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June 14, 2010

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Attention: Kirsten Walli
Board Secretary

**Re: 2011 Electricity Distribution Rates
EB-2010-0133**

Please find enclosed two hard copies of Hydro Ottawa Limited's 2011 Electricity Distribution Rates Application.

A complete copy of the Application has been filed electronically with the Board today.

If further information is required, please contact the undersigned at 613-738-5499 ext 7499 or janescott@hydroottawa.com.

Yours truly,

Original signed by

Jane Scott
Manager, Rates and Revenue
Hydro Ottawa Limited



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ABBREVIATIONS AND DEFINED TERMS

1.0 ABBREVIATIONS

- Accounting Procedures Handbook ("APH")
- Accounting Standards Board of Canada ("AcSB")
- Advanced Metering Communications Device ("AMCD")
- Advanced Metering Infrastructure ("AMI")
- Advanced Metering Infrastructure Management Tool ("AMI MT")
- Affiliate Relationships Code for Electricity Transmitters and Distributors ("ARC")
- Allowance for funds used during construction ("AFUDC")
- Asset Management Plan ("AMP")
- Asset Retirement Obligation ("ARO")
- Bankers' Acceptance ("BA")
- Base Revenue Requirement ("BRR")
- Board's Directions on Cost Allocation Methodology for Electricity Distributors (EB-2005-0317) issued on September 29, 2006 (the "Board Directions").
- Canadian Electricity Association ("CEA")
- Cumulative Eligible Capital ("CEC")
- Canadian Generally Accepted Accounting Principals ("CGAPP")
- Canadian Institute of Chartered Accountants ("CICA")
- Canadian Radio-television and Telecommunications Commission ("CRTC")
- Canadian Standards Association ("CSA")
- Capital Cost Allowance ("CCA")
- Chief Operating Officer ("COO")
- City of Ottawa (the "City")
- Coalition of Large Distributors ("CLD")
- Computer Aid Facilities Management ("CAFM")
- Conservation and Demand Management ("CDM")
- Conservation Voltage Reduction ("CVR")
- Construction and Maintenance division ("C&M")



- 1 Construction-Work-in-Progress ("CIP")
- 2 Consumer Price Index ("CPI")
- 3 Cooling Degree Days ("CDD")
- 4 Report of the Board: Application of Cost Allocation for Electricity Distributors dated
- 5 November 28, 2007 (the "Cost Allocation Report").
- 6 Crosslink Polyethylene ("XLPE")
- 7 Cumulative Eligible Capital ("CEC")
- 8 Customer Care & Billing ("CC&B")
- 9 Customer Information System ("CIS")
- 10 Customer Service Strategy Plan ("CSSP")
- 11 Data Base Administrator ("DBA")
- 12 Debt Retirement Charge ("DRC")
- 13 Deloitte and Touche ("D&T")
- 14 Distribution Asset Management division ("DAM")
- 15 Distribution Reliability Response Maintainer ("DRRM")
- 16 Electricity Distribution Rate ("EDR")
- 17 Report of the Board on Electricity Distributors' Deferral and Variance Account Review
- 18 Initiative ("EDDVAR Report").
- 19 Electricity Distributors Association ("EDA")
- 20 Electronic Business Transactions ("EBT")
- 21 Eligible Capital Expenditure ("ECE")
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- 23 Engineer in Training ("EIT")
- 24 Enterprise Risk Management ("ERM")
- 25 Environment ("ENV")
- 26 Fair Market Value ("FMV")
- 27 Fault Circuit Indicator ("FCI")
- 28 Full time equivalent ("FTE")
- 29 General Accepted Accounting Principles ("GAAP")
- 30 Geographic Information System ("GIS")
- 31 Geographical Resource Management ("GRM")



- 1 Global Adjustment (“GA”)
- 2 Goods and Service Tax (“GST”)
- 3 Green Energy & Green Economy Act (“GEA”)
- 4 Gross Domestic Product (“GDP”)
- 5 Harmonized Sales Tax (“HST”)
- 6 Health and Safety (“H&S”)
- 7 Heating Degree Days (“HDD”)
- 8 Human Resources (“HR”)
- 9 Hydro One Networks Inc. (“Hydro One”)
- 10 Hydro Ottawa Holding Inc. (the “Holding Company”)
- 11 Hydro Ottawa Limited (“Hydro Ottawa”)
- 12 Hydro Ottawa *Asset Management Plan* (“2005 AMP”).
- 13 Hydro Ottawa *2010 Distribution Sustainment Asset Management Plan* (“2010 AMP”).
- 14 Incentive Regulation Mechanism (“IRM”)
- 15 Independent Electricity System Operator (the “IESO”)
- 16 Information Services and Technology (“IS&T”)
- 17 Information Technology (“IT”)
- 18 Input Tax Credit (“ITC”)
- 19 Integrated Gas Recover Services Inc. (“IGRS”)
- 20 Integrated Power System Plan (“IPSP”)
- 21 International Brotherhood of Electrical Workers (“IBEW”)
- 22 International Financial Reporting System (“IFRS”)
- 23 International Organization for Standardization (“ISO”)
- 24 J. D. Edwards (“JDE”)
- 25 Kilowatt (“kW”)
- 26 Kilowatt hours (“kWhs”)
- 27 Large Corporation Tax (“LCT”)
- 28 Light Rail Transit Line (“LRT”)
- 29 Local Distribution Company (“LDC”)
- 30 Long Canada Bond Forecast (“LCBF”)
- 31 Long Term Load Transfer (“LTLT”)



- 1 Lost Revenue Adjustment Mechanism ("LRAM")
- 2 Low Voltage ("LV")
- 3 Mean Absolute Percentage Error ("MAPE")
- 4 Meter Data Management/Repository ("MDM/R")
- 5 Metering and Electricity Revenue ("MER")
- 6 Monthly Service Charge ("MSC")
- 7 Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE")
- 8 Municipal Transformer Station ("MTS")
- 9 Municipally Owned Hydro-Electric Utility Commissions ("MEUs")
- 10 Net Book Value ("NBV")
- 11 Non Regulated Price Plan ("non RPP")
- 12 Occupational Health, Safety and Environment ("OH&S")
- 13 Occupational Health and Safety Assessment Series ("OHSAS")
- 14 Ontario Electricity Financial Corporation ("OEFC")
- 15 Ontario Energy Association ("OEA")
- 16 Ontario Municipal Employees Retirement System ("OMERS")
- 17 Ontario Power Authority ("OPA")
- 18 Ontario Price Credit ("OPC")
- 19 Ontario Regional Common Ground Alliance ("ORCGA")
- 20 Operational Data Integrator ("ODI")
- 21 Operations and Maintenance ("O&M")
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- 25 Paper Insulated Lead Cable ("PILC")
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- 27 Personal Computer ("PC")
- 28 Polychlorinated Biphenyls ("PCBs")
- 29 Power line Maintainer ("PLM")
- 30 Power Take Off ("PTO")
- 31 Production Action Reports ("PARs")



- 1 Public Service Works on Highways Act ("PSWHA")
- 2 Quality Assurance ("QA")
- 3 Quality Control ("QC")
- 4 Real Personal Income ("RPI")
- 5 Regional Municipality of Ottawa-Carleton (the "Region")
- 6 Regulated Price Plan ("RPP")
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- 8 Reporting and Record Keeping Requirements ("RRR")
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- 17 Smart Meters ("SM")
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- 21 Special Purpose Charge ("SPC")
- 22 Storage Area Network ("SAN")
- 23 Sulphur Hexafluoride ("SF₆")
- 24 Supervisory Control and Data Acquisition ("SCADA")
- 25 System of Accounts ("SOA")
- 26 Telecom Ottawa Holding Inc. ("Telecom Ottawa")
- 27 Third Generation Incentive Regulation Mechanism ("3GIRM")
- 28 Time of Use ("TOU")
- 29 Toronto Hydro Electric System Limited ("THESL")
- 30 Total Demand Response Initiative ("TDRP")
- 31 Transformer Ownership Credit ("TOC")



1 Undepreciated Capital Cost (“UCC”)
2 Uniform System of Accounts (“USofA”)
3 Unmetered Scattered Load (“USL”)
4 Update to Chapter 2 of the Filing Requirements for Transmission and Distribution
5 Applications, May 27, 2009 (“Board Filing Requirements”)
6 Working Capital Allowance (“WCA”)
7 Work-order Supply Chain Process (“WSCP”)
8
9

10 **2.0 DEFINED TERMS**

11
12 ‘Historical Year’ means 2008

13 ‘Bridge Year’ means 2010

14 ‘Test Year’ means 2011
15

16 ‘Capital expenditure’ is the amount spent on a capital project/program in a given year.

17 ‘Capital additions’ are the amounts that are capitalized for the project/program in a given
18 year and are equal to the sum of the capital expenditures in the year plus the
19 construction work in progress from the previous year minus the construction work in
20 progress for the given year plus any deletions in the year.
21

22 ‘Department’ refers to the structural organization of Hydro Ottawa into Distribution Asset
23 Management, Construction and Maintenance, Finance, Information Services
24 Technology, Metering and Energy Revenue and Customer Communication and
25 Conservation.
26

27 ‘Group’ or ‘groupings’ refers to the groups of Accounts prescribed in the 2006 Electricity
28 Distribution Rate Handbook.
29

30 ‘Business units’ refers to a term used in Hydro Ottawa’s financial system which refers to
31 the ‘where’ for each cost, such as a department or class of customer.



EB-2010-0133

ONTARIO ENERGY BOARD

**IN THE MATTER OF the *Ontario Energy Board*
*Act, 1998, S.O. 1998, c. 15, Sched. B, as amended;***

**AND IN THE MATTER OF an Application by Hydro
Ottawa Limited for an Order or Orders approving
or fixing just and reasonable rates for 2011.**

APPLICATION

1.0 Hydro Ottawa Limited ("Hydro Ottawa") is a distributor of electricity pursuant to a distribution licence (ED-2002-0556) issued by the Ontario Energy Board (the "Board") under the *Ontario Energy Board Act, 1998* (the "Act").

2.0 Hydro Ottawa hereby applies to the Board pursuant to section 78 of the Act for an Order or Orders approving or fixing just and reasonable distribution rates effective January 1, 2011 determined from a service revenue requirement of \$166,129,299.

3.0 This Application is made in accordance with Chapter 2 – Filing Requirements for Electricity Transmission and Distribution Companies' Cost of Service Rate Applications, Based on a Forward Test Year – of the Board's *Filing Requirements*



1 *for Transmission and Distribution Applications* dated May 27, 2009 (the “Filing
2 Requirements”). Hydro Ottawa accordingly proposes the following title for the
3 proceeding that is commenced by this Application:

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Hydro Ottawa Limited
2011 Electricity Distribution Rates.

4.0 Hydro Ottawa has accumulated balances in its Board-approved deferral and
variance accounts since November 1, 2007. Hydro Ottawa proposes to clear the
balances accumulated in all of these accounts to December 31, 2009, except for
its Smart Meter variance accounts. Hydro Ottawa has installed Smart Meters to
replace existing meters and it retains in rate base the cost of the meters that
have been replaced. Hydro Ottawa proposes to amortize the remaining
unamortized cost over the period to December 31, 2013.

5.0 Hydro Ottawa pays low voltage (“LV”) charges to Hydro One Networks Inc.
 (“Hydro One”) for its use of shared distribution stations, shared distribution lines,
and specific distribution lines. Hydro Ottawa records these charges, net of its
own charges to customers for low voltage services, in Account 1550 – LV
Variance Account. As per Board direction, LV charges and revenues are
recorded in Accounts 4750 and 4075 respectively, and are therefore not part of
distribution costs and revenue. In 2008, the Board approved separate LV
charges for Hydro Ottawa. Hydro Ottawa is now seeking approval to decrease
these charges to reflect the LV charges from Hydro One in 2011, which have
been forecasted to be \$0.3M.

6.0 In accordance with the Board’s Retail Settlement Code, Hydro Ottawa has
calculated a revised Total Loss Factor to apply to end-use metered kilowatt-hour



1 loads for the purposes of determining charges for the electricity commodity, retail
2 transmission rates, LV rates and wholesale market charges (including rural or
3 remote electricity rate protection and special purpose charges). Hydro Ottawa is
4 seeking approval for new Total Loss Factors based on a five year average of
5 losses from 2005 to 2009.

6
7

8 7.0 Hydro Ottawa has updated the Dry Core Transformer Charges, which form part
9 of the Specific Service Charges, to reflect current distribution, transmission and
10 commodity rates.

11
12

- 13 8.0 Hydro Ottawa accordingly applies to the Board for the following Order or Orders:
- 14 (a) an Order approving Hydro Ottawa's proposed rates for the 2011 rate
15 year, or such other rates as the Board may find to be just and reasonable,
16 as the final rates effective January 1, 2011;
- 17
- 18 (b) an Order approving Hydro Ottawa's proposal to amortize, over a period
19 ending December 31, 2013, the cost of meters included in rate base that
20 have been replaced with Smart Meters;
- 21
- 22 (c) an Order approving clearance of the balances recorded in certain deferral
23 and variance accounts by means of rate riders effective January 1, 2011
24 for the 2011 rate year;
- 25
- 26 (d) an Order approving new deferral and variance accounts as described in
27 Exhibit I1-1-3;
- 28
- 29 (e) an Order approving the separate charges for Low Voltage Services
30 effective January 1, 2011;
- 31



- 1 (f) an Order approving new Total Loss Factors effective January 1, 2011;
2
3 (g) an Order approving revised Dry Core Transformer charges effective
4 January 1, 2011;
5
6 (h) an Order approving Hydro Ottawa's Green Energy Act Basic Plan filed
7 with the Board pursuant to the deemed licence condition provided for in
8 paragraph 2 of section 70(2.1) of the Act; and
9
10 (i) such further or other final or interim Orders as may be necessary or
11 appropriate to give effect to this Application.
12
13

14 9.0 If approved by the Board, the rates resulting from this Application would be
15 effective January 1, 2011 and would result in an increase of 0.6% to the total
16 electricity bill for a typical Residential customer and 1.0% for a typical General
17 Service less than 50 kilowatt customer.
18
19

20 10.0 This Application is supported by the written evidence that is filed with the
21 Application (as enumerated in Exhibit A1-1-1 of the evidence). Hydro Ottawa
22 may amend or supplement this written evidence prior to or during the course of
23 the Board's hearing of the Application.
24
25

26 11.0 This Application will also be supported by additional written evidence and by oral
27 evidence if the Board decides to conduct an oral hearing.
28
29



- 1 12.0 Hydro Ottawa requests, pursuant to subsection 17(1) of the *Statutory Powers*
2 *Procedure Act*, that the Board give reasons in writing for its final decision and
3 order(s) in this proceeding.
4
- 5 13.0 The names of Hydro Ottawa's authorized representative and its counsel, with
6 their contact information, are set out in the evidence that is filed with the
7 Application (at Exhibit A1-3-2). Hydro Ottawa requests that all documents issued
8 or filed in connection with this proceeding be served on its authorized
9 representative and its counsel.
10
11
- 12 14.0 This Application and the written evidence in support of it are respectfully
13 submitted to the Board from Ottawa, Ontario on June 14, 2010 by Lynne
14 Anderson, Chief Regulatory Affairs & Government Relations Officer, Hydro
15 Ottawa.



RATIONALE FOR REBASING

1.0 BACKGROUND

For a number of reasons discussed below, Hydro Ottawa Limited (“Hydro Ottawa”) has determined that it is important that its rates be rebased¹ for 2011. In January of 2010, Hydro Ottawa began working on a cost of service application for rates effective January 1, 2011 and sent a letter to the Ontario Energy Board (the “Board”) on January 27th stating its intention to file this application. On April 20, 2010, the Board sent a letter to all licensed electricity distributors and other interested parties about rebasing in 2011. By this time, Hydro Ottawa was well advanced in the preparation of its 2011 application.

The Board’s letter of April 20th provided a list of the 18 distributors that the Board expected would have their rates rebased in 2011. The Board indicated that it had received letters from four additional distributors planning to rebase in 2011.² This would result in a total of 22 distributors rebasing in 2011. The letter from the Board indicated that a distributor which was not on the list of 18: “must justify, in its cost of service application, why an early rebasing is required notwithstanding that the “off ramp” conditions have not been met”. Following is Hydro Ottawa’s discussion on this issue.

2.0 THE BOARD’S APPROACH TO REBASING

It should be noted that included within the Board’s list of 18 distributors scheduled for rebasing in 2011 is Toronto Hydro Electric System Limited (“THESL”). Like Hydro Ottawa, THESL rebased its rates in 2008. THESL had filed a two-year electricity distribution rate (“EDR”) application and rates were established using cost of service for both 2008 and 2009. The Report of the Board on 3rd Generation Incentive Regulation for Electricity Distributors (“3GIRM Report”) contemplated that all distributors would migrate

¹ The term “rebased” or “rebasing” refers to the method of setting rates through a cost of service rate application in which rates are set using a forecast of a distributor’s costs and sales volumes.

² The four letters received by the Board included Hydro Ottawa’s letter of January 27, 2010.



1 to 3GIRM after their initial rebasing. Rather than adopting 3GIRM in 2010, Toronto
2 Hydro filed a cost of service rate application (proceeding EB-2009-0139) which was
3 heard and concluded by the Board. In this application THESL indicated that it planned
4 an annual rebasing for its rates, citing three reasons:

- 5
6 “a) Material increases in ratebase and corresponding capital-related costs as THESL
7 continues to renew and enhance its distribution system;
8 b) Costs related to workforce renewal and other operations; and
9 c) Material decreases in load.”
10

11 Hydro Ottawa has reviewed the record from this proceeding and can find no indication
12 that the question of THESL rebasing instead of adopting 3GIRM was an issue that was
13 considered by the Board in rendering its Decision. This matter is not identified on the
14 Issues List, is not discussed in the Settlement Agreement and is not part of the Board’s
15 Decision. Yet THESL, which rebased at the same time as Hydro Ottawa in 2008, is
16 included on the Board’s list of distributors scheduled to rebase in 2011. On the basis of
17 the Board’s letter, THESL was not required to justify rebasing, whereas the Board has
18 made this a requirement for other distributors, including Hydro Ottawa.
19

20 Furthermore, as part of the EB-2009-0096 proceeding, the Board heard and concluded
21 an application for rebasing rates for Hydro One Networks Inc. (“Hydro One”) in both
22 2010 and 2011. Hydro Ottawa has reviewed the record for this proceeding and can find
23 no specific discussion of the rationale for rebasing instead of using 3GIRM. As with
24 THESL, this does not appear to have been an issue for this proceeding. The evidence
25 does not appear to address this issue directly, it is not part of the Board-approved Issues
26 List and it is not included in the Board’s various Decisions for this proceeding.
27

28 This is not to say that both THESL and Hydro One did not have important and valid
29 reasons for filing a cost of service application, and both filed detailed evidence in support
30 of their proposed costs. However, on the basis of these two applications it would appear
31 that the issue of a distributor rebasing on a different schedule than indicated in the



1 3GIRM Report is not a matter of principle that the Board felt it needed to address.
2 Instead, the Board appropriately assessed these applications for the prudence of the
3 costs and appropriateness of load forecasts, cost allocation and rate design to render its
4 Decisions on just and reasonable rates. It was reasonable for Hydro Ottawa to assume
5 that the same consideration would be applied when it indicated to the Board in January
6 2010 that it would file a cost of service application for rates effective January 1, 2011.
7 Hydro Ottawa is concerned that the Board's letter of April 20th has introduced a new and
8 unwarranted standard for rebasing applications by certain distributors. Nevertheless,
9 Hydro Ottawa believes that its specific reasons for seeking a rebasing of rates in 2011
10 meet the standard set out in the letter.

11
12 Hydro Ottawa has the same issues that were expressed by THESL in its 2010 EDR,
13 namely:

- 14
15 • renewal and enhancement of the distribution system,
16 • workforce planning; and,
17 • declining loads.

18
19 In addition to the common concerns shared by Hydro Ottawa and THESL, there are a
20 number of other reasons why Hydro Ottawa has elected to file a cost of service
21 application for 2011 rates. A cost of service proceeding is the only regulatory mechanism
22 that will comprehensively address all of these factors. All of these issues are discussed
23 in greater detail in the following sections.

24 25 26 **3.0 RATIONALE FOR REBASING**

27
28 A cost of service application is a major undertaking for both the utility and the Board, and
29 careful consideration has been given to the need to rebase at this time. Hydro Ottawa is
30 facing numerous operational imperatives that must be addressed in a timely manner and
31 that require significant investment by the company.



1 The last cost of service application by Hydro Ottawa was prepared in 2007. Given the
2 pace at which the electricity industry has been evolving since 2007, and the cumulative
3 effect of all of the factors discussed below, four years is too long a period of time
4 between rebasing applications for Hydro Ottawa. Hydro Ottawa will be planning for the
5 filing of more frequent cost of service applications in the future.

6
7 In the case of Hydro Ottawa, this is not an issue about being able to: “adequately
8 manage its resources and financial needs during the remainder of its IRM plan period”
9 as indicated in the Board’s April 20 letter. Among other things, this cost of service
10 application is about being able to align revenues with costs, to proceed with important
11 strategic initiatives with some assurance that these are supported by the Board, to
12 address declining loads and the impact of conservation, and to have important
13 infrastructure spending from 2009 to 2011 approved in rate base.

14 15 **3.1 Asset Management Plan/Aging Infrastructure**

16
17 As the nation’s capital, Hydro Ottawa’s service area is home to many important and
18 significant organizations. As a result, the company strives to maintain solid reliability of
19 the distribution system by ensuring that a robust Asset Management Plan (“AMP”) is
20 maintained to support the timely renewal of aging infrastructure and ongoing investment
21 in new assets to meet the needs of a growing City.

22
23 Exhibit B1-2-2, with Attachment O, provides Hydro Ottawa’s *2010 Asset Management*
24 *Plan* (“2010 AMP”). This plan highlights the issues of managing an aging infrastructure
25 and the need for substantial investments in 2011 and beyond. Hydro Ottawa developed
26 its first AMP in 2005 and used it as the basis for the capital expenditures proposed in its
27 2006 EDR application and, with updated data, for its 2008 EDR application as well. As a
28 result of the AMP, Hydro Ottawa makes important investments each year in its
29 Sustainment capital. Usually assets being replaced are beyond their useful life from an
30 accounting perspective such that the net book value of the asset being replaced is zero.
31 Investments in today’s dollars therefore result in an asset base that has been growing by



1 more than 6% per year on average for Hydro Ottawa, far beyond any adjustment
2 provided for under 3GIRM.

3
4 A distributor can only include these new assets in its rate base as part of a cost of
5 service application. There are two important aspects to getting the assets in rate base.
6 The first is to earn a return on the assets and to recover the annual depreciation
7 expense. The second factor is that it is only at the time that the Board approves a new
8 rate base that a distributor gets assurance that the Board has considered the costs
9 prudent. This is a critical factor to Hydro Ottawa. To wait four years to find out if
10 spending has been considered prudent is a significant concern, particularly within an
11 electricity industry that has been constantly changing and a regulatory framework that
12 continues to develop.

13
14 Hydro Ottawa recognizes that under IRM the Board has included, as a separate module,
15 an Incremental Capital Module; however, this module does not address the capital
16 spending planned by Hydro Ottawa in 2011. The Supplemental 3GIRM Report issued
17 by the Board September 17, 2008 stated on page 31 that:

18
19 “The intent is not to have an IR regime under which distributors would habitually
20 have their CAPEX reviewed to determine whether their rates are adequate to
21 support the required funding. Rather, the capital module is intended to be
22 reserved for unusual circumstances that are not captured as a Z-factor and
23 where the distributor has no other options for meeting its capital requirements
24 within the context of its financial capacities underpinned by existing rates.”

25
26 This view was reiterated by the Board in its Decision for Hydro One’s 2009 distribution
27 rates (proceeding EB-2008-0187) on pages 7-8 as follows:

28
29 “The Board’s objective in establishing the incremental capital module was to
30 enhance the regulatory efficiency of the incentive rate mechanism, which is
31 intended to be formulaic and simplistic in its application, by adding a method to



1 accommodate extraordinary capital spending requirements should they arise
2 during the term of the incentive rate mechanism. The ability to address
3 extraordinary capital spending requirements within the IRM framework increases
4 the efficiency opportunities without requiring a full cost of service rebasing
5 review.”
6

7 Hydro Ottawa submits that its requirement for capital expenditures in excess of
8 depreciation for 2011 is not “extraordinary” or “unusual” and certainly not unplanned,
9 because much of the capital spending is a direct result of Hydro Ottawa’s AMP. Rather,
10 these expenditures address an ongoing need to replace aging infrastructure, as Hydro
11 Ottawa has highlighted in its previous two cost of service applications (2006 EDR and
12 2008 EDR). The capital spending for 2011 is also planned to address other significant
13 emerging capital requirements, such as the Green Energy Act Plan (Exhibit B1-2-3).
14

15 **3.2 Workforce Planning Strategy**

16

17 Like THESL, and other utilities in the sector, Hydro Ottawa also faces the challenges of
18 an aging workforce and a scarcity of available resources. Hydro Ottawa recognized this
19 issue in 2005 when it first launched a new apprenticeship program. A comprehensive
20 strategy has been developed to ensure that long-term workforce requirements continue
21 to be met.
22

23 In Exhibit D1-5-1, Hydro Ottawa has provided details of its workforce planning strategy,
24 including an expansion of Hydro Ottawa’s apprenticeship program and other key
25 initiatives. This Exhibit illustrates the number of retirements expected in the next few
26 years and the approach planned for addressing this situation. Maintaining a qualified
27 workforce is critical to Hydro Ottawa’s future success. Apprenticeship programs are a
28 long-term investment in the human resources for the company and are appropriately
29 considered as part of a cost of service application when material expansions of the
30 program are required.
31



3.3 Declining Usage per Customer and Impact of Conservation

As an early adopter, Hydro Ottawa developed, and has been promoting, conservation and demand management (“CDM”) programs to its customers since 2005. Hydro Ottawa has achieved significant participation in these programs over the years and is already experiencing the impacts of these successful CDM programs with a steady decline in the average consumption per customer; as illustrated in Exhibit C1-1-2. This experience is in advance of the mandatory CDM targets that Hydro Ottawa will be required to achieve between 2011 and 2014. Hydro Ottawa therefore anticipates that this decreasing usage per customer will not only continue, but it will accelerate. This cost of service application is an opportunity to revise the load forecast to reflect current conditions and to incorporate the affects of CDM on the load in 2011. This revised load forecast will also reset the baseline on which future lost revenue adjustment mechanisms (“LRAM”) will be determined. The use of an LRAM is an important method to reduce a significant disincentive for distributors in maximizing CDM initiatives.

3.4 Conclusion of Smart Meter Program

As discussed in Exhibit I2-1-1, Hydro Ottawa’s Smart Meter program will be substantially complete by the end of 2010; in particular all major capital expenditures will have been completed. To the best of Hydro Ottawa’s knowledge, there are few other distributors in the Province that are as far advanced as Hydro Ottawa in the completion of their Smart Meter programs. Given that substantial completion will be achieved by the end of 2010, Hydro Ottawa now seeks approval of the prudence of all Smart Meter spending, and inclusion of the capital additions to the end of 2010 in its 2011 rate base, with all future expenditures to be treated as part of normal business. This can only be done as part of a cost of service rate application.



3.5 Green Energy Act Plan

As part of this application, Hydro Ottawa has filed its initial Green Energy Act Plan, as discussed in Exhibit B1-2-3. Hydro Ottawa acknowledges that the Board has provided for other funding mechanisms for spending related to Green Energy Act Plans. This includes deferral accounts and rate adders, neither of which includes an assessment of the prudence of the proposed spending until after the spending has been completed, and a distributor seeks to clear associated deferral and/or variance accounts. Hydro Ottawa wants to proceed with its initial pilot projects for implementing the smart grid and for the identified expansion and enhancement projects to facilitate the connection of renewable generation. In doing so, Hydro Ottawa wants the assurance that the Board has approved the proposed plan and has permitted the spending to be included in Hydro Ottawa's cost of service. This will give Hydro Ottawa guidance that it is acting in accordance with the Board's expectations before proceeding further.

3.6 Cost of Capital

In June 2009, the Board announced that it would hold a proceeding to review its policies regarding cost of capital (proceeding EB-2009-0084). On December 11, 2009, the Board released its Report of the Board on the Cost of Capital for Ontario's Regulated Utilities (the "Report"). As a result of the Report, the Board refined its policies by resetting and refining the return on equity ("ROE") formula, refining long-term debt guidelines and refining the approach to determining the deemed short-term debt rate. An important determination within the Report was that, from a regulatory perspective, ROE is a cost to utilities, not a profit.¹ The result of the revised formula for 2010 is an ROE of 9.85%. Hydro Ottawa has proposed to use the new formula for this application, with the 9.85% used as a placeholder. Now that the Board has established the Fair

¹ The Report, Page 20 states: "Further, the Board reiterates that an allowed ROE is a cost and is not the same concept as a profit, which is an accounting term for what is left from earnings after all expenses have been provided for. The Board notes that while cost of capital and profit are often used interchangeably from a managerial or operational perspective, the concepts are not interchangeable from a regulatory perspective."



1 Return Standard¹, rates for utilities should be based on this new ROE formula. The
2 Board has not permitted an adjustment to this important cost element under 3GIRM.
3 Hydro Ottawa can appreciate that there are issues related to amending one cost without
4 reviewing all of the others, and therefore Hydro Ottawa has filed this cost of service
5 application.

6
7 Amendments to the long-term debt guidelines have limited impact on Hydro Ottawa
8 because it has only made modest use of the deemed debt rate. Short-term debt is only
9 deemed at 4% of the capital structure so the amendments to the calculation of short-
10 term debt, while important, do not result in a significant change to Hydro Ottawa's cost of
11 capital.

12 13 **3.7 January 1 Effective Date for Rates**

14
15 As discussed in Exhibit A1-2-3, Hydro Ottawa is seeking a January 1 effective date for
16 rates. As part of a cost of service rate application, a utility establishes its rates based on
17 its projected costs. In the past, the rates for electricity distributors in Ontario were
18 implemented over a different period than when the costs were to be incurred. This has
19 created issues and complexities for distributors. Hydro Ottawa has been on record for
20 several years that this issue should be addressed.² The Board has now agreed³ that this
21 is a matter that it will hear, on a case-by-case basis, but only as part of a cost of service
22 rate application. This is also a reason that Hydro Ottawa is filing a cost of service
23 application at this time. Hydro Ottawa's letter to the Board on January 27, 2010,
24 advising of its intention to file a 2011 cost of service EDR, noted that it would be seeking
25 a January 1 effective date for rates.

26
27

¹ As discussed in Section 3.1 of the Report.

² Hydro Ottawa highlighted the issue in its 2008 EDR application

³ Board letter dated April 15, 2010.



3.8 Clearing of Deferral and Variance Accounts

The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative only permits the clearing of deferral and variance account through a cost of service rate application unless a pre-defined threshold has been met. The net balance in Hydro Ottawa's deferral accounts did not meet this threshold for 2008 audited balances that were reviewed for Hydro Ottawa's 2010 EDR application and this threshold would also not be met for 2009 audited balances. For the 2011 EDR, Hydro Ottawa would be unable to clear balances under 3GIRM for at least another year, and these balances are already nearly three years old. Furthermore, Hydro Ottawa notes that while the net balance of the deferral and variance accounts does not meet the threshold, the balances in many of the individual accounts far exceeds the threshold. Given that these accounts have different allocators to customer classes, even though the net balance does not meet the threshold the rate riders for different customer groups can be material.



ALIGNMENT OF RATE YEAR TO CALENDAR YEAR

1.0 BACKGROUND

In its letter dated April 15, 2010, the Ontario Energy Board (the “Board”) advised distributors that it would hear the merits of aligning the rate year with the fiscal year for distributors on a case-by-case basis. Hydro Ottawa is seeking approval for rates effective January 1, 2011. This would align the rates with Hydro Ottawa’s fiscal year which is also the calendar year.

The Board requires all electricity distributors to produce audited financial statements and a trial balance in the Uniform System of Accounts (“USofA”) based on the calendar year.¹ Thus the fiscal year for electricity distributors is the calendar year.

The rate year for electricity distributors has evolved. Up until 2000, the rate year always commenced on January 1. In 2000, the Board released the Electricity Distribution Rate Handbook which changed the rate year to March 1. This remained until 2004, at which time the Board changed the rate year to April 1. For 2006, the Board released the 2006 Electricity Distribution Rate Handbook which changed the rate year to May 1, where it has remained for most distributors. Throughout this period of time, the fiscal year for distributors did not change. The changes for the rate year were generally based on administrative practices and to align distribution rate changes with commodity rate changes.

Hydro Ottawa is now proposing that its next rate year commence on January 1, 2011 to once again align with its fiscal year. This issue has been a concern for Hydro Ottawa for a number of years.

¹ Reporting and Record-keeping Requirements 2.1.6 and 2.1.7.



2.0 ISSUES TO BE ADDRESSED

Appendix B of the April 15, 2010 letter from the Board provided examples of the issues that should be addressed. Following is a discussion of those issues.

1. What are the benefits to the distributor of changing the rate year to match the fiscal year?

Aligning the rate year and the fiscal year will eliminate a number of issues for Hydro Ottawa. As noted by Enersource Hydro Mississauga ("Enersource") in proceeding EB-2009-0193, distributors must explain results to the investment community. This is true not only for "public issuers" such as Enersource but also distributors such as Hydro Ottawa who must report results to external bond holders², credit rating agencies, holders of credit facilities and the company's shareholder. The Enersource Decision stated:

"While the Board accepts Enersource's argument that aligning its rate year with its financial year would simplify reporting to the investment community and thus sees merit in the request, the Board believes that other distributors, particularly those that are reporting issuers, may also be interested in a change in rate year to January 1."

Explanations of financial results are complicated if the revenues are not aligned with the costs, particularly in a year with a cost of service rate application. This misalignment means that explanations must include a discussion about the impact of the stub periods from the previous rate year, and makes it more difficult explain the company's financial performance in a transparent manner.

Furthermore, in filing a cost of service rate application, there are a number of added complexities if the costs are from January to December, but the associated revenues will

² Hydro Ottawa has a number of bonds issued to third parties through private placement. While these bonds are not publicly traded, they are privately traded, and Hydro Ottawa has similar reporting requirements to these bond holders.



1 not be collected until May through to April of the next year. Typically the final Board
2 Decision for a May 1 rate change would not occur until April. This is more than a quarter
3 of the way into the year in which the costs are to be incurred. If the Board denies costs
4 in the rate proceeding, there could be costs that the distributor has already incurred in
5 the first four months of the year. If the distributor defers some spending (e.g. the hiring
6 of new staff) until the Board's Decision, it may fall short of its planned spending for that
7 year, not be able to complete all its planned work and have variances to explain.

