

   (e) the undersigned fails to adhere to the Affiliate Relationship Code restrictions set by the Ontario Energy Board, as applicable;

(f) the undersigned fails to file its Ontario Energy Board rate submissions as outlined in its annual business plan forecast;

the entire unpaid indebtedness owing by the undersigned to the Holder evidenced hereby and all interest accrued thereon to the date of payment shall forthwith become due and payable upon demand by the Holder subject to any subordination and postponement to any other financial institution or lender.

3. Ranking of this Note

This note shall rank equally in all respects as to the payment of principal and interest hereunder with the promissory notes issued to the Corporation of the City of Pickering, to the Corporation of the Town of Ajax, to the Corporation of the Municipality of Clarington and to the Corporation of the City of Belleville (collectively the **"Municipalities"**) described in Schedule "A" hereto (together the **"Other Notes"**).

4. Note Non-negotiable and Non-assignable

The Note shall be non-negotiable and non-assignable. Notwithstanding the foregoing, the Note may be assigned by the Holder to a financial institution or lender as security for its obligations to such financial institution or lender.

IN WITNESS WHEREOF Veridian Connections Inc. has caused this Note to be signed under its corporate seal by its duly authorized officers as of this 17th day of December, 2009.

VERIDIAN CONNECTIONS INC

Per:
Name: Glenn Rainbird
Title: Chair

Per: m.c. Angemeer
Name: Michael Angemeer
Title: President and CEO

SIGNED BY: AJAX
CLARINGTON
PICKERING

VERIDIAN CORPORATION

SHAREHOLDERS' AGREEMENT

SEPT 28, 2001

BORDEN LADNER GERVAIS LLP

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Page No.

THIS AGREEMENT made as of the 28th day of September, 2001.

B E T W E E N:

The Corporation of the Town of Ajax, a municipal corporation existing under the laws of Ontario

("Ajax")

- and -

The Corporation of the City of Belleville, a municipal corporation existing under the laws of Ontario

("Belleville")

- and -

The Corporation of the Municipality of Clarington, a municipal corporation existing under the laws of Ontario

("Clarington")

- and -

The Corporation of the City of Pickering, a municipal corporation existing under the laws of Ontario

("Pickering")

- and -

Veridian Corporation, a corporation amalgamated under the laws of Ontario

("Veridian Corporation")

- and -

Veridian Connections Inc., a corporation amalgamated under the laws of Ontario

("VCI")

- and -

Veridian Energy Inc., a corporation amalgamated under the laws of Ontario

("VEI")

Recitals:

1. Ajax, Clarington and Pickering transferred certain of their assets, employees and liabilities related to the distribution and retailing of electricity to certain successor corporations (the "**Veridian Successor Corporations**") pursuant to the Electricity Act;

2. Belleville transferred certain of its assets and liabilities related to the distribution and retailing of electricity to certain successor corporations (the "**Belleville Successor Corporations**") pursuant to the Electricity Act;

3. Ajax, Belleville, Clarington and Pickering agreed to merge the businesses of the Veridian Successor Corporations and the Belleville Successor Corporations pursuant to the terms of the Merger Agreement;

4. The authorized capital of Veridian Corporation consists of an unlimited number of Shares of which 10,000 are issued and outstanding as fully paid and non-assessable;

5. Ajax, Belleville, Clarington and Pickering are the sole registered and beneficial shareholders of Veridian Corporation holding the following numbers of Shares, respectively:

NAME OF SHAREHOLDER	NUMBER OF SHARES	PERCENTAGE TOTAL
Ajax	3,210	32.1%
Belleville	1,330	13.3%
Clarington	1,360	13.6%
Pickering	4,100	41.0%

6. The parties wish to enter into this Agreement to provide for the conduct of certain affairs of Veridian Corporation, to provide for certain restrictions on the transfer and ownership of Shares and to govern the mutual rights and obligations of the Shareholders with respect to Veridian Corporation and each other Shareholder.

NOW THEREFORE in consideration of the premises, the mutual promises herein contained and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged) each of the parties agrees with each other party as follows:

ARTICLE I
INTERPRETATION

1.1 *Definitions*

In this Agreement the following terms shall have the following meanings unless the subject matter or context otherwise requires:

"Act" means the Business Corporations Act (Ontario);

"Agreement" means this Agreement, all schedules attached hereto and any agreement or schedule supplementing or amending this Agreement. All uses of the words "hereto", "herein", "hereof", "hereby" and "hereunder" and similar expressions refer to this Agreement and not to any particular section or portion of it. References to an Article, Section, Subsection or Schedule refer to the applicable article, section, subsection or schedule of this Agreement;

"Amalgamated Shareholder" has the meaning set out in Section 12.3;

"Arbitration Act" means the *Arbitration Act*, S.O., 1991;

"Arbitrator" has the meaning set out in Subsection 12.4(a);

"Arm's Length" has the meaning attributed thereto in the *Income Tax Act* (Canada) provided that, for the purposes of Section 5.3, each Shareholder shall be deemed to be acting at Arm's Length with each other Shareholder and Veridian Corporation;

"Auditors" means the firm of chartered accountants appointed as auditor of the Corporations from time to time;

"Belleville Successor Corporations" has the meaning set out in the recitals;

"Board" means the Board of Directors of Veridian Corporation;

"Board Committees" means committees created by the Board from time to time for the purpose of overseeing specific tasks and reporting to the Board and includes the committees referred to in Section 3.3;

"Business" means the business of the Corporations as described in Section 2.1 or as may otherwise be conducted by the Corporations from time to time;

"Business Day" means any day other than a Saturday, Sunday, or statutory holiday in Ontario;

"Chair" means the director elected by the Board to serve as its chairperson from time to time;

"Closing Date" means the date on which the purchase and sale of Shares is to be completed;

"Confidential Information" means any and all information and data relating in any manner to the Business and any activities, plans, ideas, products, services, policies or intentions (including without limitation, information of an operational, business, marketing, financial or economic nature), whether or not proprietary in nature, that is of value to the Corporations and is held by the Corporations as a trade secret and is not generally known to competitors of the Corporations or to the public;

"Corporations" means collectively Veridian Corporation and the Subsidiaries;

"Council Appointees" has the meaning set out in Subsection 3.2(d);

"Debt" means, with respect to Veridian Corporation and the Subsidiaries, without regard to any uncapitalized interest component thereof (whether actual or imputed) that is not due and payable, the aggregate of the following amounts, each calculated in accordance with generally accepted accounting principles, unless the context otherwise requires:

(a) indebtedness for money borrowed (including, without limitation, by way of overdraft) or indebtedness represented by notes payable and drafts accepted representing extensions of credit;

(b) the face amount of all bankers' acceptances and other similar instruments;

(c) all obligations (whether or not with respect to the borrowing of money) that are evidenced by bonds, debentures, notes or other similar instruments;

(d) all liabilities upon which interest charges are customarily paid;

(e) any capital stock of Veridian Corporation (or of any Subsidiary that is not held by Veridian Corporation or by a Subsidiary that is wholly owned, directly or indirectly), which capital stock, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof, in whole or in part, on or prior to the maturity date for cash or securities constituting debt;

(f) all capital lease obligations, synthetic lease obligations, obligations under sale and leaseback transactions and purchase money obligations;

(g) the full amount of any contingent liability under any guarantee (other than by endorsement of negotiable instruments for collection or deposit in the ordinary course of business) in any manner of any part or all of an obligation of another person of the type included in items (a) through (f) above, including contingent liabilities in respect of letters of credit, letters of guarantee and similar instruments; and

(h) contingent liabilities in respect of performance bonds and surety bonds, and any other guarantee or other contingent liability of any part or all of an obligation of a person, in each case only to the extent that the guarantee or other contingent liability is required by generally accepted accounting principles to be treated as a liability on a balance sheet of the guarantor or person contingently liable, provided that trade payables, operating leases and accrued liabilities that are current liabilities incurred and deposits received in the ordinary course of business do not constitute Debt.

"Debt/Equity Ratio" means a ratio of Debt to Equity on a consolidated basis for Veridian Corporation and all Subsidiaries;

"Disputing Shareholder" has the meaning set out in Subsection 12.4(c);

"Electricity Act" means the *Electricity Act*, 1998 (Ontario);

"Encumbrance" means a mortgage, charge, pledge, hypothecation, lien (statutory or otherwise), security interest, adverse claim, assignment as security or reservation of title of any kind;

"Equity" means the aggregate of the equity, capital stock and surplus as such amounts appear on a consolidated balance sheet of Veridian Corporation prepared in accordance with generally accepted accounting principles and as determined by the Ontario Energy Board. In the event there is a conflict between generally accepted accounting principles and the determination of the Ontario Energy Board, the determination of the Ontario Energy Board with respect to the conflict shall prevail;

"Fair Market Value" means the appraised value as determined by a registered appraiser selected and paid for by Veridian Corporation;

"Fiscal Year" means a 12-month period ending on December 31 in each year;

"Governmental Authority" means any government or political subdivision (including without limitation, any municipality or federal or provincial ministry) or agency, authority, commission, department or instrumentality of any government or political subdivision, or any court or tribunal, and specifically includes the Ontario Energy Board and the IMO;

"IMO" means the Independent Electricity Market Operator established pursuant to the Electricity Act;

"Initial Shareholder" means, at the date of this Agreement, each of Ajax, Belleville, Clarington and Pickering;

"Laws" means any law, including common law, equitable principle, statute, ordinance, regulation, rule, order, permit, decision, declaration, notice, demand, injunction, writ, policy, decree or award of any Governmental Authority;

"Majority Rule" has the meaning set out in Subsection 3.2(d);

