

PRO-FORMA MUNICIPALITY
STATEMENT OF OPERATIONS

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FOR THE YEAR ENDED DECEMBER 31, 1994

	1994	1993
SERVICE REVENUE		
Residential	85,006,413	79,750,462
General	194,922,120	179,456,476
Large User	32,364,148	29,097,068
Street Lighting	<u>1,450,358</u>	<u>1,424,903</u>
Sub-Total	313,743,039	289,728,909
Service Revenue Adjustment (Note 7)	<u> </u>	<u>1,540,000</u>
Total	313,743,039	291,268,909
COST OF POWER		
Power Purchased - Ontario Hydro	284,550,181	262,881,814
Local Generation and Other Purchases	<u>1,672,939</u>	<u>1,558,004</u>
Total	286,223,120	264,439,818
Gross Margin on Service Revenue	27,519,919	26,829,091
Other Operating Revenue (Note 4)	5,923,722	6,355,477
OPERATING AND MAINTENANCE EXPENSE		
High Voltage Transformation	4,171,532	3,846,638
Distribution (Note 5)	7,491,853	7,698,985
Utilization (Note 6)	<u>1,267,692</u>	<u>1,320,523</u>
Total	12,931,077	12,866,146
Billing and Collecting	4,840,885	4,718,254
General Administration Expense	2,436,597	2,383,655
Depreciation	<u>9,974,406</u>	<u>9,626,440</u>
INCOME BEFORE FINANCIAL EXPENSE AND EXTRAORDINARY ITEM	3,260,676	3,590,073
FINANCIAL EXPENSE		
Interest Expense	<u>427,697</u>	<u>307,959</u>
Total	427,697	307,959
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	<u>2,832,979</u>	<u>3,282,114</u>
NET INCOME (LOSS)	<u>2,832,979</u>	<u>3,282,114</u>

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KEY INDICATORS

There are two areas to be considered under this heading.

The first is called "Performance Indicators" and covers these areas:

1. Rate of Return*
2. Working Capital*
3. Debt Ratio*
4. Acid Test Ratio*
5. Gross Margin on Service Revenue*
6. Controllable Costs Per Customer
7. Employees Per 1,000 Customers
8. Customer Cost Per Kilowatt-Hour
9. Average Retail Rate Change
10. System Efficiency (ratio of kwh sold to kwh purchased)

The ratios and statistics derived from the above and other performance indicators may be used for trending purposes in one's own utility and for comparison with similar utilities. In the latter instance, care should be taken to ensure that comparisons are valid and take into account all relevant factors.

The second is called "Highlights" and lists the following statistics:

1. Kilowatt-Hour Sales - total for year or average consumption per customer
2. System Peak Load
3. Total Revenues
4. Total Operating Expenses
5. Net Income
6. Capital Expenditures
7. Working Capital
8. Number of Customers
9. Number of Meters
10. Number of Employees
11. Gross Fixed Assets to Revenue
12. Gross Fixed Assets to Number of Customers

Key indicators should be shown as a comparison with previous year(s).

*Descriptions follow.



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PERFORMANCE INDICATOR DESCRIPTIONS

RATE OF RETURN

Rate of return is defined as the ratio of allowed Operating Income to a specified rate base, expressed as a percentage.

Rate Base

The rate base is the value established by a regulatory authority, upon which a utility is permitted to earn a specified rate of return. Generally, this represents the amount of property used and useful in public service.

Currently for municipal utility rate regulation purposes in Ontario.

1. Return is defined as income before financial expense and extraordinary items, and
2. the rate base is defined as the average of the fixed assets in service (net of accumulated depreciation) estimated to exist at the beginning and end of the year, plus an allowance for working capital, and where
3. the allowance for working capital in the rate base is equivalent to 15% of the net operating expenses in the year.

WORKING CAPITAL expressed as a percentage of net operating expenses

This percentage is used for regulatory purposes, and the two components are calculated as follows:

1. Working capital is defined as total current assets less total current liabilities, and
2. net annual operating expenses are defined as total annual operating expenses less the annual provision for depreciation.



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DEBT RATIO

This expresses the relationship between debt and utility equity, and measures the extent to which assets are financed by debt.

The formula is: Debt Ratio = $\frac{\text{debt}}{\text{debt} + \text{equity}}$

The debt ratio of individual municipal electric utilities will vary depending on local circumstances. While a debt ratio criterion need not be specified for the establishment of retail rate levels, normally the debt ratio for municipal electric utilities would not be expected to exceed 50%.

ACID TEST RATIO

This is the ratio of the total cash, accounts receivable, unbilled revenue and marketable securities included in current assets to current liabilities.

GROSS MARGIN ON SERVICE REVENUE

This represents the difference between service revenue and cost of power, expressed as a percentage of service revenue. While this will vary from utility to utility, the comparison between the current and previous year's gross margin percentage will be meaningful.



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UTILITY

Summary and Computation of Indicators

INDICATOR

COMPUTATION *

Working Capital Percentage

$$\frac{\text{Working Capital}}{\text{Total Operating Expenses **}} = \frac{34,812,834}{303,860,678} = 11.46\%$$

Debt Ratio

$$\frac{\text{Long-Term Debt}}{\text{Long-Term Debt} + \text{Equity}} = \frac{637,066}{637,066 + 194,210,131} = 0.33\%$$

Acid Test Ratio

$$\frac{\text{Cash} + \text{Accounts Receivable} + \text{Unbilled Revenue} + \text{Marketable Securities}}{\text{Current Liabilities}} = \frac{67,649,363}{38,501,190} = 1.76$$

	1994	1993
Gross Margin on Service Revenue	8.7%	9.2%
Total Revenues	319,666,761	297,624,386
Total Operating Expenses	316,833,782	294,342,272
Net Income	2,832,979	3,282,114
Gross Capital Expenditures	14,001,683	18,635,950
Working Capital	34,812,834	31,597,781
Number of Customers	136,976	136,471
Number of Employees	384	404

* All figures taken from Section 3010 of this manual.

** See working paper for derivation of figures.



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Rate of Return

	<u>1994</u>	<u>1993</u>	
Net Assets in Service	161,999,430	159,039,109	Net Assets (before Construction in Progress)
Average	160,519,269		
Operating Expenses	284,550,181		Cost of Power - Total
	12,931,077		Operating and Maintenance
			Expense - Total
	4,840,885		Billing and Collecting
	2,436,597		General Administration Expense
	9,974,406		Depreciation
	<u>(10,872,468)</u>		Depreciation Provision
	303,860,678		Total Operating Expense
	=====		
Working Capital Allowance (= 15% x Operating Expense)		<u>45,579,101</u>	
Average Net Assets in Service + Working Capital Allowance		<u>206,098,370</u>	= Rate Base
Rate of Return	<u>3,260,676</u> 206,098,370		Income before Financial & Extraordinary Expenses = 1.58%
			Rate Base