8
9 There are also complexities to consider with respect to the calculation of Payments in
10 Lieu of Taxes. Under the current rate year, the PILs allowance is collected from May of
11 one year to April of the next year, for a tax year that is from January to December. Any
12 "stub period" issues are ignored. This was identified in the 2006 Electricity Distribution
13 Rate Handbook³. These issues and complexities are all resolved if the rate year and the
14 time period in which the costs will be incurred are the same.

15
16 One benefit to the Board of having some distributors seeking rates effective January 1,
17 while others have May 1 effective rates, is that this will stagger the rate applications
18 somewhat in any given year, and therefore spread out the workload at the Board.

19
20 *2. What would be the implications of such a change from a ratepayers' perspective? For*
21 *example, is it a concern that electricity consumers would see more frequent rate*
22 *changes?*

23
24 From Hydro Ottawa's perspective, having distribution rate changes at a different time
25 from commodity rate changes will result in greater clarity and transparency for customers
26 regarding distribution related rate adjustments versus rate changes due to other factors,

³ 2006 Electricity Distribution Rate Handbook, page 64. "The 2006 rate year runs from May 1, 2006 to April 30, 2007. The rate year is not contiguous with the calendar tax year. In order to calculate the approved regulatory tax payable for the 2006 rate year, however, the rate year will be assumed to be the same as the tax year. Thus any stub period issues (e.g. loss carry-forwards or CCA) will be ignored when completing the 2006 OEB Tax Model."



1 including commodity rate changes that are established by the Board. This is a
2 particularly relevant distinction for a municipally-owned distributor like Hydro Ottawa.

3
4 Hydro Ottawa agrees that the frequency of rate changes needs to be considered, but
5 notes that it has been normal practice to have quarterly rate changes within the gas
6 industry related to the Quarterly Rate Adjustment Mechanism ("QRAM"), and that the
7 use of rate riders that start and stop at different times often results in rate changes
8 throughout the year. Typically, with the proposed approach, distribution rates would
9 change on January 1 and commodity rates would change on May 1 and November 1. If
10 there is a need to change any other regulated rates, this could occur at any of these
11 three dates, perhaps providing more flexibility for a distributor to align its retail
12 transmission rates with the wholesale transmission rate changes, which Hydro One
13 Networks Inc. has recently applied to revise as of January 1, 2011.

14
15 Hydro Ottawa notes that as a result of this one-time transition, Hydro Ottawa will have
16 small rate riders carrying on to April 30, 2011. This includes the lost revenue adjustment
17 mechanism and tax change rate riders, which together net to only a credit of \$0.0001 per
18 kWh to customers, and therefore are not material. Furthermore, while not part of Hydro
19 Ottawa's Board-approved rate order, the special purpose charge related to the Ministry
20 of Energy and Infrastructure conservation assessments would continue in 2011.

21
22 *3. Under a Cost of Service mechanism, what are the specific issues from a ratemaking*
23 *perspective of transitioning to a rate year that would be aligned with the fiscal year, and*
24 *how should these issues be specifically addressed?*

25
26 The alignment of the rate year with the fiscal year as part of a cost of service application
27 eliminates the issues that already exist, as discussed above, rather than creating new
28 issues. Costs are reviewed by the Board for prudence as part of the proceeding and bill
29 impacts considered in order to approve just and reasonable rates. Having those rates
30 implemented over the same time period as the Board-approved costs does not create
31 issues.



1 *4. What would be the specific issues relating to the timeliness of existing filing*
2 *requirements such as bridge year information, audited financial statements, RRR*
3 *reporting, tax returns, and review and disposition of deferral and variance account*
4 *balances, and how should these be specifically addressed?*

5
6 By April 30 of each year, audited financials, the trial balance in the USofA and
7 performance based regulation reporting have all been filed with the Board for the prior
8 year. The information is generally available internally to staff within the distributor earlier
9 for the purposes of preparing the rate application before the final results are approved
10 and made public. Variance and deferral account balances are determined as part of the
11 audited financials and therefore are available by April 30. Service quality indicators are
12 filed by March 31. The tax return is available by no later than June 30, but again the
13 specific information related to the return is available for internal use earlier to allow for
14 preparation of the PILs allowance for the test year.

15
16 Hydro Ottawa recognizes that it may not be possible to include any actual information on
17 the bridge year at the time of filing. However, it is typically part of the interrogatory
18 process to update the bridge year data, which could include actual information to June
19 30.

20
21 *5. Is there merit in considering the alignment during a Cost of Service application but*
22 *having the implementation of the alignment take effect on January 1st of the following*
23 *year as part of the distributor's first IRM-based adjustment?*

24
25 Hydro Ottawa does not support this proposal. The issues created by the misalignment
26 between the rate year and fiscal year are more significant in the year of a cost of service
27 application. This is because as a result of a cost of service application, revenues are
28 supposed to be aligned to costs. When there is misalignment, more explanation is
29 required. Under Incentive Regulation Mechanism ("IRM"), rates are set based on
30 prescribed inflation and productivity factors regardless of a distributor's costs, and
31 therefore under IRM, alignment between rates and costs may not be an expected



- 1 outcome. If the Board has approved a new rate year for a distributor, Hydro Ottawa can
- 2 see no reason to delay implementation until the following year.



DISTRIBUTION LICENCE

1
2
3
4
5
6
7

Attachment A is Hydro Ottawa Limited's ("Hydro Ottawa") Electricity Distribution Licence ED-2002-0556 issued on June 9, 2003 (valid until March 31, 2023).

Hydro Ottawa is not exempted from any conditions of its licence and does not have any special conditions or restrictions in its licence.



Electricity Distribution Licence

ED-2002-0556

Hydro Ottawa Limited

Valid Until

March 31, 2023

M. C. Garner

Mark C. Garner
Director of Licensing
Ontario Energy Board

Date of Issuance: June 9, 2003

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
26th. Floor
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Electricity Distribution Licence

1 Definitions

In this Licence:

"**Accounting Procedures Handbook**" means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee;

"**Act**" means the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Schedule B, as amended;

"**Affiliate Relationships Code for Electricity Distributors and Transmitters**" means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies;

"**Board**" means the Ontario Energy Board;

"**Director**" means the Director of Licensing appointed under section 5 of the *Act*;

"**distribution services**" means services related to the distribution of electricity and the services the Board has required distributors to carry out, including the sales of electricity to consumers under section 29 of the *Act*, for which a charge or rate has been established in the Rate Order;

"**Distribution System Code**" means the code approved by the Board which, among other things, establishes the obligations of the distributor with respect to the services and terms of service to be offered to customers and retailers and provides minimum, technical operating standards of distribution systems;

"**Electricity Act**" means the *Electricity Act*, 1998, S.O. 1998, c. 15, Schedule A, as amended;

"**Licensee**" means Hydro Ottawa Limited;

"**Market Rules**" means the rules made under section 32 of the *Electricity Act*;

"Performance Standards" means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the *Act*;

"Rate Order" means an Order or Orders of the Board establishing rates the Licensee is permitted to charge;

"Retail Settlement Code" means the code approved by the Board which, among other things, establishes a distributor's obligations and responsibilities associated with financial settlement among retailers and consumers and provides for tracking and facilitating consumer transfers among competitive retailers;

"service area" with respect to a distributor, means the area in which the distributor is authorized by its licence to distribute electricity;

"Standard Supply Service Code" means the code approved by the Board which, among other things, establishes the minimum conditions that a distributor must meet in carrying out its obligations to sell electricity under section 29 of the *Electricity Act*;

"wholesaler" means a person that purchases electricity or ancillary services in the IMO-administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IMO-administered markets or directly to another person other than a consumer.

2 Interpretation

2.1 In this Licence words and phrases shall have the meaning ascribed to them in the *Act* or the *Electricity Act*. Words or phrases importing the singular shall include the plural and vice versa. Headings are for convenience only and shall not affect the interpretation of the licence. Any reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document. In the computation of time under this licence where there is a reference to a number of days between two events, they shall be counted by excluding the day on which the first event happens and including the day on which the second event happens and where the time for doing an act expires on a holiday, the act may be done on the next day.

3 Authorization Granted under this Licence

3.1 The Licensee is authorized, under Part V of the *Act* and subject to the terms and conditions set out in this Licence:

- a) To own and operate a distribution system in the service area described in Schedule 1 of this Licence; 25
- b) To retail electricity for the purposes of fulfilling its obligation under section 29 of the *Electricity Act* in the manner specified in Schedule 2 of this Licence; and , 26
- c) To act as a wholesaler for the purposes of fulfilling its obligations under the Retail Settlement Code or under section 29 of the *Electricity Act*. 27

4 Obligation to Comply with Legislation, Regulations and Market Rules 28

4.1 The Licensee shall comply with all applicable provisions of the *Act* and the *Electricity Act* and regulations under these Acts except where the Licensee has been exempted from such compliance by regulation. 29

4.2 The Licensee shall comply with all applicable Market Rules. 30

5 Obligation to Comply with Codes 31

5.1 The Licensee shall at all times comply with the following Codes (collectively the "Codes") approved by the board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions to this requirement are set out in Schedule 3 of this Licence: 32

a) the Affiliate Relationships Code for Electricity Distributors and Transmitters; 33

b) the Distribution System Code; 34

c) the Retail Settlement Code, and; 35

d) the Standard Supply Service Code. 36

5.2 The Licensee shall: 37

a) Make a copy of the Codes available for inspection by members of the public at its head office and regional offices during normal business hours and; 38

- b) Provide a copy of the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

6 Obligation to Provide Non-discriminatory Access

- 6.1 The Licensee shall, upon the request of a consumer, generator or retailer, provide such consumer, generator or retailer with access to the Licensee's distribution system and shall convey electricity on behalf of such consumer, generator or retailer in accordance with the terms of this Licence.

7 Obligation to Connect

- 7.1 The Licensee shall connect a building to its distribution system if:

- a) The building lies along any of the lines of the distributor's distribution system, and
- b) The owner, occupant or other person in charge of the building requests the connection in writing.

- 7.2 The Licensee shall make an offer to connect a building to its distribution system if:

- a) The building is within the Licensee's service area as described in Schedule 1, and
- b) The owner, occupant or other person in charge of the building requests the connection in writing.

- 7.3 The terms of such connection or offer to connect shall be fair and reasonable and made in accordance with the Distribution System Code, and the Licensee's Rate Order as approved by the Board.

- 7.4 The Licensee shall not refuse to connect or refuse to make an offer to connect unless it is permitted to do so by the *Act* or any Codes to which the Licensee is obligated to comply with as a condition of this Licence.

8	Obligation to Sell Electricity	51
8.1	The Licensee shall fulfill its obligation under section 29 of the <i>Electricity Act</i> to sell electricity in accordance with the requirements established in the Standard Supply Service Code, the Retail Settlement Code and the Licensee's Rate Order as approved by the Board.	52
9	Obligation to Maintain System Integrity	53
9.1	The Licensee shall maintain its distribution system to the standards established in the Distribution System Code, Market Rules and have regard to any other recognized industry operating or planning standards adopted by the Board.	54
10	Market Power Mitigation Rebates	55
10.1	The Licensee shall comply with the pass through of Ontario Power Generation rebate conditions set out in Appendix A of this Licence.	56
11	Distribution Rates	57
11.1	The Licensee shall not charge for connection to the distribution system, the distribution of electricity or the retailing of electricity to meet its obligation under section 29 of the <i>Electricity Act</i> except in accordance with a Rate Order of the Board.	58
12	Separation of Business Activities	59
12.1	The Licensee shall keep financial records associated with distributing electricity separate from its financial records associated with transmitting electricity or other activities in accordance with the Accounting Procedures Handbook and as otherwise required by the Board.	60
13	Expansion of Distribution System	61
13.1	The Licensee shall not construct, expand or reinforce an electricity distribution system or make and interconnection except in accordance with the <i>Act</i> and Regulations, the Distribution System Code and applicable provisions of the Market Rules.	62

- 13.2 In order to ensure and maintain system integrity or reliable and adequate capacity and supply of electricity, the Board may order the Licensee to expand or reinforce its distribution system in accordance with Market Rules and the Distribution System Code, or in such a manner as the Board may determine.

14 Provision of Information to the Board and Director of Licensing

- 14.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board or the Director, such information as the Board or the Director may require from time to time.

- 14.2 Without limiting the generality of condition 14.1 the Licensee shall notify the Director of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) days past the date upon which such change occurs.

15 Restrictions on Provision of Information

- 15.1 The Licensee shall not use information regarding a consumer, retailer, wholesaler or generator obtained for one purpose for any other purpose without the written consent of the consumer, retailer, wholesaler or generator.

- 15.2 The Licensee shall not disclose information regarding a consumer, retailer, wholesaler or generator to any other party without the written consent of the consumer, retailer, wholesaler or generator, except where such information is required to be disclosed:

- a) to comply with any legislative or regulatory requirements, including the conditions of this Licence;
- b) for billing, settlement or market operations purposes;
- c) for law enforcement purposes; or
- d) to a debt collection agency for the processing of past due accounts of the consumer, retailer, wholesaler or generator.

15.3 The Licensee may disclose information regarding consumers, retailers, wholesalers or generators where the information has been sufficiently aggregated such that their particular information cannot reasonably be identified. 74

15.4 The Licensee shall inform consumers, retailers, wholesalers and generators of the conditions under which their information may be released to a third party without their consent. 75

15.5 If the Licensee discloses information under this section, the Licensee shall ensure that the information provided will not be used for any other purpose except the purpose for which it was disclosed. 76

16 Customer Complaint and Dispute Resolution 77

16.1 The Licensee shall: 78

a) have a process for resolving disputes with customers that deals with disputes in a fair, reasonable and timely manner; 79

b) publish information which will make its customers aware of and help them to use its dispute resolution process; 80

c) make a copy of the dispute resolution process available for inspection by members of the public at each of the Licensee's premises during normal business hours; 81

d) give or send free of charge a copy of the process to any person who reasonably requests it; and 82

e) refer unresolved complaints and subscribe to an independent third party complaints resolution service provider selected by the Board. This condition will become effective on a date to be determined by the Director. The Director will provide reasonable notice to the Licensee of the date this condition becomes effective. 83

17 Term of Licence 84

17.1 This Licence shall take effect on June 9, 2003 and terminate on March 31, 2023. 85

18 Transfer of Licence

86

- 18.1 In accordance with subsection 18(2) of the *Act*, this Licence is not transferable or assignable without leave of the Board.

87

19 Amendment of Licence

88

- 19.1 The Board may amend this Licence in accordance with section 74 of the *Act* or section 38 of the *Electricity Act*.

89

20 Fees and Assessments

90

- 20.1 The Licensee shall pay all fees charged and amounts assessed by the Board.

91

21 Communication

92

- 21.1 The Licensee shall designate a person that will act as a primary contact with the Director of Licensing on matters related to this Licence. The Licensee shall notify the Director promptly should the contact details change.

93

- 21.2 All official communication relating to this Licence shall be in writing.

94

- 21.3 All written communication is to be regarded as having been given by the sender and received by the addressee:

95

a) when delivered in person to the addressee by hand, by registered mail or by courier;

96

b) seven (7) business days after the date of posting if the communication is sent by regular mail; and,

97

c) when received by facsimile transmission by the addressee, according to the sender's transmission report.

98

22 Copies of the Licence

99

22.1 The Licensee shall:

100

- a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours and;

101

- b) provide a copy of the Licence to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

102

Schedule 1 Definition of Distribution Service Area

103

This Schedule specifies the area in which the Licensee is authorized to distribute and sell electricity in accordance with condition 8 of this Licence.

104

- 1 The City of Gloucester as of December 31, 2000, now within the City of Ottawa. 105
- 2 The portion of the former Township of Rideau on Long Island, North of Bridge Street as of December 31, 2000, now within the City of Ottawa. 106
- 3 The Township of Goulbourn as of December 31, 2000, now within the City of Ottawa. 107
- 4 The City of Kanata as of December 31, 2000, now within the City of Ottawa. 108
- 5 The City of Nepean as of December 31, 2000, now within the City of Ottawa. 109
- 6 The City of Ottawa as of December 31, 2000. 110
- 7 The Village of Rockcliffe Park as of December 31, 2000, now within the City of Ottawa. 111
- 8 The City of Vanier as of December 31, 2000, now within the City of Ottawa. 112
- 9 The Village of Casselman, County of Russell as at May 1, 2002. 113

Schedule 2 Provision of Standard Supply Service

114

This Schedule specifies the manner in which the Licensee is authorized to retail electricity for the purposes of fulfilling its obligation under section 29 of the *Electricity Act*.

115

The Licensee is authorized to retail electricity directly to consumers within its service area in accordance with condition 8 of this Licence, any applicable exemptions to this Licence, and at the rates set out in the Rate Orders.

116

Schedule 3 List of Code Exemptions

117

This Schedule specifies any specific Code requirements from which the Licensee has been exempt.

118

The Licensee is exempt from the requirements of section 2.5.3 of the Standard Supply Service Code with respect to the price for small volume/residential consumers, subject to the Licensee offering an equal billing plan as described in its application for exemption from Fixed Reference Price, and meeting all other undertakings and material representations contained in the application and the materials filed in connection with it.

119

Appendix A Market Power Mitigation Rebates

1 Definitions and Interpretation

In this Licence,

"embedded distributor" means a distributor who is not a market participant and to whom a host distributor distributes electricity;

"embedded generator" means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

"host distributor" means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IMO includes interim payments made by the IMO.

2 Information Given to IMO

a Prior to the payment of a rebate amount by the IMO to a distributor, the distributor shall provide the IMO, in the form specified by the IMO and before the expiry of the period specified by the IMO, with information in respect of the volumes of electricity withdrawn by the distributor from the IMO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4 and 79.5 of the *Ontario Energy Board Act, 1998*.

b Prior to the payment of a rebate amount by the IMO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IMO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the

rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:

- i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4 and 79.5 of the *Ontario Energy Board Act, 1998*.
- c Prior to the payment of a rebate amount by the IMO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IMO, in the form specified by the IMO and before the expiry of the period specified by the IMO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IMO may issue instructions or directions providing for any information to be given under this section. The IMO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IMO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IMO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3 Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IMO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

- a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented;

- b consumers who are not receiving the fixed price under sections 79.4 and 79.5 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and 140
- c embedded distributors to whom the distributor distributes electricity. 141

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor. 142

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement: 143

"ONTARIO POWER GENERATION INC. rebate" 144

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IMO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt. 145

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party. 146

Pending pass-through or return to the IMO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account. 147



CONTACT INFORMATION

The following are the names and addresses of Hydro Ottawa's authorized representative and its counsel:

(a) authorized representative:

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Manager, Rates and Revenue
Hydro Ottawa Limited

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Facsimile:
E-mail

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(613) 738-5485
janescott@hydroottawa.com

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Aird & Berlis LLP

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Facsimile:
E-mail

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(416) 863-1515
fcass@airdberlis.com



SPECIFIC APPROVALS REQUESTED

Hydro Ottawa Limited ("Hydro Ottawa") requests the following specific approvals:

1. The approval of (a) Hydro Ottawa's forecast Base Revenue Requirement for the Test Year, or such other Base Revenue Requirement as the Board may find reasonable for the Test Year, in each case adjusted as required to update the Return On Equity and short-term debt rate as described in Exhibit E1-1-1 and (b) corresponding final rates effective January 1, 2011.
2. The approval of clearing the balances recorded in certain deferral and variance accounts by means of class-specific rate riders effective January 1, 2011 for a period of one year.
3. Approval for Hydro Ottawa's approach to addressing the harmonized sales tax as explained in Exhibit B4-4-1 and Exhibit I1-1-1.
4. Approval for four new deferral and variance accounts, or sub-accounts as described in Exhibit I1-1-3.
5. Approval of all expenditures made as part of the Smart Meter Initiative to the end of 2010, as identified in Exhibit I2-1-1, and inclusion of the capital spending in the 2011 rate base.
6. Pursuant to Section 84 (a) of the *Ontario Energy Board Act*, deem the following assets which operate at a voltage greater than 50 kilovolts to be distribution assets:
 - a) Transformer substations Cyrville, Ellwood and Terry Fox, as discussed in Exhibits B4-1-1 and B4-3-1; and,



- 1 b) Additional transformation capacity constructed at the existing Fallowfield
- 2 transformer substation, consistent with the existing Fallowfield substation
- 3 owned by Hydro Ottawa.
- 4
- 5 7. Approval of revised Distribution Loss Factors as described in Exhibit H1-4-1.
- 6
- 7 8. Approval of updated rates for Dry Core Transformer Charges that are
- 8 incorporated in Hydro Ottawa's proposed Tariff of Rates and Charges effective
- 9 January 1, 2011.
- 10
- 11 9. Approval of revised Low Voltage rates as proposed in Exhibit H1-3-2.



PROPOSED ISSUES LIST

The list of “specific approvals requested” in Exhibit A1-4-1 summarizes matters to be addressed in this application. However, the following proposed list provides a more detailed breakdown of the issues that Hydro Ottawa Limited anticipates will be considered in its application, with references to the relevant exhibit.

1. Rate Base (Exhibit B)

- 1.1 Is the proposed Rate Base for Test Year 2011 appropriate? (B1)
- 1.2 Is the Working Capital Allowance for Test Year 2011 appropriate? (B3)
- 1.3 Are the proposed Capital Expenditures forecast for Test Year 2011 appropriate? (B4)
- 1.4 Is the proposed approach for the harmonized sales tax appropriate? (B4)

2. Operating Revenue (Exhibit C)

- 2.1 Is the proposed forecast of 2011 Test Year Throughout Revenue appropriate? (C1)
- 2.2 Are the proposed customers/connections and load forecasts (both kWh and kW) for Test Year 2011 appropriate, including the impact of CDM and weather normalization? (C1)
- 2.3 Is the proposed forecast of Test Year 2011 revenues from other regulated rates and charges appropriate? (C2)

3. Operating Costs (Exhibit D)

- 3.1 Is the overall Test Year 2011 OM&A forecast (including compensation) appropriate? (D1)
- 3.2 Is the proposed level of the Depreciation/Amortization expense for 2011 appropriate? (D6)
- 3.3 Is the Test Year 2011 forecast of PILs appropriate? (D7)



4. Deferral and Variance Accounts (Exhibit I)

- 4.1 Is the proposed clearance of deferral and variance account balances appropriate? (I1)
- 4.2 Are the proposed new deferral and variance accounts for the test year appropriate? (I1)

5. Long Term Debt Rate (Exhibit E)

- 5.1 Is the proposed Test Year long term debt rate appropriate? (E1)

6. Smart Meters (Exhibit I)

- 6.1 Is the proposed elimination of the Smart Meter Rate Adder and the inclusion of the Smart Meter capital in the 2011 rate base appropriate? (I2)

7. Cost Allocation (Exhibit G)

- 7.1 Are the revenue to cost ratios in the cost allocation for Test Year 2011 appropriate?

8. Rate Design (Exhibits H and I)

- 8.1 Is the full schedule of rates as proposed appropriate? (H1)
- 8.2 Is the derivation of the proposed base distribution rates appropriate? (H1)
- 8.3 Is the derivation of the proposed rate riders appropriate? (I1, I3)
- 8.4 Are the proposed changes to LV rates appropriate? (H1)
- 8.5 Are the proposed Distribution Loss Factors appropriate? (H1)



1 **PROCEDURAL ORDERS/MOTIONS/CORRESPONDENCE**

2

3 Procedural orders will be filed, when received, as part of this Exhibit.



ACCOUNTING ORDERS REQUESTED

As described in Exhibit I1-1-3, Hydro Ottawa Limited ("Hydro Ottawa") is seeking an Accounting Order for a number of variance accounts to be used for the following reasons:

- Sub-account to Account 1595,
- International Financial Reporting Standards,
- Smart Meter Charges from the Independent Electricity System Operator, and
- Late Payment Charge Payment.

Furthermore, Hydro Ottawa has a number of transformer substations that operate at voltages greater than 50 kilovolts ("kV") and as such are defined by the *Ontario Energy Board Act* ("OEB Act") as being transmission assets. However, Section 84 (a) of the OEB Act permits the Ontario Energy Board (the "Board") to determine, for any of its Decisions, that: "a system or part of a system that forms part of a transmission system is a distribution system or part of a distribution system"¹. This has been the past practice of the Board. Hydro Ottawa records these stations per the Uniform System of Accounts as Account 1815 Transformer Station Equipment - Normally Primary above 50 kV.

In particular, by letters dated October 3, 2000, the Board determined that equipment operating above 50 kV and used solely for the purposes of the distribution utility form part of the distribution system. As part of Hydro Ottawa's 2006 Electricity Distribution Rate ("EDR") Application, Hydro Ottawa received approval for two new transformer substations to be part of the distribution system (Kanata MTS and Uplands DS). For the 2008 EDR, the Board approved the capital expenditures for Cyrville and Ellwood 115 kV substations. The Cyrville substation was capitalized in 2009 and the Ellwood substation

¹ OEB Act, Section 84 (a).



1 is planned to be completed in 2010. Therefore, Hydro Ottawa is seeking specific
2 confirmation that these form part of Hydro Ottawa's distribution system.

3

4 In 2009, Hydro Ottawa acquired Richmond DS and Fallowfield DS from Hydro One
5 Networks Inc. ("Hydro One"). These assets, while operating at 115 kV, were deemed by
6 the Board to be distribution assets for Hydro One. Hydro Ottawa was notified by staff of
7 the Board that these assets continue to be distribution assets under Hydro Ottawa's
8 ownership. Hydro Ottawa is now planning to expand Fallowfield DS, and is seeking
9 confirmation that this additional transformation capacity will also be part of Hydro
10 Ottawa's distribution system.

11

12 Furthermore, Hydro Ottawa will be commencing construction of the new Terry Fox 230
13 kV / 27.6 kV substation in 2011, scheduled for completion in 2013. This is discussed in
14 Exhibit B4-4-1. Hydro Ottawa is therefore seeking approval from the Board that this
15 substation will form part of Hydro Ottawa's distribution system, though the amount to be
16 included in rate base will be the subject of a future application.

17

18 The following list of substations in Table 1 includes all of Hydro Ottawa's assets that
19 operate at or above 50kV and form part of the distribution system. Exhibit A1-3-1,
20 includes the specific request for approvals pertaining to Cyrville and Ellwood substations,
21 the expanded capacity at Fallowfield DS and the Terry Fox substation.



1
2

Table 1 – Transformer Substations above 50 kW²

Transformer Substations above 50 kV And Part of Hydro Ottawa's Distribution System
Epworth DS
Merivale DS
Manordale DS
Centrepointhe DS
Uplands MS (8kV)
Uplands MS (27.6 kV)
Limebank MS
Moulton MS
Marchwood MS
Bridlewood MS
Kanata MTS
Cyrville MS
Ellwood MS
Fallowfield DS
Richmond South DS
Terry Fox DS

² DS means distribution station, MS means municipal station, MTS means municipal transformer station. This terminology is historical, often based on past ownership arrangements.



1 **NON-COMPLIANCE WITH UNIFORM SYSTEM OF ACCOUNTS**

2
3 Hydro Ottawa Limited ("Hydro Ottawa") makes every effort to follow the main
4 categories and accounting guidelines as stated in the *Uniform System of Accounts*
5 ("USofA") in the Ontario Energy Board's (the "Board") *Accounting Procedures*
6 *Handbook* ("APH") with the following exceptions and qualifications.

7
8 In order to more effectively manage its operations, Hydro Ottawa has adopted its
9 own system of accounts ("SOA"). This system includes a "business unit" that
10 identifies the "where" for each cost, such as a specific department, class of
11 customer, account type, etc. There is also an "object code" that identifies the "what"
12 for each cost; in other words, the type of cost such as labour, office supplies,
13 training, tools and equipment, etc. Numbers provided in this application are the
14 result of a forecast using Hydro Ottawa's business planning process and its own
15 SOA, then mapping these accounts to the USofA. Hydro Ottawa has used a
16 consistent approach for mapping accounts for the 2008 and 2009 Actuals, 2010 and
17 2011 Budgets.

18
19 There is one area where Hydro Ottawa does not conform to the USofA and that is in
20 how the capital expenditures for Smart Meters were recorded in Account 1555 -
21 Smart Meter Capital and Recovery Offset Variance Account. The Board's letter of
22 June 13, 2006 advised utilities to record total capital investments in smart meters in
23 the capital variance account 1555. Hydro Ottawa records the revenue requirement
24 (return on capital) related to Smart Meters in this account in order to offset the
25 revenue received through the Smart Meter adder. Hydro Ottawa has used this
26 approach consistently since 2007 because it better reflects the balances to be
27 cleared at a later date. The Settlement Agreement approved by the Board as part of
28 its 2008 electricity distribution rate application, clearly specified that Hydro Ottawa
29 would record in its Smart Meter variance accounts "Any differences between the
30 revenue requirement calculated from the actual Smart Meter spending and the



- 1 amounts collected through this rate adder"¹. Hydro Ottawa has continued with this
- 2 approach.

¹ Decision, EB-2007-0713, Settlement Proposal, page 20.

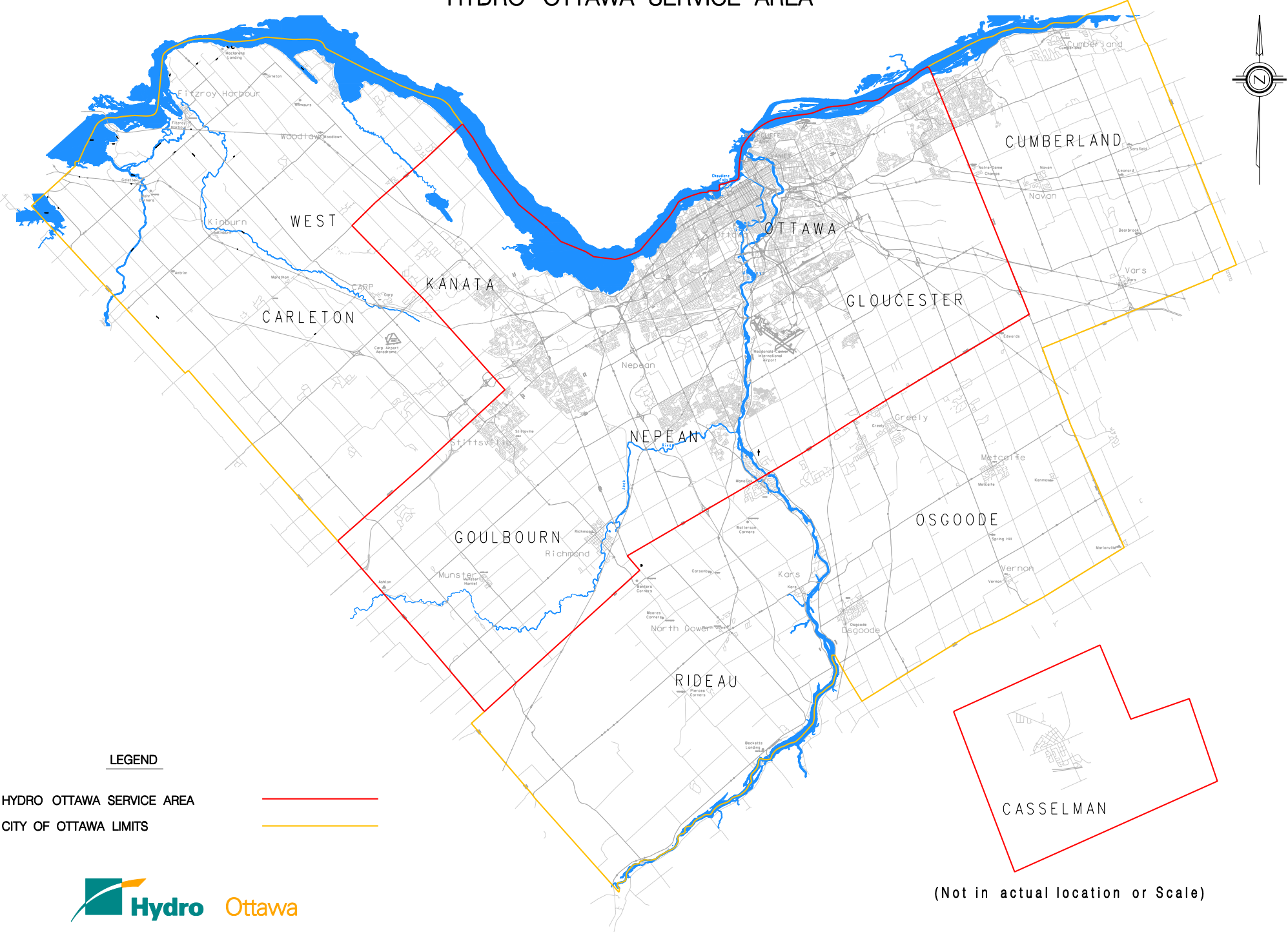


DESCRIPTION OF OPERATING ENVIRONMENT

Attachment B is a map of the Hydro Ottawa Limited ("Hydro Ottawa") service area.

Except for the Ottawa River to the north, Hydro Ottawa's service area is completely surrounded by the service area of Hydro One Network Inc. ("Hydro One"). Hydro Ottawa contains no licensed distributors embedded in its service area. Hydro Ottawa's load is primarily delivered through transmission connection points; however, there are a number of delivery points embedded in the Hydro One distribution system, primarily in rural areas. Hydro Ottawa's service area is 1,104 square kilometres, making it amongst the physically largest in the province.

HYDRO OTTAWA SERVICE AREA





CORPORATE OVERVIEW

Hydro Ottawa Limited ("Hydro Ottawa") was created in 2000 as a distributor in conjunction with the restructuring of the former Regional Municipality of Ottawa-Carleton (the "Region") and area municipalities located therein. All assets, liabilities and employees of the former municipal electric utilities in the Region (generally referred to as Gloucester Hydro, Goulbourn Hydro, Kanata Hydro, Nepean Hydro and Ottawa Hydro) were transferred to the new company, except for the generating and water heating assets which were transferred to Energy Ottawa Inc. ("Energy Ottawa"). Hydro Ottawa Holding Inc. (the "Holding Company") was also created at that time as the sole shareholder of both Hydro Ottawa and Energy Ottawa. Energy Ottawa and the Holding Company were, and still are, affiliates of Hydro Ottawa.

This transfer is frequently referred to as the "amalgamation" of the five former municipal electricity utilities. Ottawa Hydro was also serving the former area municipalities of Rockcliffe Park and Vanier at the time of amalgamation, and so Hydro Ottawa's service area comprised the geographic areas of seven former area municipalities after the amalgamation. Hydro One Networks Inc. continues to serve the other four (and mostly rural) former municipalities within the City of Ottawa (the "City").