"Merger Agreement" means the merger agreement dated November 3, 2000 among the Initial Shareholders;

"Notice Period" has the meaning set out in Subsection 5.3(b);

"Offer" has the meaning set out in Subsection 5.3(a);

"Offered Shares" has the meaning set out in Subsection 5.3(a);

"Other Holders" has the meaning set out in Section 5.3;

"Person" means an individual, firm, partnership, unincorporated association, corporation, bank, trust or other legal entity of any kind whatsoever;

"Predecessor Utility" means each of Ajax Hydro-Electric Commission, Belleville (in its capacity as owner and operator of Belleville's electricity distribution and retail assets), Clarington Hydro-Electric Commission and Pickering Hydro-Electric Commission;

"Previous Shareholders' Agreement" means the shareholders' agreement among Ajax, Clarington, Pickering and 1362708 Ontario Inc. (a predecessor of Veridian Corporation) dated July 1, 1999;

"Promissory Notes" means the promissory notes listed on Schedule "A" as such promissory notes may be amended or replaced from time to time;

"Prospective Purchaser" has the meaning set out in Subsection 5.3(a);

"Purchase Notice" has the meaning set out in Subsection 5.3(c);

"Retiring Director" has the meaning set out in Subsection 3.2(g);

"Selling Notice" has the meaning set out in Subsection 5.3(a);

"Selling Shareholder" has the meaning set out in Section 5.3;

"Shareholder" means any Person which is a registered holder of Shares;

"Shareholder Representative" has the meaning set out in Section 3.7;

"Shares" means common shares (without par value) in the capital of Veridian Corporation;

"South Central Ontario" means the area inside of a five hundred (500) kilometre radius of the centre of Ajax;

"Subsidiary" means any subsidiary (as this term is defined in the Act) of Veridian Corporation including, but not limited to, VCI and VEI;

"Surplus Assets" means any land or buildings owned by Veridian Corporation or any Subsidiary that Veridian Corporation or any Subsidiary respectively has determined to offer for sale;

"Third Party" means any Person with whom a Shareholder deals at Arm's Length;

"Transferee Shareholder" means any Person which acquires Shares from a Shareholder in accordance with the provisions of this Agreement;

"Veridian Successor Corporations" has the meaning set out in the recitals; and

"Vice-Chair" means the director elected by the Board to serve as its vice-chairperson from time to time.

1.2 ***Control***

For the purposes of this Agreement, a body corporate shall be deemed to be "controlled" by another Person or by two or more Persons if such Person or Persons (either individually or collectively and whether or not they act together jointly or in concert) directly or indirectly own, legally and beneficially, and exercise the full voting rights over, shares of such body corporate which:

(a) have attached to them voting rights, exercisable in all circumstances, which represent more than 50% of the votes attaching to all outstanding securities of such body corporate;

(b) have sufficient votes to elect a majority of the board of directors of such body corporate; and

(c) carry a right to receive, on a winding up or dissolution, more than 50% of the remaining property of such body corporate after payment of all debts and liabilities of the body corporate.

1.3 *Headings*

The division of this Agreement into Articles, Sections and Subsections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The Article, Section and Subsection headings in this Agreement are not intended to be full or precise descriptions of the text to which they refer and shall not be considered part of this Agreement.

1.4 *Entire Agreement*

The execution of this Agreement has not been induced by, nor do any of the parties rely upon or regard as material, any representations, warranties, conditions, other agreements or acknowledgements not expressly made in this Agreement, in the agreements and other documents to be delivered pursuant hereto or in the Merger Agreement. The parties agree that the Previous Shareholders' Agreement is hereby terminated and superseded by this Agreement.

1.5 *Number and Gender*

In this Agreement, words in the singular include the plural and vice-versa and words in one gender include all genders.

1.6 *Accounting Principles*

Where the Canadian Institute of Chartered Accountants includes a recommendation in its Handbook concerning the treatment of any accounting matter, such recommendation shall be regarded as the only generally accepted accounting principle applicable to the circumstances that it covers and references herein to "generally accepted accounting principles" shall be interpreted accordingly.

All accounting and financial terms used herein, unless specifically provided to the contrary, shall be interpreted and applied in accordance with generally accepted accounting principles in Canada.

1.7 *Calculation of Time*

In this Agreement, a period of days shall be deemed to begin on the first day after the event which began the period and to end at 5:00 p.m. (Eastern time) on the last day of the period. If, however, the last day of the period does not fall on a Business Day, the period shall terminate at 5:00 p.m. (Eastern time) on the next Business Day.

1.8 *Statutory References*

A reference in this Agreement to a statute refers to that statute, and any regulations or rules issued thereunder, as amended, supplemented or replaced from time to time.

1.9 *Reclassification of Shares*

The provisions of this Agreement shall apply, with any necessary changes to (a) any shares or securities of any nature into which the Shares or any of them may be converted, exchanged, reclassified, redivided, redesignated, subdivided or consolidated; (b) any shares or securities of any nature that are received by a Shareholder as a stock dividend or distribution payable in shares, securities, warrants, rights or options of any nature of Veridian Corporation; (c) any shares, securities, warrants, rights or options of any nature of Veridian Corporation or any successor, continuing company or corporation of Veridian Corporation that may be received by a Shareholder on a reorganization, amalgamation, arrangement, consolidation or merger, statutory or otherwise; and (d) any shares, securities, warrants, rights or options hereafter issued or allotted by Veridian Corporation to a Shareholder, all of which shares, securities, warrants, rights or options shall be deemed to be Shares for all purposes of this Agreement.

1.10 ***Interpretation***

If any conflict shall appear between the by-laws and the articles of Veridian Corporation or any Subsidiary and the provisions of this Agreement, the provisions of this Agreement shall govern.

1.11 ***Governing Law***

This Agreement shall be governed by and construed, interpreted and performed in accordance with the laws of Ontario and the laws of Canada applicable therein and shall be treated in all respects as an Ontario contract.

1.12 ***Currency***

All dollar amounts referred to in this Agreement and all payments to be made hereunder are in Canadian funds.

ARTICLE II
BUSINESS OF THE CORPORATIONS

2.1 ***Business of the Corporations***

The Corporations may engage in the following business activities and such other business activities as may be permitted by Law and authorized by the Board from time to time:

(a) transmitting or distributing electricity;

(b) owning and/or operating an electricity generation facility;

(c) retailing electricity;

(d) distributing or retailing gas or any other energy product which is carried through pipes or wires to the user;

(e) business activities that enhance or develop the ability of any of the Corporations to carry on any of the activities described in paragraphs (a), (b), (c), or (d) above;

(f) business activities the principal purpose of which is to use more effectively the assets of any of the Corporations including providing meter installation and reading services, providing billing services and business activities in the telecommunications area;

(g) renting, selling or maintaining equipment and appliances, including without limitation, hot water heaters; and

(h) providing services related to improving energy efficiency.

2.2 *Corporations' Standard of Service*

It is the intention of the Initial Shareholders that: (a) the Corporations shall provide service levels at least equivalent to the existing levels in the service areas of each of the Predecessor Utilities immediately prior to the transfer of their assets to the predecessor corporations to the Corporations; (b) new standards of service are established by the Board after the date of this Agreement so that each service area will enjoy common standards and derive equal benefits, including but not limited to, the following matters:

(a) distribution, energy services and tariffs;

(b) maintenance standards and schedules;

(c) emergency response capabilities;

(d) distribution system capacity;

(e) customer convenience and accessibility;

(f) power reliability and quality; and

(g) marketing programmes and services.

ARTICLE III
CORPORATE AFFAIRS OF VERIDIAN CORPORATION

3.1 *Assurances*

The Shareholders shall cause such meetings of Shareholders to be held, votes to be cast, resolutions to be passed, by-laws to be made, confirmed and/or repealed, agreements and other documents and instruments to be executed and all other acts and things to be done, to ensure that at all times the provisions of this Article III are in effect, complied with or implemented.

3.2 *The Board*

(a) **Shareholder Action**. Each of the Shareholders agrees to elect as members of the Board the nominees put forward by each other Shareholder from time to time in accordance with the provisions of this Agreement.

(b) **The Board and Subsidiary Boards**. The business and affairs of Veridian Corporation shall be managed or supervised by the Board which shall consist of 13 directors or such other number of directors as the Shareholders may determine from time to time by special resolution in accordance with the Act. Each of the Initial Shareholders shall nominate the number of members to the Board listed opposite that Initial Shareholder's name below:

Number of Directors	Nominee of
4	Ajax
1	Belleville
3	Clarington
5	Pickering

The Board shall annually elect from its members a Chair and Vice-Chair. The Chair and Vice-Chair shall be elected from Ajax, Clarington and/or Pickering nominees to the Board.

Veridian Corporation shall elect a Belleville nominee to the board of directors of VCI and VEI. During the period in which the Ontario Energy Board has granted an exemption (the "Exemption") from Section 2.1.3 of its Affiliate Relationships Code to VCI, Veridian Corporation shall elect the same Belleville nominee to the board of directors of each of VCI and VEI. Following the expiry of the Exemption, Veridian Corporation shall elect such other Belleville nominee to VCI and VEI, as the case may be, in order to comply with the requirements of the Ontario Energy Board.

(c) **Director Replacement**. Any Initial Shareholder may replace any director nominated by it at any time during the term of this Agreement and shall nominate a new member to the Board as appropriate to replace the removed member.

(d) **Qualifications of Board**. Each Initial Shareholder shall (except for Belleville, who may) nominate the Mayor of the Initial Shareholder or the Mayor's designate as one of the Initial Shareholder's nominees to the Board provided that if the Mayor ceases to hold the office of Mayor, the appointing Initial Shareholder shall forthwith replace such nominee. Each Initial Shareholder may nominate to the Board members of its council ("Council Appointees") so long as the Council Appointees (including the Mayor or the Mayor's designate) do not comprise a majority of that Initial Shareholder's nominees to the Board (the "Majority Rule"). The Majority Rule shall not apply to any Initial Shareholder that is entitled to nominate only one member to the Board. In addition to the requirements of the Act, the qualifications of candidates for the Board shall, where possible, include the following:

(i) business experience;

(ii) time availability;

(iii) financial skills;

(iv) marketing skills;

(v) industry knowledge;

(vi) independence of judgment;

(vii) integrity;

(viii) knowledge of public policy issues relating to the Corporations; and

(ix) knowledge and experience concerning environmental matters, labour relations and occupational health and safety issues.

(e) **Nominees of Transferee Shareholders**. Following the transfer of Shares to a Transferee Shareholder, that Transferee Shareholder shall be entitled to nominate one member of the Board for each whole block of Shares owned by the Transferee Shareholder representing 9% of the total issued and outstanding Shares. A Transferee Shareholder owning less than 9% of the total issued and outstanding Shares shall not be entitled to nominate any member of the Board and a Transferee Shareholder owning less than 18% of the total issued and outstanding Shares shall only be entitled to nominate one member of the Board. An Amalgamated Shareholder shall not be considered a Transferee Shareholder for the purpose of this Section 3.2(e) and shall retain its rights to nominate members to the Board in the same manner as if the Initial Shareholders forming the Amalgamated Shareholder had not amalgamated.

(f) **Term of Directors**. The Board shall serve for a term as determined by the Shareholders. Members of the Board may serve successive terms on the Board.

(g) **Vacancy**. If a director ceases to be a director for any reason (a "Retiring Director"), the Shareholders shall fill the vacancy thereby created as soon as reasonably possible, provided that such vacancy shall be filled by an individual nominated by the Shareholder who had nominated the Retiring Director.

(h) **Quorum**. A quorum for a meeting of the Board shall be a majority of the members of the Board. A meeting shall be adjourned for lack of a quorum and a notice of the adjourned meeting shall be sent to all directors rescheduling the meeting to a date at least 15 days following the adjourned meeting.

(i) **Meetings of the Board**. Meetings of the Board shall be held at least once in every calendar quarter or at the request of the Chair or of a majority of the members of the Board. All meetings of the Board shall be held in Ontario, or by such telephone or electronic communication devices as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously. At least 5 days' written notice of the time and place of the meeting and of the business to be transacted at the meeting in sufficient detail to enable each director to assess reasonably the importance of such business to the affairs of Veridian Corporation shall be given to each director.

(j) **Decisions of the Directors**. Decisions or resolutions of the Board shall require the approval of the majority of the directors present at each meeting thereof. The Chair shall not have a second or casting vote. A resolution in writing signed by all of the directors entitled to vote on that resolution at a meeting of the Board is as valid as if it had been passed at a meeting of the Board.

(k) **Board Duties**. Subject to those matters requiring Shareholder approval as set out in Section 3.9 hereof, the Board shall supervise the management of the business and affairs of Veridian Corporation and, without limiting the generality of the foregoing, the Board shall be responsible for, but not limited to, overseeing the following specific matters:

(i) the establishment of appropriate reserves and a dividend policy for Veridian Corporation and the Subsidiaries consistent with sound financial principles, all with the intention of providing the Shareholders with a reasonable rate of return on their investment while maintaining reasonable rates for customers; and

(ii) declaration of any dividend or distribution of capital in respect of the Shares or the shares of any Subsidiary.

(l) **Indemnification and Insurance for Directors & Officers**. for Directors and Officers . Each of the Corporations shall indemnify and save its directors and officers harmless from and against any and all liability, damages, costs (including any income tax payable as a result of receiving such indemnity, reasonable counsel fees and disbursements), charges and expenses arising out of or related to any act or omission done or permitted by them to be done in connection with the execution of the duties of their office as directors or officers of any one or more of the Corporations or by reason of their being or having been directors of any one or more of the Corporations.

3.3 *Board Committees*

The Board may establish Board Committees from time to time and delegate certain duties to them as follows:

(a) **Executive Committee**.

(i) The Executive Committee shall be appointed by the Board from time to time and shall be responsible for supervising the management of the day to day operations of the Corporations;

(ii) The Executive Committee shall be comprised of 6 directors on the following basis:

Number of Directors	Nominee of
2	Ajax
1	Clarington
3	Pickering

(iii) The Chair and the Vice-Chair shall be a member of the Executive Committee. The Vice-Chair shall be the chair of the Executive Committee.

(iv) The members of the Executive Committee shall meet at least once a month or as otherwise determined by the Executive Committee. Members of the Executive Committee may serve for a term not to exceed 3 years and shall be replaced by nominees of the Initial Shareholders on the same basis as they were elected. Members of the Executive Committee may serve successive terms on the Executive Committee.

(b) **Nominating Committee**. The Board shall appoint members to the Nominating Committee. During any period in which the Initial Shareholders remain the Shareholders, the Nominating Committee shall be comprised of 4 directors and each of the 4 directors shall be a nominee to the Board of each Initial Shareholder. In the event that one or more Initial Shareholders amalgamate but the Shareholders are still the Initial Shareholders only but in their amalgamated form, the Nominating Committee shall remain comprised of 4 directors and the directors shall be nominees of each Shareholder in the same manner as if there was no amalgamation. For greater certainty, if Pickering and Ajax amalgamated, the new entity would be entitled to have two Board nominees appointed to the Nominating Committee. The purpose of the Nominating Committee shall be to make recommendations to the Shareholders concerning candidates for the Board and the compensation for members of the Board, the Chair, Vice-Chair and Board Committee members, and chairpersons.

(c) **General Provisions Relating to Board Committees**. The quorum for meetings of Board Committees shall be a majority of the members from time to time of each Board Committee. Decisions of all Board Committees shall be made by a majority of the members of the respective Board Committee. Except as otherwise provided in this Section 3.3 and subject to the supervision of the Board, each Board Committee shall establish its own rules of procedure for operating in an efficient and expeditious manner. A Transferee Shareholder shall not acquire the rights of any Initial Shareholder to designate nominees to any Board Committee except with the agreement of all of the other Shareholders. An Amalgamated Shareholder shall retain its rights to designate nominees to the Board Committees, as applicable in the same manner as if the relevant Initial Shareholders had not amalgamated.

3.4 *Shareholders' Meetings*

A quorum for a meeting of Shareholders shall be at least two individuals representing, by proxy or as otherwise permitted by the Act, both (i) a majority in number of the Shareholders; and (ii) not less than 51% of the Shares then issued and outstanding.

In the event that the Initial Shareholders amalgamate such that only two Shareholders in number remain, the quorum for a meeting of shareholders shall be both the Shareholders represented by proxy or as otherwise permitted by the Act.

The chair of any meeting of the Shareholders of Veridian Corporation shall be the Chair or, in the absence of the Chair, the Vice-Chair, or in the absence of the Vice-Chair, the President of Veridian Corporation or, in the absence of the President, such individual as the Shareholders represented at such meeting shall determine.

3.5 *Regular Shareholders Meetings*

Unless the Shareholders otherwise determine, the Shareholders shall meet at least annually at the registered office of Veridian Corporation or at such other times or places as the Shareholders may determine.

3.6 *Decisions of the Shareholders*

All decisions or resolutions of the Shareholders shall require, and shall be deemed to be effective upon, the approval of at least two thirds of the votes cast at a meeting of Shareholders. A Shareholders' resolution in writing signed by all of the Shareholders entitled to vote on that resolution at a meeting of the Shareholders is as valid as if it had been passed at a meeting of the Shareholders.

3.7 *Shareholder Representative*

Each Initial Shareholder shall designate the Mayor as the legal representative of that Initial Shareholder (the "Shareholder Representative") for purposes of providing any consent or approval required by this Agreement or by the Act. In the event that the Mayor is unable or unwilling to act as the Shareholder Representative, the Chief Administrative Officer (or the individual who performs the equivalent duties) shall be the Shareholder Representative for purposes of this Agreement and of the Act unless the Initial Shareholder determines otherwise. An Initial Shareholder shall designate its Shareholder Representative (by proxy duly completed in accordance with the Act) as its representative to attend and vote at any meeting of Shareholders.

3.8 *Officers*

(a) The officers of Veridian Corporation shall include a President and such other officers as the Board may determine from time to time. The Board shall appoint the officers of Veridian Corporation from time to time.

(b) For greater certainty the parties recognize that in carrying on the ordinary course of Business, it is not practicable for the Board to be involved in the day to day affairs of Veridian Corporation. The Board will delegate responsibilities to the officers, who will report to the Board and the Board Committees from time to time as required.

3.9 *Matters Requiring Shareholder Approval*

The Shareholders agree that, without Shareholder approval given in accordance with Section 3.6, Veridian Corporation shall not:

(a) amend its articles (within the meaning of the Act) or enact, revoke, or amend any by-law of Veridian Corporation;

(b) issue, or enter into any agreement to issue, any shares of Veridian Corporation of any class, or any securities convertible into any shares of any class, or grant any option or other right to purchase any such shares or securities convertible into such shares;

(c) redeem, purchase for cancellation or otherwise retire any of its outstanding Shares;

(d) sell or otherwise dispose of, by conveyance, transfer, lease, sale and leaseback, merger or other reorganization or transaction, mortgage, pledge, charge or otherwise grant a security interest in, all or substantially all of the assets or undertaking of Veridian Corporation;

(e) enter into any contracts, commitments or transactions that would increase the Debt/Equity Ratio to greater than 70% Debt;

(f) grant security for or guarantee, or otherwise become liable for any debt, liability or obligation of any Person other than a Subsidiary;

(g) take or institute the proceedings for any winding up, reorganization or dissolution;

(h) enter into any amalgamation, arrangement or consolidation; and

(i) apply to continue as a corporation under the laws of another jurisdiction.