Hydro Ottawa acquired the assets of Casselman Hydro Inc. in April 2002. The Village of Casselman is located approximately 30 kilometres from the east boundary of the City. The Ontario Energy Board approved this transaction and, as a result, amended Hydro Ottawa's distribution licence to include the Village of Casselman in the description of Hydro Ottawa's service area.

Hydro Ottawa is a wholly owned subsidiary of the Holding Company, which in turn is wholly owned by the City. An 11-member Board of Directors provides oversight to the Holding Company and also to Energy Ottawa. Hydro Ottawa has a separate seven-member Board of Directors which meets the requirements for independence set out in



1 Section 2.1.3 of the *Affiliate Relationships Code for Electricity Transmitters and*
2 *Distributors* ("ARC").

3
4 The principal business of the Holding Company is the strategic oversight of Hydro
5 Ottawa and Energy Ottawa, as well as strategic business planning and the identification
6 and development of new business opportunities. The role of the Holding Company with
7 respect to Hydro Ottawa is to:

- 8
- 9 • Oversee development of and approve strategic plans,
 - 10 • Evaluate performance including an internal audit function,
 - 11 • Provide strategic direction on matters of finance, risk mitigation, legal and
12 regulatory requirements, communications and public affairs, human resources,
13 information technology, building/real estate support and business development,
 - 14 • Provide financing, and
 - 15 • Report to the Shareholder (the City).
- 16

17 Hydro Ottawa maintains its own operational departments for regulatory affairs,
18 communications, human resources, finance and information technology but strategic
19 oversight is provided by the Holding Company.

20

21 Energy Ottawa is a licensed generator that produces EcoLogo certified "green power"
22 from hydroelectric generating stations at Chaudière Falls on the Ottawa River near
23 Parliament Hill and holds a 60 percent interest in PowerTrail Inc., a joint venture with
24 Integrated Gas Recover Services Inc. PowerTrail Inc. developed and operates the
25 landfill gas generation facility at the Trail Road landfill site.

26

27 A third subsidiary, Telecom Ottawa Holding Inc. ("Telecom Ottawa"), was organized in
28 2002. Telecom Ottawa was a specialized telecommunications carrier providing
29 broadband services mainly to public institutions in the City and other parts of Eastern
30 Ontario. Telecom Ottawa carried out all of its activities through three operating
31 subsidiaries: Telecom Ottawa Limited, Telecom Ottawa Regional Limited and 2038455



1 Ontario Inc. The three operating subsidiaries were sold by the Holding Company in May
2 2008 to Atria Networks LP. While Telecom Ottawa still exists in the legal sense, it no
3 longer has any active operations.

4

5 The Holding Company, together with Hydro Ottawa and Energy Ottawa, is called the
6 Hydro Ottawa Group of Companies and also, at times, the Corporation. In 2009, Hydro
7 Ottawa accounted for more than 94% of the Corporation's capital assets and 94% of
8 revenues.

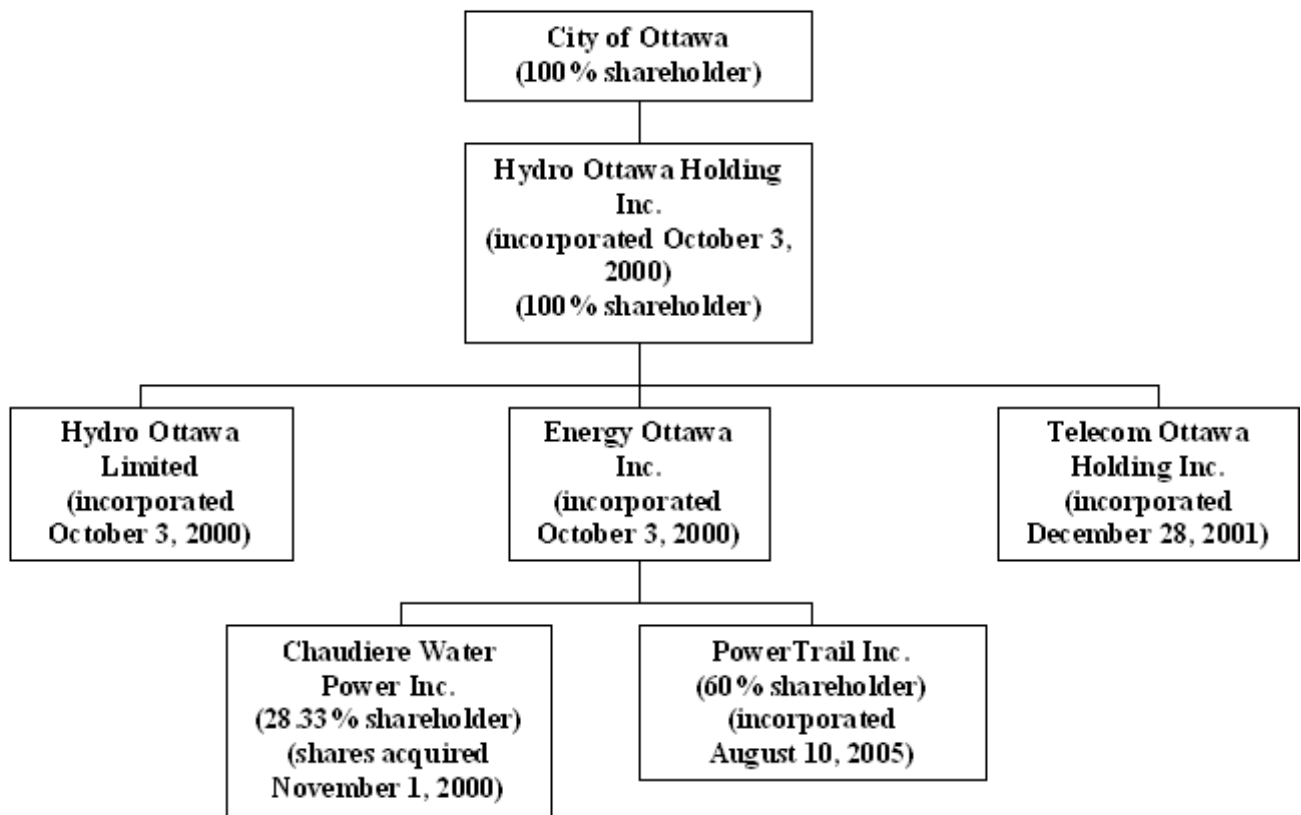


ENTERPRISE STRUCTURE

1.0 INTRODUCTION

The following chart provides the structure for the Hydro Ottawa Group of Companies including the complete list of the affiliates of Hydro Ottawa Limited ("Hydro Ottawa") and the dates of incorporation. As noted in Exhibit A1-7-1, Telecom Ottawa Holding Inc. sold off all of its operations in 2008 and therefore is inactive.

Hydro Ottawa Group of Companies





2.0 ORGANIZATION FOR HYDRO OTTAWA

The senior leadership team for Hydro Ottawa includes the following positions:

Chief Operating Officer
Director, Distribution Asset Management
Director, Construction and Maintenance
Director, Information Services Technology
Director, Metering and Electricity Revenue
Director, Customer Care and Conservation

Strategic leadership is provided by the following positions in Hydro Ottawa Holding Inc.
Operational activities related to these functions remain within Hydro Ottawa.

Chief Executive Officer
Chief Financial Officer
Director, Finance
Chief Human Resources Officer
Chief Information Officer
Chief Communications Officer
Chief Stakeholder Relations Officer
Chief Regulatory Affairs and Government Relations Officer
Chief Enterprise Risk Management Officer
General Counsel and Corporate Secretary



SERVICE LEVEL AGREEMENTS

1.0 INTRODUCTION

Due to the difference in relative size between Hydro Ottawa Limited ("Hydro Ottawa") and its affiliates, there are circumstances in which Hydro Ottawa has resourcing for certain functions for which the affiliates do not. Hydro Ottawa provides a limited number of corporate services to Hydro Ottawa Holding Inc. (the "Holding Company") and Energy Ottawa Inc. ("Energy Ottawa") on an as-required basis. The Holding Company provides a number of strategic services to Hydro Ottawa.

The Holding Company sold the operations of Telecom Ottawa Holding Inc. ("Telecom Ottawa"), effective May 1, 2008. Telecom Ottawa Holding Inc. remains, solely, as a legal entity. Prior to this date, Hydro Ottawa provided Human Resources, Information Technology and Facility services to Telecom Ottawa through service level agreements ("SLAs"). Hydro Ottawa also provided duct and pole attachment rental services, which were managed through a standard commercial agreement. Hydro Ottawa leased fibre optic services from Telecom Ottawa for its operating centres and transformer stations.

Services are provided between companies under the terms of SLAs that are provided as attachments to this Exhibit.

2.0 SERVICES PROVIDED TO AFFILIATES

For each service that Hydro Ottawa provides to an affiliate there is an SLA in place. The SLAs for 2010 are listed in Table 1.



1

Table 1 – Service Level Agreement

Agreement Name	Description	Affiliate Receiving Service	Attachment
HOL/HOHI2010-01	Schedule 1 – Building or Real Estate Support Services	Hydro Ottawa Holding Inc.	C
HOL/HOHI2010-01	Schedule 2 - Human Resources, Safety & Environment	Hydro Ottawa Holding Inc.	C
HOL/HOHI2010-01	Schedule 3 – Information Technology Services	Hydro Ottawa Holding Inc.	C
HOL/HOHI2010-01	Schedule 4 - Finance	Hydro Ottawa Holding Inc.	C
HOL/HOHI2010-01	Schedule 5 - Communications	Hydro Ottawa Holding Inc.	C
HOL/EO2010-03	Schedule 11 – Building or Real Estate Support Services	Energy Ottawa Inc.	E
HOL/EO2010-03	Schedule 12 – Human Resources	Energy Ottawa Inc.	E
HOL/EO2010-03	Schedule 13 – Information Technology Services	Energy Ottawa Inc.	E
HOL/EO2010-03	Schedule 14 – Finance	Energy Ottawa Inc.	E
HOL/EO2010-03	Schedule 15 – Metering and Meter Data Services	Energy Ottawa Inc.	E
HOL/EO2010-03	Schedule 16 – Generation Services	Energy Ottawa Inc.	E

2

3 The pricing and service descriptions (referred to as Schedules) of the SLAs are revised
4 and approved annually. A generic Terms and Conditions Agreement was developed in
5 2009 which applies to all SLAs for a period of five (5) years (2009 – 2013). The SLA
6 Terms and Conditions document is attached to this Exhibit, under Attachment F.
7 Revenues associated with the provision of these services are summarized in Exhibit C2-
8 1-5.

9

10

11 **3.0 SERVICES RECEIVED FROM AFFILIATES**

12

13 There is an SLA in place for each service that Hydro Ottawa receives from an affiliate.

14 The SLAs For 2010 are listed in Table 2.



Table 2 – Service Level Agreement

Agreement Name	Description	Affiliate Receiving Service	Attachment
HOHI/HOL2010-02	Schedule 6 - Legal Services, Corporate Administration and Regulatory Affairs	Hydro Ottawa Limited	D
HOHI/HOL2010-02	Schedule 7 - Finance, Internal Audit and Enterprise Risk Management	Hydro Ottawa Limited	D
HOHI/HOL2010-02	Schedule 8 - Human Resources, Safety and Environment	Hydro Ottawa Limited	D
HOHI/HOL2010-02	Schedule 9 – Corporate Communications	Hydro Ottawa Limited	D
HOHI/HOL2010-02	Schedule 10 – Management Services	Hydro Ottawa Limited	D

Hydro Ottawa is allocated a percentage of the Holding Company's costs based on an assessment of activity. Details of the associated Holding Company allocations are provided in Attachment W – Appendix 2-M. Expenses related to services purchased from affiliates are summarized in Exhibit D1-2-1.

4.0 TRANSACTIONS WITH THE CITY OF OTTAWA

Hydro Ottawa procures some fuel for its fleet through the City of Ottawa's ("the City") procurement process because the City is able to get a volume discount beyond what Hydro Ottawa's volumes alone can obtain.

For efficiencies, Hydro Ottawa and the City jointly administer the tendering of Collection Agency services; however, there are no associated financial exchanges or obligations on the part of either party to select the same provider(s) of service.

In 2008, the City of Ottawa participated in a traffic light retrofit pilot which was initiated by Hydro Ottawa's CDM department to test the energy efficiency of LED lights. Further details are provided in Exhibit D1-2-1.



1 In 2010, Hydro Ottawa will be participating in a pilot project testing street lighting control
2 technology. There will be no financial transactions between Hydro Ottawa and the City
3 of Ottawa. Further details on this initiative are provided in Exhibit B4-3-2.

4
5 The only other related party transactions with the City involve non-discretionary
6 transactions that do not require agreements including:

- 7
8 • Hydro Ottawa's payment of property taxes to the City,
9 • Hydro Ottawa's payment of water and sewer bills for all of its facilities to the City,
10 and
11 • The City's payment of electricity bills for all City facilities to Hydro Ottawa.

Service Level Agreement

SLA #HOL/HOHI2010-01

Between:

Hydro Ottawa Limited

and

Hydro Ottawa Holding Inc.

for

Shared Corporate Services

1.0 PURPOSE

With reference to the Service Level Agreement Terms and Conditions between Hydro Ottawa Limited (hereinafter called "HOL") and Hydro Ottawa Holding Inc. (hereinafter called "HOHI") the purpose of this Service Level Agreement (hereinafter called "SLA") is to provide a description of the type of Shared Corporate Services to be provided by HOL to HOHI along with the associated pricing. Other service details relating to the performance of this SLA shall be attached, as applicable. (hereinafter called "Attachment").

2.0 LISTING OF SHARED SERVICES

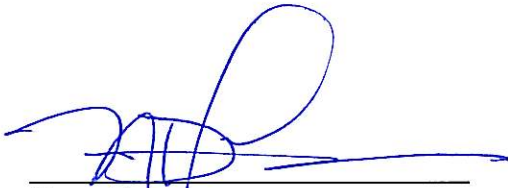
- Schedule 1: Building or Real Estate Support Services
- Schedule 2: Human Resources, Safety and Environment
- Schedule 3: Information Technology Services
- Schedule 4: Finance
- Schedule 5: Communications

SLA:	HOL - HOHI – Shared Corporate Services	SLA Number:	HOL/HOHI2010-01
Effective Date:	January 1, 2010	Page Number:	1
Expiry Date:	December 31, 2010	Superseded By:	

3.0 SIGNATURES

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date first set forth above.


Hydro Ottawa Limited:



Norm Fraser
Chief Operating Officer

Date: Dec 16, 2009

Hydro Ottawa Holding Inc.:



Alan Hoverd
Chief Financial Officer

Date: Dec 16, 2009

SLA:	HOL - HOHI - Shared Corporate Services	SLA Number:	HOL/HOHI2010-01
Effective Date:	January 1, 2010	Page Number:	2
Expiry Date:	December 31, 2010	Superseded By:	

SCHEDULE 1
BUILDING OR REAL ESTATE SUPPORT SERVICES
SERVICE REQUIREMENTS AND COSTS - 2010

DESCRIPTION OF SERVICES:

- Building or real estate support services covered under this agreement include workplace provisioning and support, furniture rental, property administration services, special projects and emergency preparedness services.

PRICING:

- Pricing is based on historical usage patterns and actual costs, based on the type of facility and square footage utilized.

<u>Services</u>	<u>Annual Fee</u>
Operations and Office Services	\$200,000
Shared Work Station	\$ 4,000
Executive	\$ 36,000
Total Estimated	\$240,000

SLA:	HOL - HOHI – Shared Corporate Services	SLA Number:	HOL/HOHI2010-01
Effective Date:	January 1, 2010	Page Number:	3
Expiry Date:	December 31, 2010	Superseded By:	

SCHEDULE 1
BUILDING OR REAL ESTATE SUPPORT SERVICES
KEY CONTACTS

<u>NAME / TITLE</u>	<u>TELEPHONE / FAX NUMBERS</u>	<u>CELL NUMBER</u>	<u>E-MAIL ADDRESS</u> <i>(all Hydro Ottawa addresses @hydroottawa.com)</i>
Hydro Ottawa Limited			
Facilities Help Desk	P: 613-738-5499 Ext. 7438 F: 613-738-5475		facilitieshelpdesk@
Joey St. Jacques Supervisor - Facilities	P: 613-738-5499 Ext. 161 F:	613-229-3585	joeystjacques@
Hydro Ottawa Holding Inc.			
Peter Leonard Manager – Supply Chain	P: 613-738-5499 Ext. 206 F: 613-738-6420	613-913-5061	peterleonard@
Alan Hoverd Chief Financial Officer	P: 613-738-5499 Ext. 207 F:	613-875-3974	alanhoverd@

SLA:	HOL - HOHI – Shared Corporate Services	SLA Number:	HOL/HOHI2010-01
Effective Date:	January 1, 2010	Page Number:	4
Expiry Date:	December 31, 2010	Superseded By:	

SCHEDULE 2

HUMAN RESOURCES, SAFETY AND ENVIRONMENT SERVICE REQUIREMENTS AND COSTS - 2010

DESCRIPTION OF SERVICES:

- Human Resources Safety and Environment services covered under this agreement include recruitment, selection, documentation, orientation, training, performance management, pay, benefits and pension administration, compensation, policy, recognition programs, termination support, wellness, health and safety, and the costs associated with the Employee Assistance Program.

PRICING:

- The pricing quoted below is based on the cost/employee at \$3,332.

<u>Services</u>	<u>Annual Fee</u>
Total Estimated	\$80,000

SLA:	HOL - HOHI – Shared Corporate Services	SLA Number:	HOL/HOHI2010-01
Effective Date:	January 1, 2010	Page Number:	5
Expiry Date:	December 31, 2010	Superseded By:	

SCHEDULE 2

HUMAN RESOURCES, SAFETY AND ENVIRONMENT KEY CONTACTS

<u>NAME / TITLE</u>	<u>TELEPHONE / FAX NUMBERS</u>	<u>CELL NUMBER</u>	<u>E-MAIL ADDRESS</u> <i>(all Hydro Ottawa addresses @hydroottawa.com)</i>
Hydro Ottawa Limited			
Ken Lewis Manager - Human Resources	P: 613-738-5499 Ext. 330 F: 613-738-5487		kenlewis@
Dan Watters Manager – Safety, Environment & Training	P: 613-738-5499 Ext. 7503 F: 613-738-	613-889-0543	danwatters@
Hydro Ottawa Holding Inc.			
Lyne Parent-Garvey Chief Human Resources Officer	P: 613-738-5499 Ext. 316 F:		lyneparent-garvey@

SLA:	HOL - HOHI – Shared Corporate Services	SLA Number:	HOL/HOHI2010-01
Effective Date:	January 1, 2010	Page Number:	6
Expiry Date:	December 31, 2010	Superseded By:	

SCHEDULE 3

INFORMATION TECHNOLOGY SERVICES

SERVICE REQUIREMENTS AND COSTS - 2010

DESCRIPTION OF SERVICES:

- Information and technology services covered under this agreement include general and ongoing information technology support and maintenance services, contingency planning, equipment upgrades, disposals and rentals, as required.

PERFORMANCE LEVELS:

<u>SERVICE LEVEL</u>	<u>PERFORMANCE MEASURE</u>
Resolution Time	
IT will implement solutions based on Severity classification. (Schedule 4)	95% of the time
Quality Indicators	
Help Desk will be available Monday to Friday 8:00 a.m. to 4:00 p.m., excluding statutory and civic holidays	98% of the time
IT will be available to provide planned after hours support, upon 2 business days advance request from HOHI	95% of the time
Network Reliability – The Network will be accessible 24 hours a day, 7 days a week, with the exclusion of planned maintenance	98% of the time

PRICING:

- Pricing is based on historical usage patterns and actual costs, based on the number of services required per headcount at \$6,736/employee.

<u>Services</u>	<u>Annual Fee</u>
Total Estimated	\$170,000

SLA: HOL - HOHI – Shared Corporate Services	SLA Number: HOL/HOHI2010-01
Effective Date: January 1, 2010	Page Number: 7
Expiry Date: December 31, 2010	Superseded By:

**SCHEDULE 3
INFORMATION TECHNOLOGY SERVICES
KEY CONTACTS**

<u>NAME / TITLE</u>	<u>TELEPHONE / FAX NUMBERS</u>	<u>CELL NUMBER</u>	<u>E-MAIL ADDRESS</u> <i>(all Hydro Ottawa addresses @hydroottawa.com)</i>
Hydro Ottawa Limited			
IT Helpdesk	P: 613-738-5499 Ext. 263 F:		IThelpdesk@
Rory Dowler Supervisor – Network and Client Services	P: 613-738-5499 Ext. 265	613-282-0798	rorydowler@
David Reeves Director – Information Technology	P: 613-738-5499 Ext. 329 F:	613-282-2474	davidreeves@
Hydro Ottawa Holding Inc.			
Alan Hoverd Chief Financial Officer	P: 613-738-5499 Ext. 207 F:	613-875-3974	alanhoverd@
Geoff Simpson Director - Finance	P: 613-738-5499 Ext. 7606 F:	613-282-4057	geoffsimpson@

SLA:	HOL - HOHI – Shared Corporate Services	SLA Number:	HOL/HOHI2010-01
Effective Date:	January 1, 2010	Page Number:	8
Expiry Date:	December 31, 2010	Superseded By:	

**SCHEDULE 4
FINANCE SERVICES
SERVICE REQUIREMENTS AND COSTS - 2010**

DESCRIPTION OF SERVICES:

- Finance services covered under this agreement include procurement, accounts receivable, account payable, banking transactions and reconciliations, Government remittances, indirect tax advice, audit support, accounting support and budget preparation assistance.

PRICING:

- Pricing is based on historical usage patterns and actual costs, based upon an estimated percentage of time/activity.

Services	Annual Fee
Total Estimated Costs	\$22,000

SLA:	HOL - HOHI – Shared Corporate Services	SLA Number:	HOL/HOHI2010-01
Effective Date:	January 1, 2010	Page Number:	9
Expiry Date:	December 31, 2010	Superseded By:	

SCHEDULE 4 FINANCE SERVICES KEY CONTACTS

<u>NAME / TITLE</u>	<u>TELEPHONE / FAX NUMBERS</u>	<u>CELL NUMBER</u>	<u>E-MAIL ADDRESS</u> <i>(all Hydro Ottawa addresses @hydroottawa.com)</i>
Hydro Ottawa Limited			
David Ayer Supervisor - Procurement	P: 613-738-5499 Ext. 101 F:	613-880-4012	davidayer@
Jeff Quinn Supervisor – Material Management	P: 613-738-5499 Ext. 135 F:	613-223-3833	jeffquinn@
Joel Gorr Supervisor- Material Management	P: 613-738-5499 Ext. 7147 F:	613-229-5767	joelgorr@
Andrew Machin Manager – Capital Assets	P: 613-738-5499 Ext. 7128 F:	613-816-7909	andrewmachin@
Ann Daechsel Manager - Accounting	P: 613-738-5499 Ext. 305 F:	613-282-3478	anndaeschsel@
Hydro Ottawa Holding Inc.			
Peter Leonard Manager – Supply Chain	P: 613-738-5499 Ext. 206 F:	613-913-5061	peterleonard@
Wayne Ebata Corporate Controller	P: 613-738-5499 Ext. 292 F:	613-867-7371	wayneebata@
Geoff Simpson Director - Finance	P: 613-738-5499 Ext. 7606 F:	613-282-4057	geoffsimpson@

SLA:	HOL - HOHI – Shared Corporate Services	SLA Number:	HOL/HOHI2010-01
Effective Date:	January 1, 2010	Page Number:	10
Expiry Date:	December 31, 2010	Superseded By:	

**SCHEDULE 5
CORPORATE COMMUNICATIONS
SERVICE REQUIREMENTS AND COSTS - 2010**

DESCRIPTION OF SERVICES:

- Communication services covered under this agreement includes the provision of HOL resources to support customer, public and shareholder relations, hosting public events, community and customer initiatives, providing of advice on communication issues, the development and procurement of communication materials, web support, oversight on matters that impact corporate reputation and support towards the development of corporate social responsibility programs.

PRICING:

- Pricing is based on historical usage patterns and actual costs, factored by percentage of time/activity.

Services	Annual Fee
Total Estimated Costs	\$48,000

SLA:	HOL - HOHI – Shared Corporate Services	SLA Number:	HOL/HOHI2010-01
Effective Date:	January 1, 2010	Page Number:	11
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**SCHEDULE 5
CORPORATE COMMUNICATIONS
KEY CONTACTS**

<u>NAME / TITLE</u>	<u>TELEPHONE / FAX NUMBERS</u>	<u>CELL NUMBER</u>	<u>E-MAIL ADDRESS</u> <i>(all Hydro Ottawa addresses @hydroottawa.com)</i>
Hydro Ottawa Limited			
Norm Fraser Chief Operating Officer	P: 613-738-5499 Ext: 526 F:		normfraser@
Hydro Ottawa Holding Inc.			
Nathan Benson Chief Communications Officer	P: 613-738-5499 Ext. 252 F:		nathanbenson@
Rosemary Walsh Manager – Communications & Public Affairs	P: 613-738-5499 Ext. 7623 F:		rosemarywalsh@

SLA:	HOL - HOHI – Shared Corporate Services	SLA Number:	HOL/HOHI2010-01
Effective Date:	January 1, 2010	Page Number:	12
Expiry Date:	December 31, 2010	Superseded By:	

Service Level Agreement

SLA #HOHI/HOL2010-02

Between:

Hydro Ottawa Holding Inc.

and

Hydro Ottawa Limited

for

Shared Corporate Services

1.0 PURPOSE

With reference to the Service Level Agreement Terms and Conditions between Hydro Ottawa Limited (hereinafter called "HOL") and Hydro Ottawa Holding Inc. (hereinafter called "HOHI") the purpose of this Service Level Agreement (hereinafter called "SLA") is to provide a description of the type of Shared Corporate Services to be provided by HOHI to HOL along with the associated pricing. Other service details relating to the performance of this SLA shall be attached, as applicable. (hereinafter called "Attachment").

2.0 LISTING OF SHARED SERVICES

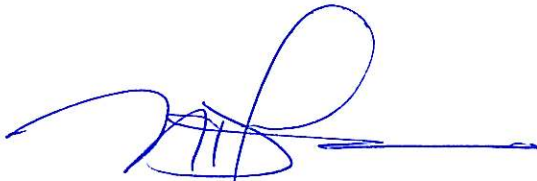
- Schedule 6: Legal Services, Corporate Administration and Regulatory Affairs
- Schedule 7: Finance, Internal Audit and Enterprise Risk Management Services
- Schedule 8: Human Resources, Safety and Environment
- Schedule 9: Corporate Communications
- Schedule 10: Management Services

SLA:	HOHI- HOL – Shared Corporate Services	SLA Number:	HOHI/HOL2010-02
Effective Date:	January 1, 2010	Page Number:	1
Expiry Date:	December 31, 2010	Superseded By:	

3.0 SIGNATURES

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date first set forth above.

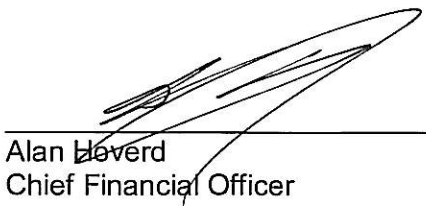
Hydro Ottawa Limited:



Norm Fraser
Chief Operating Officer

Date: Dec 16, 2009

Hydro Ottawa Holding Inc.:



Alan Leverd
Chief Financial Officer

Date: Dec 16, 2009

SLA:	HOHI- HOL – Shared Corporate Services	SLA Number:	HOHI/HOL2010-02
Effective Date:	January 1, 2010	Page Number:	2
Expiry Date:	December 31, 2010	Superseded By:	

SCHEDULE 6 **LEGAL SERVICES, CORPORATE ADMINISTRATION AND** **REGULATORY AFFAIRS** **SERVICE REQUIREMENTS AND COSTS - 2010**

DESCRIPTION OF SERVICES:

- Legal services and corporate administration covered under this agreement include the provision of legal advice and opinions, litigation management and support, contract drafting and review, policy development, review and support, corporate records management advice, privacy of information advice, submission of corporate filings under the OBCA and the Corporations Information Act, attendance at Board and Committee meetings for HOL and the preparation of associated agendas and minutes, dissemination of Board decisions and reports for HOL. Legal services also include the management of delivery of services by external legal counsel.
- Regulatory affairs services covered under this agreement includes managing the relationship with regulatory agencies specific to the local distribution company by ensuring all license requirements are being met, providing oversight on compliance matters, participating in regulatory consultations and liaising with industry bodies, providing regulatory advice and leadership to HOL staff, monitor HOL policies, practices and business performance for effectiveness and prepare and present reports on a monthly basis.

PRICING:

- Pricing is based on historical usage patterns and actual costs, factored by percentage of time/activity.

<u>Services</u>	<u>Annual Fee</u>
General Counsel	\$460,000
Regulatory Affairs	\$190,000
Total Estimated	\$ 650,000

SLA:	HOHI- HOL – Shared Corporate Services	SLA Number:	HOHI/HOL2010-02
Effective Date:	January 1, 2010	Page Number:	3
Expiry Date:	December 31, 2010	Superseded By:	

SCHEDULE 6
LEGAL SERVICES, CORPORATE ADMINISTRATION AND
REGULATORY AFFAIRS
KEY CONTACTS

<u>NAME / TITLE</u>	<u>TELEPHONE / FAX NUMBERS</u>	<u>CELL NUMBER</u>	<u>E-MAIL ADDRESS</u> (all Hydro Ottawa addresses @hydroottawa.com)
Hydro Ottawa Limited			
Norm Fraser Chief Operating Officer	P: 613-738-5499 Ext. 526 F: 613-738-	613-282-3514	normfraser@
	P: 613-738-5499 Ext F: 613-738-		@
Hydro Ottawa Holding Inc.			
Paul Hughes Corporate Secretary and General Counsel	P: 613-738-5499 Ext. 291 F: 613-738-		paulhughes@
Patricia Rowe Legal Counsel	P: 613-738-5499 Ext. 515 F: 613-738-		patriciarowe@
Lynne Anderson – Chief Regulatory Affairs and Gov't Relations Officer	P: 613-738-5499 Ext. 527 F:	613-282-0935	lynneanderson@

SLA:	HOHI- HOL – Shared Corporate Services	SLA Number:	HOHI/HOL2010-02
Effective Date:	January 1, 2010	Page Number:	4
Expiry Date:	December 31, 2010	Superseded By:	

SCHEDULE 7 **FINANCE, INTERNAL AUDIT AND ENTERPRISE RISK** **MANAGEMENT SERVICES** **SERVICE REQUIREMENTS AND COSTS - 2010**

DESCRIPTION OF SERVICES:

- Finance services covered under this agreement include the provision of accounting services, financial services, the provision of advice and guidance on strategic and operational matters and the preparation of reports for the Board of Directors and Audit Committees. Monitoring and evaluation of business planning practices and policies, liaising with credit rating agencies, financial institutions and other external stakeholders and providing oversight on the development of departmental budgets, the five-year plan, annual financial statements, internal policies and procedures and strategic projects.
- Enterprise risk management ("ERM") covered under this agreement include the support and maintenance of the ERM for HOL, coordinating quarterly and annual risk assessments, providing oversight to business continuity planning and conducting risk assessments as directed by the ERM steering committee or the Board.
- Internal audit services covered under this agreement include the development and implementation of a three-year audit plan, evaluation of the effectiveness of risk management, control and governance processes, provision of assessments to the audit committee, follow-up on management's action plans resulting from internal audits and liaising with financial, regulatory and other auditors.

PRICING:

- Pricing is based on historical usage patterns and actual costs, factored by percentage of time/activity.

Services	Annual Fee
Financial Services	\$1,750,000
Enterprise Risk Management	\$ 340,000
Audit Services	\$ 380,000
Total Estimate	\$2,470,000

SLA:	HOHI- HOL – Shared Corporate Services	SLA Number:	HOHI/HOL2010-02
Effective Date:	January 1, 2010	Page Number:	5
Expiry Date:	December 31, 2010	Superseded By:	

SCHEDULE 7
FINANCE, INTERNAL AUDIT AND ENTERPRISE RISK
MANAGEMENT SERVICES
KEY CONTACTS

<u>NAME / TITLE</u>	<u>TELEPHONE / FAX NUMBERS</u>	<u>CELL NUMBER</u>	<u>E-MAIL ADDRESS</u> <i>(all Hydro Ottawa addresses @hydroottawa.com)</i>
Hydro Ottawa Limited			
Norm Fraser Chief Operating Officer	P: 613-738-5499 Ext: 526 F:	613-282-3514	normfraser@
	P: 613-738-5499 Ext: F:		@
Hydro Ottawa Holding Inc.			
Geoff Simpson Director - Finance	P: 613-738-5499 Ext. 7606 F:	613-282-4057	geoffsimpson@
Alan Hoverd Chief Financial Officer	P: 613-738-5499 Ext. 207 F:	613-875-3974	alanhoverd@
Siddiqui Mohammed Chief Enterprise Risk Management and Internal Audit Officer	P: 613-738-5499 Ext. 131 F:	613-552-3374	siddiquimohammed@

SLA:	HOHI- HOL – Shared Corporate Services	SLA Number:	HOHI/HOL2010-02
Effective Date:	January 1, 2010	Page Number:	6
Expiry Date:	December 31, 2010	Superseded By:	

SCHEDULE 8
HUMAN RESOURCES, SAFETY AND ENVIRONMENT
SERVICE REQUIREMENTS AND COSTS - 2010

DESCRIPTION OF SERVICES:

- Human Resource, Safety and Environment services covered under this agreement include the provision of leadership and direction to employees in human resource, safety, environment and training matters, prepare and present materials for Governance and Compensation Committee and HOL Boards of Directors, provide strategic advice, prepare strategy for collective bargaining, oversee the negotiations and administration of collective agreement, monitor legislative changes and compliance, develop human resource engagement strategies, resource development strategies, performance management programs, workforce planning, guide related policy and process development and oversee organizational effectiveness metrics.

PRICING:

- Pricing is based on historical usage patterns and actual costs, factored by percentage of time/activity.