3.10 ***Unanimous Shareholder Agreement***

Each of the Shareholders acknowledges that this Agreement is intended to operate as a unanimous shareholder agreement with respect to Veridian Corporation within the meaning of the Act. Pursuant to Section 108(2) of the Act, the discretion and powers of the Board to manage or supervise the management of the business and affairs of Veridian Corporation are hereby restricted to the extent of the provisions of Section 3.9 of this Agreement.

3.11 ***Agreement Binds Veridian Corporation and Subsidiaries***

Veridian Corporation and the Subsidiaries, by their execution of or acknowledgement to be bound by this Agreement, acknowledges that they have actual notice of the terms of this Agreement, consent to this Agreement and by this Agreement covenant with each of the Shareholders that they will at all times during the term of this Agreement:

(a) give or cause to be given such notices, execute or cause to be executed such deeds, transfers and documents as may from time to time be necessary or conducive to the carrying out of the terms and intent of this Agreement;

(b) do or cause to be done all such acts, matters and things as may from time to time be necessary or conducive to the carrying out of the terms and intent of this Agreement; and

(c) take no action that would constitute a contravention of any of the terms and provisions of this Agreement.

3.12 *Auditors*

The Auditors shall be appointed by the Shareholders from time to time.

3.13 *Banking*

Veridian Corporation's bankers shall be such financial institution as the Board shall from time to time determine. All resolutions respecting banking authority, the opening of bank accounts and the drawing on such accounts shall require the consent of the Board before becoming effective.

3.14 *Financial Statements*

Veridian Corporation shall cause to be prepared and delivered as soon as reasonably practicable and in no event later than 180 days after the end of each fiscal year of Veridian Corporation annual audited consolidated financial statements for such fiscal year prepared in accordance with generally accepted accounting principles and accompanied by a report of the Auditors.

ARTICLE IV
REPRESENTATIONS, WARRANTIES AND COVENANTS

4.1 *Representations and Warranties*

Each of the Shareholders represents and warrants as follows and acknowledges that each of the other parties hereto are relying on such representations and warranties in connection with the entering into of this Agreement:

(a) it is the registered and beneficial owner of the Shares stated to be owned by such Shareholder in the recitals hereto, free and clear of all Encumbrances and there are no outstanding agreements, options, warrants or other rights capable of becoming an agreement, option or warrant to purchase such Shares;

(b) it has the power and capacity to own its assets and to enter into and perform its obligations hereunder and has taken all necessary action to authorize the execution and delivery of this Agreement;

(c) this Agreement and the transactions contemplated herein have been duly authorized by it and constitutes a valid and binding obligation of it enforceable against it in accordance with its terms subject to the laws of bankruptcy and the availability of equitable remedies; and

(d) the execution, delivery and performance of this Agreement does not and will not contravene the provisions of its articles, by-laws, constating documents or the provisions of any agreement or other instrument to which it is a party or may be bound.

4.2 ***Covenants***

Each of the Shareholders covenants and agrees with each other party hereto that all of the foregoing representations and warranties pertaining to it set forth in Article 4.1 will continue to be true and correct during the continuance of this Agreement.

ARTICLE V
TRANSFER OF SHARES

5.1 ***General Restriction on Transfer***

Save and except for transfers made pursuant to and in accordance with Sections 5.3 and 5.4 of this Agreement, no Shares, nor the whole or any item or part of any right, title, benefit or interest therein or thereto, may be sold, transferred, assigned, made subject to any Encumbrance or otherwise disposed. No Shareholder shall be entitled to create or grant an Encumbrance on its Shares.

5.2 *Legend on Shares*

All share certificates representing Shares of Veridian Corporation shall bear on their face the following notation:

> "The shares represented by this certificate are subject to the provisions of the Shareholders' Agreement made as of September 28, 2001 among all of the shareholders of the Corporation as at that date, which agreement contains restrictions on the right to sell, transfer, pledge, mortgage, assign, vote or otherwise deal with or encumber such shares. Notice of such restrictions and the other provisions of such agreement is hereby given. A copy of such agreement is available for inspection from the Secretary of the Corporation on request."

5.3 *Rights of First Refusal*

If any Shareholder (in this Article V called the "Selling Shareholder") wishes to sell all, but not less than all, of its Shares (subject to Section 5.5) to a Person with whom it deals at Arm's Length, the other Shareholders and Veridian Corporation (in this Article V called the "Other Holders") shall have the prior right to purchase such Shares in accordance with the following provisions:

(a) **Notice of Offer**. A Selling Shareholder shall give to the Secretary of Veridian Corporation and to each Other Holder notice in writing of its desired intention to sell all, but not less than all, of its Shares (in this Article V called the "Offered Shares"). The notice (in this Article called the "Selling Notice") shall have annexed thereto a true copy of the offer, agreement or similar document (the "Offer") containing the terms and conditions pursuant to which the Selling Shareholder wishes to sell the Offered Shares to the prospective purchaser (in this Article V called the "Prospective Purchaser"), who shall be identified, and the price and terms of payment which the Selling Shareholder is willing to accept for the Offered Shares which shall be the same as set forth in the Offer;

(b) **<u>Offer Open During Notice Period</u>** . The Secretary of Veridian Corporation shall thereupon be deemed to be the agent of the Selling Shareholder for the purposes of offering the Offered Shares to the Other Holders on the terms of payment and for the price contained in the Selling Notice and the offer by the Secretary shall be irrevocable and remain open for acceptance, as hereinafter provided, for a period of 60 days (in this Article V called the "Notice Period") after receipt of the Selling Notice by the Secretary;

(c) **<u>Acceptance of Offer</u>** . Within 15 Business Days after receipt of the Selling Notice by the Secretary, the Secretary shall offer the Offered Shares for sale to the Other Holders as nearly may be in proportion to the number of Shares held by each such Other Holder respectively as at the date of such offer. The offer by the Secretary shall state that any Other Holder desiring to purchase a number of Offered Shares less than or in excess of its proportion shall indicate in its notice to the Secretary (in this Article V called the "Purchase Notice") stating the number of Offered Shares it desires to purchase. If, within the Notice Period, a Purchase Notice has not been received by the Secretary of Veridian Corporation from an Other Holder, such Other Holder shall be deemed to have declined to purchase the Offered Shares being offered;

(d) **<u>Excess Shares</u>** . If the Other Holders do not claim their respective proportions, any unclaimed Offered Shares shall be used to satisfy the claims of such Other Holders for Offered Shares in excess of their proportions. If the claims in excess are more than sufficient to exhaust such unclaimed Offered Shares, the unclaimed Offered Shares shall be divided pro rata among such Other Holders desiring Offered Shares in excess of their proportion, in proportion to the number of Shares held by them respectively as at the date of such offer, provided that any unclaimed Offered Shares after such pro rata division shall be divided pro rata among Other Holders in proportion to their claims in excess of their respective proportions determined as aforesaid. Notwithstanding anything to the contrary, no

Other Holder shall be bound to purchase any Offered Shares in excess of the amount indicated in its Purchase Notice;

(e) **No Fractions** . If the Offered Shares are not capable, without division into fractions of Shares, of being offered to or being divided among the Other Holders in the proportions above mentioned, the same shall be offered to or divided among the Other Holders as nearly as may be in the proportions hereinbefore mentioned and any balance shall be offered to or divided among the Other Holders or some of them in such equitable manner as may be determined by the Board;

(f) **Sale** . If all, but not less than all, of the Offered Shares are accepted by the Other Holders pursuant to the provisions of this Section 5.3, the Offered Shares shall be sold to the Other Holders for the price and for the terms contained in the Selling Notice;

(g) **Deemed Refusal** . If Purchase Notices have not been received by the Secretary in respect of all of the Offered Shares within the Notice Period, the Other Holders, and each of them, shall be deemed to have declined to purchase the Offered Shares and, subject to the provisions of paragraph (h), the Selling Shareholder may within 60 days after the expiration of the Notice Period sell all, but not less than all, of the Offered Shares to the Prospective Purchaser at the price and upon terms of payment which are not more favourable than those specified in the Selling Notice; and

(h) **Prospective Purchaser Bound** . The Selling Shareholder shall sell the Offered Shares to a Person who is not a party hereto only if such other Person simultaneously with any such sale executes and delivers to each of the other parties hereto a counterpart of this Agreement in which case such Person shall have the rights of a Transferee Shareholder and shall be subject to the same obligations as a party to this Agreement as if it were an original signatory in place of the Selling Shareholder or its predecessor in title originally party to this Agreement, as applicable. Without limiting the generality of the foregoing, a Transferee Shareholder shall agree to be bound by the provisions of Section 7.1.

(i) **Veridian Corporation as Purchaser** . The Other Holders, except Veridian Corporation, may cause Veridian Corporation to act as an Other Holder.

5.4 *Piggyback Right*

In the event one or more Selling Shareholders receives an Offer and, in accordance with the procedures set forth in Section 5.3, the Other Holders decline to purchase the Offered Shares from the Selling Shareholder(s), and the Shares which the Selling Shareholder(s) wish to sell under the Offer(s) would result in a Person owning more than 49% of all of the issued and outstanding Shares, then each Other Holder except Veridian Corporation shall have the right to require that all, but not less than all, of its Shares be sold to the Prospective Purchaser, on the same terms and conditions as those set out in the Offer; provided that, if the Prospective Purchaser will not purchase the aggregate amount of Shares which the Selling Shareholder(s) and the Other Holders except Veridian Corporation requested to be sold pursuant to the immediately preceding sentence, the number of Shares which the Selling Shareholder(s) and the Other Holders except Veridian Corporation shall be permitted to sell to the Prospective Purchaser shall be proportionately reduced so that each may sell the same percentage of its Shares. The Other Holders except Veridian Corporation may only exercise their right under this Section 5.4 by written notice given to the Secretary of Veridian Corporation within the Notice Period.

5.5 *Amalgamated Shareholder*

An Amalgamated Shareholder is entitled to sell its Shares in accordance with this Agreement in the same manner as if the Amalgamated Shareholder had not been amalgamated and, may for the purposes of Section 5.3 offer to sell less than all of its Shares (only if such Amalgamated Shareholder sells its Shares in the original blocks held by it prior to amalgamation) provided that each offer is otherwise made in compliance with Section 5.3.

ARTICLE VI
CLOSING OF PURCHASE TRANSACTION

6.1 *Time and Place of Closing*

The closing of any purchase and sale of Shares contemplated by Sections 5.3 or 5.4 of this Agreement shall unless otherwise agreed upon by the parties to such transaction, take place at the registered office of Veridian Corporation on the date specified in the Selling Notice.

6.2 *Documents to be delivered by the Vendor*

On or before the closing of a purchase and sale of Shares contemplated hereunder, the vendor shall deliver to the purchaser the following (each in form and substance satisfactory to the purchaser):

(a) a share certificate or certificates representing the Shares being sold, duly endorsed in blank for transfer or newly issued in the name of the purchaser;

(b) a certificate of a senior officer certifying that any representations and warranties made by such vendor in this Agreement are true and correct as of the Closing Date;

(c) the written resignation of such vendor's nominee(s) to the Board and a release by such nominee(s) of all claims against Veridian Corporation with respect to any matter or thing arising as a result of being a director;

(d) the written release of the vendor of all claims against Veridian Corporation and the Subsidiaries, any of the other Shareholders with respect to any matter or thing arising up to and including the Closing Date as a result of being a Shareholder; and

(e) such other documents as may be reasonably required by any party to such purchase and sale to properly complete the purchase and sale of the Shares.

6.3 *Documents to be delivered by the Purchaser*

On or before the closing of a purchase and sale of Shares contemplated hereunder, the purchaser shall deliver to the vendor the following:

(a) a certified cheque or bank draft in an amount equal to the purchase price for the Shares being purchased;

(b) in the event Shares are sold to a Person who is not a Shareholder pursuant to Sections 5.3 or 5.4 hereof, a duly executed counterpart of this Agreement or other agreement pursuant to which such Person agrees to be bound by the provisions hereof; and

(c) such other documents as may be reasonably required by any party to such purchase and sale to properly complete the purchase and sale of the Shares.

6.4 *Failure to Complete Sale*

In the event the vendor fails to complete the subject purchase and sale transaction, the purchaser shall have the right to deposit the purchase price for the subject Shares for the account of the vendor in an interest-bearing account at a branch of Veridian Corporation's bankers. Thereafter, notwithstanding that the documents required pursuant to Section 6.2 have not been delivered by the vendor, the purchase and sale of the subject Shares shall be deemed to be fully completed and all right, title, benefit and interest, both at law and in equity, in and to the subject Shares shall be deemed to have been transferred and assigned to and become vested in the purchaser and all right, title, benefit and interest, both at law and in equity, of the vendor or any other Person having an interest in and to the subject Shares shall cease and the records of Veridian Corporation shall be amended accordingly.

ARTICLE VII
NON-COMPETITION AND CONFIDENTIALITY

7.1 *Non-Competition*

(a) Each Shareholder covenants and agrees that it shall not, except through Veridian Corporation or otherwise with the consent of all Shareholders, or as provided in Section 7.1(b), directly or indirectly, from the date hereof until 2 years after the party ceases to be a Shareholder, compete within (a) Ontario; or (b) South Central Ontario; with the Business, whether by carrying on or engaging in or being concerned with or interested in or advising, lending money to, guaranteeing the debts or obligations of or permitting the party's name or any part thereof to be used or employed by any Person engaged in or concerned with or interested in any business within (c) Ontario; or (d) South Central Ontario that is competitive with the Business, or otherwise.

(b) The parties acknowledge that (i) a municipality other than the Shareholder which is a shareholder of one or more corporations incorporated under the Act for the purposes of generating, transmitting, distributing or retailing electricity, and (ii) a person which holds a portfolio investment of less than 5% of the shares of a corporation whose shares are publicly traded which competes with the Business is permitted to become a Shareholder in accordance with the provisions of this Agreement.

7.2 *Confidentiality*

Each Shareholder shall not use or disclose to any Person other than in the ordinary course of the Business of the Corporations, directly or indirectly, any Confidential Information at any time other than to employees, officers or directors of such Shareholder provided that all such Persons shall treat such information as confidential and not disclose same to any Third Party nor use the same for any purpose other than for the purposes of the Corporations or in respect of a

Shareholder's investment in the Corporations, provided, however, that nothing in this Article VII shall preclude a Shareholder from disclosing or using Confidential Information if:

(a) the Confidential Information is available to the public or in the public domain at the time of such disclosure or use, without breach of this Agreement;

(b) disclosure of Confidential Information is required to be made by any law, regulation, governmental body or authority or by court order;

(c) disclosure of Confidential Information is made in connection with any arbitration pursuant to Section 11.4;

(d) disclosure of Confidential Information is made to a court which is determining the rights of the parties under this Agreement;

(e) the Confidential Information is properly within the legitimate possession of a Shareholder prior to its disclosure hereunder and without any obligation of confidentiality;

(f) after disclosure, the Confidential Information is lawfully received by a Shareholder from another Person who is lawfully in possession of such information and such other Person is not restricted from disclosing the information to the Shareholder;

(g) the disclosure of Confidential Information is necessary to complete a transfer of Shares in accordance with this Agreement;

(h) the Confidential Information is independently developed by a Shareholder through Persons who have not had access to, or knowledge of, the Confidential Information, other than as permitted in (a) through (g) above or (i) below; or

(i) the Confidential Information is approved by the Corporations for disclosure prior to its actual disclosure.

Each Shareholder acknowledges and agrees that the obligations under this Section 7.2 shall remain in effect for the period of two (2) years after it ceases to be a Shareholder. Notwithstanding the foregoing restrictions, the nominees of the Shareholders on the Board shall be entitled to discuss the affairs of the Corporations with the officers, directors, employees and representatives of such Shareholder.

7.3 *Injunctive Relief*

Each Shareholder understands and agrees that Veridian Corporation, and consequently the other parties, will suffer irreparable harm in the event that the Shareholder breaches any of the obligations set out in this Article VII and that monetary damages shall be inadequate to compensate for the breach. Accordingly, each Shareholder agrees that, in the event of a breach or threatened breach by it of any of the provisions of this Article VII, Veridian Corporation and the other parties hereto, in addition to and not in limitation of any other rights, remedies or damages available to them at law or in equity, shall be entitled to an interim injunction, interlocutory injunction and permanent injunction in order to prevent or to restrain any such breach by the Shareholder.

7.4 *Accounting for Profits*

Each Shareholder agrees that in the event of a violation of any of its covenants or agreements under this Article VII, Veridian Corporation shall be entitled to an accounting and repayment of all profits, compensation, royalties, commissions, remunerations or benefits which the Shareholder directly or indirectly shall have realized or may realize relating to, growing out of, or in connection with any such violation(s); this remedy shall be in addition to and not in limitation of any injunctive relief or other rights or remedies to which Veridian Corporation and the other parties are or may be entitled at law or in equity or otherwise under this Article VII.

7.5 *Reasonableness of Restrictions*

Each Shareholder acknowledges that it has given careful consideration to the provisions of Sections 7.1 to 7.4 above and, having done so, agrees that the restrictions set forth in those sections are fair and reasonable and are reasonably required for the protection of the other Shareholders' investments in Veridian Corporation and for the protection of the interests of Veridian Corporation and its Business, and that it is being reasonably compensated for the imposition of such restrictions.

ARTICLE VIII
SALE OF SURPLUS ASSETS

8.1 *Right of First Refusal*

In the event that Veridian Corporation or any Subsidiary intends to sell any Surplus Assets, the municipal Shareholder in whose legal boundaries the Surplus Assets are located shall have a first right of refusal to purchase the Surplus Assets at their Fair Market Value. Such municipal Shareholder shall be entitled to receive written notice of any proposed disposition 90 days from the date of such notice to exercise its right to purchase, failing which the Surplus Assets may be sold by Veridian Corporation or any Subsidiary as the case may be.

ARTICLE IX
BOOKS, RECORDS AND RIGHT TO INFORMATION

9.1 *Books and Records*

Veridian Corporation shall at all times maintain at its registered office proper books of account, which shall contain accurate and complete records of all transactions, receipts, expenses, assets and liabilities of Veridian Corporation.

9.2 ***Right to Information***

The parties covenant and agree that each Shareholder of Veridian Corporation shall have rights of inspection as set out in Sections 140, 141, 144 and 145 of the Act.

ARTICLE X
TERM

10.1 ***Term and Automatic Renewal***

This Agreement shall come into force and effect as at and from the date of this Agreement and shall continue in force for five (5) years at which time this Agreement shall be automatically renewed for further successive terms of five (5) years each.