Services	Annual Fee
Total Estimated	\$ 690,000

SLA:	HOHI- HOL – Shared Corporate Services	SLA Number:	HOHI/HOL2010-02
Effective Date:	January 1, 2010	Page Number:	7
Expiry Date:	December 31, 2010	Superceded By:	

SCHEDULE 8 **HUMAN RESOURCES, SAFETY AND ENVIRONMENT** **KEY CONTACTS**

<u>NAME / TITLE</u>	<u>TELEPHONE / FAX NUMBERS</u>	<u>CELL NUMBER</u>	<u>E-MAIL ADDRESS</u> <i>(all Hydro Ottawa addresses @hydroottawa.com)</i>
Hydro Ottawa Limited			
Ken Lewis Manager Human Resources	P: 613-738-5499 Ext. 330 F: 613-738-5487		kenlewis@
Dan Watters Manager – Safety, Environment & Training	P: 613-738-5499 Ext. 7503 F:	613-889-0543	danwatters@
Hydro Ottawa Holding Inc.			
Lyne Parent-Garvey Chief Human Resources Officer	P: 613-738-5499 Ext. 316 F:		lyneparent-garvey@

SLA:	HOHI- HOL – Shared Corporate Services	SLA Number:	HOHI/HOL2010-02
Effective Date:	January 1, 2010	Page Number:	8
Expiry Date:	December 31, 2010	Superseded By:	

**SCHEDULE 9
CORPORATE COMMUNICATIONS
SERVICE REQUIREMENTS AND COSTS - 2010**

DESCRIPTION OF SERVICES:

- Corporate communications services covered under this agreement includes the provision of HOLs communication objectives, the provision of guidance and support on customer, public and shareholder relations, the provision of advice to the Executive on communication issues; chief media spokesperson, approval of communication materials and establishes communication protocols, oversight on matters that impact corporate reputation and supports the development of corporate social responsibility programs.

PRICING:

- Pricing is based on historical usage patterns and actual costs, factored by percentage of time/activity.

Services	Annual Fee
Total Estimate	\$270,000

SLA:	HOHI- HOL – Shared Corporate Services	SLA Number:	HOHI/HOL2010-02
Effective Date:	January 1, 2010	Page Number:	9
Expiry Date:	December 31, 2010	Supceded By:	

SCHEDULE 9 CORPORATE COMMUNICATIONS KEY CONTACTS

<u>NAME / TITLE</u>	<u>TELEPHONE / FAX NUMBERS</u>	<u>CELL NUMBER</u>	<u>E-MAIL ADDRESS</u> <i>(all Hydro Ottawa addresses @hydroottawa.com)</i>
Hydro Ottawa Limited			
Norm Fraser Chief Operating Officer	P: 613-738-5499 Ext: 526 F:	613-282-3514	normfraser@
Dave McKendry Director – Customer Care & Conservation	P: 613-738-5499 Ext: 353 F:	613-889-9836	davemckendry@
Hydro Ottawa Holding Inc.			
Nathan Benson Chief Communications Officer	P: 613-738-5499 Ext. 252 F:		nathanbenson@
Rosemary Walsh Manager – Communications & Public Affairs	P: 613-738-5499 Ext. 7263 F:		rosemarywalsh@

SLA:	HOHI- HOL – Shared Corporate Services	SLA Number:	HOHI/HOL2010-02
Effective Date:	January 1, 2010	Page Number:	10
Expiry Date:	December 31, 2010	Supceded By:	

**SCHEDULE 10
MANAGEMENT SERVICES
SERVICE REQUIREMENTS AND COSTS - 2010**

DESCRIPTION OF SERVICES:

- Management services covered under this agreement relate to the President and Chief Executive Officer and Director of Corporate Planning. Services include guiding and approving the alignment of HOL business plans with strategic direction, approving budget plans and business growth strategy, advising and reporting to stakeholders on operational and financial results, ensuring all regulatory compliance and risk management frameworks are in place, ensuring that all required policies, programs, standards and performance measures are in place and supporting leadership, organizational development programs.

PRICING:

- Pricing is based on historical usage patterns and actual costs, factored by percentage of time/activity.

Services	Annual Fee
Total Estimate	\$660,000

SLA:	HOHI- HOL – Shared Corporate Services	SLA Number:	HOHI/HOL2010-02
Effective Date:	January 1, 2010	Page Number:	11
Expiry Date:	December 31, 2010	Superseded By:	

**SCHEDULE 10
MANAGEMENT SERVICES
KEY CONTACTS**

<u>NAME / TITLE</u>	<u>TELEPHONE / FAX NUMBERS</u>	<u>CELL NUMBER</u>	<u>E-MAIL ADDRESS</u> <i>(all Hydro Ottawa addresses @hydroottawa.com)</i>
Hydro Ottawa Limited			
Norm Fraser Chief Operating Officer	P: 613-738-5499 Ext: 526 F:	613-282-3514	normfraser@
	P: 613-738-5499 Ext: F:		@
Hydro Ottawa Holding Inc.			
Rosemarie Leclair President and Chief Executive Officer	P: 613-738-5499 Ext. 203 F:		rosemarieleclair@
Alan Hoverd Chief Financial Officer	P: 613-738-5499 Ext. 207 F:	613-875-3974	alanhoverd@
Tina Tardioli Director – Corporate Planning	P: 613-738-5499 Ext. 230 F:		tinatardioli@

SLA:	HOHI- HOL – Shared Corporate Services	SLA Number:	HOHI/HOL2010-02
Effective Date:	January 1, 2010	Page Number:	12
Expiry Date:	December 31, 2010	Superseded By:	

Service Level Agreement

SLA #HOL/EO2010-03

Between:

Hydro Ottawa Limited

and

Energy Ottawa Inc.

for

**Shared Corporate Services,
Metering & Meter Data Services and
Generation Services**

1.0 PURPOSE

With reference to the Service Level Agreement Terms and Conditions between Hydro Ottawa Limited (hereinafter called "HOL") and Energy Ottawa Inc. (hereinafter called "EO") the purpose of this Service Level Agreement (hereinafter called "SLA") is to provide a description of the type of Shared Corporate Services, Metering and Meter Data Services and Generation Services to be provided by HOL to EO along with the associated pricing. Other service details relating to the performance of this SLA shall be attached, as applicable. (hereinafter called "Attachment").

2.0 LISTING OF SERVICES

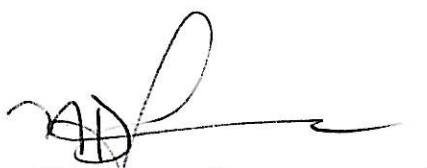
- Schedule 11: Building or Real Estate Support Services
- Schedule 12: Human Resources
- Schedule 13: Information Technology Services
- Schedule 14: Finance Services
- Schedule 15: Metering and Meter Data Services
- Schedule 16: Generation Services

SLA:	HOL - EO – Shared Corporate Services, Metering & Meter Data Services, Generation Services	SLA Number:	HOL/EO2010-03
Effective Date:	January 1, 2010	Page Number:	1
Expiry Date:	December 31, 2010	Superseded By:	

3.0 SIGNATURES

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date first set forth above.

Hydro Ottawa Limited:



Norm Fraser
Chief Operating Officer

Date: Dec 17, 2009

Energy Ottawa Inc.:



Greg Clarke
Chief Operating Officer

Date: Dec 17, 2009

SLA:	HOL - EO - Shared Corporate Services, Metering & Meter Data Services, Generation Services	SLA Number:	HOL/EO2010-03
Effective Date:	January 1, 2010	Page Number:	2
Expiry Date:	December 31, 2010	Supceded By:	

SCHEDULE 11
BUILDING OR REAL ESTATE SUPPORT SERVICES
SERVICE REQUIREMENTS AND COSTS - 2010

DESCRIPTION OF SERVICES:

- Building or real estate support services covered under this agreement include property tax with respect to the Generating Station at Middle and Booth Streets, workplace provisioning and support, furniture rental, property administration services, special projects and emergency preparedness services.
- Special Project services include:
 - Needs analysis, or other facilities consulting services
 - Special conference room arrangements
 - Special events set up and tear-down
 - Facilities assets repairs due to damage caused by the customer
 - Provision of temporary work stations

PRICING:

- Pricing for special projects will be based on a fee-for- service basis, charged per hour at internal labour plus material costs, or, external labour plus material costs. Internal labour charges are estimated to be \$50/hour.

Services	Annual Fee
Workspace Provisioning	
Furniture Rental	
Taxes	\$18,207
Special Projects	\$ 1,000
Total Estimated	\$19,207

SLA:	HOL - EO – Shared Corporate Services, Metering & Meter Data Services, Generation Services	SLA Number:	HOL/EO2010-03
Effective Date:	January 1, 2010	Page Number:	3
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SCHEDULE 11
BUILDING OR REAL ESTATE SUPPORT SERVICES
KEY CONTACTS

<u>NAME / TITLE</u>	<u>TELEPHONE / FAX NUMBERS</u>	<u>CELL NUMBER</u>	<u>E-MAIL ADDRESS</u> <i>(all Hydro Ottawa addresses @hydroottawa.com)</i>
Hydro Ottawa Limited			
Facilities Help Desk	P: 613-738-5499 Ext. 7438 F: 613-738-5475		facilitieshelpdesk@
Joey St. Jacques Supervisor - Facilities	P: 613-738-5499 Ext. 161 F:		joeystjacques@
Energy Ottawa Inc.			
			<i>(all Energy Ottawa addresses @energyottawa.com)</i>
Greg Clarke Chief Operating Officer	P: 613-225-0418 Ext. 7214 F: 613-225-0644	613-794-4409	gregclarke@
	P: 613- Ext. F:		@

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**SCHEDULE 12
HUMAN RESOURCES
SERVICE REQUIREMENTS AND COSTS - 2010**

DESCRIPTION OF SERVICES:

- Human Resources services covered under this agreement include recruitment, selection, documentation, orientation, training, performance management, pay, benefits and pension administration, compensation, policy, recognition programs, termination support and the costs associated with the Employee Assistance Program.

PRICING:

- The pricing quoted below is based on headcount at \$2,797/employee (excluding the wellness program).

<u>Services</u>	<u>Annual Fee</u>
Total Estimated	\$22,377

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SCHEDULE 12 HUMAN RESOURCES KEY CONTACTS

<u>NAME / TITLE</u>	<u>TELEPHONE / FAX NUMBERS</u>	<u>CELL NUMBER</u>	<u>E-MAIL ADDRESS</u> <i>(all Hydro Ottawa addresses @hydroottawa.com)</i>
Hydro Ottawa Limited			
Ken Lewis Manager Human Resources	P: 613-738-5499 Ext. 330 F: 613-738-5487		kenlewis@
Energy Ottawa Inc.			
			<i>(all Energy Ottawa addresses @energyottawa.com)</i>
Greg Clarke Chief Operating Officer	P: 613-225-0418 Ext. 7214 F: 613-225-0644	613-794-4409	gregclarke@
	P: 613- F:		@

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SCHEDULE 13
INFORMATION TECHNOLOGY SERVICES
SERVICE REQUIREMENTS AND COSTS - 2010

DESCRIPTION OF SERVICES:

- Information and technology services covered under this agreement include general and ongoing information technology support and maintenance services, contingency planning, equipment upgrades, disposals and rentals, as required.

PRICING:

- Pricing is based on historical usage patterns and actual costs, based on the number of services required per headcount at \$6,736/employee.

<u>Services</u>	<u>Annual Fee</u>
Total Estimated	\$53,891

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SCHEDULE 13
INFORMATION TECHNOLOGY SERVICES
KEY CONTACTS

<u>NAME / TITLE</u>	<u>TELEPHONE / FAX NUMBERS</u>	<u>CELL NUMBER</u>	<u>E-MAIL ADDRESS</u> <i>(all Hydro Ottawa addresses @hydroottawa.com)</i>
Hydro Ottawa Limited			
IT Helpdesk	613-738-5499 Ext 263		IThelpdesk@
David Reeves Director – Information Technology	613-738-5499 Ext 329	613-282-2474	davidreeves@
Energy Ottawa Inc.			
			<i>(all Energy Ottawa addresses @energyottawa.com)</i>
Greg Clarke Chief Operating Officer	P: 613-225-0418 Ext. 7214 F: 613-225-0644	613-794-4409	gregclarke@
	P: 613- Ext. F:		@

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**SCHEDULE 14
FINANCE SERVICES
SERVICE REQUIREMENTS AND COSTS - 2010**

DESCRIPTION OF SERVICES:

- Finance services covered under this agreement include accounts receivable, account payable, banking transactions and reconciliations, Government remittances, indirect tax advice, audit support, accounting support and budget preparation assistance.

PRICING:

- Pricing is based on historical usage patterns and actual costs, based upon an estimated percentage of time/activity.

Services	Annual Fee
Total Estimated Costs	\$50,542

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SCHEDULE 14 FINANCE SERVICES KEY CONTACTS

<u>NAME / TITLE</u>	<u>TELEPHONE / FAX NUMBERS</u>	<u>CELL NUMBER</u>	<u>E-MAIL ADDRESS</u> <i>(all Hydro Ottawa addresses @hydroottawa.com)</i>
Hydro Ottawa Limited			
Andrew Machin Manager – Capital Assets	613-738-5499 Ext. 7128 F:		andrewmachin@
Ann Daechsel Manager - Accounting	613-738-5499 Ext. 305 F:	613-282-3478	anndaechsel@
Energy Ottawa Inc.			
			<i>(all Energy Ottawa addresses @energyottawa.com)</i>
Greg Clarke Chief Operating Officer	P: 613-225-0418 Ext. 7214 F: 613-225-0644	613-794-4409	gregclarke@
	P: 613- Ext. F:		@

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SCHEDULE 15

METERING AND METER DATA SERVICES

SERVICE REQUIREMENTS AND COSTS - 2010

DESCRIPTION OF SERVICES:

- Metering and meter data services covered under this agreement include MV90 translation, Lodestar LPSS, Web Portal Data Services, Data Repository Services, PeopleSoft CIS billing services, Metering Field Services and the issuance of monthly activity reports.
- Accountabilities and Responsibilities are defined in Addendum #1.

PERFORMANCE LEVELS:

<u>SERVICE LEVEL</u>	<u>PERFORMANCE MEASURE</u>
<i>Response Time / Resolution Time</i>	
MDS will provide access to the Web Portal for new customers within 5 business days of receipt of written request	95% of the time
MDS will provide meter information to interval metered customers within 1 business day of usage	95% of the time
MDS will provide generation output information to EO within 1 business day of Physical SSPC Schedule, based on availability of phone lines	99% of the time
<i>Quality Indicators</i>	
MDS will be available Monday to Friday 7:00 a.m. to 4:00 p.m., excluding statutory and civic holidays	90% of the time
Web Portal Availability...The Network will be accessible 24 hours a days, 7 days a week, with the exclusion of planned maintenance	95% of the time
MDS will contain all necessary data	95% accurate
MDS will contain the correct determinants	98% accurate

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REPORTS:

<u>REPORT NAME / DESCRIPTION</u>	<u>PREPARED BY</u>	<u>ISSUED TO</u>
<i>Monthly</i>		
MDS Activity Report – summary of costs and volumes of work per service undertaken for EO in the previous month	Sup. Meter Data	Director of Generation, EO
<i>Annually (during the Business Planning and Budgeting Process)</i>		
MDS Requirements – estimated EO meter data service requirements for the business planning period including web portal activities and MDS requirements	Director of Generation, EO	Sup. Meter Data
<i>Immediately upon changes to Contact List – Schedule 4</i>		
MDS Key Contacts	Sup. Meter Data	Director of Generation, EO
EO Key Contacts	Director of Generation, EO	Sup. Meter Data

PRICING:

- Pricing is based on historical usage patterns and actual costs factored by a percentage of time/activity/fully-allocated cost. Meter data services, including web portal services are charged on a per usage basis.

Services	Annual Fee
Total Estimated Costs	\$84,987

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**SCHEDULE 15
METERING AND METER DATA SERVICES
KEY CONTACTS**

<u>NAME / TITLE</u>	<u>TELEPHONE / FAX NUMBERS</u>	<u>CELL NUMBER</u>	<u>E-MAIL ADDRESS</u> <i>(all Hydro Ottawa addresses @hydroottawa.com)</i>
Hydro Ottawa Limited			
Roger Marsh Director – Metering & Electricity Revenue	613-738-5499 Ext. 342 F:		rogermarsh@
Steve White Manager – Metering Initiatives	613-738-5499 Ext. 147 F:		stevewhite@
Joel McGuire Supervisor – Data Systems	613-738-5499 Ext. 7408 F:		joelmcguire@
Energy Ottawa Inc.			
			<i>(all Energy Ottawa addresses @energyottawa.com)</i>
Greg Clarke Chief Operating Officer	P: 613-225-0418 Ext. 7214 F: 613-225-0644	613-794-4409	gregclarke@
Owen Mahaffy Director - Generation	P: 613-225-0418 Ext. 7222 F: 613-225-0644	613-889-1847	owenmahaffy@
Glenn Mooney Energy Services	P: 613-225-0418 Ext. 7212 F: 613-225-0644	613-	glennmooney@

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SCHEDULE 16 GENERATION SERVICES SERVICE REQUIREMENTS AND COSTS - 2010

DESCRIPTION OF SERVICES:

- Generation services covered under this agreement include the provision of electrical, mechanical and civil services by a Fitter Mechanic.
- Work undertaken by the Fitter Mechanic is restricted to the qualifications as stated below:
 - Work with Electricians performing mechanical and electrical work on Energy Ottawa equipment
 - Perform detailed mechanical inspections of generating facilities
 - Diagnose operational problems
 - Preparing list and source parts as required
 - Fabricate, modify, design parts, components, accessories
 - Using welding and steel cutting equipment
 - Provide on-site support to electricians for the completion of Energy Ottawa work
 - Ensure that work conforms to all applicable regulatory requirements and in a timely and effective manner
 - Certify work by signing inspection certificates, log books, etc.
 - Maintain an inventory of hand & power tools and keeping work area in a safe and orderly condition
 - Respect all safety rules & regulations including reporting unsafe conditions, recommending ways of improving the safety of the work environment, ensuring work practices are in compliance with the Occupational Health & Safety Act and any other applicable legislation
 - Work overtime as required
 - Ensure work performed by contractors conforms with Energy Ottawa work and equipment standards
 - Ability to read, modify and produce mechanical drawings
 - Perform other duties as may be assigned from time to time by Hydro Ottawa Stations Supervisory Staff
 - Installation of portable grounding equipment
 - On-call as required by Energy Ottawa

TERMS AND TERMINATION:

1. Either party may terminate this Agreement by providing at least two (2) week's notice in writing to the other party. The effective date of the termination shall be

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two (2) weeks from the date the other party is deemed to have received notice pursuant to Section 4 of the Continuation Agreement.

2. Energy Ottawa Inc. shall comply with the *Occupational Health and Safety Act*, R.S.O. 1990, c. O.1. ("OHSA") and the regulations prescribed there under, and shall take all necessary steps to protect the Fitter Mechanic from any harm or danger associated with work undertaken by the Fitter Mechanic for Energy Ottawa. Energy Ottawa shall provide a competent Supervisor for the Fitter Mechanic as per the OHSA. Notwithstanding subsection (1), if Energy Ottawa Inc. fails to comply with the OHSA or Energy Ottawa Inc.'s health and safety program, Hydro Ottawa Limited, at its sole discretion may terminate this Agreement immediately, upon notice to Energy Ottawa. Energy Ottawa shall furnish a copy of its current health and safety policies to Hydro Ottawa.
3. Hydro Ottawa Limited is providing the services of a Fitter Mechanic on a contract basis and reserves the right to approve or refuse vacation, over-time and sick leave. Also, from time to time, the Fitter Mechanic will be required to attend meetings and training provided by Hydro Ottawa Limited. Hydro Ottawa Limited will provide at least two (2) week's notice to Energy Ottawa of these meetings and training.

PRICING:

- Pricing is based on historical usage patterns and actual costs, based upon at \$62.00 /hour wage rate

Services	Annual Fee
Fitter Mechanic Services	
Total Estimated Costs	\$93,000

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**SCHEDULE 16
GENERATION SERVICES
KEY CONTACTS**

<u>NAME / TITLE</u>	<u>TELEPHONE / FAX NUMBERS</u>	<u>CELL NUMBER</u>	<u>E-MAIL ADDRESS</u> <i>(all Hydro Ottawa addresses @hydroottawa.com)</i>
Hydro Ottawa Limited			
Bill Bennett Director – Distribution Asset Management	613-738-5499 Ext. 7290 F:	613-282-4100	billbennett@
Ed Donkersteeg – Manager Stations	613-738-5499 Ext. 7159 F:	613-223-4180	edwardd@
Energy Ottawa Inc.			
			<i>(all Energy Ottawa addresses @energyottawa.com)</i>
Greg Clarke - Chief Operating Officer	P: 613-225-0418 Ext. 7214 F:613-225-0644	613-794-4409	gregclarke@
Owen Mahaffy Director - Generation	P: 613-225-0418 Ext. 7222 F:613-225-0644	613-889-1847	owenmahaffy@
Mike Poulin Supervisor - Stations	P: 613-225-0418 Ext F:613-225-0644	613-295-6012	mikepoulin@

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These General Terms and Conditions (the "Terms and Conditions") effective the 1st day of January 2009

BETWEEN:

HYDRO OTTAWA HOLDING INC.

(hereinafter called "**HOHI**")

AND

HYDRO OTTAWA LIMITED

(hereinafter called "**HOL**")

AND

ENERGY OTTAWA INC.

(hereinafter called "**EO**")

(collectively referred to as the "Parties" and individually as a "Party")

WHEREAS the Parties desire to enter into a services agreement by which Parties may provide Services to each other pursuant to the terms and conditions contained herein; and

NOW THEREFORE, in consideration of the mutual covenants and agreements herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, HOHI, HOL and EO agree as follows:

1. Purpose

The purpose of these Terms and Conditions is to describe the Services to be provided by the Service Provider to the User, the cost recovery mechanism for such Services, the responsibilities of and the working relationship between the Service Provider and the User relating to such Services. These Terms and Conditions also set out the interest and financing costs to be charged or recovered by the Service Provider from the User.

2. Definitions

In the Services Agreement, unless otherwise specified, the following terms shall have the following meanings:

"Affiliate" means an affiliated body corporate as set out in subsection 1(4) of the *Business Corporations Act*, R.S.O. 1990, c. B.16, including any and all amendments or revisions thereto.

"Affiliate Relationships Code" or "ARC" means the *Affiliate Relationships Code for Electricity Distributors and Transmitters* issued by the Ontario Energy Board on April 1, 1999, including any and all amendments or revisions thereto.

"Confidential Information" means all information, whether disclosed orally, in writing, or otherwise, designated as being confidential, which is disclosed by one Party (the "Disclosing Party") to the other Party (the "Recipient") relating to the business of the Disclosing Party or in connection with the subject matter of the Services Agreement and includes, but is not limited to, business, financial, and marketing information, plans and strategies, contractual, customer and supplier information, technical information related to hardware, software and firmware, and know-how, trade secrets and any other intellectual property rights, and the terms of this Agreement. Notwithstanding the foregoing, Confidential Information shall not include information which (i) now is, or hereafter properly becomes, generally available to the public

other than as a result of disclosure in breach of the Services Agreement; (ii) is required to be disclosed in compliance with any applicable law, under order of a court of competent jurisdiction or other similar requirement of a governmental agency, so long as the Recipient provides the Disclosing Party with prior written notice of any required disclosure pursuant to such law, order or requirement and cooperates, to the extent permitted by law with the Disclosing Party in seeking an order eliminating or restricting the disclosure or a protective order or otherwise ensuring the confidential treatment of the Confidential Information; (iii) is disclosed with the prior written approval of an authorized officer of the Disclosing Party; (iv) is previously known to the Recipient at the time of disclosure; (v) is discovered by the Recipient without reference to the Confidential Information of the Disclosing Party; or (vi) is lawfully obtained from a third party which was not bound by a confidentiality agreement respecting the disclosure.

"Government Authority" means any government, parliament, legislature or any regulatory authority, agency, commission or a board of any government, parliament or legislature, or any political subdivision thereof, or any court or, without limitation to the foregoing, any other law, regulation or rule making entity or any person acting under the authority of any of the foregoing or any other authority charged with the administration or enforcement of laws, including the Privacy Commissioner of Canada and the Information and Privacy Commissioner of Ontario and the Ontario Energy Board (OEB), the Ontario Power Authority and the Ontario Ministry of Energy and Infrastructure.

"Laws" shall have the meaning prescribed to it in Section 11.

"Operating Term" means the term for which a Service is provided under a given SLA.

"Personal Information" has the meaning ascribed thereto in the *Municipal Freedom of Information and Protection of Privacy Act*, R.S.O. 1990, C. M.56, including any and all amendments or revisions thereto.

"Representatives" in reference to party, means the party's directors, officers, employees, agents and contractors, the party's Affiliates, and all such Affiliates' respective directors, officers, employees, agents and contractors.

"Services" has the meaning ascribed thereto in section 2.2 of the Affiliate Relationships Code and includes any service described in an SLA and Shared Corporate Services, but does not include the sale or lease of real property by the Service Provider to an affiliate of the Service Provider or a licence for the use of intellectual property.

"Services Agreement" or "Agreement" has the meaning ascribed thereto in the Affiliate Relationships Code and consists of these Terms and Conditions, any Service Level Agreement, and any amendments or supplements issued thereunder.

"Service Level Agreement" or "SLA" means an agreement between two or more Parties for the provision of specific Services, for a specific Operating Term, at specific levels of performance, and at an agreed upon cost.

"Service Provider" means the Party providing the Service.

"Shared Corporate Services" has the meaning ascribed thereto in the Affiliate Relationships Code.

"Terms and Conditions" means these General Terms and Conditions and includes this document, any attached Schedules and Appendices, and amendments or supplements issued pursuant to these General Terms and Conditions.

"User" means the Party to whom the Services are provided.

3. Priority of Documents

In the event of a conflict between the terms of these Terms and Conditions and the terms of an SLA, the terms of the SLA shall take precedence unless otherwise set forth herein.

4. Performance

- (1) All Services shall be performed, and the deliverables conveyed, in a timely and business-like manner in accordance with the terms and conditions of the Service Agreement.
- (2) The Services shall be performed in accordance with industrial and professional practices, codes and standards carried out by professionals, technicians or workers skilled and qualified in the type of work required.
- (3) The Service Provider covenants and agrees with and represents and warrants to the User that the Service Provider has the experience, ability and financial capacity to perform and fulfill its obligations hereunder, and covenants to maintain during the Term and any Renewal Term, the financial and other ability and authority to perform and fulfill its obligations hereunder.

5. Term

- (1) These Terms and Conditions shall commence on January 1, 2009 and shall remain in effect until December 31, 2014.
- (2) The Service Provider agrees to provide to the User the Services starting on the Commencement Date, as defined in the SLA, and continuing throughout the Operating Term of the SLA.

6. Termination

- (1) Either Party has the absolute right in its sole discretion to terminate the Services Agreement by written notice to the other Party, specifying a termination date not sooner than sixty (60) days following delivery of such notice. In the event of any such termination, the User shall only be obligated to pay the Service Provider for work effort reasonably expended and expenses incurred prior to the date of termination. The Service Provider shall not undertake any further commitments after receipt of notice of termination and the User shall not, under any circumstances, be responsible for any loss of revenue or anticipated profit.
- (2) In the event of termination pursuant to this Section 6, the Service Provider shall diligently perform the Services up to the termination date so specified and the sole measure of the User's liability to the Service Provider, if any, shall be to pay for Services performed by the Service Provider in accordance with the terms of the Services Agreement up to the termination date.

7. Terms of Payment

- (1) All Services provided by the Service Provider, or its Representatives, shall be charged to the User in accordance with the applicable SLA, and in accordance with the Affiliate Relationships Code (the "Price" or, collectively, the "Prices").
- (2) The Parties hereby agree and acknowledge that they shall renegotiate the Services and Prices at such times as necessary in order to ensure that the Prices remain consistent with the requirements of the Affiliate Relationships Code.

8. Services

- (1) The Service Provider shall provide the User with the Services set out in the SLA and any additional Services required by the User from time to time. Any additional Services required by the User shall be provided by the Service Provider at mutually agreed upon terms, conditions and Prices, provided however that such terms, conditions and Prices shall be consistent with the requirements of the Affiliate Relationships Code.
- (2) The Service Provider shall provide the Services at the quality levels, if any, set out in the SLA. These levels may be reviewed from time to time.
- (3) Subject to subsection 8(4), the Service Provider shall have the right, in its sole discretion, to contract with a third party to deliver all or part of the Services, provided however that such third party shall be capable of providing such Services

to the same or better quality levels than those set forth in subsection 8(2). The Parties agree that the Service Provider shall be acting as the agent of the User in procuring the delivery of such Services to the User.

- (4) Where the Service Provider has contracted with a third party to provide part or all of the Services pursuant to subsection 8(3), the User shall pay the amount charged by such third party for the portion of the Services delivered.
- (5) An employee may be transferred or seconded from the Service Provider to the User or from the User to the Service Provider with the prior written approval of the Manager of the relevant departments of the Service Provider and the User. Such approval shall set forth the terms and conditions of such transfer including all appropriate measures required to preserve the confidentiality of customer information. If an employee may have access to the Confidential Information of the User while on the secondment or transfer, then that employee shall not provide any services whatsoever to the Service Provider during the period of the secondment or transfer.
- (6) The Service Provider shall bear all costs incurred, and all risk involved, in delivering the Services to the User.

9. Payment

The Service Provider shall submit all charges for Services rendered and reimbursable expenses incurred to the User. Payment will be made via inter-company transfer on a monthly basis. In the case of a disagreement regarding charges or payments, Parties will adhere to the mediation procedure set out in Section 21 for resolution.

10. Goods & Services Tax (GST)

No GST will be charged as per intercompany election *GST25 Closely Related Corporations and Canadian Partnerships – Election or Revocation of the Election to Treat Certain Taxable Supplies as having been made for Nil Consideration*.

11. Compliance with Laws

The Service Provider shall at all times comply with all applicable laws, statutes, rules, regulations, by-laws, orders, notices, ordinances and other requirements of any Government Authority (collectively, the "Laws"). Without limiting the foregoing, the Service Provider covenants that it will comply with the provisions of health and safety Laws. The Service Provider acknowledges that it is solely responsible as employer for the health and safety of all its employees and workers. The Service Provider shall comply with and shall require all of its employees and workers to comply with the provisions of all Laws

12. Proprietary Rights, Confidentiality

- (1) Both Parties retain all rights to methodology, knowledge, and data brought to the work and used therein. No rights to proprietary interests existing prior to the start of the work are passed hereunder other than rights to use same as provided for below. The Service Provider shall not incorporate into the work any data, software or hardware the use of which by the User violates the proprietary rights of third parties.
- (2) All title and beneficial ownership interests to all intellectual property, including copyright, of any form, including, without limitation, discoveries (patented or otherwise), software, data (hard copies and machine readable) or processes, conceived, designed, written, produced, developed or reduced to practice in the course of the work shall vest in and remain with the User. The Service Provider shall not do any act, which may compromise or diminish the User's interests as aforesaid.
- (3) Subject to any third party rights or licence agreements, the Service Provider grants to the User a non-exclusive paid up license to use any data and other proprietary items incorporated into the work by the Service Provider hereunder. The Service Provider may, by prior written notice and written acknowledgment by the User's Contact, reserve the right to incorporate into the work data or other proprietary property for the use of which the Service Provider wishes to charge a fee. If said notice and acknowledgment are not executed prior to the incorporation, the Service Provider shall be deemed to have waived any such fee. The User shall have the right to exploit such data and property and to license same to third parties provided that such licenses contain reasonable reservations of proprietary rights in favor of the Service Provider (which may be included in a general reservation, but shall contain the same order of legal protection as the Service Provider uses when distributing such data or property to third parties) or provided the use of

same does not reveal information proprietary to the Service Provider.

- (4) Each Party agrees not to disclose any Confidential Information to any person except those of its Representatives who have a need to know such Confidential Information in connection with the Services Agreement and who are informed of the confidential nature of the Confidential Information and who agree to be bound by the terms of this Section 12. The Recipient will not use any Confidential Information relating to the Disclosing Party for any purpose other than in connection with the performance of its obligations, or exercise of its rights, under the Services Agreement, and will exercise the same security measures normally exercised with respect to its own Confidential Information, and at a minimum a reasonable degree of care, to safeguard the Confidential Information from disclosure to anyone other than as permitted hereby.
- (5) If the Services Agreement is terminated at any time, the Parties agree that such Confidential Information provided and all copies thereof (excluding Confidential Information in oral form that has not been put into tangible form) will be immediately returned to the Disclosing Party or, at the Disclosing Party's option, destroyed. Notwithstanding the foregoing, the Recipient shall be entitled to keep, subject always to all the provisions of the Services Agreement, one copy of any notes, analyses, reports or other written material prepared by, or on behalf of, the receiving party that contain Confidential Information for its records.
- (6) Each Party shall be responsible for any breach of the Services Agreement by the Party, its Representatives and any person to whom it discloses any Confidential Information. Full and faithful performance by each of the Parties hereto of all obligations under the Services Agreement is the essence of the Services Agreement. Each of the Parties hereto acknowledges that monetary damages are not an adequate remedy for violations of the obligations of confidentiality under the Services Agreement and that any non-compliance or breach thereof shall result in irreparable harm to the Disclosing Party, and that in such event the Disclosing Party shall be entitled to equitable relief, including injunctive relief, without prejudice to any other remedies available to the said Disclosing Party.
- (7) The Service Provider shall (i) collect, use, disclose, and retain Personal Information only as required to fulfill its obligations pursuant to the Services Agreement, (ii) take appropriate measures to ensure the privacy and security of all Personal Information, including taking measures to prevent unauthorized access, collection, use, disclosure, copying, modification or disposal; and (iii) comply with all applicable laws or regulations related to privacy or data protection.
- (8) The provisions of this Section 12 shall survive termination of the Services Agreement.

13. Accounts and Right to Audit

- (1) The Service Provider shall keep proper accounts and records of the cost to the Service Provider of the Services provided and of all expenditures or commitments made by the Service Provider in connection therewith, and shall keep all books and records including invoices, receipts, vouchers, cheques, and bank statements relating thereto. The Service Provider shall not, without the prior written consent of the User, dispose of any such accounts, records, invoices, receipts or vouchers until the expiration of seven (7) years after final payment under the Services Agreement, or until the settlement of all outstanding claims and disputes, whichever is later.
- (2) All such accounts and records as well as any invoices, receipts, vouchers, cheques, and bank statements shall at all times during the retention period referred to in subsection 13(1) be open to audit, inspection and examination by the authorized representatives of the User, who may make copies and take extracts thereof. The Service Provider shall furnish all such information as the representatives of the User may from time to time require with respect to such accounts, records, invoices, receipts and vouchers.