ARTICLE XI
PROMISSORY NOTES

11.1 ***Inter Creditor Agreement with respect to Promissory Notes***

Each of the Promissory Notes shall rank equally. No Shareholder may take any step to amend, convert, exchange, or enforce its Promissory Notes without the agreement of each other Shareholder which holds Promissory Notes to amend, convert, exchange or enforce its own Promissory Notes on the identical terms and conditions. A Shareholder which proposes such a step shall give notice in writing of its proposal and the agreement of a Shareholder to such proposal shall be given in writing by the Treasurer of that Shareholder. In the event that all Shareholders do not agree with the proposal, no Shareholder shall proceed with the proposed action.

ARTICLE XII
GENERAL

12.1 *Notices*

All notices, requests, demands, consents or other communications required to be given or made or provided for in this Agreement shall be in writing and shall be deemed to have been given if delivered, if sent by registered mail or if sent by telecopier or other means of electronic transmission to:

Ajax at:

Corporation of the Town of Ajax
65 Harwood Avenue South
Ajax, ON L1S 2H9

Fax Number: 905-683-1061
Attention: Mayor

Belleville at:

Corporation of the City of Belleville
459 Sidney Street
Belleville, ON K8N 2Y7

Fax Number: 613-967-3209
Attention: Mayor

Clarington to:

Corporation of the Municipality of Clarington
40 Temperance Street
Bowmanville, ON L1C 3A6

Fax Number: 905-623-5717
Attention: Mayor

Pickering to:

Corporation of the City of Pickering
1 The Esplanade
Pickering, ON L1V 3P4

Fax Number: 905-420-9695
Attention: Mayor

Veridian Corporation and/or Subsidiary to:

55 Taunton Road E.
Ajax, ON L1T 3V3

Fax Number: 905-427-6827
Attention: President, Veridian Corporation

or at such other addresses as the party to whom such notice is to be given may have designated by notice so given to the other parties. Any notice so mailed shall be deemed to have been given on the fifth Business Day following the date of the mailing of the same or if delivered, on the date of delivery and any notice given by telecopier or other means of electronic communication shall be deemed to have been received on the Business Day following the date on which such transmission is completed and the appropriate confirmation received.

12.2 ***Assignment and Binding Effect***

This Agreement is not assignable by any party except insofar as its benefit and burden pass with the Shares transferred in accordance with its provisions. This Agreement shall be binding on and enure to the benefit of the parties hereto and their respective successors and permitted assigns. Reference in this Agreement to any party shall be deemed to include reference to such party and its respective successors and assigns as permitted hereunder.

12.3 ***Amalgamation of Municipal Shareholders***

Two or more Initial Shareholders that amalgamate ("Amalgamated Shareholder") shall retain the same rights granted under this Agreement as if the respective Initial Shareholders had not amalgamated except as otherwise provided herein.

12.4 *Arbitration*

(a) **Selection of Single Arbitrator**. The Shareholders agree that any controversy, dispute or claim between them or any of them arising out of or relating to this Agreement or the performance, enforcement, breach, termination or validity of it, including the determination of the scope of the Agreement to arbitrate, shall be determined by arbitration before a single arbitrator (the "Arbitrator") agreed to by all of the Shareholders. If the Shareholders are unable to agree on the Arbitrator, then, an application may be made under the Arbitration Act to a judge for the appointment.

(b) **Referring Dispute**. Any Shareholder may refer a dispute to the Arbitrator by providing notice in writing to the Arbitrator and to all of the shareholders hereto expressing its intention to refer the dispute to arbitration and briefly describing the nature of the dispute.

(c) **Attempted Settlement**. Upon service of the notice referred to above, the Shareholders who are party to the dispute (the "Disputing Shareholders") will attempt to negotiate a settlement of the dispute amongst themselves. In the event that the parties are unable to reach settlement by themselves within 10 days of the service of the notice referred to above, the Shareholders will proceed with the arbitration and any Disputing Shareholders shall be free to apply to the Arbitrator for directions as to the scheduling of the arbitration itself and the pre-hearing procedures.

(d) **Decision Final and Binding**. The Shareholders agree that the award of the Arbitrator shall be final and binding without any right of appeal and shall be the sole and exclusive remedy between them regarding any claims, counterclaims, issues or disputes referred to the Arbitrator.

(e) **Place of Arbitration**. The arbitration shall take place in Toronto, and shall be governed by the laws of the Province of Ontario.

(f) **<u>Powers of Arbitrator</u>**. The Shareholders agree that the Arbitrator shall have the powers and jurisdiction of an arbitrator pursuant to the *Arbitration Act* and such power shall include the power to award interim and interlocutory injunctions and other equitable relief.

(g) **<u>Costs</u>**. The Arbitrator shall have the power to award the costs of the Arbitrator's services and related costs against either party, however, each party will bear the costs of their own counsel and witness fees.

(h) **<u>Written Notices</u>**. All notices by one Shareholder to the other in connection with the arbitration shall be in writing and shall be deemed to have been duly given or made if delivered or sent by facsimile transmission to the addresses provided in this Agreement.

12.5 ***Further Assurances***

Each party hereto shall do such acts and shall execute such further documents, conveyances, deeds, assignments, transfers and the like, and will cause the doing of such acts and will cause the execution of such further documents as are within its power as any other party may in writing at any time and from time to time reasonably request be done and or executed, in order to give full effect to the provisions of this Agreement.

12.6 ***Severability***

If any provision of this Agreement is determined to be invalid or unenforceable by a court of competent jurisdiction from which no further appeal lies or is taken, that provision shall be deemed to be severed herefrom, and the remaining provisions of this Agreement shall not be affected thereby and shall remain valid and enforceable.

12.7 ***Amendment, Modification and Waiver***

This Agreement may not be modified, amended, terminated or supplemented except as agreed, in writing, by Shareholders both comprising a majority in number of the Shareholders and holding not less than 51% of the Shares then issued and outstanding. In the event that the Initial Shareholders amalgamate such that only two Shareholders remain, this Agreement may not be modified, amended, terminated or supplemented except as agreed, in writing, by all the Shareholders. Any waiver of, or consent to depart from, the requirements of any provision of this Agreement shall be effective only if it is in writing and signed by the party giving it, and only in the specific instance and for the specific purpose for which it has been given. No failure on the part of any party to exercise, and no delay in exercising, any right under this Agreement shall operate as a waiver of such right. No single or partial exercise of any such right shall preclude any other or further exercise of such right or the exercise of any other right.

12.8 *Time of Essence*

Time is of the essence of this Agreement.

12.9 *Counterparts*

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which taken together shall constitute one agreement.

12.10 *No Partnership*

Nothing in this Agreement shall be deemed in any way or for any purpose to constitute any party a partner of or a joint venture with any other party.

12.11 *Proceedings*

The covenants, agreements and obligations herein expressed to be observed and performed by the parties hereto may be enforced by any of the parties hereto pursuant to Section 11.4 without joining the remaining parties as parties in any proceedings.

IN WITNESS WHEREOF the parties hereto have duly executed this Agreement as of the date first above written.

THE CORPORATION OF THE TOWN OF AJAX

By: ______________________________ c/s
Steve Parish, Mayor

By: ______________________________ c/s
Marty deRond, Clerk

THE CORPORATION OF THE CITY OF BELLEVILLE

By: ______________________________ c/s
George A. Zegouras, Mayor

By: ______________________________ c/s
Jary Plamondon, Clerk

THE MUNICIPALITY OF CLARINGTON

By: ______________________________ c/s
John Mutton, Mayor

By: ______________________________ c/s
~~Patti L. Barrie, Clerk~~
Marie Knight Stanley, Deputy Clerk

THE CORPORATION OF THE CITY OF PICKERING

By: ______________________________ c/s
Wayne Arthurs, Mayor

By: ______________________________ c/s
Bruce Taylor, Clerk

IN WITNESS WHEREOF the parties hereto have duly executed this Agreement as of the date first above written.

THE CORPORATION OF THE TOWN OF AJAX

By: ______________________________ c/s
Steve Parish, Mayor

By: ______________________________ c/s
Marty deRond, Clerk

THE CORPORATION OF THE CITY OF BELLEVILLE

By: George A. Zegouras c/s
George A. Zegouras, Mayor

By: Jary Plamondon c/s
Jary Plamondon, Clerk

THE MUNICIPALITY OF CLARINGTON

By: ______________________________ c/s
John Mutton, Mayor

By: ______________________________ c/s
Patti L. Barrie, Clerk

THE CORPORATION OF THE TOWN OF PICKERING

By: ______________________________ c/s
Wayne Arthurs, Mayor

By: ______________________________ c/s
Bruce Taylor, Clerk

VERIDIAN CORPORATION

By: ______________________________ c/s
John Wiersma, President

By: ______________________________ c/s
James I. Mason, Director

VERIDIAN CONNECTIONS INC.

By: ______________________________ c/s
John Wiersma, President

By: ______________________________ c/s
Jim McMaster, Director

VERIDIAN ENERGY INC.