14. Limitation of Liability

The User intends that the Service Provider not be liable to the User for professional errors and omissions committed in the course of the work beyond the limits of insurance coverages which the Service Provider is required to maintain, or which the Service Provider obtains during the course of the work and toward the cost of which the User directly or indirectly (i.e., through payment of overhead markups) contributes. As between the Service Provider and the User, this intention may be considered legally binding so long as it is not used by virtue of a provision in the policy to defeat or lessen coverage and,

therefore, liability. For the purposes of this provision, self-insurance shall be the equivalent of no insurance unless a reserve that is recognized in the Service Provider's financial reports, or that is recognized by Canada Revenue Agency or the by the income tax authority in the jurisdiction of the Service Provider's home office, is established.

15. Insurance

- (1) The Service Provider shall at its own expense maintain in force the following insurance coverages, to the extent applicable:
 - (a) Commercial General Liability Insurance with coverage of not less than Two Million Canadian Dollars (\$ 2,000,000) per occurrence involving bodily injury or property damage;
 - (b) Professional Liability (Errors and Omissions) with coverage limits of not less than Two Million Canadian Dollars (\$2,000,000); and
 - (c) Automobile Liability including owned, non-owned and hired automobiles with coverage limits of Two Million Canadian Dollars (\$ 2,000,000) anyone occurrence Combined Single Limit Bodily Injury and Property Damage;
- (2) The Service Provider shall provide to the User certificates of its insurance, specifying insurers, types of risks insured and coverage limits, from time to time, as the User shall reasonably require. Such certificates shall provide that the insurer shall not cancel or amend the subject insurance coverage unless and until the User shall have had at least thirty (30) days notice from the insurer of its intention to cancel or amend.

16. Limited Warranty, Liability and Indemnification

- (1) The Service Provider warrants that its Services will be performed within the limits set out in Schedule A, attached hereto, with professional thoroughness and competence in all respects. The Service Provider at its own expense will correct and perform, if necessary, any Service which does not meet such standards of performance if notified within one (1) year after completion of the Services.
- (2) The Service Provider shall indemnify and hold harmless the User and its Representatives from all liability to any person including the Service Provider and its Representatives for any and all damages, expenses and costs, for injury to or death of any person or damage to or destruction or loss of use of property of the Service Provider or any other person including the User, arising directly from or indirectly caused by any negligent act or omission of the Service Provider or of any person for whose acts or omissions the Service Provider may be liable, except to the extent where such damage, expense, cost, destruction or loss of use is caused by the negligence or misconduct of the User or the User's failure to comply with any health and safety requirements of any Government Authority. Such indemnity shall survive any termination of the Services Agreement.
- (3) The User shall indemnify and hold harmless the Service Provider and its Representatives from all liability to any person including the User and its Representatives for any and all damages, expenses and costs, for injury to or death of any person or damage to or destruction or loss of use of property of the Service Provider or any other person including the User, arising directly from or indirectly caused by: (i) any negligent act or omission of the User or of any person for whose acts or omissions the User may be liable or (ii) the User's failure to comply with any health and safety requirements of any Government Authority.
- (4) Notwithstanding any other provision to the contrary, the Service Provider's total aggregate liability for damages arising from any cause of action whatsoever, shall not exceed an amount (the "Liability Amount") equal to the higher of: (a) the total consideration payable to the Service Provider pursuant to the Services Agreement, or (b) the limits of the insurance coverage's described above.
- (5) In no event, whether as a result or breach of contract, warranty, tort (including negligence), strict liability or otherwise shall either Party be liable to the other for any indirect, incidental, or consequential damages of any nature.

17. Assignment

- (1) A Party shall not assign the Services Agreement nor any interest therein without the prior written consent of the other Party or Parties, as the case may be, such consent not to be unreasonably withheld.
- (2) No consent to any assignment granted by a Party shall relieve the other Party from any liability or obligation under this Agreement.
- (3) A Change of Control of the Licensee shall be deemed to be an assignment of this Agreement and be subject to subsections 17(1) and 17(2). For the purposes hereof, a "**Change of Control**" means the acquisition of at least fifty percent (50%) of the outstanding voting shares of a Party by another Person by means of any transaction or series of related transactions including, without limitation, any reorganization, merger, consolidation or tender offer, except where such Party's shareholders of record as constituted immediately prior to such transaction will, immediately after such transaction together hold at least fifty percent (50%) of the outstanding voting power of the surviving or acquiring Person in such transaction. For the purposes hereof, references to a "**Person**" are to be broadly interpreted and shall include an individual (whether acting as an executor, administrator, legal representative or otherwise), body corporate, unlimited liability company, partnership, limited liability partnership, joint venture, trust, unincorporated association, unincorporated syndicate, and any governmental authority and any other legal or business entity.
- (4) Notwithstanding the foregoing, it is agreed that:
 - (a) The User may voluntarily, by statute, or by legislative directive or authority, transfer its interest hereunder without the consent of the Service Provider to an Affiliate.
 - (b) In the event that a Party is restructured or reorganized into new entities whether by legislative mandate or otherwise, any such new entity, as determined by that Party or the government of the Province of Ontario, may assume all rights and obligations of the Party under the Services Agreement, with the agreement of the other Party or Parties, as the case may be.

18. Notice

- (1) Every notice or other communication required or permitted in the Services Agreement shall be in writing directed to the Party to whom delivered at such Party's address either personally or by facsimile, as follows:
 - (a) **Hydro Ottawa Holding Inc.:**

3025 Albion Road
Ottawa, Ontario
K1G 3S4

Attention: Corporate Secretary and General Counsel
Fax: (613) 738-5486
 - (b) **Hydro Ottawa Limited**

3025 Albion Road
Ottawa, Ontario
K1G 3S4

Attention: Chief Operating Officer
Fax: (613) 738-5498

(c) **Energy Ottawa Inc.:**

1145 Hunt Club Road, Suite 220
Ottawa, Ontario
K1V 0Y3

Attention: Chief Operating Officer
Fax: (613)225-0644

Or at such other address as may be notified by either Party pursuant to subsection 18(2).

- (2) A Party may change its address from time to time by giving written notice of such change to the other Party or Parties, as the case may be. Any notice delivered hereunder by hand or by facsimile to an officer or designated person of the addressee shall be deemed to have been received by the addressee upon such delivery or transmission.

19. No Agency

Nothing in the Services Agreement shall be construed to constitute a Party as the agent, employee, licensee, partner, joint venture or other representative of another Party.

20. Force Majeure

- (1) Any delay in the performance of any Service which is caused by *force majeure* or event beyond the reasonable control of a Party (but not including an inability to pay) shall be excused by the other Party or Parties, as the case may be. As used herein, "*force majeure*" includes acts of God, acts of local, state, provincial or federal government, fire, floods, epidemics, strikes or labour unrest.
- (2) In the event of *force majeure* affecting a Party, such Party shall notify the other Party or Parties, as the case may be, within seven (7) consecutive days (including holidays and weekends) of the event allegedly causing the delay, and the time for completing the portion of any Service which has been or is likely to be delayed shall be extended by a period equal to the length of the delay so caused and the total performance period for the Service shall be deemed extended.

21. Dispute Resolution

- (1) If a dispute arises out of or relates to the Services Agreement, or the breach, termination, validity or subject matter thereof, or as to any claim in tort, in equity or pursuant to any domestic or international statute or law, the Parties expressly agree to endeavor in good faith to settle the dispute by mediation in accordance with subsection 21(2).
- (2) Where there is a dispute, as contemplated by subsection 21(1), the Parties shall abide by the following process:
- (a) The Party claiming that a dispute has arisen must give written notice (Notice of Dispute) to the other Party to the dispute in accordance with Section 18. The Notice of Dispute shall specify the nature of the dispute.
 - (b) On receipt of the Notice of Dispute specified in paragraph 26(2)(a), the Parties to the dispute must within five (5) business days of receipt of said Notice of Dispute seek to resolve the dispute.
 - (c) If the dispute is not resolved within five (5) business days, or within such further period as the Parties agree, then the Notice of Dispute shall be referred to the President and Chief Executive Officer of each Party.
 - (d) The decision of the President and Chief Executive Officer shall be final and binding on the Parties.

22. Governing Law

The laws of the Province of Ontario shall govern the Services Agreement. Any suit, action or proceeding arising out of or related to the Services Agreement shall be brought in the appropriate court of the Province of Ontario and each Party

irrevocably attorns and submits to the jurisdiction of such court.

23. Amendments and Waivers

No amendment or waiver of any provision of the Services Agreement shall be binding on either party unless consented to in writing by such party. No waiver of any provision of this Contract shall constitute a waiver of any other provision, nor shall any waiver constitute a continuing waiver, unless otherwise provided.

24. Severability

If any provision of the Services Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision and everything else in the Services Agreement shall continue in full force and effect.

25. Entire Agreement

There are no understandings, agreements, warranties or representations, express or implied, except as set forth in the Services Agreement. The Services Agreement may not be amended or supplemented except in writing and executed by both Parties. The Service Provider acknowledges that communications (whether verbal or written) from other the User departments or workers or persons alleging to act on behalf of the User will not be effective to change the Services Agreement or its implementation.

IN WITNESS WHEREOF, the Parties have caused these Terms and Conditions to be executed as of the date first set forth above.

For Hydro Ottawa Holding Inc.:

Signature:

Name:

Alan Hoverd

Title:

Chief Financial Officer

Date:

For Hydro Ottawa Limited:

Signature:

Name:

Norm Fraser

Title:

Chief Operating Officer

Date:

Apr 29, 2009

For Energy Ottawa Inc.:

Signature:

Name:

Greg Clarke

Title:

Chief Operating Officer

Date:



1 **PLANNED CHANGES IN CORPORATE OR OPERATIONAL STRUCTURE**

2

3 At present, no material changes to the corporate or operational structure of Hydro
4 Ottawa Limited are planned in 2010 or 2011, although ongoing refinements to the
5 operational structure occur on a regular basis.



STATUS OF BOARD DIRECTIVES

In the Ontario Energy Board's (the "Board") Decision with Reasons dated April 12, 2006 on Hydro Ottawa Limited's ("Hydro Ottawa") 2006 EDR Application (EB-2005-0381), the Board directed Hydro Ottawa to file a plan within 90 days of the Decision to reduce its line losses by at least 5%. Hydro Ottawa filed the required report on July 11, 2006 and a copy is provided in Exhibit H1-4-2. An update of the plan was provided in Hydro Ottawa's 2008 Rate Application (EB-2007-0713) and a further update of the plan is provided in Exhibit H1-4-3.

In the Settlement Agreement for Hydro Ottawa's 2008 Electricity Distribution Rates, Hydro Ottawa agreed to provide an annual report of its Smart Meter spending for 2008, 2009, and 2010. The report for each year was to be filed with the Board and served on the other parties by April 30th of the subsequent year. These reports have been filed each year by April 30th as required. Details of the spending is now included in Exhibit I2-1-1.



CONDITIONS OF SERVICE

Hydro Ottawa Limited's ("Hydro Ottawa") most recent Conditions of Service filed with the Ontario Energy Board (the "Board") is dated April 26, 2007. Since that time, there have been numerous amendments to codes to which Hydro Ottawa must comply. Hydro Ottawa had begun the process of amending the Conditions of Service in 2009; however, significant changes related to the *Green Energy and Green Economy Act* led Hydro Ottawa to defer the final amendments until industry policies had been established. As a result, the 2007 version of the Conditions of Service is not up to date on how Hydro Ottawa currently operates. For this reason, Hydro Ottawa has filed with this application an amended Conditions of Service which is more reflective of the current operational practices. Hydro Ottawa has established as one of its 2010 corporate priorities the finalization of this update to its Conditions of Service, including stakeholder consultation.


The Conditions of Service under which Hydro Ottawa is currently operating is attached as Attachment G. A summary of the changes from the 2007 version follows:

1.0 REVISION HIGHLIGHTS

To reflect the industry changes arising from the *Green Energy and Green Economy Act* and associated amendments to the *Distribution System Code* ("DSC"), expansion and connection requirements for renewable and non-renewable generators, including net metering, were added, along with references and links to the associated administrative and technical requirements. Alternative bid conditions and respective customer and distributor responsibilities were clarified. Farm stray voltage procedural references and the MicroFIT customer classification were added in accordance with Board Decisions and Codes. Metering specifications and options were updated to include sub-metering arrangements, as were the meter reading procedures for smart meters. Customer classification review rules were revised to reflect the new DSC requirements.



1 Several technical requirements were updated, including clarifying the conditions under
2 which non-standard equipment must be brought up to standard, identifying customer
3 responsibilities for maintaining clearances within buildings and overhead, clarifying
4 demarcation point descriptions, adding conditions for temporary distribution system
5 backup, expanding site plans and service size requirements. Reference material
6 regarding outage protocols was also added. Further, new sections outlining distributor
7 access rights, as well as, indemnity and liability provisions relating to the guarantee of
8 supply of electricity were added. In addition to updating the Glossary, several
9 Appendices were revised, namely, the Economic Evaluation Model (Appendix B),
10 Connecting Embedded Generation Facilities (Appendix F, Table B – Primary Service
11 Connection) and Standard Fees for Services (Appendix G). Appendix E (Contracts and
12 Applications for Connecting a Generator to the Local Distribution System) was removed
13 and replaced with associated references to the Distribution System Code.

		TITLE: Electrical Customer Specification	
RECOMMENDED:	B. Bennett	NO: ECS0012	REV: 3
APPROVED:	N. Fraser		
REV. DATE:	20yy-mm-dd		

HYDRO OTTAWA LIMITED

CONDITIONS OF SERVICE

Effective:_____

See Hydro Ottawa's website for the
most current version at: www.hydroottawa.com

An unofficial version of this document is available in French.

REVISION SHEET

Revision	Description	Date	Initial
N/C	Original Document and amalgamation	2000-11-01	pjs/lv
1.09a	Major revision, B of D approval, and the first OEB filing	2002-05-30	df/csm
2.0	Major Revisions See ECR0012 for details	2007-04-26	mdf/csm ra/le
3	Updates See ECR0012 for details	2010-mm-dd	mdf/le csm/

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SECTION 1: INTRODUCTION

NOTE: A glossary of terms used in this document is available in [Section 4](#) and should be referenced to ensure context. For example, note the distinction between "Customer" and "Consumer". Customer, as used in this document, is interchangeable with an owner, developer, or generator.

1.1 IDENTIFICATION OF DISTRIBUTOR, SERVICE AREA AND SERVICING OBLIGATIONS

Hydro Ottawa Limited, referred to herein as “Hydro Ottawa,” is a corporation under the laws of the Province of Ontario and a distributor of electricity.

Hydro Ottawa is licensed by the [Ontario Energy Board \(OEB\)](#) to supply electricity to Customers as described in the [Electricity Distribution License ED-2002-0556](#) issued to Hydro Ottawa on June 9, 2003, by the OEB and expiring on March 31, 2023. Additionally, there are requirements imposed on Hydro Ottawa by the various codes referred to in the [License](#), [the Electricity Act, 1998](#), and the [Ontario Energy Board Act, 1998](#).

Hydro Ottawa has the mandate to operate distribution facilities within its service area as defined in its distribution license. The defined area is the former municipalities of Ottawa, Vanier, Nepean, Gloucester, and Kanata, plus the Township of Goulbourn, the Village of Casselman (County of Russell), the Village of Rockcliffe Park, and the portion of the former township of Rideau on Long Island, north of Bridge Street. This service area is subject to change with the OEB’s approval.

Nothing contained in these Conditions or in any contract for the supply of electricity by Hydro Ottawa shall prejudice or affect any rights, privileges, or powers vested in Hydro Ottawa by law under any Act of the Legislature of Ontario or the Parliament of Canada, or any regulations hereunder.

Under the terms of its distribution licence, Hydro Ottawa has the obligation to either connect or to make an offer to connect any Customer within its service area. One electrical service at a nominal service voltage is provided to each Customer’s property.

In the case of multi-tenant buildings with bulk consumption metering, the Customer shall pay the total cost of electrical supply. [The Electricity Act, 1998](#), prohibits a Customer from redistributing electricity from Hydro Ottawa unless licensed by the OEB or subject to [O. Reg. 161/99 “Definitions and Exemptions.”](#)

Prior to commencing any service work, the Customer must consult with Hydro Ottawa to ensure compliance with current requirements.

The Customer or its authorized representative must apply for new, upgraded, or temporary electric services in writing. The Customer shall provide Hydro Ottawa sufficient lead-time to ensure:

- a) The timely provision of supply to new, upgraded, or temporary electrical services; or

- b) The availability of adequate capacity for additional loads to be connected in existing premises.

The Customer or its authorized representative shall consult with Hydro Ottawa concerning the availability and the voltage of supply, service location, metering and any other details. These requirements are separate from and additional to those of the Electrical Safety Authority (ESA). Hydro Ottawa will confirm, in writing, the characteristics of electric supply available at a specific site.

Extended lead times may be required if special equipment is needed or equipment delivery problems occur. Hydro Ottawa will notify the Customer of any extended lead times.

Customers may be required to pay capital contributions for new and altered electrical services in accordance with calculations used in assessing the cost impact on the overall system. Customers shall also pay the cost of repair or replacement of Hydro Ottawa's equipment damaged through their action or neglect.

Additional to any other requirements in these Conditions, the supply of electricity is conditional upon Hydro Ottawa being permitted and able to provide such a supply, obtain the necessary apparatus and material, and constructing works to provide the service. Should Hydro Ottawa not be permitted or able to do so, it is under no responsibility to the Customer whatsoever and the Customer releases Hydro Ottawa from any liability in respect thereto.

1.2 RELATED ACTS, REGULATIONS, LICENSES AND CODES

The supply of electricity or related services by Hydro Ottawa to any Customer or Consumer shall be subject to the various laws, regulations, and codes, including yet, not limited to the provisions of the latest editions of the following acts, regulations, licenses, and codes that are more specific to the electricity sector:

1. [*Electricity and Gas Inspection Act*](#)
2. [*The Electricity Act, 1998 and associated Regulations*](#)
3. [*Ontario Energy Board \(OEB\) Act, 1998*](#)
4. [*Distribution License*](#)
5. [*Affiliate Relationships Code*](#)
6. [*Distribution System Code*](#)
7. [*Transmission System Code*](#)
8. [*Retail Settlement Code*](#)
9. [*Standard Service Supply Code*](#)
10. [*Smart Sub-Metering Code*](#)
11. [*The Ontario Occupational Health and Safety Act*](#)
12. [*Ontario Electrical Safety Code*](#)
13. [*Public Service Works on Highways Act*](#)
14. [*Personal Information Protection and Electronic Documents Act, 2000 \(PIPEDA\)*](#)
15. [*Municipal Freedom of Information and Protection of Privacy Act, 1990 \(MFIPPA\)*](#)

In the event of a conflict between a clause or sub-clause in this document and a related clause or sub-clause in the Distribution License or regulatory codes issued by the OEB, the related clause or sub-clause of *The Electricity Act, 1998*, (*the Act*) or the [Ontario Energy Board Act, 1998](#) (the “Act”), the provisions of the Acts, the Distribution License and associated regulatory codes shall prevail in the order of priority indicated above. If there is a conflict between a connection agreement with a Customer and this Conditions of Service, this Conditions of Service shall govern.

When planning and designing for electricity service, Customers and their agents must refer to Hydro Ottawa’s Conditions of Service, all applicable provincial and Canadian electrical codes, and all other applicable federal, provincial, and municipal laws, regulations, codes and by-laws to ensure compliance with their requirements. The work shall be conducted in accordance with the [Ontario Occupational Health and Safety Act \(OHSA\)](#), the regulations for Construction Projects, the Electrical & Utilities Safety Association of Ontario (E&USA) Electrical Utility Safety Rules, and traffic requirements.

1.3 INTERPRETATION

In these Conditions, unless the context otherwise requires:

- Headings, paragraph numbers and underlining are for convenience only and do not affect the interpretation of these Conditions;
- Words referring to the singular include the plural and vice versa;
- A reference to a document or a provision of a document includes any amendment or supplement to, or any replacement of, that document or that provision of that document.

1.4 AMENDMENTS AND CHANGES

This document, including the appendices, constitutes the Hydro Ottawa Conditions of Service document and thus Hydro Ottawa’s policy. For ease of electronic retrieval or printing, certain sections, particularly large sub-documents, forms, or special interest sections, may be separated into their own file. Changes to the following sections will be kept current as required:

- Appendix A: Load Summary Form
- Appendix B: Economic Evaluation Model for Distribution System Expansion/Enhancement
- Appendix C: Installation and Maintenance Agreement
- Appendix D: Standard Application and Contract for Connection or Upgrade of an Electrical Service
- Appendix F: Primary Service Connection – Overhead (Table A), Underground (Table B)
- Appendix G: Methodology for Standard Fees for Various Services
- Appendix H: Rate Schedule (as approved by the Ontario Energy Board)
- [Hydro Ottawa design standards and specifications](#).

The provisions of this Conditions of Service document and any amendments made from time-to-time form part of any contract made between Hydro Ottawa and any connected Customer, Consumer,

Retailer, or Generator or their agents. This Conditions of Service supersedes all previous Conditions of Service, oral or written, of Hydro Ottawa including any of its predecessor municipal electric utilities as of its effective date.

In the event of content changes to this Conditions of Service, Hydro Ottawa will provide advance notice with the Consumer's bill.

It is the individual's responsibility to contact Hydro Ottawa to ensure that they have or obtain the current version of the Conditions of Service. One copy per revision of the Conditions of Service will be provided to each person that requires it. Hydro Ottawa may charge a reasonable fee for providing the Customer with additional copies of this document. The current version of this document is available on the Hydro Ottawa website (see [Section 1.5](#)).

1.5 CONTACT INFORMATION

Hydro Ottawa's regular business hours are 8:00 am to 4:00 pm, excluding holidays (refer to Glossary for definition), unless otherwise specified.

Customers may contact Hydro Ottawa using one of the following methods:

- **Telephone:**
 - For general inquiries, Hydro Ottawa may be contacted at (613) 738-6400. Our Customer Contact Centre telephone hours are 8:00 am to 8:00 pm, excluding holidays.
 - For power outages, inquiries should be directed to (613) 738-0188, 24-hours per day, 365 days, per year.
 - For a new or an upgraded electrical service, tree trimming, vault maintenance or demolition, requests, contact the Service Desk at (613) 738-6400, between 8:00 AM and 3:30 PM, excluding holidays.
- **Fax:** The General Inquiries number is (613) 738-6403. The Service Desk number is 613-221-5977.
- **Online:** <http://www.hydroottawa.com> for details on Hydro Ottawa, the Conditions of Service document plus referenced appendices and standards, and to use the "feedback" form, or service e-mails or applications.
- **Mail:** Hydro Ottawa Limited, P.O. Box 8700, 3025 Albion Road North, Ottawa, Ontario, Canada K1G 3S4
- **Courier:** Hydro Ottawa Limited, 3025 Albion Road North, Ottawa, Ontario, Canada K1V 9V9

1.6 CUSTOMER RIGHTS AND RESPONSIBILITIES

The Customer has the right to have a property, generator or other load as described in this document, connected to the distribution system in the service area if:

- a) The property, generation or other load, lies along any of the lines of Hydro Ottawa's distribution system;
- b) The Customer, occupant or other person in charge of the premise requests connection in writing;
- c) The Customer requests Hydro Ottawa to provide an "Offer to Connect" the property, generation or other load that does not lie along any of the lines of Hydro Ottawa's distribution system (see [Section 2.1.1 "Property that Lies Along."](#)).

The Customer has the right to have their electric service isolated, for the purpose of maintenance of the service, through a written request with sufficient notice, stating both the date and time the service is to be isolated.

The Customer is responsible for maintenance and repair of their electrical service equipment. Should any component require replacement or repair, the new equipment or repair must comply with all current codes, regulations, legislation and specifications.

The Customer and Consumer are responsible for ensuring that installation or alteration of an electrical service or generation equipment connected to Hydro Ottawa's system is communicated to Hydro Ottawa and approved in writing prior to starting the work.

The Customer and Consumer are responsible for providing unimpeded, safe and secure access to Hydro Ottawa's employees or its contractors to its distribution assets at all times (see [Section 3.0.4](#)).

Hydro Ottawa's rights under these Conditions of Service are non-exclusive. These Conditions of Service do not grant to Hydro Ottawa an exclusive right to offer or provide services inside the building.

Hydro Ottawa shall not during construction or otherwise block access to, or in any way obstruct, interfere with or hinder the use of the building's loading docks, halls, stairs, the sidewalks around the building, or entranceways, the building's operating, elevator, safety, security, utility, mechanical, or other systems, the structural elements of the building.

1.7 DISTRIBUTOR RIGHTS

Hydro Ottawa has the sole right to set standards, specifications and designs for its distribution system.

Hydro Ottawa has the right to enforce this Conditions of Service document and amend it as required.

Hydro Ottawa shall be permitted to secure and lock electrical rooms and metering cabinets, provided that keys or combinations have first been provided to the property owner.

1.7.1 Access

Hydro Ottawa shall have the right to safe, unobstructed access to the property and building, in accordance with Section 40 of [*the Electricity Act, 1998*](#), and any successor Acts thereto. Hydro Ottawa may require a Customer, Consumer, or property owner to provide Hydro Ottawa with emergency access to their property and building for operating distribution equipment under Hydro Ottawa's control.

Subject to the provisions of these Conditions of Service, the *Electricity Act, 1998*, and Hydro Ottawa's Technical Specifications, the Customer, Consumer, or property owner grants to Hydro Ottawa a non-exclusive right to enter the property for the following purposes (collectively, the "Use") only and for no other purposes whatsoever:

- (a) to install and service its' equipment, conduct collections activities commencing at the property line;
- (b) to install the equipment in electrical rooms and public spaces;
- (c) to install equipment and cabling, specifically permitted by the Customer, Consumer, or property owner, terminating in specified locations on specified floors within the building;
- (d) to obtain meter readings, performing meter changes or inspections;
- (e) to operate, maintain and repair all equipment installed by Hydro Ottawa;
- (f) to access the property, including but not limited to access to those portions of the building that are from time to time designated by the Customer, Consumer, or property owner as for common areas such as driveways, walkways, hallways and exits and entrances, twenty-four (24) hours a day seven (7) days a week to perform any installation, operation or maintenance of Hydro Ottawa's equipment, subject to the terms of these Conditions of Service;
- (g) to use the property for the purpose of providing services to the Customers at their respective premises in the building; and
- (h) to protect the equipment and other Hydro Ottawa's improvements permitted under these Conditions of Service against damage.

Hydro Ottawa shall provide a means to identify Hydro Ottawa's employees, contractors and contractors' employees (the "Authorized Individual") who require access to the property and building. Hydro Ottawa shall ensure that each Authorized Individual, while on the property, shall display identification.

1.8 DISPUTES OR COMPLAINTS

Any dispute between Consumers, Customers, or Retailers and Hydro Ottawa shall be settled according to the dispute resolution process specified in Section 16 of the [Distribution License ED-2002-0556](#). Hydro Ottawa's license can be found at the following address:

http://www.rds.oeb.gov.on.ca/webdrawer/webdrawer.dll/webdrawer/rec/172236/view/licence_ed_hydro_ottawa_20030609.PDF

Hydro Ottawa shall keep records of all complaints, including the complainant's name, the nature of the dispute, the resolution or escalation date, and the dispute resolution result or status.

1.8.1 Customer, Consumer, Retailer, or Generator or their agents

The Customer, Consumer, Retailer, or Generator or their agents shall submit their disputes to Hydro Ottawa in writing via facsimile, email, or mail.

Each inquiry shall be date stamped and recorded by Hydro Ottawa.

Hydro Ottawa shall investigate the cause of the complaint and attempt in good faith to resolve the dispute within 10-business days of receipt.

Disputes that are expected to exceed 10-business days will normally be resolved within 30-business days of receipt. Consumers will be advised within 10-business days of receipt, of the delay and reasons thereof.

Upon mutual agreement and under unusual circumstances, the resolution period may be extended.

Any disputes that lead to legal action against the corporation shall be referred to Hydro Ottawa's legal department.

Unsolved disputes shall be referred to a third party (the OEB or an OEB approved agency) for resolution.

1.8.2 Retailer

Disputes between Hydro Ottawa and Retailers shall be settled per the [OEB Retail Settlement Code, Appendix C – Service Agreement, Article 6](#).

SECTION 2: DISTRIBUTION ACTIVITIES (COMMON TO ALL CUSTOMER CLASSES)

2.1 CONNECTION

Under the terms of its distribution licence, Hydro Ottawa has the obligation to connect any Customer that lies along its distribution lines or make an offer to connect any Customer within its service area.

Items that are applicable to a specific Customer class are covered in [Section 3](#).

2.1.1 *Property that Lies Along*

For the purpose of these Conditions, “lies along” means a Customer property or parcel of land that is directly adjacent to or abuts onto the public road allowance or easement where Hydro Ottawa has distribution facilities of the appropriate voltage and capacity.

Under the terms of the Section 28 of [the Electricity Act](#), Hydro Ottawa has the obligation to connect a property or facility that lies along its distribution lines provided:

- The property or facility can be connected without expanding the distribution system.
- The Customer, occupant or other person in charge of the property or facility requests connection in writing.
- The service installation meets the conditions listed in Hydro Ottawa’s Conditions of Service.

A property or facility that lies along a distribution line may be refused connection to that line should the distribution line not have sufficient capacity for the requested connection or in the opinion of Hydro Ottawa the connection to the distribution line would be considered unsafe. In cases of insufficient capacity, Hydro Ottawa will provide alternate supply options to the Customer.

For both primary and secondary services, Hydro Ottawa will designate one supply point, per property. This could be an underground cable chamber, pole, or pad-mounted device. This supply point could also be located on an adjacent property for which Hydro Ottawa has land rights. In all cases the final supply point will be the decision of Hydro Ottawa.

2.1.2 *Expansions and Offer to Connect*

In accordance with Section 3.2 of the Distribution System Code, customers within Hydro Ottawa’s service area that do not lie along a distribution line shall be provided an initial offer to connect.

2.1.2.1 Load Customers and Generation Facilities

Hydro Ottawa shall perform an initial economic evaluation of the estimated costs and forecasted revenues, as outlined in Appendix B. The Customer shall be required to pay a capital contribution towards the system expansion or enhancement to supply their load. The economic evaluation offsets the customer's share of the estimated capital and ongoing maintenance costs, including general enhancement work that may be required to supply increases in load, against the forecasted revenue from the associated distribution services. Refer to Appendix B for further details and current procedures.

2.1.2.2 Renewable Generation Facilities

- a. In accordance with Section 3.2.5A of the Distribution System Code, Hydro Ottawa shall be responsible for all the costs associated with the expansion, if:
- b. The expansion is approved or mandated by the Ontario Energy Board; or,
- c. If the costs are *below or equal to* the renewable generation facility's renewable energy expansion cost cap;
- d. In the case of multiple renewable generation facilities, if either (a) or the costs are *below or equal to* the total name-plate rated capacity of each renewable generation facility factored by \$90,000.

2.1.2.3 Offer to Connect

- a. Notwithstanding a design fee that may apply, if an expansion is required in order for Hydro Ottawa to connect the customer, the initial offer to connect shall be provided at no cost and include:
- b. a statement as to whether the offer is a firm offer or is an estimate of the costs that will be revised in the future to reflect actual costs incurred;
- c. a reference to the Hydro Ottawa's Conditions of Service and information on how the customer requesting the connection may obtain a copy;
- d. a statement as to whether a capital contribution will be required from the customer. Where a capital contribution is required, details shall be provided as outline in Section 3.2.9 of the Distribution System Code;
- e. statement as to whether an expansion deposit will be required from the customer and if the distributor will require an expansion deposit from the customer, the amount of the expansion deposit that the customer will have to provide; and
- f. a statement as to whether the connection charges per sections 3.1.5 and 3.1.6 of the Distribution System Code will be charged separately from the capital contribution referred to in section 3.2.8(c), and a description of, and if known, the amount for, those connection charges.

2.1.2.4 Alternate Bid

When Hydro Ottawa requires a capital contribution from a customer, the customer may obtain and use alternative bids from qualified contractors. If this option is chosen, any assets constructed under the alternative bid option shall be transferred to the ownership of Hydro Ottawa, as part of its distribution assets.

In the offer to connect, Hydro Ottawa shall detail the scope of work, the portion eligible for alternative bid and the responsibilities of the customer who proceeds with an alternate bid, as outlined below:

Work Excluded from the Alternative Bid Option

- i) the planning and development of specifications for the design, engineering and layout of the distribution system expansion and connection;
- ii) construction work on existing Hydro Ottawa facilities and equipment.

Hydro Ottawa Responsibilities under the Alternative Bid Option

- i) design verification, inspection, testing and authorizing energization to the line;
- ii) generator transfer trip schema and SCADA interface with Hydro Ottawa's system and Hydro Ottawa's revenue metering interface.

Customer Responsibilities under the Alternative Bid Option

- i) the Customer shall select, hire and pay a Hydro Ottawa qualified contractor to do the work;
- ii) the expansion construction work is on the Customer's property;
- iii) the work does not involve third party support structures;
- iv) the work does not involve existing Hydro Ottawa distribution assets; and
- v) the Customer is responsible for all aspects of the expansion, including but not limited to: meeting Hydro Ottawa's technical standards, the health and safety of workers and the public, environmental laws, land rights, and financial obligations associated with the alternate bid work.

When requested by the alternate bid proponent, Hydro Ottawa will review a contractor's qualifications for approval consideration.

2.1.2.5 Warranty of Alternative Bid Work

Upon completion and acceptance of the alternate bid work by Hydro Ottawa, Hydro Ottawa will assume ownership of the installed distribution plant and responsibility for the reliability of the system.

During the alternate bid two year warranty period, the Customer shall cover all costs for repairs to the Hydro Ottawa standard for deficiencies of the alternate bid work. Should the repair cost exceed the security deposit held for alternate bid work, the Customer shall pay any outstanding amount.

2.1.3 Inspections before Connections

All Customer electrical installations, i.e. service entrance equipment and metering provisions (see Hydro Ottawa Metering Requirements [GCS0008](#)), must meet Hydro Ottawa's specifications and shall also be inspected and approved by the Electrical Safety Authority (ESA) and Hydro Ottawa. Hydro Ottawa requires notification from the ESA of this approval prior to the energization of a Customer's supply of electricity.

Services that have been disconnected for the purposes of upgrade or change, services that have been altered subsequent to ESA approval, and services that have been disconnected for a period of six months or longer must also be re-inspected and approved by the ESA, prior to reconnection.

Customer owned substations must be inspected and approved by both the ESA and Hydro Ottawa, before Hydro Ottawa makes connection to the distribution network.

Duct banks shall be inspected and approved by Hydro Ottawa prior to the pouring of concrete and again before backfilling. The completed ducts must be cleared of obstructions by the site contractor in the presence of a Hydro Ottawa inspector and shall be clear of all extraneous material. A mandrel, approved by Hydro Ottawa for a nominal diameter of duct, will be passed through each duct. In the event of a blocked duct, the Customer will be responsible for clearing the duct prior to installing the cable. Only Hydro Ottawa shall complete the connection to existing concrete duct banks or underground cable chamber. All work on existing distribution plant shall only be conducted by Hydro Ottawa.

Transformer vaults and pad-mounted equipment bases shall be inspected and approved by Hydro Ottawa prior to the installation of equipment.

2.1.4 Relocation of Plant and Overhead to Underground Conversion

Hydro Ottawa's standard construction for main distribution on or crossing municipal arterials, major collectors, highways, rivers, railways, open fields, rural areas and business parks, excluding greenfield residential, is overhead distribution.

When requested to relocate like-for-like distribution plant, Hydro Ottawa will exercise its rights and discharge its obligations in accordance with existing acts, by-laws and regulations including the [Public Service Works on Highways Act](#) (Ministry of Transportation, Ontario, [MTO] clarification guideline) for road authorities, formal agreements, easements and law. In the absence of existing agreements, Hydro Ottawa is not obligated to relocate the plant.

If a Customer requests the relocation of Hydro Ottawa plant, Hydro Ottawa will, if possible, accommodate such a request if it will not result in degradation to system reliability.

Underground electrical system installation is an option, provided sufficient utility space is available, associated land rights are granted and the requestor pays for the associated cost.

All costs associated with the relocation, or conversion from overhead to underground shall be borne by

the requestor unless an existing agreement is in place. Where such relocation of Hydro Ottawa plant will require replacement facilities on lands not owned by the requestor, it shall be the responsibility of the requestor to complete negotiations with the landowner over whose lands the new facilities will reside, to the satisfaction of, and at no cost to, Hydro Ottawa.

2.1.5 Easements

The Customer shall grant, at no cost to Hydro Ottawa, easements as required to permit installation, operation, and maintenance of distribution plant. Hydro Ottawa shall determine the width and extent of the easement. The easement shall be registered on title prior to energizing of the service, re-arrangement and/or relocation of distribution plant.

When a property owner severs a property that prevents Hydro Ottawa from servicing its' Customer(s) with clear access, the property owner will pay Hydro Ottawa for any required land right access (aerial or terrestrial) or will pay to relocate Hydro Ottawa's system so it may continue unobstructed service to its' Customer(s).

Service locations requiring access to adjacent properties (mutual drives, narrow side set-backs, etc.) will require the completion, by the Customer, of an easement or written consent from the property owner(s) involved.

When Hydro Ottawa must enter an easement for operation or maintenance and the written easement remains silent about re-instatement, Hydro Ottawa will only re-instate with sand, gravel, and/or soil.

When a radial line only feeds one customer on a property, Hydro Ottawa shall remove its easements on the customer's property and transfer the line ownership to the customer in accordance with [O. Reg. 22/04](#) requirements. For overhead lines in rural areas, the demarcation point in Section 3.1, 3.2 or 3.3 will be applied, as appropriate.

2.1.6 Contracts

2.1.6.1 Contract for New or Upgraded Service

Hydro Ottawa requires all primary service Customers and developers to sign an "Installation and Maintenance Agreement" upon application for the provision of connection to our distribution system. Upon the completion of a signed "Installation and Maintenance Agreement", receipt of any applicable connection charges, and approval by the [Electrical Safety Authority \(ESA\)](#), Hydro Ottawa will connect the new or upgraded service (Refer to: [Appendix C](#) for sample agreement).

All other Consumers or Customers will not normally be required to sign a standard application and contract for electrical service, as in such circumstances the contract shall be implied. However, Hydro Ottawa reserves the right, and shall exercise such at Hydro Ottawa's discretion, to require any Customer or Consumer regardless of rate class, to sign a standard application and contract for electrical service, prior to any connection or delivery of electrical service.

2.1.6.2 Implied Contract

In all cases, notwithstanding the absence of a written contract, Hydro Ottawa has an implied contract with any Customer or Consumer that is connected to Hydro Ottawa's distribution system and receives distribution services or uses electrical energy from Hydro Ottawa. The terms of the implied contract are embedded in Hydro Ottawa's Conditions of Service, any applicable [Rate Handbooks](#) issued by the OEB, Hydro Ottawa's Rate Orders, [Hydro Ottawa's licence](#), the [Distribution System Code](#), the [Standard Supply Service Code](#), the [Retail Settlement Code](#) and the Smart Sub-Metering Code, all as amended from time-to-time.

The use of Hydro Ottawa's distribution system by any person or persons constitutes acceptance of a binding contract with Hydro Ottawa. The person so accepting the supply of electricity or related services shall be liable for and such contract shall be binding upon such person's heirs, administrators, executors, successors or assigns.

2.1.6.3 Special Contracts

Special contracts that are customized in accordance with the service requested by the Customer normally include, but are not necessarily limited to, the following examples:

- Non-standard operating and maintenance
- Generation
- Support Structure Access (such as poles)
- Un-metered services
- Transfer of Equipment Ownership from Hydro Ottawa to the Customer
- Work for Others Service and Maintenance

2.1.6.4 Payment by Premise Owner

The premise owner, known as the Customer, is responsible for all electricity costs not specifically metered to individual Consumers within the premise, for example, the most common of which are dry core transformer losses, and common element electrical loads.

Also, per [Section 2.1.7.5](#), the known premise owner shall be responsible for the electricity usage should Hydro Ottawa not receive a request to open an account in the name of the premise's occupant.

2.1.6.5 Opening and Closing of Accounts

A Customer or Consumer should provide a minimum of 10-business days notice when opening a new account or closing an existing account.

A Customer or Consumer who wishes to open an account for the supply of electricity by Hydro Ottawa shall contact Hydro Ottawa's Customer Care Centre by phone, by written request (facsimile accepted), or through Hydro Ottawa's website or other means acceptable to Hydro Ottawa.

In order to establish an account with Hydro Ottawa, the following information must be provided, as a minimum:

- full name
- address
- telephone number
- move-in date
- banking information will also be required for those who wish to use one of Hydro Ottawa's Pre-Authorized Payment Plans.

If the account is established by telephone, a personal identifier is also generated. Hydro Ottawa requests **one** of the following four pieces of information to create a personal identifier:

- date of birth
- mother's maiden name
- driver's licence number
- personal password

In the event that the account change is received without sufficient notice, the Customer or Consumer shall be responsible for payment to Hydro Ottawa for the supply of electricity to the property up to the date Hydro Ottawa is notified of the termination of the account.

If Hydro Ottawa has not received a request to open an account in the name of the premise's occupant, or in the event a person(s) un-identified to Hydro Ottawa uses the electricity, then the cost of electricity consumed by such person(s) is due and payable by the owner(s) of such premise, until notice is received. In cases where the identity of the owner is not known, Hydro Ottawa shall proceed to disconnect the service, per [Section 2.2](#), until someone contacts Hydro Ottawa to assume responsibility for the electricity account. A fee to reconnect the service applies per Hydro Ottawa's specific service charges.

2.2 DISCONNECTION

2.2.1 Refusal to Connect or Right to Disconnect

Hydro Ottawa reserves the right to disconnect or refuse to connect a Customer or Consumer at any time, year round, for the following reasons per the [Distribution System Code](#), Section 3.1.1, yet, not limited to:

1. Contravention of existing laws of Canada, the Province of Ontario, municipal bylaws or Electrical Safety Authority Codes and Orders;
2. Use of Hydro Ottawa's distribution system for a purpose that it does not serve and that Hydro Ottawa does not intend it to serve;
3. Hazardous conditions or an adverse effect on the reliability or safety of Hydro Ottawa's distribution system as determined by Hydro Ottawa and/or in accordance with Section 31.1 of the Electricity Act, or as amended from time-to-time;
4. A material decrease in the efficiency of Hydro Ottawa's distribution system or in the quality of distribution services received;
5. Public safety reasons or imposition of an unsafe work situation beyond normal risks inherent in the

- operation of Hydro Ottawa's distribution system, as determined by Hydro Ottawa;
6. Unauthorized usage or generation;
 7. Failure of the Customer to comply with Hydro Ottawa's Conditions of Service or license obligations;
 8. Overdue amounts for regulated services, including non-payment of account security deposit, in part or in full, or claims of damage payable to Hydro Ottawa;
 9. When the identification and pertinent account information of the Customers or Consumers responsible for electricity usage at the premise have not been confirmed to Hydro Ottawa;
 10. Electrical disturbance propagation caused by Customer equipment that is not corrected in a timely fashion;
 11. Energy diversion, fraud or abuse on the part of the Customer;
 12. Inaccessibility to Hydro Ottawa equipment for either: installing, inspecting, operating, replacing, removing, or maintaining, including reading the meter;
 13. If an electrical connection to Hydro Ottawa's distribution system does not meet Hydro Ottawa's design requirements;
 14. Where Hydro Ottawa does not have clear land rights (such as public road allowance or easements) to service the property.

Hydro Ottawa may also disconnect the supply of electricity to a Customer without notice in accordance with a court order, in an emergency, or for safety or system reliability reasons.

2.2.2 Customer Initiated

Customer initiated requests for disconnection for the purpose of performing work on or near electrical apparatus and the subsequent reconnection is referred to as "isolation / re-energization."

Before isolating, Hydro Ottawa may request evidence of prior occupant notification outlining, as a minimum, the date and time of isolation, alternate date of isolation should the need arise, intent of the isolation, and expected date and time of re-energization. Hydro Ottawa may refuse to isolate an owner's premise until the customer has served notice of the pending isolation to Hydro Ottawa Consumers located within the subject premise. The owner, before isolation, must also pay for the cost of the isolation and re-energization as outlined in [Appendix G](#).

2.2.3 Disconnection for Non-payment of Overdue Amounts

Immediately following the due date, Hydro Ottawa will take action to collect the full amount of the electricity bill, which will now be considered overdue. Hydro Ottawa shall provide no less than seven (7) calendar days notice before disconnecting for non-payment. Disconnection Notices shall be in writing and, if given by mail, shall be deemed to have been received on the third business day after mailing. The electric service will not be restored until payment arrangements, satisfactory to Hydro Ottawa, have been made including the cost of reconnection, per Section 31 of [the Electricity Act, 1998](#). At the time of disconnection, all related safety notices issued by public safety authorities shall be included with any notice of disconnection left at the Consumer's property, per Section 4.2.1.2 of the [Distribution System Code](#). Discontinuance of service for non-payment does not relieve the Consumer of

the liability for arrears or other applicable charges for the balance of the term of contract, nor shall Hydro Ottawa be liable for any damage to the Consumer's and/or Customer's premises resulting from such discontinuance of service.

2.2.4 Service Expiry

Services that are disconnected for non-payment and remain disconnected for six months or more may have the associated distribution services physically removed, in the absence of notification otherwise. Subsequent requests for service shall be provided according to [Section 2.1 "Connection"](#) of the most current Conditions of Service.

2.3 CONVEYANCE OF ELECTRICITY

2.3.1 Limitations on the Guarantee of Supply

Hydro Ottawa will endeavour to supply its Customers with uninterrupted power at one of the standard voltage offerings to within our voltage guidelines (see Sections [2.3.4](#) and [2.3.5](#)).

Customers requiring a higher degree of security than that of normal electricity supply are responsible to provide their own back-up, standby facilities, or pay for additional Hydro Ottawa infrastructure and on-going costs. The Customer or Consumer shall assess their need for special protective equipment for their electrical apparatus to minimize the effect of, for example, momentary power interruptions, loss of a phase(s), transients, or harmonics.

Customers requiring a three-phase connection requirement shall install protective apparatus to avoid damage to the electrical equipment, which may be caused by the interruption of one phase, or non-simultaneous switching of phases of the electricity supply.

Hydro Ottawa may occasionally need to interrupt the power supply to a Consumer during an emergency, or to effect repair, to construct, or to maintain its distribution system, or repair Customer-owned equipment. Power interruptions initiated by Hydro Ottawa shall be based on practical and cost effective considerations plus the extent of inconvenience to Consumers. Except in emergency cases, or as required by law, Hydro Ottawa will aim to provide the Consumer with reasonable advance notice of planned power interruptions.

2.3.1.1 Indemnity and Liability

Hydro Ottawa does not guarantee a constant power supply or give assurance that voltages and frequency will be unvaried. Furthermore, Hydro Ottawa will not be liable for damages to the Customer's or Consumer's equipment by reason of any failure in respect thereof.

Hydro Ottawa shall not be liable under any circumstances whatsoever for any loss of profits or revenues, business interruption losses, loss of contract or loss of goodwill, or for any indirect, consequential, incidental or special damages, including but not limited to punitive or exemplary damages, whether any

of the said liability, loss or damages arise in contract, tort or otherwise.

Hydro Ottawa will practice reasonable diligence in maintaining power levels, but, will not be responsible for any variations caused by external forces, such as operating contingencies, exceptionally high loads, or low voltage supply from the transmitter. Hydro Ottawa will not be held responsible for failure of any of its obligations as outlined in these Conditions of Service due to any events beyond the reasonable control of Hydro Ottawa, including, without limitation, severe weather, flood, fire, lightning, other forces of nature, acts of animals, pandemic, epidemic, quarantine restriction, war, sabotage, act of a public enemy, earthquake, insurrection, riot, civil disturbance, strike, third party accident, restraint by court or public authority, or action or non-action by or inability to obtain authorization or approval from any governmental authority, or any combination of these causes (“Force Majeure”).

When access to its electrical equipment is impeded, Hydro Ottawa shall not be held liable for damages to Consumer or Customer’s property or building incurred while obtaining safe access to metering or distribution equipment.

2.3.2 Power Quality

2.3.2.1 Power Quality Investigations

Hydro Ottawa or its agents will respond to all power quality concerns and verify the power supply at the service entrance. There is no fee for this initial service.

If the source of the power quality problem is from Hydro Ottawa’s power supply and where industry standards are not met, Hydro Ottawa shall proceed to rectify the problem at no cost to the customer’s affected. Hydro Ottawa shall use appropriate industry standards such as ([IEC](#), [IEEE](#), [CAN3-C235-83](#)) and good utility practice, as per power quality guideline ([ECG0008](#)), while maintaining power quality on the distribution system.

If the power quality problem lies on the Customer side of the system, the Customer will be responsible for rectification.

The Customer will not be charged for the initial verification, however; Customers will be charged for subsequent site visits when the problem is on the Customer side.

2.3.2.2 Farm Stray Voltage

Customers who suspect high levels of stray voltage, also known as “tingle voltage” on farms, may request an investigation. Further details are available at www.hydroottawa.com.

2.3.2.3 Prevention of Voltage Distortion on Distribution

It is the responsibility of the Customer to ensure that their electrical usage does not adversely affect the distribution system. Customers with large non-linear loads must maintain acceptable power quality by implementing proper corrective measures, such as installing proper filtering and/or grounding. See

Hydro Ottawa Power Quality Guideline ([ECG0008](#)).

2.3.2.4 Motor Starting

It is the responsibility of the Customer to ensure that the starting current of any motor shall not exceed their associated distribution supply circuit limitations ([see ECG0008](#)). Reduced voltage starting may be needed if satisfactory transformer fusing cannot be obtained due to excessive starting current or a relatively long starting cycle. It should be noted that objectionable voltage flicker on the Customer's secondary system may be experienced if the motor(s) are supplied from a transformer bank which also supplies lighting or other sensitive equipment in the premise.

2.3.2.5 Load Balance

Three-phase Customers shall ensure their load is balanced between the three phases within 15% of each phase, unless specific unbalancing is approved by Hydro Ottawa.

2.3.2.6 Ground Fault Detection on Delta Services

With respect to older services with ground fault detection for 3-phase, 3-wire, delta services: ground fault detection, (phase indication lights) are required on the load side of the revenue metering for each individual service, and if more than one individual meter is required off a splitter trough, then ground fault detection (phase indication lights) are required on the load side of each revenue meter. In case of bulk consumption metering, ground fault detection would be required on the load side of the bulk consumption metering. (See Appendix G-0 for upgrades and failures).

2.3.2.7 Timely Correction of Deficiencies

If Hydro Ottawa determines that an undesirable distribution system disturbance is being caused by Customer's equipment, the Customer will be required to cease operation of the equipment until satisfactory remedial action, as determined by Hydro Ottawa, has been taken by the Customer at the Customer's cost. If the Customer does not take action within a reasonable time, Hydro Ottawa may disconnect the supply of power to the Customer.

2.3.2.8 Obligation to Assist in the Investigation

During the course of the initial Power Quality Investigation being performed by Hydro Ottawa, the Customer is obligated to assist Hydro Ottawa by, for example, providing required equipment information, relevant data and necessary access for the monitoring of equipment. If, after the initial investigation it is determined that the power quality issues lie within the Customer's demarcation point, then the Customer shall be responsible to correct these issues.

2.3.2.9 Interruption Notification

Hydro Ottawa will endeavour to provide metered Customers or Consumers with reasonable notice of any planned power interruptions. For those considered generators of electricity, Hydro Ottawa will follow the OEB regulatory prescription in the [Distribution System Code](#).

Immediately prior to doing meter work that would result in a service interruption, Hydro Ottawa will attempt to notify the residential or small commercial Consumer or Customer in person at the affected premise.

Interruption times may change due to inclement weather or other unforeseen circumstances. Hydro Ottawa shall not be liable in any manner to such Consumer or Customers for failure to provide notice of planned power interruptions or for any change to the schedule for planned power interruptions.

During an emergency, Hydro Ottawa may interrupt the supply of electricity to a property without notice in response to a shortage of supply of electricity, to affect repair on Hydro Ottawa's distribution system, to facilitate repairs to Customer-owned equipment, or to conduct work of an emergency nature to address possible injury to a person or damage to property or equipment. Service interruption without prior notice may take place if an unsafe or hazardous condition is found to exist at a Customer's premise.

2.3.2.10 Notification to Consumers on Life Support

Consumers who require an uninterrupted source of power for life support equipment must provide their own equipment for these purposes.

2.3.2.11 Emergency Trouble Service (Trouble Calls)

When power is interrupted, the Customer should first verify that the problem is not a result of blown fuses or opened breakers within their internal power system. If upon investigation it appears that Hydro Ottawa's service supply has failed, the Customer should immediately report these conditions through Hydro Ottawa's Power Outage telephone number ([Section 1.5](#)).

Hydro Ottawa is accessible by telephone 24 hours a day to provide emergency services to Consumers. A 24/7 emergency response team is also available for emergency repairs. Hydro Ottawa will quickly initiate restoration efforts.

2.3.2.12 Outage Reporting

Depending on the outage duration, and the number of Consumers affected, Hydro Ottawa may issue a news release to advise the general public of the outage through the media. In turn, local news television and radio stations may call for information on a 24-hour basis when they hear of an outage.

2.3.3 *Electrical Disturbances*

Hydro Ottawa shall practice reasonable diligence in maintaining voltage levels, and shall not be held liable for the failure to maintain supply voltages as described in Hydro Ottawa's Power Quality Guideline ([ECG0008](#)). Typical voltage excursions that can be expected on distribution systems are capacitor-switching transients, voltage sags caused by faults on adjacent feeders, and auto-reclosure operations. It is the Customer's responsibility to protect them self from any external disturbance.

Customers must ensure that their equipment does not cause any disturbances such as harmonics, transients, or voltage swing outside acceptable standard that might interfere with the operation of adjacent Consumer equipment. Equipment that may cause disturbances includes large motors, welders, variable speed drives, etc. In planning the installation of such equipment, the Customer must consult with Hydro Ottawa. Customers who are found to cause system disturbances will be responsible for resolution at their expense. Failure to do so may result in a disconnection from Hydro Ottawa's distribution system.

Customers who require an uninterrupted source of electrical service or a supply free from disturbances must provide and maintain their own power conditioning equipment for these purposes.

2.3.3.1 Radio/TV Interference

Occasionally Customer's or Consumer's equipment may be affected by electrical noise interference generated by various sources, including power lines.

Should a Customer or Consumer contact Hydro Ottawa about interference, Hydro Ottawa will provide pamphlets that instruct the Customer or Consumer on how to determine if the interference is the result of their own equipment. Should the Consumer follow the prescribed steps and still believe that the interference is due to the electricity distribution system, Hydro Ottawa shall work with the Customer or Consumer to find the cause. Hydro Ottawa shall verify if the source of the interference is from utility owned equipment, and if so reduce or eliminate the problem. If the problem is with the Customer's or Consumer's equipment, a service charge may apply.

2.3.3.2 Electromagnetic Fields (EMF)

Some types of electronic equipment, such as Video Display Terminals can be affected by electric fields that are produced by high current carrying conductors in close proximity. Hydro Ottawa will provide an initial investigation and will attempt to determine the source of the interference.

2.3.4 *Standard Voltage Offerings*

- a. Depending on the type of distribution plant that lies along, the preferred secondary voltage will be at:
 - i. 120/240 V, single phase, or
 - ii. 347/600V, three phase, four wire, grounded.
- b. The following primary services may be made available:
 - i. 4,160/2,400V grounded wye; or
 - ii. 8,320/4,800V grounded wye; or

- iii. 13,200/7,600V (transformer rating at 12,800/7400V) grounded wye or delta depending on location; or
- iv. 27,600/16,000V grounded wye; or
- v. 44,000 V delta.

Conditional on installation of a primary service, the option for the Customer to distribute at 120/208 volts, three-phase, four-wire from vaults or pad-mounts within private property will be provided as per Appendix F.

2.3.5 Voltage Guidelines

Hydro Ottawa maintains service voltage as per its power quality guideline ([ECG0008](#)) at the Customer's point of supply within the guidelines of [C.S.A. Standard CAN3-C235](#) (latest edition).

When voltages lie outside the acceptable limits for Normal Operating Conditions but within the acceptable limits for Extreme Operating Conditions, improvement or corrective action will be taken on a planned and programmed basis yet, not necessarily on an emergency basis. When voltages lie outside the acceptable limits for Extreme Operating Conditions, improvement or corrective action will be taken on an emergency basis. The urgency for such action will depend on factors such as the location and nature of load or circuit involved the extent to which limits are exceeded.

Customers will be responsible to ensure that the voltage rating for equipment installed in their facility is compatible with the service voltage supplied by Hydro Ottawa.

2.3.6 Back-up Generators

Any Customer with portable or permanently connected generation used for emergency back-up shall comply with all applicable criteria of Hydro Ottawa and the Ontario Electrical Safety Code. In particular, the Customer shall ensure that the emergency generation does not back feed on Hydro Ottawa's distribution system (open transition requirement – see Hydro Ottawa guideline ([ECG0002](#))).

Customers with permanently connected emergency generation equipment shall notify Hydro Ottawa regarding the presence of such equipment and of any alterations to the emergency generation equipment.

Refer to the Distribution System Code for further details.

2.3.7 Metering

2.3.7.1 General

Refer to Hydro Ottawa's Metering Specifications, GCS0008.

2.3.7.2 Interval Metering

Refer to Hydro Ottawa's Metering Specifications [GCS0008](#)

Where an interval or smart meter exists or is required for a general service or large use Consumer, and a dedicated communication link for remote interrogation of the meter is needed as assessed by Hydro Ottawa, the Customer shall install the dedicated communication link at their expense and maintain its availability so long as the service exists unless other arrangements have been explicitly agreed to by Hydro Ottawa.

2.3.7.3 Meter Costs

Hydro Ottawa will provide a smart meter at no additional cost to the Customer or Consumer. Any additional equipment required for the smart metering installation shall be paid by the Customer.

Should a Consumer's rate class change to where an interval meter is the standard or the Customer requests a metering upgrade to an interval meter, the Customer shall cover the cost of the new meter installation and the associated dedicated communication link expenses.

On the request of the Customer, an initial evaluation of the feasibility for the installation of a Hydro Ottawa Multiple Customer Metering System (MCMS) shall be provided to the customer at no cost. If the evaluation provides promise for a successful implementation, the cost to supply and install MCMS equipment shall be assessed by Hydro Ottawa through a subsequent engineering assessment. The Customer may be required to adjust their electrical equipment or provide updated line drawings at their cost to accommodate Hydro Ottawa's MCMS equipment.

2.3.7.4 Individual Suite Metering for Newly Constructed, Multiple Unit Buildings

For newly built multiple unit buildings that will be individually metered, Hydro Ottawa requires the installation of individual, self-contained meters for each metered suite. Alternatively, the residential units have the option of implementing the MCMS metering standard for a minimum of 25 residential units within the building. The meter installation will be in accordance with Hydro Ottawa Metering Specifications (GCS0008) and MCMS Installation Requirements by the Owner for a New Building (MCS0055).

2.3.7.5 Existing Multiple Unit Sites and Condominium Buildings

In an effort to foster energy conservation, Hydro Ottawa will offer the Multiple Customer Metering System option to existing multi-suite buildings where limited space prevents the installation of traditional meter centres and where the building has a minimum of 25 residential units. Hydro Ottawa

reserves the right to decline the installation of a MCMS based upon the feasibility of the installation. Feasibility factors that will be evaluated include the nature of the building's electrical wiring, clarity of the building's electrical wiring records, the ease of isolating individual customer circuits, and the supply voltages available at individual suites.

With Hydro Ottawa's MCMS, each suite owner would enter into a contract with Hydro Ottawa for the supply of metered electrical service to the respective suite. The building owner will enter into contract with Hydro Ottawa for the supply of electricity to all common or shared services which may include hallway and exterior lighting, vehicle parking plugs, elevator services, pumps, ventilation, common heating, telecommunication equipment, antennas, and air conditioning loads.

Buildings that qualify for the installation of a Multiple Customer Metering System will also require a check meter that will meter the entire building service for loading and engineering purposes.

The installation of both the Multiple Customer Metering System and the check meter will be in accordance to Hydro Ottawa's Metering Specifications (GCS0008) and MCMS Installation Requirements by the Owner for an Existing Building (MCS0052).

2.3.7.6 Single Site and Bulk Metering

In certain situations, a bulk meter can be requested under the terms and conditions of the Smart Sub-Metering Code and Ontario Regulation 161/99.

The Customer will supply and install a meter socket in accordance with Hydro Ottawa Metering Specifications (GCS0008).

2.3.7.7 Meter Reading

Meter reading for smart meters, and other electronic interval meters, is performed through Hydro Ottawa's remote metering communications system. In the event that a reading cannot be obtained, the bill will be estimated using historical consumption values.

Meter readings for meters that do not yet have a remote communication system are typically scheduled on a monthly or bi-monthly basis. When premises are closed during Hydro Ottawa's regular business hours, the Customer or Consumer must, on reasonable notice, arrange such access at a mutually convenient time. In the event that a reading cannot be obtained, the bill will be estimated using historical consumption values. At each billing cycle, either monthly or bi-monthly, Hydro Ottawa will make one attempt to read the meter. If unsuccessful, a meter-reading card will be left at the door. To avoid an estimated bill, it is the Consumer's responsibility to provide Hydro Ottawa with an accurate meter reading within two business days from the date the meter-reading card was left.

2.3.7.8 Meter Reading Access

Where a meter access problem has been identified, the customer must grant Hydro Ottawa access to the meter at least once every year to obtain an actual reading, provided reasonable notice is given (ref: [*The Electricity Act, 1998*](#), Section 40(1)(b)). This includes the installation of a smart meter.

Hydro Ottawa will not read Customer owned sub-metering.

2.3.7.9 Final Meter Reading

When service is no longer required, the Customer or Consumer shall provide Hydro Ottawa a minimum of 10-business days notice, prior to the final date of responsibility, so that Hydro Ottawa can obtain a final meter reading within five (5) business days from the date of the move in/out. The Customer or Consumer shall provide access to Hydro Ottawa or its agents for this purpose. If a final meter reading is not obtained, the Consumer shall pay an estimated demand and/or energy amount for electricity based on the last meter reading.

2.3.7.10 Faulty Registration of Meters or Billing Errors

Metering electricity usage for the purpose of billing is governed by the federal [Electricity and Gas Inspection Act](#) and associated regulations, under the jurisdiction of Measurement Canada, a division of [Industry Canada](#). Hydro Ottawa's revenue meters are required to comply with the accuracy specifications established by the regulations under the said Act. When a measurement dispute arises, the Consumer and/or Hydro Ottawa may request intervention by Measurement Canada.

In the event of incorrect electricity usage registration, Hydro Ottawa will determine the correction factors based on the specific cause of the metering error and the Consumer's electricity usage history. The Consumer shall pay a reasonable sum for all of the energy supplied, based on the reading of any meter formerly or subsequently installed on the premises by Hydro Ottawa. Due regard shall be given to any change in the characteristics of the installation and/or the demand.

When a billing error has resulted in over billing and Measurement Canada is not involved, the Consumer will be credited with the erroneously paid amount for a period not exceeding six years, starting from the point that can be factually identified or reasonably proven (default) when the problem/condition began.

When a billing error has resulted in under billing and Measurement Canada is not involved, the Consumer will normally be charged with the amount erroneously under billed for a period not exceeding either of the following two cases:

1. Two years, in the case of an individual residential Consumer who was not responsible for the error, or the duration of the defect for any proven cases of wilful damage or energy diversion; or
2. The duration of the defect, for non-residential Consumer.

In the case of under billing, the Consumer, upon request, will be permitted to re-pay the amount over a period of time mutually agreed by both Hydro Ottawa and the Consumer, but, no longer than the duration of the error. In cases of overbilling, Hydro Ottawa will refund the amount owed to the Consumer upon the completion of the investigation and over a period of time mutually agreed by both Hydro Ottawa and the Consumer, but, no longer than the duration of the error.

In cases in which Measurement Canada is involved, Measurement Canada will act as an arbitrator and shall determine the appropriate time period for adjustment.

Billing errors will be calculated using the actual rates in place at the time of the error.

Interest shall not be charged on amounts *owed to* Hydro Ottawa, unless it can be shown the Consumer was aware of the defect or has unlawfully tampered with or damaged Hydro Ottawa metering installations. In such cases, the interest charge will be at the discretion of Hydro Ottawa.

2.3.7.11 Meter Dispute Testing

Metering inaccuracy is an extremely rare occurrence. Most billing inquiries can be resolved between the Consumer and Hydro Ottawa without resorting to the meter dispute process. Initially, Hydro Ottawa will review the account to look for possible meter reading or billing errors. To assist the Consumer with energy management, written fact sheets and pamphlets can be sent to the Consumer.

If the Consumer remains unsatisfied, an initial site visit will be provided free of charge to determine if the meter and billing is accurate within acceptable limits. If the accuracy is acceptable and the Consumer is still not satisfied, further investigation may be offered for a fee. Hydro Ottawa will also inform the Consumer of the assistance provided by Measurement Canada in dispute resolutions. If initiated by the Consumer, Measurement Canada will typically verify the accuracy of the meter and/or metering installation including billing multipliers and the application of approved rate structures.

2.4 TARIFFS AND CHARGES

2.4.1 *Service Connection*

Customers will pay for service connections and service upgrades based on the average cost of providing these services, as set out in the methodology under [Section 3: Class Specific Service Requirements](#) and [Appendix G](#).

2.4.2 *Energy Supply*

Customers may purchase their supply of electricity under contract from an electricity Retailer or from Hydro Ottawa under [Standard Supply Service \(SSS\)](#). Hydro Ottawa will supply and deliver electricity to all connected Customers according to its current OEB-approved Rate Schedule (see [Appendix H](#)).

2.4.3 *Deposits*

As a condition of supplying or continuing to supply distribution services, Hydro Ottawa requires Consumers to provide a security deposit, in accordance with Sections 2.4.6.1 to 2.4.29 of the [Distribution System Code](#). Hydro Ottawa shall not discriminate among Consumers with similar risk profiles or risk related factors, except where expressly permitted under the Distribution System Code.

Except for Consumers who meet the energy use security deposit waiver conditions described below

“Deposit Waiver Conditions,” all Consumers are required to provide an account security deposit to Hydro Ottawa.

Energy use security deposits will be considered as advanced payments on accounts and become the property of Hydro Ottawa until refunded. They are not considered security as defined in the [*Bankruptcy and Insolvency Act* \(1992\)](#), Section 69(1).

2.4.3.1 Calculating the Deposit Amount

The deposit amount is based upon the average monthly load at the subject service location during the most recent 12-month period, with some of the time period having occurred in the previous 24-months, factored by the billing frequency.

Where usage history is available:

- Monthly billed Consumers: Average monthly bill x 2.5
- Bi-monthly billed Consumers: Average bi-monthly bill x 1.75

Where usage history is not available, Hydro Ottawa will reasonably estimate usage, based upon the service size (voltage/amperage) and load type.

Where a Consumer’s payment history discloses more than one disconnection notice in a relevant 12-month period, Hydro Ottawa may use the highest actual or estimated monthly load for the subject premises, for the most recent 12-consecutive months, within the past two (2) years for the purpose of calculating the maximum security amount.

2.4.3.2 Deposit Waiver Conditions

Consumers opening an account may qualify for a deposit waiver based on the following criteria:

- a) The Consumer provides historical Hydro Ottawa account information confirming a satisfactory payment history, where some of that satisfactory payment history has occurred within the previous 24 months and is in the same account holder name, or,
- b) The Consumer provides a letter from another electrical or gas distributor in Canada, confirming a satisfactory payment history, where some of that good payment history has occurred within the previous 24 months and is in the same account holder name, or,
- c) The Consumer provides a satisfactory credit check at their expense. Hydro Ottawa is not responsible for the data integrity of external credit rating agencies.

2.4.3.3 Satisfactory Payment History

- a) The minimum time frame for establishing satisfactory payment history, provided some payment history has occurred within the past 24 months, varies by Consumer class as follows:
 - Residential 1 year

- Commercial less than 50 kW demand 5 years
- Commercial greater than 50 kW demand 7 years

In accordance with the [Distribution System Code](#) amendment, Sections 2.4.30 and 2.4.31 (issued May 12, 2006), also considered as under “Residential” in this matter is a Consumer that is a corporation within the meaning of the [Condominium Act, 1998](#), who has an account with Hydro Ottawa that both:

- i. Relates to a property defined in the *Condominium Act, 1998*, and is comprised predominantly of units that are used for residential purposes; and
 - ii. Relates to more than one unit of property, provided that the Consumer files with Hydro Ottawa a “Declaration Form” attesting to the Consumer’s status as a corporation within the meaning of the *Condominium Act, 1998*.
- b) A payment history will not be considered satisfactory if more than one of the following events occur, during the relevant time period, as set out in [Section 2.4.3.3\(a\)](#):
- A disconnection notice;
 - A payment returned for insufficient funds (i.e. “NSF”);
 - A visit to disconnect service or collect overdue charges.
- c) A security deposit shall be required if a Consumer fails to maintain a good payment history, as outlined in Sections [2.4.3.3\(a\)](#) and [2.4.3.3\(b\)](#).
- d) If any of the preceding events occur due to an error on the part of Hydro Ottawa, the Consumer’s payment history shall not be affected.