By: ______________________________ c/s
John Wiersma, President

By: ______________________________ c/s
Jim Witty, Director

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SCHEDULE "A"

LIST OF PROMISSORY NOTES

1. Promissory Note issued by Veridian Corporation to Ajax in the principal amount of $5,550,000.

2. Promissory Note issued by VCI to Ajax in the principal amount of $14,060,000.

3. Promissory Note issued by Veridian Corporation to Belleville in the principal amount of $2,206,000.

4. Promissory Note issued by VCI to Belleville in the principal amount of $5,588,000.

5. Promissory Note issued by Veridian Corporation to Clarington in the principal amount of $2,355,000.

6. Promissory Note issued by VCI to Clarington in the principal amount of $5,966,000.

7. Promissory Note issued by Veridian Corporation to Pickering in the principal amount of $7,095,000.

8. Promissory Note issued by VCI to Pickering in the principal amount of $17,974,000.

FIRST AMENDING AGREEMENT TO

SHAREHOLDERS' AGREEMENT

THIS FIRST AMENDING AGREEMENT made as of the 30th day of September, 2003.

B E T W E E N:

The Corporation of the Town of Ajax, a municipal corporation existing under the laws of Ontario

("Ajax")

- and -

The Corporation of the City of Belleville, a municipal corporation existing under the laws of Ontario

("Belleville")

- and -

The Corporation of the Municipality of Clarington, a municipal corporation existing under the laws of Ontario

("Clarington")

- and -

The Corporation of the City of Pickering, a municipal corporation existing under the laws of Ontario

("Pickering")

- and -

Veridian Corporation, a corporation existing under the laws of Ontario

("VC")

- and -

Veridian Connections Inc., a corporation existing under the laws of Ontario

("VCI")

- and -

Veridian Energy Inc., a corporation existing under the laws of Ontario

("VEI")

(Ajax, Belleville, Clarington, Pickering, VC, VCI and VEI are collectively referred to herein as the "Parties")

RECITALS:

A. The Parties entered into a shareholders' agreement made as of the 28th day of September, 2001 (the "Shareholders' Agreement");

B. The Parties wish to amend the Shareholders' Agreement to (i) permit a Belleville nominee to serve as the Chair or Vice-Chair of the board of directors of VC (the "Board"); (ii) delete the provisions of the Shareholders' Agreement relating to the executive committee of the Board; (iii) to allow for an increase in each municipal Party's Council representation on the board of directors of VC; and (iv) grant Belleville one additional nominee to the board of directors of VC;

NOW THEREFORE THIS FIRST AMENDING AGREEMENT WITNESSES that in consideration of the respective covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. All capitalized terms used in this First Amending Agreement and not defined herein shall have the meanings given to them in the Shareholders' Agreement.

2. All references herein to Sections and Subsections are references to Sections and Subsections in the Shareholders' Agreement unless otherwise stated herein.

3. In Section 1.1, the definition of "Majority Rule" is hereby deleted.

4. In Section 1.1, the following definition of "Mayor's Designate" is hereby added:

   ""Mayor's Designate" means the designate selected by the Mayor to serve on the Board in place of the Mayor provided that the Mayor's Designate shall be a member of that Mayor's municipal Council."

5. Subsection 3.2(b) is hereby deleted and replaced with the following:

   "**The Board and Subsidiary Boards**. The business and affairs of Veridian Corporation shall be managed or supervised by the Board which shall consist of 14 directors or such other number of directors as the Shareholders may determine from time to time by special resolution in accordance with the Act. Each of the Initial Shareholders shall nominate the number of members to the Board listed opposite that Initial Shareholder's name below:

Number of Directors	Nominee of
4	Ajax
2	Belleville
3	Clarington

5 Pickering

The Board shall annually elect from its members a Chair and Vice-Chair.

6. Subsection 3.2(d) is hereby deleted and replaced with the following:

"**Qualifications of Board**. Each Initial Shareholder shall nominate the Mayor of the Initial Shareholder or the Mayor's Designate as one of the Initial Shareholder's nominees to the Board provided that if the Mayor ceases to hold the office of Mayor, the appointing Initial Shareholder shall forthwith replace the Mayor or the Mayor's Designate, as applicable. Each Initial Shareholder shall nominate to the Board members of its council (including the Mayor or the Mayor's Designate) ("Council Appointees") provided that at least one nominee of each Initial Shareholder shall not be a Council Appointee of that Initial Shareholder. In addition to the requirements of the Act, the qualifications of candidates for the Board shall, where possible, include the following:

(i) business experience;

(ii) time availability;

(iii) financial skills;

(iv) marketing skills;

(v) industry knowledge;

(vi) independence of judgment;

(vii) integrity;

(viii) knowledge of public policy issues relating to the Corporations; and

(ix) knowledge and experience concerning environmental matters, labour relations and occupational health and safety issues."

7. Subsection 3.2(j) is hereby amended by adding the following sentence immediately after the end of the second sentence of Subsection 3.2(j):

"In the event that an equal number of votes are cast at a meeting both for and against a motion, the motion shall be defeated."

8. Subsection 3.3(a) is hereby amended by deleting in its entirety Subsection 3.3(a).

9. Except as expressly set out herein, the Shareholders' Agreement remains in full force and effect, unamended.

10. This First Amending Agreement shall be governed by and construed in accordance with the laws of Ontario.

11. This First Amending Agreement shall enure to the benefit of, and be binding on, the Parties and their respective successors and permitted assigns.

12. This First Amending Agreement may be executed in any number of counterparts, each of which will be deemed to be an original and all of which taken together will be deemed to constitute one and the same agreement.

IN WITNESS WHEREOF the Parties by their duly authorized representatives have executed this First Amending Agreement as of the day and year first above written.

THE CORPORATION OF THE TOWN OF AJAX

By:_______________________________c/s
Name: Steve Parish
Title: Mayor

By:_______________________________c/s
Name: Marty deRond
Title: Clerk

THE CORPORATION OF THE CITY OF BELLEVILLE

By: George A. Zegouras c/s
Name: George A. Zegouras
Title: Mayor

By:_______________________________c/s
Name: Wayne Tod
Title: City Clerk

THE CORPORATION OF THE MUNICIPALITY OF CLARINGTON

By:_______________________________c/s
Name: John Mutton
Title: Mayor

By:_______________________________c/s
Name: Patti Barrie
Title: Clerk

THE CORPORATION OF THE CITY OF PICKERING

By:______________________________c/s
Name: Maurice Brenner
Title: Interim Mayor

By:______________________________c/s
Name: Bruce Taylor
Title: Clerk

VERIDIAN CORPORATION

By:______________________________c/s
Name: John Wiersma
Title: President

By: James Mason __________c/s
Name: James Mason
Title: Chair

VERIDIAN CONNECTIONS INC.

By:______________________________c/s
Name: John Wiersma
Title: President

By:______________________________c/s
Name: Jim McMaster
Title: Chair

VERIDIAN ENERGY INC.

By:______________________________c/s
Name: John Wiersma
Title: President

By:______________________________c/s
Name: Jim Witty
Title: Chair

33. Ref: Exhibit 5 / Tab 2 / Schedule 2

Request

Please provide full details of the "demand credit facility" referred to, including the commitment letter or term sheet, the loan agreement, and the promissory note or notes, if any.

Response:

Please see the response to School Energy Coalition interrogatory #32 (a)

34. Ref: Exhibit 6 / Tab 1 / Schedule 1

Request

Please re-calculate Tables 1 through 3 using updated values consistent with the Board's Report on Cost of Capital dated December 11, 2009. Please use the most recent information available for the calculation of all components of the cost of capital and PILs.

Response:

The amount of Veridian's rate base and revenue requirement for the 2010 Test Year has changed as a result of Veridian's Application Update. This interrogatory has been answered on the basis of the updated values.

(a) Veridian provides below recalculated Tables 1 through 3 to be consistent with the Board's Report on Cost of Capital dated December 11th, 2009. Veridian has used the most recent information available for calculation of all components of the cost of capital as follows;

- ROE – 9.75% - As per the value published in the referenced report.
- Deemed Debt Rate – 7.62 % - Veridian has not updated its proposed cost of debt from that originally filed. No value for the deemed debt rate was published in the referenced report and Veridian is unable to calculate an estimate of an updated debt rate as it does not have access to the referenced sources of information.

Veridian notes that any changes in rate base and revenue requirement provided in this response are not representative of the total changes or impacts anticipated by the Board's referenced report as Veridian's proposed long term debt rate was based on the Board's deemed debt rate. Veridian used the 2009 deemed debt rate of 7.62% as a placeholder, however Veridian expects that the 2010 deemed debt rate will be lower than 7.62%.

Recalculated Table 1: Service revenue requirement and base revenue requirement – 2010

OM&A Expenses	*from sheet D1*	22,236,324
3850-Amortization Expense	*from sheet E2*	12,947,743
Total Distribution Expenses		35,184,067
Regulated Return On Capital	*from sheet D3*	14,890,342
PILs (with gross-up)	*from sheet E4*	3,713,078
Service Revenue Requirement		**53,787,487**
Less: Revenue Offsets	*from sheet C9*	4,218,100
Base Revenue Requirement		**49,569,387**

Recalculated Table 2 – Calculation of 2010 Test year Utility Net Income

	2010 Test Year
Revenue	
Distribution Revenues	49,569,387
Other Revenues	4,218,100
Total Revenue	**53,787,487**
Expenses	
OM&A Expenses	22,236,324
Amortization	12,947,743
	35,184,067
Utility Income Before Interest and Taxes	**18,603,420**
Less: Deemed Interest Expense	7,570,996
Utility Income Before Taxes	**11,032,424**
Income Taxes and Capital Taxes	3,713,078
Utility Net Income	**7,319,346**

Recalculated Table 3 – Statement of Rate Base and Requested Return for 2010 Test Year

Rate Base		
2009 ending Net Fixed Assets	148,700,849	
2010 ending Net Fixed Assets	160,794,899	
Average Net Fixed Assets		154,747,874
Working Capital Allowance Base	219,517,700	
Working Capital Allowance	15.0%	32,927,655
Rate Base		**187,675,529**
Return On Rate Base		
Deemed Short-Term Debt %	4.00%	7,507,021
Deemed Long-Term Debt %	56.00%	105,098,296
Deemed Equity %	40.00%	75,070,212
Short-Term Interest	1.33%	99,843
Long-Term Interest	7.11%	7,471,153
Return On Equity	9.75%	7,319,346
Return On Rate Base		**14,890,342**

35. Ref: Exhibit 6 / Tab 1 / Schedule 3

Request

Please restate the Table to disaggregate the impact of the 2007 corporate restructuring, and show the adjusted drivers after taking that out of the calculation.