2.4.3.4 Reduction of Deposit Amount

Commercial Consumers greater than 50 kW will have deposits based upon the criteria in [Section 2.4.3.1](#) and reduced according to their credit rating, as follows:

<u>Credit Rating</u> (Standard and Poor’s Ratings)	<u>Allowable Reduction</u>
AAA- equivalent and above	100%
AA-, AA, AA+ or equivalent	95%
A-, From A, A+ to below AA or equivalent	85%
BBB-, From BBB, BBB+ to below A or Equivalent	75%
Below BBB-, or equivalent	0 %

2.4.3.5 Forms of Acceptable Security

Security deposits may be provided to Hydro Ottawa in the form of:

- Cash;
- Automatically renewing, irrevocable letters of credit from a bank, as defined in the *Bank Act*,

- 1991, c46; or
- Surety bonds.

A third party guarantee is no longer offered. Where a third party guarantee already exists, the distributor shall return the amount of the security deposit including interest due to that third party. This applies where and to the extent that:

- i) The third party paid all or part (as applicable) of the security deposit directly to the distributor; or
- ii) The third party has requested, at the time the security deposit was paid or within a reasonable time thereafter, that the distributor return all or part (as applicable) of the security deposit to it rather than to the Consumer less the amount owed to Hydro Ottawa.

2.4.3.6 Payment Time Lines

If requested, the Consumer may pay their energy security deposit in equal instalments over a maximum of four (4) months.

2.4.3.7 Security Deposit Reviews, Adjustments and Refunds

Hydro Ottawa shall review deposit levels a minimum of once, per calendar year, to assess refund eligibility and the maximum amount held, in accordance with the time periods specified in [Section 2.4.3.3\(a\)](#) for establishing a satisfactory payment history.

Consumers may request, in writing, a review of their deposit level or requirement, once 12-months have elapsed from the date the full deposit was paid.

Hydro Ottawa will reduce the energy use security deposit held by Consumers greater than 5,000 kW, by a maximum of 50%, after seven (7) years good payment history has been achieved. The balance will be refunded only when the account is closed.

Consumers, who may be requested to increase their security deposit amount, shall be required to do so when their next regular bill becomes due.

Consumers, with active accounts, who are eligible for a partial or full deposit refund, shall have their cash deposit, plus accrued interest, applied to their account. Other acceptable forms of security shall be returned after suitable replacement is received, as applicable.

Upon closure of an account, Hydro Ottawa will automatically transfer the balance to the Consumer's new Hydro Ottawa account or, where none exists apply the deposit and accrued interest to the final bill. Any residual credits shall be returned by cheque, within six (6) weeks of closure. Balances of less than \$5.00 will not be returned by cheque.

For Consumers who change their billing option from distributor-consolidated billing to retailer-consolidated billing, Hydro Ottawa shall apply their cash deposit plus accrued interest, or applicable portion thereof, to the final bill. Any residual credits shall be returned by cheque, within six (6) weeks

of closure. Other acceptable forms of security shall be returned by mail.

2.4.3.8 Deposit Interest and Application

Interest shall accrue on cash deposits, monthly, once the security deposit has been paid, in full. The interest rate shall be at the prime business rate, less two (2) percent, as published on the Bank of Canada website, and updated by Hydro Ottawa, at a minimum, quarterly.

Such interest shall be applied to the Consumer's account, at least annually, or, on return of the deposit or closure of account, whichever comes first.

2.4.3.9 Failure to Comply with Security Deposit Request

Payment of requested security is a condition of service and continuing service, which shall be enforced through standard collection practices for amounts overdue.

Hydro Ottawa may enforce payment of the required security by withholding or withdrawing electrical service, provided a minimum seven (7) days written notice is given. (Refer to: [The Electricity Act, 1998](#), Section 31).

2.4.4 *Billing*

Hydro Ottawa may, at its option, render bills to its Consumers on either a monthly, bi-monthly, quarterly or annual basis.

2.4.4.1 Prorating Bills and Service Charges

Service and demand charges may be prorated for the first bill, final bill, and over a rate change. Charges are based on a straight ratio calculation of the number of days occupied by the Customer to a standard 30-day month.

2.4.4.2 Estimating Bills

Reasonable attempts will be made to obtain a meter reading for all regular electricity bills. Bills will only be estimated when Hydro Ottawa has been unsuccessful in obtaining a meter reading. If a bill is estimated, whenever possible it will be based on the Consumer's consumption history.

Demand will only be estimated after current practices for retrieving a reading have been exhausted. When a demand reading cannot be obtained, it will be estimated after reviewing the demand history and considering, for example, seasonality and change in use. This does not apply to interval metering.

2.4.4.3 Account Set-Up Charge

When a Consumer establishes a new account, a charge is applied to their first bill. This charge applies to both those Consumers who are new to Hydro Ottawa's distribution service area and those who have

moved locations within Hydro Ottawa's distribution service area.

2.4.4.4 Arrears Certificate

A charge is levied to provide a certificate of arrears per service address. This is typically provided to lawyers during a property purchase.

2.4.4.5 Transformer Ownership Credit

Where a Customer owns all distribution transformers at the same premise, Hydro Ottawa will apply a Transformer Ownership Credit to the energy account of the Consumer serviced from those transformers as approved by the Ontario Energy Board.

Where a mix of Customer and Hydro Ottawa owned distribution transformers exist at the same premise, Hydro Ottawa will not apply the Transformer Ownership Credit to any energy account for new or upgraded installations.

2.4.4.6 Dry Core Transformer Losses

For Consumers or Customers with a central service with individual metering for billing purposes on the secondary side of dry-core transformers (secondary to secondary type), dry-core transformer charges will be applied to the bill. The charge shall be determined from a schedule based on the size and type of the dry-core transformer. If a check consumption verification meter exists on the central service, this meter may be used to determine the losses on the dry-core transformers.

2.4.4.7 Power Factor Adjustment

A Consumer will be billed for demand based on the measured kilowatts or 90% of the measured kilovolt-amperes, whichever is greater. This provides an adjustment for a Consumer with a power factor that is less than 90% leading or lagging.

2.4.4.8 Site Specific Losses

Where practical, metering for an embedded generation facility shall be installed at the point of supply. If it is not practical to install the meter at the point of supply, Hydro Ottawa shall apply loss factors to the generation output in accordance with the loss factors applied for retail settlements and billing.

2.4.5 *Payments*

2.4.5.1 Payment Plans

Hydro Ottawa shall offer the payment plans listed:

a) Budget Billing:

Budget Billing is only open to qualifying residential and small commercial Consumers (General Service <50kW) who purchase their electricity commodity through Hydro Ottawa (Standard Supply Service). Budget Billing is not available to:

- Consumers enrolled with a Retailer for the purchase of their electricity commodity;
- Consumers whose meter reading was estimated more than once in the last year.

Under this plan, a bill is issued every two months, however a pre-authorized, monthly budget amount shall be withdrawn, automatically, from the Consumer's bank account on either the 1st or 15th of each month. This amount shall be based on the Consumers projected annual electricity costs. If the Consumer's budget amount exceeds or is insufficient compared to the Consumers actual usage, Hydro Ottawa may periodically adjust the budget amount. Consumers shall be notified, in advance, of any required adjustments.

While on this Plan, interest is not paid or charged on account balances. Hydro Ottawa provides the estimate for budget billing and the consumer accepts the amount. In doing so, both parties consent that interest shall not be charged or credited to account balances, while the Budget Billing Plan is in effect.

To enrol, Consumers may go online through "MyHydroLink", our online customer self-serve connection at: www.hydroottawa.com, or, consumers may complete, sign and submit a payment plan application, along with a void cheque, to Hydro Ottawa.

If monthly payments are not maintained, Consumers shall be automatically removed from the plan by the subsequent withdrawal date, if payment remains outstanding.

Upon request, Consumers may opt out of this plan at any time, at which point, standard billing and collection timelines shall apply. The requested changes will become effective within 15 business days of receiving the Consumers request.

b) Pre-authorized Net (PAN)

This plan is available to all Consumers, except those billed directly by a Retailer (i.e., Retailer Consolidated Billing).

A pre-authorized bank debit of the net-billed amount shall be withdrawn from the Consumer's bank account on the due date of the bill, according to billing cycle.

To enrol, Consumers may go online through "MyHydroLink", our online customer self-serve connection at: www.hydroottawa.com, or, consumers may complete, sign and submit a payment plan application, along with a void cheque, to Hydro Ottawa.

Upon request, Consumers may opt out of this plan, at any time. The requested changes will become effective within 15-business days of receiving the Consumers request.

If payments are not maintained or remain outstanding, the Consumer shall be automatically removed

from the plan within 30-days after the due date.

Consumers who default on their payments shall be required to restore payment by the next month's billing withdrawal date and make the current monthly payment. If the Consumer cannot update their payments, the plan will be suspended until the balance is cleared. If a security deposit is not already applied to the Consumer's account, a request may be initiated at that time, as set out in "Satisfactory Payment History" under Section 2.4.3.3.

2.4.5.2 Payments and Late Payment Charges

A late payment charge of 1.5% per month (19.56% annually) is applied to all accounts not paid by the due date. Bills are due and payable 16-days from the mailing date. This charge is levied on any bill, including final bills, with no minimum set. Where the Consumer has made a partial payment on or before the due date, the late payment charge will apply only to the amount of the bill outstanding at the due date, inclusive of arrears from previous billings.

Credit balances arising from Consumer overpayments may be refunded at the request of the Consumer. In such instances, no interest shall be applied to the amount.

2.4.5.3 Collection of Account Charge

A collection of account charge will be applied when a collection visit is made at a Consumer's premises. This charge is not applied if the collection trip does not result in payment. Only one collection charge will be applied per billing period, unless a partial payment has been made. A collections charge will not be applied if a reconnection charge is applied in the same billing period following a service disconnection for non-payment.

2.4.5.4 Unprocessed Payment Charge

A charge is applied for each payment that cannot be processed.

2.4.5.5 Reconnection Charge

A Consumer or Customer disconnected for non-payment shall be required to pay a reconnection fee.

2.4.5.6 Credit Refunds

A credit refund for final accounts will not be initiated until 10-business days have elapsed from the final payment date. When an account holder has another active account with Hydro Ottawa, the credit balance will be transferred into that active account. Otherwise, a refund cheque will normally be issued within six weeks of account closure.

2.5 CUSTOMER BILLING INFORMATION

Hydro Ottawa will communicate general market and educational information to its Customers and

Consumers, as required.

At the Customer's or Consumer's request, Hydro Ottawa will provide a list of retailers who have service agreements in effect within its service area. The list will inform the Customer or Consumer that an alternative retailer does not have to be chosen to ensure that the Customer or Consumer receives electricity and the terms of service that are available under Standard Supply Service.

Upon a Consumer's written authorization, Hydro Ottawa will make the Consumer's information available to the Consumer or third party, as stated in Chapter 11 of the Retail Settlement Code.

Upon receiving a billing inquiry from a Consumer, Hydro Ottawa will either respond to the inquiry if it deals with its own distribution system or provide the Consumer with contact information for the entity responsible for the item of inquiry, in accordance with chapter seven (7) of the Retail Settlement Code.

2.6 CONSUMER RATE CLASSIFICATION AND DESIGNATION

For rate classification, new and existing Consumers are classified according to the intended use of the premise. Also, for non-residential Consumers, the rate classification will be determined based on the actual or estimated annual electricity usage or billing demand. The rate classification is independent of the service construction or specific service costs discussed in [Section 3.0](#) and [Appendix G](#).

2.6.1 New Consumer Rate Classification and Designation

Initial Consumer rate classes are determined according to the following table.

Class	Context
Residential	All services where the sole function is for personal residency. This includes single-family homes, townhouses and individual apartment units.
General Service < 50 kW	Single phase up to 400A service. Three-phase 120/208V – up to 100A service. Three-phase 347/600V – up to 60A service.
General Service 50–1500 kW	80 % of service size
General Service 1500-5000 kW	80 % of service size
Large User >5000 kW	80 % of service size
MicroFIT Generator	This classification applies to an electrical generation facility with a nameplate capacity of 10kW or less under the Ontario Power Authority's Micro FIT program.

Table 2.6.1-1: Rate Classifications of New Consumers

Upon receipt of a completed Designation form, where the Consumer has identified their eligibility for the RPP (Regulated Price Plan), the Designation will be effective on a “go forward” basis, only. Eligibility for Designation is in accordance to the definitions outlined in the [Ontario Energy Board Act, 1998](#) and [Ontario Regulation 95/05](#).

2.6.2 Existing Consumer Rate Reclassification and Re-designation

Once classified, non-residential Consumers shall remain in their initial category until a full 12-months of load history is established for the premise. All non-residential Consumer rate classifications shall be reviewed annually, in accordance with Section 2.5 of the Distribution System Code. Hydro Ottawa shall provide Consumers written notice of reclassification, no less than one billing cycle prior to reclassification. A Consumer may also request one reclassification review within any calendar year. Hydro Ottawa or the Consumer may initiate a review at any time if the Consumer’s demand falls outside the upper or lower limits of the current rate classification for five consecutive months.

Consumers who leave the regulated price plan for any reason shall be subject to a “Final Regulated Price Plan (RPP) Variance Settlement Factor.” This settlement factor may be a credit or a charge based on the current factor issued by the OEB and shall be included in the first bill issued after the Consumer is removed from designation status.

All re-classifications occur prospectively (i.e., on a “go forward,” basis) from the time the customer has requested the change, Hydro Ottawa has initiated the change and/or as a result of the yearly review process.

Class	Context
Residential	Not Applicable
General Service < 50 kW	<p>Consumer remains in this class if their average billing demand for five consecutive months is less than 50 kW or their total consumption is below 150,000 kWh.</p> <p>Consumer moves immediately to this class if their billing demand for five consecutive months falls below 50 kW or their total consumption is below 150,000 kWh.</p>
General Service 50–1,499 kW	<p>Consumer remains in this class if their average billing demand for five consecutive months is between 50-1,499 kW.</p> <p>Consumer moves immediately to this class if their billing demand for five consecutive months is between 50kW – 1,499 kW.</p>

Class	Context
General Service 1,500-5,000 kW	<p>Consumer remains in this class if their average billing demand for five consecutive months is between 1,499-5,000 kW.</p> <p>Consumer moves immediately to this class if their billing demand for five consecutive months is between 1,499 – 5,000 kW.</p>
Large User 5000 kW or greater	<p>Consumer remains in this class if their average billing demand for five consecutive months is greater than or equal to 5,000 kW.</p> <p>Consumer moves immediately to this class if their billing demand for five consecutive months is greater than or equal to 5,000 kW.</p>

Table 2.6.2-1: Rate Reclassifications of Existing Consumers

For details on the metering implications, see [Section 2.3.7 “Metering.”](#)

SECTION 3: CUSTOMER CLASS SPECIFIC

3.0 COMMON INSTALLATION, MAINTENANCE AND OWNERSHIP CONDITIONS

3.0.1 Referenced Hydro Ottawa Documents

The following are other Hydro Ottawa documents which define technical interfaces between Hydro Ottawa and its Customers:

ECG0001:	Commercial Secondary Ownership
ECG0002:	Technical Guideline for Customer Owned Standby Generation
ECG0003:	Residential Secondary Ownership
ECG0004:	Unmetered Secondary Ownership
ECG0005:	Commercial Primary Service Ownership Demarcation, Customer Owned Equipment
ECG0006:	Embedded Generation Technical Connection Guideline
ECG0008:	Distribution System Voltage & Power Quality
ECG0009:	Commercial Primary Service Ownership Demarcation, Hydro Owned Equipment
GCS0001:	Underground Residential Distribution Installation of Civil Work Construction Detail in Subdivisions
GCS0002:	Primary Voltage Service General Guideline
GCS0008:	Metering Specifications
GCG0003:	Typical Private Residential Road Cross Section
OLS0002:	Overhead Primary Voltage Line Clearances to Adjacent Buildings; 2.4/4.16 – 44kV – Clearance Detail
UTS0038	Clearances from Pad mounted Equipment
VIS0001:	Vault Inspection and Maintenance
Swimming Pools in the Vicinity of Electrical Wires	
Tree Planting Advice	

For the latest specifications, see Hydro Ottawa's website ([Section 1.5](#)). Nothing contained in these specifications shall prejudice or supersede any regulation or requirement of the [Ontario Electrical Safety Code \(OESC\)](#) for Customer owned equipment.

These documents may be modified from time-to-time. Customers are responsible for ensuring they reference the most recent version.

3.0.2 Distribution System Requirements

Hydro Ottawa has the sole right to set standards, specifications and designs for its distribution system.

The determination of how to supply a premise, whether pad-mounted transformer, pole mounted transformer(s) or Customer vault, resides with Hydro Ottawa.

Pad-mounted units are not permitted where construction is planned from lot line to lot line in the

“downtown”, where in-sufficient space is available, or in areas where total underground conversion may be planned.

Only standard Hydro Ottawa approved conductors or cables shall be connected on/into Hydro Ottawa owned support structures except for approved un-metered utilities that have a Municipal Access Agreement (e.g. metal sheath cables such as “teck,” “pyro,” and “corflex” will not be permitted).

When any customer service equipment work is undertaken, requiring an ESA permit, non-standard service equipment configurations must be brought to Hydro Ottawa’s current technical servicing standards. See Appendix G-1 for details.

3.0.3 Public Access to Hydro Ottawa Equipment

In no instances shall a Customer, Consumer or contractor attach equipment, such as satellite dishes, lighting, telecommunications, cablevision, security, fencing or signage, to Hydro Ottawa structures (e.g. poles, underground cable chambers), without prior written approval from Hydro Ottawa. Signs attached to distribution asset structures are by written agreement solely for traffic safety, public community, non-profit, and local improvement events (i.e., not for commercial gain, political views, or offensive material). The proposed attachment shall comply with the technical safety requirements for the public, workers, and equipment. Attachments to Hydro Ottawa poles require an attachment agreement and, where along roadways, authorization from the Road Authority for the encroachment. No metering or metered service equipment may be attached to Hydro Ottawa poles.

Safe Limits of Approach as specified in the E&USA Electrical Utility Safety Rules shall apply. As such, Hydro Ottawa will have ducts stubbed out of its underground chamber so that the Customer’s ducts can be connected without entering the Hydro Ottawa underground cable chambers.

To comply with the E&USA Electrical Utility Safety Rules, only a Hydro Ottawa approved contractor shall carry out work on or in Hydro Ottawa structures, and they shall notify Hydro Ottawa of the time and date on which they are proposed to work on or in a Hydro Ottawa structure. In no case shall a contractor work on a Hydro Ottawa pole above any live conductor or install an underground service on a pole or in an underground cable chamber where there is a Hydro Ottawa cable.

Removal of graffiti on Hydro Ottawa electrical boxes (e.g. a pedestal, a kiosk, a pad-mounted transformer), dedicated to a Customer’s property is the responsibility of the Customer. Removal shall be done using a Hydro Ottawa qualified contractor, and the applicable standards.

3.0.4 Hydro Ottawa Access to Equipment

Hydro Ottawa shall have access to the Consumer or Customer’s property in accordance with Section 40 of [*the Electricity Act, 1998*](#), “Powers of Entry”.

The Consumer, Customer, and the property owner shall provide unimpeded, safe, secure access to Hydro Ottawa employees or its contractors at all times for the purpose of installing, inspecting, testing,

reading, operating, replacing, removing, or maintaining, distribution equipment or metering, including reading the meter.

The Consumer or Customer shall not change, or cause changes, to a property in the proximity to Hydro Ottawa equipment such as landscaping, planting trees or shrubs, or building fences, decks, sheds etc., that would impede access to Hydro Ottawa distribution assets. When an obstruction is identified by Hydro Ottawa, Hydro Ottawa will notify the Consumer or Customer and provide the Consumer or Customer with reasonable time to correct the obstruction, as defined by Hydro Ottawa. Hydro Ottawa may disconnect the electrical service, remove or relocate the obstruction, or trim vegetation at the Consumer's or Customer's expense when an obstruction exists (per [Section 2.2](#)).

3.0.5 Heritage Facilities

Hydro Ottawa works with municipalities regarding heritage conservation programs under the Ontario Heritage Act. In keeping with these formal heritage programs, when an electrical service is upgraded, Hydro Ottawa will require the electrical service entrance facilities (including the meter); to be installed away from the main line of sight for any designated significant heritage resource.

3.0.6 Vegetation Management

The Consumer or Customer will ensure adequate clearances are maintained between Consumer or Customer owned overhead lines or other electrical service apparatus and any vegetation (such as trees, climbing vines, or shrubs). The Consumer or Customer is responsible to ensure only qualified contractors work near primary voltage distribution assets be they, for example, overhead lines, transformers, or switches, or ground level (typically referred to as pad-mounted) electrical apparatus such as transformers or switches. Hydro Ottawa will provide advice and electrical isolation if required, to assist the Consumer or Customer in meeting the above conditions in the safest manner. Refer to G-1 on isolation / re-energization.

Consumers or Customers shall prepare a clear path from vegetation for new or upgraded overhead electrical service on their property.

Hydro Ottawa will trim or sufficiently remove vegetation interfering with Hydro Ottawa's distribution assets, such as main overhead lines and pad-mounted transformers, if Hydro Ottawa determines that the distribution asset or electrical system reliability is or will be adversely affected by the vegetation, or if the vegetation presents a safety hazard. Hydro Ottawa will not be held liable for any damages to vegetation due to trimming or removal.

The Customer or Consumer will be responsible for maintaining appropriate clearances between vegetation on private property and any Hydro Ottawa equipment, such as a service conductor, pole or pad-mounted equipment. Damage to Hydro Ottawa equipment caused by a customer owned tree, or other vegetation, is the responsibility of the Customer.

Information on planting and protecting vegetation near Hydro Ottawa equipment is available in the

Hydro Ottawa publication “Tree Planting Advice and in engineering specification UTS0038 Clearances for Pad-mounted Equipment, both available on-line through Hydro Ottawa’s website (see [Section 1.5](#)).

3.0.7 Protection of Equipment

Property owners shall protect Hydro Ottawa equipment from damage and maintain the required clearances when the property owner makes changes to their property or their structures on their property at all times.

3.0.8 Property Reinstatement

If any repair of the service conductor on the Customer’s property is required and Hydro Ottawa is responsible for such repair, Hydro Ottawa will re-instate outdoor surfaces with sand, gravel, and/or soil. It shall be the Customers responsibility to repair/replace vegetation (e.g. shrubs, trees, lawn, gardens, etc.), hard surfaces, obstacles (e.g. decks, fences, patios, sheds, pools, play structures, etc.), foundations, and shallow utility service drops such as telephone, cablevision or watering systems disrupted by the repair.

At the termination of an electrical service, Hydro Ottawa shall remove any and all improvements, chattels and personal property that Hydro Ottawa has installed including but without limitation, all of Hydro Ottawa’s equipment as required by the property owner to be removed, and will either, at the property owner’s option: (i) promptly, to the extent and within the time frame reasonably specified by the property owner, repair all damage and restore the building to its condition prior to the installation of Hydro Ottawa’s equipment and other improvements. The property owner in its sole and subjective discretion may, in lieu of requiring or permitting the removal of Hydro Ottawa’s equipment, allow that the equipment to be left in place at no cost to the property owner, and the title to the equipment be transferred to the property owner.

3.0.9 Underground Services General Requirements

For underground services, the Customer will be required to provide trenching and re-instatement in a location approved by and in accordance with Hydro Ottawa requirements to accommodate service conductors. The Customer, their contractor or representative shall permit Hydro Ottawa to inspect the service trench prior to the backfilling, or pouring of concrete. The maximum length of service from the supply point to the service attachment shall be 30m.

The Customer owns and is responsible for the support structures within their building. The Customer is responsible for the physical security of underground service entrance into the Customer’s premise. This includes ensuring a tight seal at the service entrance to avoid water leakage or animal ingress.

3.0.10 Overhead Service General Requirements

If the overhead standpipe is on the side of the building, the service bracket and insulator(s) shall be located within 1830 mm (6 ft.) of the corner of the building nearest to the pole from which electricity will be supplied. Particular attention should be taken in establishing the correct standpipe location for buildings on corner lots.

The service should not be located where an accumulation of ice may form across the service wires and/or meter base. Hydro Ottawa will not be responsible for removing such ice formation or damages resulting from ice. The Customer owns and is responsible for the support structures with their building. The Customer is responsible for the physical security of overhead service entrance into the Customer's premise. This includes ensuring a tight seal at the service entrance to avoid water leakage or animal ingress.

The maximum length of service from the overhead supply point to the service attachment shall be 30m. More than this, the Customer may be required to provide an additional support and pay for the excess length of wiring.

3.0.11 Premise Identification

At all times (including during construction), the civic address must be clearly visible from the public roadway.

On each ESA wiring permit and Hydro Ottawa Service Agreement and Contract, the civic address must be clearly indicated before the service will be energized.

3.0.12 Connection and Disconnection of Services by the Public

Any un-authorized electrical contractor or person shall not tamper with Hydro Ottawa distribution assets, including yet not limited to meters, or seals. They shall also not make any connection or disconnection on Hydro Ottawa secondary conductors, service loops, or any Hydro Ottawa assets unless by a Hydro Ottawa approved contractor and explicitly authorized to do such by Hydro Ottawa. In cases where the work to be carried out necessitates isolation of a service or removal of a meter, the contractor or electrician shall obtain a work permit from ESA and then shall notify Hydro Ottawa. Hydro Ottawa shall make arrangements for the service isolation or re-energization. The contractor or electrician who does not comply with these regulations shall be held responsible for damage or loss and may be subject to charges under, for example, the *Electricity and Gas Inspection Act*.

3.0.13 Swimming Pools

Although the Ontario Electrical Safety Code allows electrical conductors to be located at an adequate height, Hydro Ottawa will not allow electrical conductors to be located above swimming pools. Hydro Ottawa also has requirements for minimum distance between overhead wires and pool equipment such as pool ladders, and between underground cables and the inside walls of a pool. For new swimming pool installations it will be necessary to relocate, at the Customer's expense, any electrical conductors directly

over the proposed pool location. Where overhead service conductors are in place over an existing swimming pool, Hydro Ottawa will provide up to 30m of overhead service conductors, at no charge, to allow rerouting of the service. The Customer will pay any other costs. For further detail, refer to the publication “Swimming Pools in the Vicinity of Electrical Wires” through Hydro Ottawa’s website (see [Section 1.5 “Contact Information”](#)).

3.0.14 Power Line Carrier

The Customer shall not, without written permission from Hydro Ottawa, use Hydro Ottawa’s electrical system beyond their ownership demarcation point for power line carrier requirements.

3.0.15 Overhead Safety Clearances

Where overhead distribution lines exist, activity involving equipment or personnel, within three meters (3m) of the Hydro Ottawa primary voltage distribution lines may only be undertaken by a Hydro Ottawa qualified contractor. This condition is compliant with the Ministry of Labour’s Occupational Health & Safety Act. Also, development of permanent structures within the "restricted zone" surrounding overhead primary voltage lines is prohibited. This zone is defined by Hydro Ottawa’s OLS0002 clearance standard. The "restricted zone" surrounds overhead medium voltage pole lines, consisting of a five-meter (5m) radial distance from overhead medium voltage conductors, and a two-meters (2m) distance from a vertical line drawn from the conductors to ground level along, the length of the pole line. This offset standard complies with the requirements of the Ministry of Labour’s Occupational Health & Safety Act and the Ontario Electrical Safety Code that strictly prohibit any work activity within 3m (plus conductor swing – the side-to-side, up-down conductor movement) of primary voltage lines with a resultant clearance of five metres for construction and future maintenance of the building.

3.1 RESIDENTIAL

This section refers to the supply of electrical energy to residential Customers residing in detached, semi-detached, duplex, triplex, or townhouse dwelling units, as defined in the following sections.

Residential services will be offered at 120/240V, 1-phase, 3-wire, 60-Hz only, up to a maximum of 400A where available and only as underground servicing. For residential services requiring larger supply than mentioned above and for three-phase services, refer to [Section 3.2 “General Services \(secondary voltage supply\)”](#) and [Section 3.3 “General Services \(primary voltage supply\).”](#)

3.1.1 Point of Demarcation

3.1.1.1 Overhead

- a) Secondary: For residential secondary overhead services, the line of electrical ownership, maintenance and operational demarcation between Hydro Ottawa and the Customer is the first

contact point with the building/pole where the customer owns and is responsible for the support structures on their building/pole.

- b) Primary: For overhead primary services, the line of electrical ownership, maintenance and operational demarcation is the supply point. Typically this is the distribution-isolating device nearest or on the property line.

3.1.1.2 Underground

- a) Secondary: For residential secondary underground services, the line of electrical ownership, maintenance and operational demarcation between Hydro Ottawa and the Customer is the line side of the first customer owned device, typically the meter base. The Customer owns and is responsible for the support structures of electrical equipment on their property. If non-standard Hydro Ottawa conductor is used by the Customer, the ownership demarcation point is the connection point of the conductor to Hydro Ottawa's distribution system (i.e., the supply point).
- b) Primary: For underground primary services, the line of electrical ownership, maintenance and operational demarcation is the first distribution-isolating device nearest or on the Customer's property. Service and maintenance costing (see the relevant Sections [3.1.2.3](#), or [3.1.3.7](#)), easements and any specific maintenance agreements between Hydro Ottawa and the Customer shall determine the financial responsibilities.

3.1.1.3 Historical and Specific Agreements

Prior to amalgamation of the five local hydro utilities on November 1, 2000, the point of ownership demarcation between the former Ottawa Hydro and Kanata Hydro Electric Commission and the Customer for residential underground secondary services was the property line. For specific Customer ownership cases when a standard underground secondary service conductor fails between the Customer's property line and the first device on the line side (e.g. meter base, switch, splitter) of the Customer's property, the Customer, in agreement with Hydro Ottawa, may elect to have Hydro Ottawa repair the service conductor. If the Customer owns a Hydro Ottawa standard type service conductor and chooses the Hydro Ottawa repair/replace option, the Customer accepts the transfer of ownership, at no cost, of that underground secondary service conductor, up to the first device on the line side of the Customer's property, to Hydro Ottawa. This transfer of ownership and repairs within the former Ottawa Hydro Electric Commission territory is only available to single and duplex family dwellings. With any repairs, Hydro Ottawa will re-instate the Customer's property to construction grade as per [Section 3.0](#). For residential underground secondary services with non-standard Hydro Ottawa service conductor, the line of ownership demarcation continues to be the supply point.

For all other former Customers and all new Customers with residential underground secondary services with a standard Hydro Ottawa service conductor, the delimiter of electrical ownership demarcation is the line side of the first device (e.g. meter base, switch, splitter) on the Customer's property (see [Drawing ECG0003](#)) and the Customer owns and is responsible for the support structures of electrical equipment on their property, unless there is a specific written agreement between Hydro Ottawa and the Customer. For residential underground secondary services with non-standard service conductor, the line of ownership demarcation is the supply point.

Exemptions: The ownership demarcation point may be different than stated above by a specific written agreement between Hydro Ottawa and the Customer. For the cases without a specific written agreement, reference will be made to [Appendix I – “Pre-amalgamation Ownership Demarcation Points between Local Hydro and Customer.”](#)

3.1.2 Residential Underground Subdivisions

This section pertains to the supply of electrical energy to a residential underground subdivision considered as greenfield construction. Greenfield construction is where secondary servicing may not be nearby, or if it is, would be insufficient in capacity. In this case an expansion of Hydro Ottawa’s distribution system may be needed. Refer to Hydro Ottawa’s standard [GCS0001](#) for full details, including on metering, and inspection.

To accommodate the developer’s subdivision construction phasing, Hydro Ottawa will determine if a temporary distribution system configuration is feasible during which the normal electrical backup may not be available for up to one year. Development phasing requirements beyond one year will require the installation of a temporary distribution system backup at the cost of the developer.

3.1.2.1 Servicing Requirements

Servicing of the units will be underground; however, main trunk supply to the boundary of the subdivision will be overhead, unless feasible and the developer requests underground supply at their cost. Refer to Hydro Ottawa’s standard [GCS0001](#).

3.1.2.2 Site Information

Prior to establishing service details, Hydro Ottawa will require the following information from the Customer:

- Project name;
- Unit servicing detail;
- Number of units to be serviced;
- A plan of subdivision, to scale, showing the buildings in relation to existing and proposed property lines, other buildings, streets, street entrances, driveways, and the location of other services, gas, telephone, water, cablevision, waste water (sewage and storm, including catch basins);
- A grading plan;
- Landscaping plan;
- Road cross-sections used. Note: private roads shall conform to [GCG0003](#);
- Expectation of three or four party trenching. Note: four party trenching is not available for private roads;
- Proposed construction schedule, and phasing of the development;
- Developer detail.

All drawings should be provided electronically in a Hydro Ottawa approved file format.

3.1.2.3 Servicing Cost

Since residential underground subdivisions require an expansion or enhancement to the distribution network, the servicing cost for the subdivision shall be based on the result from the Economic Evaluation Model ([Appendix B](#)). The basic credit per property is considered in the model. Hydro Ottawa's Offer to Connect will stipulate the servicing cost and options.

The expansion and enhancement cost to Hydro Ottawa's normal standard will be reduced in whole or in part by a credit based on the future net revenue of Hydro Ottawa. The normal net revenue horizon of Hydro Ottawa will be based on 25-years subject to change depending on the type of development.

These costs are determined independent of the rate classification used for energy billing purposes discussed in [Section 2.6](#).

3.1.3 Residential Single Family Homes

This section pertains to the supply of electrical energy to detached and semi-detached, single-family homes. A single family home is a permanent structure or structures located on a single parcel of land and approved by the municipality's building department as a dwelling and occupied for domestic or household purposes by a single Customer.

3.1.3.1 Service Requirements

- a. One service will be provided for each property. In circumstances where more than one service is installed to a single property, and any of the services is to be upgraded, the upgraded service will replace all of the existing services.
- b. The maximum service size is typically limited to 200A, 120/240V. Due to technical constraints, single-phase secondary services greater than 200A may not be available in all areas.

The location of the service entrance point and the meter base will be established through consultation with Hydro Ottawa for both new and upgraded electrical services. Failure to comply may result in relocation of the service at the Customer's expense.

- c. Where revenue metering is located inside a residence, the Customer will be required to relocate the meter to the exterior of the building when upgrading the electrical service, working on service conductors within standpipes, or relocating the service entrance. This may not apply to designate significant heritage resources as noted in [Section 3.0.5](#).

3.1.3.2 Overhead Service (where permitted by bylaw)

Hydro Ottawa shall designate the supply point from which the service will be supplied and the location of the standpipe.