Response:

The total revenue deficiency calculated in the table is that which is calculated from 2006 Board Approved levels to the 2010 Test Year levels. Veridian understands the request to be to restate the table providing a summary of the components of the revenue deficiency as if the 2007 corporate restructuring had occurred prior to the last Board Approved revenue requirement.

The 2006 Board Approved levels were based on the historic test year of 2004. To restate the components of the revenue deficiency on the requested basis, Veridian would need to recalculate all components of the 2006 Board Approved revenue requirement under the premise that the 2007 corporate restructuring had taken place prior to 2004.

The information required to restate the table in the noted reference is not readily available and therefore the request cannot be completed in the time provided for response to this interrogatory.

36. Ref: Exhibit 7 / Tab 2 / Schedule 1

Request

Please recalculate the Bill Impact Summary using updated values to calculate revenue requirement, consistent with the Board's Report on Cost of Capital dated December 11, 2009. Please use the most recent information available for the calculation of all components of the cost of capital and PILs.

Response:

Veridian understands the correct reference for this interrogatory to be Exhibit 8, Tab 7, Schedule 2, Attachments 1 and 2 – VCI_Main and VCI_Gravenhurst Bill Impact Summaries.

The amount of Veridian's Revenue Requirement for the 2010 Test Year and proposed Tariff of Rates and Charges has changed as a result of Veridian's Application Update. This interrogatory has been answered on the basis of the updated values.

Veridian provides as Attachments 1 and 2 recalculated Bill Impact Summaries using updated values consistent with the Board's Report on Cost of Capital dated December 11th, 2009. Veridian has used the most recent information available for calculation of all components of the cost of capital as follows;

- ROE – 9.75% - As per the value published in the referenced report.
- Deemed Debt Rate – 7.62 % - Veridian has not updated its proposed cost of debt from that originally filed. No value for the deemed debt rate was published in the referenced report and Veridian is unable to calculate an estimate of an updated debt rate as it does not have access to the referenced sources of information.

Veridian notes that the any changes in provided in this response are not representative of the total changes or impacts anticipated by the Board's referenced report as Veridian's proposed long term debt rate was based on the Board's deemed debt rate. Veridian used the 2009 deemed debt rate of 7.62% as a placeholder, however Veridian expects that the 2010 deemed debt rate will be lower than 7.62%.

Veridian_SEC IRR_36 - Attachment 1

Revised VCI_Main Bill Impact Summary - Based on Updated ROE - 9.75%

Customer Class Name	Volume		RPP Rate Class	Distribution Charges		Delivery Sub-total		Total Bill	
	kWh	kW		$ change	% change	$ change	% change	$ change	% change
Residential	800	0	Summer	$3.58	15.1%	($0.02)	(0.1%)	($0.02)	(0.0%)
	1,000	0	Summer	$3.94	14.7%	($0.56)	(1.6%)	($0.56)	(0.5%)
	1,500	0	Summer	$4.84	14.0%	($1.91)	(4.1%)	($1.92)	(1.2%)
	2,000	0	Summer	$5.74	13.6%	($3.26)	(5.5%)	($3.26)	(1.5%)
	5,000	0	Summer	$11.14	12.5%	($11.36)	(8.7%)	($11.37)	(2.1%)
	800	0	n/a	$3.58	15.1%	$1.50	4.9%	$1.50	1.6%
General Service Less Than 50 kW	1,000	0	Non-res.	$3.02	9.5%	($1.58)	(4.0%)	($1.58)	(1.4%)
	2,000	0	Non-res.	$4.22	8.6%	($4.98)	(7.7%)	($4.98)	(2.2%)
	10,000	0	Non-res.	$13.82	7.3%	($32.18)	(12.2%)	($32.18)	(3.0%)
	35,000	0	Non-res.	$43.82	7.0%	($117.18)	(13.2%)	($117.20)	(3.1%)
	25,000	0	Non-res.	$31.82	7.1%	($83.18)	(13.0%)	($83.21)	(3.1%)
	2,000	0	Non-res.	$4.22	8.6%	($4.98)	(7.7%)	($4.98)	(2.2%)
	25,000	0	n/a	$31.82	7.1%	($35.68)	(5.6%)	($35.71)	(1.4%)
General Service 50 to 2,999 kW	435,000	1,480	n/a	$372.38	7.6%	($1,475.33)	(14.6%)	($1,475.63)	(3.4%)
	100,000	500	n/a	$133.06	7.6%	($580.39)	(16.5%)	($580.46)	(5.2%)
	40,000	100	n/a	$35.38	7.8%	($69.31)	(8.6%)	($69.33)	(1.8%)
General Service 3,000 to 4,999 kW	1,750,000	4,000	n/a	$938.01	8.0%	($2,800.19)	(10.3%)	($2,801.36)	(1.7%)
Large Use	4,200,000	6,800	n/a	$2,757.65	13.9%	($6,486.07)	(14.0%)	($3,662.83)	(1.0%)
Unmetered Scattered Load	800	0	Non-res.	$3.36	16.1%	($0.24)	(0.9%)	($0.24)	(0.3%)
Sentinel Lighting	180	1	Non-res.	$2.92	59.2%	$2.08	34.5%	$2.08	10.8%
Street Lighting	180	1	Non-res.	$0.42	18.1%	($0.39)	(11.3%)	($0.39)	(2.4%)

Note: RPP Rate Class of "n/a" indicates Non-RPP customers subject to the Global Adjustment Rate Rider

Veridian_SEC IRR_36 - Attachment 2
Revised VCI_Gravenhurst Bill Impact Summary - Updated for ROE - 9.75%

Customer Class Name	Volume		RPP Rate Class	Distribution Charges		Delivery Sub-total		Total Bill	
	kWh	kW		$ change	% change	$ change	% change	$ change	% change
Residential Urban Year-Round	800	0	Summer	$5.54	21.8%	$8.04	23.3%	$8.79	9.0%
	1,000	0	Summer	$6.28	21.3%	$9.42	23.2%	$10.36	8.6%
	1,500	0	Summer	$8.13	20.7%	$12.82	22.8%	$14.22	7.9%
	2,000	0	Summer	$9.98	20.3%	$16.24	22.7%	$18.10	7.6%
	5,000	0	Summer	$21.08	19.4%	$36.74	22.3%	$41.40	7.0%
	800	0	n/a	$5.54	21.8%	$8.30	24.1%	$8.99	9.1%
Residential Suburban Year-Round	800	0	Summer	$7.09	23.9%	$9.59	24.8%	$10.34	10.1%
	1,000	0	Summer	$7.95	23.6%	$11.09	24.7%	$12.03	9.6%
	1,500	0	Summer	$10.10	23.1%	$14.79	24.4%	$16.19	8.8%
	2,000	0	Summer	$12.25	22.7%	$18.51	24.3%	$20.37	8.4%
	5,000	0	Summer	$25.15	22.0%	$40.81	23.9%	$45.47	7.6%
	800	0	n/a	$7.09	23.9%	$9.85	25.5%	$10.54	10.3%
Residential Suburban Seasonal	800	0	Summer	$10.60	21.3%	$13.34	22.8%	$14.09	11.6%
	1,000	0	Summer	$11.86	21.2%	$15.30	22.8%	$16.24	11.0%
	1,500	0	Summer	$15.01	20.9%	$20.15	22.7%	$21.55	10.2%
	2,000	0	Summer	$18.16	20.7%	$25.02	22.7%	$26.88	9.7%
	5,000	0	Summer	$37.06	20.3%	$54.22	22.7%	$58.88	8.9%
	800	0	n/a	$10.60	21.3%	$13.60	23.2%	$14.29	11.6%
General Service Less Than 50	1,000	0	Non-res.	$7.12	23.6%	$10.25	25.4%	$11.19	9.4%
	2,000	0	Non-res.	$11.22	22.6%	$17.45	25.0%	$19.31	8.2%
	35,000	0	Non-res.	$146.52	21.2%	$255.71	24.5%	$288.33	7.1%
	25,000	0	Non-res.	$105.52	21.3%	$183.50	24.5%	$206.79	7.2%
	75,000	0	Non-res.	$310.52	21.2%	$544.48	24.5%	$614.35	7.1%
	25,000	0	n/a	$105.52	21.3%	$191.52	25.6%	$213.12	7.7%
General Service 50 to 4,999 kW	435,000	1,480	n/a	($58.87)	(0.7%)	$1,898.25	13.9%	$2,274.00	4.7%
	100,000	500	n/a	$38.93	1.4%	$685.06	14.8%	$771.44	6.1%
	40,000	100	n/a	$78.85	13.8%	$214.49	22.7%	$249.04	6.0%
Sentinel Lighting	180	1	Non-res.	$3.47	>100%	$4.41	86.9%	$4.56	24.3%
Street Lighting	180	1	Non-res.	$0.24	17.1%	$1.29	30.3%	$1.44	8.0%

Note: RPP Rate Class of "n/a" indicates Non-RPP customers subject to the Global Adjustment Rate Rider