Hydro Ottawa will provide up to 30m of service conductor to the ownership demarcation point. The Customer will contribute to the cost of services that exceed 30m in length, and in some circumstances may be required to construct a private pole line.

The maximum capacity of a secondary overhead service is 200A. Larger capacity services will be installed underground.

3.1.3.3 Underground Service (Overhead or Underground Distribution System)

Hydro Ottawa will specify the location of the meter base.

Hydro Ottawa will install secondary service conductors to a maximum length of 30m using standard Hydro Ottawa secondary conductors considering voltage drop and ampacity characteristics.

3.1.3.4 Site Information

Prior to establishing service details, Hydro Ottawa will require the following information from the Customer:

- A site plan, to scale, showing the building in relation to existing and proposed property lines, other buildings, streets and driveways, and the location of other services, gas, telephone, water and cablevision. In certain situations, a grading plan may be required. Site plans for pre-planned subdivisions shall follow the City of Ottawa mapping coordinate system standard. Data will be geographically referenced to the 3° MTM, Ontario, zone 9, survey coordinate system and adjusted to NAD83 in Micro-station version 7 or 8 digital file format;
- Civic address;
- Customer billing information such as Customer name, billing address, telephone number;
- Requested energization date;
- Service amperage wanted;
- A completed Load Summary form may be required (see [Appendix A](#)).

3.1.3.5 Metering

The Customer will supply and install a meter socket in accordance with Hydro Ottawa Metering Specifications ([GCS0008](#)).

3.1.3.6 Inspection

- The electrical installation inside the home and out to the demarcation point must be inspected and approved by ESA. Hydro Ottawa requires notification from the ESA indicating that an inspection has been conducted prior to energization.
- The service entry components up to, and including the meter base, shall be inspected and approved by Hydro Ottawa prior to energization.

3.1.3.7 Servicing Cost

Refer to [Appendix G](#). For new residential, Hydro Ottawa has defined a basic connection for residential Customers and will recover the cost of this basic connection as part of its revenue requirement through the distribution rates attributable to Hydro Ottawa. Hydro Ottawa has determined the typical cost of installing services. .

For residential infill and upgrades, the Customer shall be responsible for the cost of civil works from the meter base to the supply point.

For rural residential secondary Customers, Hydro Ottawa shall supply one clearance service pole within the road right-of-way at no cost (to the initially agreed location) subject to the Customer securing any third party land rights at their cost.

Hydro Ottawa shall extend the system to provide for a standard, single-phase, secondary residential service within its service area for development fronting publicly opened road allowances. Secondary services greater than 200A, single-phase may not be available in all areas, due to technical constraints. The associated primary voltage enhancement cost is part of the basic cost for residential infill service (see [Appendix G](#)) as the upstream cost.

These costs are determined independent of the rate classification used for energy billing purposes discussed in [Section 2.6](#).

3.1.4 Residential Townhouses

This section pertains to the supply of electrical energy to row housing. For stacked townhouses, refer to [Section 3.2 General Services \(Secondary Voltage Supply\)](#).

A townhouse development is a structure or complex of structures each containing more than two residential units. One residential Consumer should occupy each unit and have direct outside access at ground level.

3.1.4.1 Service Information

- Each townhouse block will be provided with one service up to 400A, single-phase, three-wire service to the building end-wall that will supply a maximum of six (6) – 100A gang metered services. Greater than six meters will require a metering centre with the aggregate load limited to a maximum of 400A. Service size shall be supported by load summary that meets the requirements of the Ontario Electrical Safety Code.
- Where a revenue meter is located inside a townhouse, the Customer will be required to relocate the meter to the exterior of the building at the time of upgrading the electrical service or relocating the service entrance.
- The Customer will enter into a Servicing Agreement with Hydro Ottawa, governed by the terms and

conditions under which the electrical distribution system and services will be designed and installed.

- The Customer will provide all civil works, as needed, to accommodate the Hydro Ottawa plant.
- Where the development is no more than one townhouse block, and the service size is less than 400A, the tie to the distribution system may be overhead if possible and permitted in the area. In all other cases the tie to the distribution system and services shall be underground.
- Under certain conditions, up to 600A service (at 120/240V) may be available. Contact Hydro Ottawa to determine availability.
- Service entrance requests for more than six (6) units or a 600A service (at 120/240V) shall be accompanied by an ESA reviewed Load Summary (Appendix A).

3.1.4.2 Site Information

Prior to preparing a design for services to the premise, the Customer must provide the following information to Hydro Ottawa:

- A grading and site plan showing the building(s) in relation to existing and proposed property lines, other buildings, streets and driveways, and the location of other services such as, gas, telephone, water and cablevision. Site plans for pre-planned subdivisions shall follow the City of Ottawa mapping coordinate system standard. Data will be geographically referenced to the 3° MTM, Ontario, zone 9, survey coordinate system and adjusted to NAD83 in Micro-station version 7 or 8 digital file format;
- Civic addresses;
- Customer billing information such as Customer name, billing address, telephone number;
- A legal reference plan by a land surveyor;
- A municipal servicing plan showing the location of water and sewer services;
- A layout showing the number of units and the size of electrical services required;
- A completed Load Summary form may be required. A copy is attached (see [Appendix A](#));
- Requested energizing date.

All drawings should be provided electronically in a Hydro Ottawa approved file format.

3.1.4.3 Metering

The Customer will supply and install meter sockets in accordance with Hydro Ottawa Metering Specifications ([GCS0008](#)).

3.1.4.4 Inspection

Prior to the energization of each service, the [ESA](#) is required to notify Hydro Ottawa that the electrical installation inside the buildings and out to the demarcation point has been inspected and approved by the ESA.

3.1.4.5 Servicing Cost

Service costs will be handled in a similar manner to the single-family residential connections as per [Section 3.1.3.7 “Servicing Cost.”](#) These costs are determined independent of the rate classification used for energy billing purposes discussed in [Section 2.6](#).

3.2 GENERAL SERVICES (SECONDARY VOLATAGE SUPPLY)

This section shall include small apartment buildings, dense condominium arrangements, and smaller commercial including billboards, industrial and institutional developments supplied from the road right-of-way or Hydro Ottawa easement. Larger services may require a primary supply (see [Section 3.3](#)).

3.2.1 Point of Demarcation

The point of electrical ownership demarcation between Hydro Ottawa and the Customer varies depending on the overhead or underground supply configuration (see drawing [ECG0001](#)), unless there is specific written agreement between Hydro Ottawa and the Customer. The Customer will own and maintain the electrical service equipment up to the point of ownership and is responsible for the support structures of electrical equipment on their property. Service costing (see [Section 3.2.6](#)), easements and any specific maintenance agreements between Hydro Ottawa and the Customer shall determine the financial responsibilities.

For the cases without a specific written agreement, reference will be made to [Appendix I – “Pre-amalgamation Ownership Demarcation Points between Local Hydro and Customer.”](#)

3.2.2 Service Requirements

The service voltage will be established by Hydro Ottawa, depending upon the location of the premise and will be one of the following:

- 120/240 volts, 1-phase, 3-wire, up to 200A overhead (subject to municipal bylaw) or underground;
- 120/240 volts, 1-phase, 3-wire, 400A underground in designated areas;
- 347/600 volts, 3-phase, 4-wire, up to 200A overhead or underground in designated areas;
- 347/600 volts, 3-phase, 4-wire, 400A underground in designated “downtown” areas, and if available.

One service will be provided for each property. In circumstances where more than one service is installed to a single property and any of the services is to be upgraded, the upgraded service will replace all of the existing services.

Hydro Ottawa no longer provides 600V-Delta services supplied for the public road allowance or Hydro Ottawa easement. In cases where a Customer requests an upgrade to an existing 600V-Delta service,

Hydro Ottawa will provide a 347/600 volt, 3-phase service sized according to the Customer provided load summary. Costs for the change in wiring from a 600V-Delta to a 600V, 4 wire, grounded Wye service will be treated as an upgrade and are included in Appendix G.

Hydro Ottawa will establish the location of the service entrance to the property and to the premise.

3.2.3 Site Information

Prior to preparing a design for service to the premise, the Customer must provide the following information to Hydro Ottawa:

- A grading plan and site plan, to scale, showing the building in relation to existing and proposed property lines, other buildings, streets and driveways and the location of other services such as gas, telephone, water, and cablevision;
- Civic address;
- Customer billing information such as Customer name, billing address, telephone number;
- Requested energizing date;
- Service amperage;
- Preferred voltage;
- Preferred service entrance location;
- Estimated initial kilowatt demand and ultimate maximum demand;
- A single-line diagram showing the provision for metering facilities and a listing of all significant loads such as lighting, motors, cooling, heating, welders, etc;
- A completed Load Summary form may be required (see [Appendix A](#));
- In the event that an electrical room is to be installed, a plan to scale showing this room and provision for metering equipment must be provided.

All drawings should be provided electronically in a Hydro Ottawa approved file format.

3.2.4 Metering

The Customer will supply and install a meter socket in accordance with Hydro Ottawa Metering Specifications ([GCS0008](#)).

3.2.5 Inspection

- The electrical installation inside the building and out to the ownership demarcation point must be inspected and approved by the ESA. Hydro Ottawa requires notification from the ESA that this has been done prior to energization.
- The service entry components to and including the meter base, shall be inspected and approved by Hydro Ottawa prior to energization.

3.2.6 Servicing Cost

The methodology for determining amounts to be contributed by the Customer for service is documented in [Appendix G](#). The Customer shall provide and install all electrical works and civil infrastructure for the service up to the supply point, plus the connection costs. For expansion or enhancement of the system, the actual cost will be recovered from the Customer with a credit for the future revenue from the service, through the use of an Economic Evaluation Model (see [Appendix B](#)). This Model uses rate class information to determine future operating costs.

3.3 GENERAL SERVICE (PRIMARY VOLTAGE SUPPLY)

This section shall include apartment buildings, commercial, agricultural, industrial, and institutional developments, where a primary voltage service is required, as outlined in [Appendix F](#).

The decision as to whether or not a transformer vault or pad-mount transformer is required rests solely with Hydro Ottawa and under no circumstances are Customers to be advised in this regard without consultation with Hydro Ottawa. Hydro Ottawa will not install multi-pole overhead transformer structures. When these structures require upgrading, Hydro Ottawa will disconnect and remove its equipment, or may sell the structure, change the demarcation point and perhaps retain ownership of the transformers.

3.3.1 Point of Demarcation

Prior to November 1, 2000, when the five local hydro utilities amalgamated, the point of ownership demarcation between Hydro Ottawa and the Customer varied depending on the overhead or underground supply configuration. With any general primary service supplied prior to amalgamation, the point of ownership demarcation remains the same as when originally supplied.

After November 1, 2000, for all general service supplied with a standard primary connection, the line of electrical ownership demarcation is described in drawing [ECG0005](#) and [ECG0009](#) with the customer owning and is responsible for the support structures of electrical equipment on their property unless there is specific written agreement between Hydro Ottawa and the Customer. General service Customers with complex primary electrical distribution systems may consult Hydro Ottawa for the ownership demarcation points. A typical Customer owned scenario is illustrated in drawing [ECG0005](#).

The Customer shall own and maintain the electrical service up to their respective point of ownership demarcation (see drawings [ECG0005](#) & [ECG0009](#)). Hydro Ottawa shall own and maintain the primary electrical service of their respective point of ownership demarcation. However, Hydro Ottawa shall control the electrical equipment within the Customer's property as indicated on Hydro Ottawa's primary demarcation drawings [ECG0005](#) and [ECG0009](#). Service costing (see [Section 3.3.6](#)), easements and any specific maintenance agreements between Hydro Ottawa and the Customer shall determine financial responsibilities. The Customer shall own and maintain the civil structures, protective bollards, grounding system, and auxiliary equipment (fences, ventilation, 120V systems such as lighting and receptacles) on their property unless there is a specific Hydro Ottawa agreement indicating otherwise.

Hydro Ottawa shall maintain operating control of the Customer owned primary voltage disconnect switch as designated by Hydro Ottawa.

3.3.2 Service Requirements

- One primary supply point will be provided as the standard for each property. An open loop is considered one supply point;
- Hydro Ottawa will establish one supply point to the property;
- The service voltage will be established by Hydro Ottawa depending upon the location of the premise and will be as described in [Section 2.3.4 “Standard Voltage Offerings.”](#);
- If feasible, Hydro Ottawa will provide up to two underground secondary services directly from a three phase pad-mount transformer that is dedicated to one property. The property owner is responsible to manage all service capacity changes and planned outages with the electrical service users on the property unless otherwise indicated in a written agreement between the property owner and Hydro Ottawa. The property owner shall also provide Hydro Ottawa written acceptance for all service change requests and associated costs. More than two direct services shall require a secondary distribution and metering centre for all the services;
- To accommodate the developer’s subdivision phasing, Hydro Ottawa will determine if a temporary distribution system configuration is feasible during which the normal or planned normal electrical backup may not be available up to one year. Development phasing requirements beyond one year will require the installation of a temporary distribution system backup.

3.3.3 Site Information

Prior to the preparation of a design for a service to a premise, the following information is to be provided by the Customer to Hydro Ottawa:

- A grading plan and site plan, to scale, showing the building in relation to the existing and proposed property lines, other buildings, streets and driveways and the location of other services such as gas, telephone, water, and cablevision. Site plans shall follow the City of Ottawa mapping coordinate system standard. Data will be geographically referenced to the 3° MTM, Ontario, zone 9, survey coordinate system and adjusted to NAD83 in Micro-station version 7 or 8 digital file format;
- Civic address;
- Customer billing information such as Customer name, billing address, telephone number;
- Requested energizing date;
- Service amperage;
- Preferred voltage;

- Preferred service entrance location;
- Estimated initial kilowatt demand and ultimate maximum demand;
- A single-line diagram showing the provision for metering facilities and a listing of all significant loads such as lighting, motors, cooling, heating, welders, etc.;
- A completed Load Summary form may be required. (see [Appendix A](#)) Loads must meet the limitations included in [Appendix F](#);
- A plan to scale showing the electrical room and provision for metering equipment shall be provided.

All drawings should be provided electronically in a Hydro Ottawa approved file format.

3.3.4 Metering

The Customer shall supply metering equipment in accordance with Hydro Ottawa Metering Specifications ([GCS0008](#)).

3.3.5 Inspection

- The electrical installation inside the building and out to the demarcation point must be inspected and approved by the ESA. Hydro Ottawa requires notification from the ESA that this has been done prior to energization.
- The service entry components to and including the meter base shall be inspected and approved by Hydro Ottawa prior to energization.

3.3.6 Servicing Cost

The Developer shall pay the entire cost of all electrical and civil costs from the supply point to the electrical ownership demarcation point that only benefits the Developer within a five-year time horizon. Also, per [Appendix B](#) “Economic Evaluation Model,” the Developer will contribute to the actual cost of the system expansion that brings the service to the development supply point plus the system enhancement cost based on diversified load.

The expansion cost to Hydro Ottawa’s normal standard will be reduced, in whole or in part, by a credit based on the future net revenue of Hydro Ottawa. The normal net revenue horizon of Hydro Ottawa will be based on 15-years subject to change depending on the type of development.

The load used for calculating the credit will be based on typical diversified demand based on the service entrance size or on load projections provided by the Customer. An agreement with the Customer may be required to guarantee the loading schedule (when services will be connected and electricity used) for the development. The agreement will be reviewed, per the Distribution System Code, on the fifth year anniversary and the security will be reduced based on the actual load experience. The load security deposit will be reduced if the loading schedule is realized as per the [OEB’s Distribution System Code](#).

These costs are determined independent of the rate classification used for energy billing purposes discussed in [Section 2.6](#).

3.3.7 Inspection and Maintenance of In-service Primary Equipment

Each customer with a primary service shall inspect and maintain the equipment at a minimum, as per Hydro Ottawa procedure [VIS0001](#).

3.4 GENERAL SERVICE (ABOVE 1000 kW)

Refer to [Section 3.3](#)

3.5 EMBEDDED GENERATION FACILITY

This section applies to renewable and non-renewable embedded generators.

Facilities are categorized according to size, per the OEB's Distribution System Code. Hydro Ottawa requires all Customers wishing to connect to its' distribution system to execute a Connection Agreement, in accordance with the OEB's Distribution System Code. Connection of embedded generators shall be provided where technically feasible. The cost sharing responsibilities of Hydro Ottawa and the Customer for the connection and related protections to ensure the safety of the public, employees and security of the system will be in accordance with the Distribution System Code. The technical requirements for embedded generation are set out in Hydro Ottawa's Generation Technical Guideline ([ECG0006](#)) and Metering Specification (GCS0008). Furthermore, an Operating & Maintenance Agreement must be signed between Hydro Ottawa and the embedded generator, in accordance with the OEB's Distribution System Code.

Administrative and technical requirements can be found in the Distribution System Code ("DSC") Sections 6.2.5 through 6.2.30, at the Ontario Energy Board website (www.oeb.gov.on.ca).

For on-line application and program details for generation connections, see Hydro Ottawa's Web site at: <http://www.hydroottawa.com>

3.5.1 Net Metering

Refers to a customer of Hydro Ottawa that meets the criteria of Section 71(1), [O. Reg. 541/05](#), Net Metering. Net metering shall be made available on a first-come, first-served basis until the generation capacity in Hydro Ottawa's licensed service area is reached, in accordance with Section 6.7.2 of the DSC. Billing will be in accordance with the Net Metering Regulation, provided Section 2(2) is met. A Customer wishing to participate in the Net Metering program may access more details on the OEB website at www.oeb.gov.on.ca under 'Green Energy Initiatives'.

3.6 EMBEDDED MARKET PARTICIPANT

Refer to the Distribution System Code

3.7 EMBEDDED DISTRIBUTOR

Refer to the Distribution System Code

3.8 UN-METERED SERVICES

Un-metered loads are loads that are billed based on an estimated usage and load profile. Hydro Ottawa has the sole right to determine if a load shall be classified as un-metered.

Un-metered loads are intended for small load use within the road right-of-way. The specific service is for publicly owned utility plant, other utilities that are licensed for their plant access with the road authority, government agencies, and temporary community events. Typical un-metered load types are: streetlights, traffic signals, communication power supplies, bus shelters, railroad signals, and telephone booths. These services normally do not require system enhancements or expansions for connection. When un-metered service connections are requested and system enhancements or expansions are needed, the costs will be based on the Economic Evaluation Model (see [Appendix B](#)). Otherwise, for applicable charges, refer to [Appendix G](#) for the methodology in determining the fee, and contact Hydro Ottawa's Service Desk (see [Section 1.5 "Contact Information"](#)) for a quote.

When a Customer is eligible for an un-metered service and has chosen such, Hydro Ottawa may choose to meter the load at any time and for any duration to, for example, verify or study typical usage (i.e., amount or profile) at the Customer's expense. Also, when requested by Hydro Ottawa, the Customer or Consumer shall undertake at their cost, electrical usage profile studies by using either a Hydro Ottawa acceptable certified lab or acceptable in-field metering unit. The interim results and final report shall be provided to Hydro Ottawa in an acceptable format and time to Hydro Ottawa. Un-metered Consumers shall not allow other Consumers to use un-metered electrical power from their system without the written consent of Hydro Ottawa. Details are provided in the document [ECS0023](#), "Hydro Ottawa Limited: Un-metered Services" and ECS0025, "Outage Protocol for Un-Metered Services". Also, refer to drawing [ECG0003](#) for demarcation details.

By selecting the un-metered service option, the Customer gives Hydro Ottawa consent to share or release load detail, plus energy and demand data to persons including, but not limited to, utilities, electrical associations, interest groups and Hydro Ottawa's regulators or as required by law. However, unless required by law or with the Customer or Consumer's written consent, their identity shall remain confidential and not be disclosed by Hydro Ottawa. Except otherwise noted, these conditions do not apply to metered services.

Hydro Ottawa no longer offers new sentinel lights. Any changes requested by the customer with an existing sentinel light(s) or major Hydro Ottawa distribution system work on the specific sentinel light poles will result in the removal of the light(s) or change of ownership of the light(s) to the customer and

any required metering.

All new and upgraded billboard services shall be metered as per [Section 3.2](#).

3.9 TEMPORARY SERVICES

This section pertains to the supply of electrical energy on a planned temporary basis as defined in [Section 4.0](#).

Services for temporary accommodation such as portable schoolrooms are not permitted.

The Customer must pay all temporary service costs and a transformer rental charge will apply for temporary services other than the default temporary service, which does not include transformation.

Customers who install and maintain the load equipment are also responsible for installing and maintaining the service conductors from the supply point to the load.

If for some reason a supply point is relocated, the Customer will be contacted and informed that the service conductors must be extended at a cost to the Customer to the new supply point.

If any personnel, including contractor or sub-contractor, (such as floor sander or terrazzo grinder) takes supply from the line side of the meter or jumps the fuse, the service to the facility or building will be disconnected immediately.

3.9.1 Service Requirements

- a) The service voltage will be established by Hydro Ottawa depending upon the location of the building/construction site and will be one of the following:
 - 120/240 volts, 1-phase, 3-wire, up to 200A overhead (subject to municipal bylaw) or underground;
 - 120/240 volts, 1-phase, 3-wire, 400A underground in designated areas;
 - 347/600 volts, 3-phase, 4-wire, up to 200A overhead or underground in designated areas;
 - 347/600 volts, 3-phase, 4-wire, 400A overhead or underground in designated areas.

Larger services may require a temporary primary service (see [Section 3.3](#)).

- b) Hydro Ottawa will establish the location of the service entrance to the property and to the building.

3.9.2 Service Information

- a) At the discretion of Hydro Ottawa one or more temporary services may be provided for a site, subject to the requirements of the ESA.
- b) The location of the service entrance point and details of metering will be established through consultation with Hydro Ottawa. Failure to comply may result in modifications at the Customer's expense.

3.9.3 Supply from Pole Line (where permitted by bylaw)

The Customer will provide the secondary overhead conductor to the supply point or pay for Hydro Ottawa to provide the conductor. Hydro Ottawa will install and connect the service conductor at the supply point. The Customer will supply any anchoring, as required.

Pole mounted services require a weatherproof cabinet at a size sufficient to house the service and meter equipment. The cabinet shall have provision for padlocking. No metering or service equipment may be attached on the Hydro Ottawa poles.

Hydro Ottawa may provide an overhead primary service for large projects, at the Customer's expense. Line poles provided for utility equipment shall be a minimum of Class 3.

3.9.4 Supply from Underground Distribution System

There are areas where only an underground system has been installed. It will be necessary to consult with Hydro Ottawa to establish the method and cost of obtaining temporary construction service.

Due to the wide variation in these services, the Customer will pay the costs incurred by Hydro Ottawa.

3.9.5 Site Information

The Customer is to provide the following information to Hydro Ottawa:

- Civic address;
- Customer billing information such as Customer name, billing address, telephone number;
- Requested energization and removal dates;
- Service amperage;
- Preferred voltage;
- Preferred point of service entrance;
- Estimated kilowatt demand;
- A listing of all significant loads such as large motors;
- A site plan showing the location of the delivery point relative to lot lines and the street;
- A completed Load Summary form may be required (see [Appendix A](#)).

3.9.6 Metering

The Customer will supply metering equipment in accordance with Hydro Ottawa Metering Specifications ([GCS0008](#)).

3.9.7 Servicing Cost

Refer to Service Charge Schedule, [Appendix G](#) (for secondary supply voltages). These costs are determined independent of the rate classification discussed in [Section 2.6](#).

SECTION 4: GLOSSARY OF TERMS

"Affiliate" means a company that is affiliated with another within the meaning of the Canada Business Corporations Act;

"Basic Credit" refers to costs in connecting an electrical service for a new premise based on a basic connection plus the enhancement cost. It applies one time and thus only to new residential servicing. Upgraded services had benefited from the credit at first servicing and thus are not provided this credit. The basic credit applies once for each new service entrance regardless of the number of units connected to the service entrance;

"Basic Connection" means a new residential 100A overhead, single-phase, secondary service including transformation capacity, standard metering, 30-metres of overhead conductor;

"Betterment" refer to "Enhancement" definition;

"Billing Demand" means the metered demand or connected load after necessary adjustments have been made for power factor, intermittent rating, transformer losses and minimum billing. A measurement in kilowatts (kW) of the maximum rate at which electricity is consumed during a billing period;

"Board" means the "Ontario Energy Board" (OEB);

"Board of Directors" means the Board of Directors of Hydro Ottawa Limited;

"Buss" means a common current carrying element that allows the connections of other elements to that common element;

"Circuit Breaker" means a device designed to open and close a circuit by non-automatic means and to open the circuit automatically without damage to itself when properly applied within its ratings under fault or Emergency conditions;

"Cold Metering" means a service installation where the main switch, located on Customer owned property, is connected on the supply side (a.k.a. line side) of the Hydro Ottawa meter;

"Common Element" means "House Service;"

"Complex Metering Installation" means a metering installation where instrument transformers, test blocks, recorders, pulse duplicators and/or multiple meters may be employed;

"Conditions of Service" means the document developed by a distributor in accordance with sub-Section 2.3 of the [Distribution System Code](#) that describes the operating practices and connection rules for the distributor;

"Connection" means the process of installing and activating connection assets in order to distribute electricity;

“Connection Agreement” means an agreement entered into between a distributor and a person connected to its distribution system that delineates the conditions of the connection and delivery of electricity to or from that connection;

“Consumer” means a person who uses, for the person’s own consumption, electricity that the person did not generate;

“Cost” in all references implies burdened labour, material, and vehicles and equipment expenses, including travel time (one hour return), however, excludes applicable taxes, although taxes are applicable to the final cost. “Cost” and “Fee” may be interchangeable;

“Customer” means a person that has contracted for or intends to contract for connection of a building or an embedded generation. This includes developers of residential or commercial sub-divisions. An energy account may only be opened in one person’s name, and that person becomes the Customer. The Customer, Consumer, and Generator is responsible for compliance with these Conditions of Service and for paying the rates, fees, tariffs, and charges in accordance with these Conditions of Service;

“Demand” means the average value of power measured over a specified interval of time, usually expressed in kilowatts (kW). Typical demand intervals are 15, 30, and 60 minutes;

“Disconnection” means a deactivation of connection assets that result in cessation of distribution services to a consumer;

"Disconnect/collect trip" is a visit to a customer's premises by an employee or agent of the distributor to demand payment of an outstanding amount or to shut off or limit distribution of electricity to the customer failing payment;

“Distribute”, with respect to electricity, means to convey electricity at voltages of 50 kilovolts or less;

“Distribution System” means a system for distributing electricity, and includes any structures, equipment or other items used for that purpose. A distribution system is comprised of the main system capable of distributing electricity to many Customers and the connection assets used to connect a Customer to the main distribution system;

“Distribution System Code” means the code, approved by the OEB, and in effect at the relevant time, which, among other things, establishes the obligations of a distributor with respect to the services and terms of service to be offered to Customers and Retailers and provides minimum technical operating standards of distribution systems;

“Distributor” means a person who owns or operates a distribution system. Hydro Ottawa Limited is the licensed distributor for most of the City of Ottawa and Village of Casselman;

“Downtown” means the load electrically supplied within one of the following areas:

- City/NCC designated existing and future overhead to underground utility conversion zones as amended from time-to-time
- City/NCC designated no utility pad-mounted equipment zones

- City/NCC designated core area
- Formal underground electrical secondary buss system zones

Note that the City or NCC’s “Heritage” designation is subject to change from time-to-time;

“Dry Core Transformer Losses” means an OEB-approved charge for the recovery of lost energy and demand from customer-owned dry core transformers that are installed down-stream of Hydro Ottawa’s revenue meters;

“Economic Evaluation Model” refers to the evaluation used to determine the net servicing cost based on Hydro Ottawa’s standards for the Customer to which this applies. The Distribution System Code issued by the Ontario Energy Board (OEB) requires that a distributor perform such an evaluation to determine if the future revenue from the customer(s) will pay for the associated capital cost and on-going maintenance costs of the system expansion and enhancement. The evaluation follows the methodology, the set of common elements and related assumptions provided in [Appendix B](#) of the Conditions of Service;

“Electrical Safety Authority” (ESA) means the person or body designated under *the Electricity Act, 1998*, regulations as the Electrical Safety Authority;

“Embedded Distributor” means a distributor who is not a wholesale market participant and that is provided electricity by a host distributor;

“Embedded Generator” or “Embedded Generation Facility” means a generation facility that is not directly connected to the IESO-controlled grid, but instead is connected to a distribution system;

“Embedded Retail Generator” means a customer that:

- a) is not a wholesale market participant or a net metered generator
- b) owns or operates an embedded generation facility, other than an emergency backup generation facility;
- c) sells output from the embedded generation facility to the Ontario Power Authority under contract or to a distributor;

“Embedded wholesale consumer” means a consumer who is a wholesale market participant whose facility is not directly connected to the IESO-controlled grid but is connected to a distribution system;

“Emergency” means any abnormal system condition that requires immediate action to prevent or limit loss of a distribution system or the supply of electricity that could adversely affect the reliability of the electricity system. The electrical context of Emergency includes prevention of loss of life or property;

“Emergency Backup” means a generation facility that has a transfer switch which isolates it from the distribution system such that “Emergency Backup” cannot be paralleled to the distribution system for safety, metering, and equipment damage reasons;

“Energy” means the product of power multiplied by time, usually expressed in kilowatt-hours (kWh);

“Energy Diversion” means the electricity consumption unaccounted for but that can be quantified

through various measures upon review of the meter mechanism, such as unbilled meter readings, tap off load(s) before the revenue meter or meter tampering;

“Enhancement” means a modification to an existing distribution system that is made for purposes of improving system operating characteristics such as safety, reliability, or power quality or for relieving system capacity constraints resulting, for example, from general load growth. Enhancement made to Hydro Ottawa’s existing system of stations, feeders and distribution lines that while not specifically attributable to the new Customer connection, is required to assure that the system has the capacity and reliability to provide for future connections. An enhancement from a Customer’s side of the ownership demarcation point is defined when an Electrical Safety Authority permit is required. Enhancement applies to “Off-Site” assets;

“Expansion” means a modification or addition to the main distribution system in response to one or more requests for one or more additional Customer connections that otherwise could not be made. An example is increasing the length of the distribution system to connect a Customer, or a limited number of Customers and includes the modifications or additions to the main distribution system identified in Section 3.2.30 of the Distribution System Code, but, in respect of a renewable energy generation facility, excludes a renewable enabling improvement. Expansion of the system may not provide any general improvement of reliability or capacity to the Hydro Ottawa system. Expansion applies to either “Off-Site or “On-Site” assets;

“E&USA” means the Electrical and Utility Safety Association of Ontario, a member driven organisation working to prevent injuries, by as one example, standardizing the utility work protection code across Ontario. www.eusa.on.ca ;

“FIT” means the Ontario Power Authority’s (“OPA”) feed-in-tariff renewable energy program;

“Four-quadrant interval meter” means an interval meter that records power injected into a distribution system and the amount of electricity consumed by the customer;

“Generate”, with respect to electricity, means to produce electricity or provide ancillary services, other than ancillary services provided by a transmitter or distributor through the operation of a transmission or distribution system;

“Generation facility” means a facility for generating electricity or providing ancillary services, other than ancillary services provided by a transmitter or distributor through the operation of a transmission or distribution system, and includes any structures, equipment or other things used for that purpose;

“Generator” means a person who owns or operates a generation facility;

“Good Utility Practice” means any of the practices, methods or acts engaged in or approved by a significant portion of the electric utility industry in North America during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgement in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good practices, reliability, safety and expedition. Good utility practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all

others, but rather to be acceptable practice, methods, or acts generally accepted in North America;

"Government Authority" means any government, parliament, legislature or any regulatory authority, agency, commission or a board of any government, parliament or legislature, or any political subdivision thereof, or any court or, without limitation to the foregoing, any other law, regulation or rule making entity or any person acting under the authority of any of the foregoing or any other authority charged with the administration or enforcement of laws, including the Privacy Commissioner of Canada and the Information and Privacy Commissioner of Ontario and the Ontario Energy Board (the "OEB"), the Ontario Power Authority and the Ontario Ministry of Energy;

"Holiday" means a Saturday, Sunday, statutory holiday, or any day defined in the Province of Ontario as a legal holiday;

"Host Distributor" means the distributor who provides electricity to an embedded distributor;

"House Service" or "Public Service" or "Common Element" means that portion of the electrical service in a multiple unit occupancy facility that supplies electrical loads shared by or benefit more than one unit. Examples of such loads are space heaters, central air conditioners, central ventilating units, pools, laundry facilities, lighting (for parking lots, sign service, corridor and walkway), electric water heaters, dry-core transformer losses, et cetera);

"Hydro Ottawa Approved Contractor," is a "Hydro Ottawa Qualified Contractor" that Hydro Ottawa has additionally evaluated for satisfactory safety practice and financial stability;

"Hydro Ottawa Qualified Contractor" means a Hydro Ottawa deemed competent person as evaluated for quality and craftsmanship in the specific type of work they would be hired to do by Hydro Ottawa or a third party. Refer also to "Hydro Ottawa Approved Contractor;"

"Infill Service" means any service (e.g. rural or urban) installed which was not part of a pre-planned subdivision or a service that was installed five years or more after the pre-planned subdivision has had the primary electrical installation "Substantially Completed." When a Customer requests a dedicated transformer (i.e. Not shared with other customers), it will be installed on private property and actual cost applied inclusive of the basic credit;

"Integral" means Customer owned equipment that impacts The Hydro Ottawa distribution system which is limited to:

1. Equipment up to the first protective device after the ownership demarcation point;
2. Equipment on or in Hydro Ottawa structures or in proximity to Hydro Ottawa's energized primary system; and
3. Equipment owned by Hydro Ottawa behind the ownership demarcation point (e.g. transformers, meters).

Operation, maintenance, repairs, or minor replacement shall be undertaken on Integral equipment by Hydro Ottawa. ESA permits are taken for both planned and emergency work;

"Interval Meter" means a device that measures and records electricity energy use (kilowatt-hour, kWh),

and the rate at which it is used (demand – kW, kVA, or kQ as installed) on an hourly or sub-hourly basis;

“Isolation / Re-energization” means a customer initiated “Disconnection / Reconnection,” or separation from sources of dynamic energy for the purpose of the Customer doing work on or near electrical apparatus. Isolation may include de-energization of the electrical equipment. Re-energization means the reconnection of the source of dynamic energy to the load once work on or near the electrical apparatus is complete;

“Load displacement” means, in relation to a generation facility that is connected on the customer side of a connection point, that the output of the generation facility is used or intended to be used exclusively for the customer’s own consumption;

“Load transfer” means a network supply point of one distributor that is supplied through the distribution network of another distributor and where this supply point is not considered a wholesale supply or bulk sale point;

“Load transfer customer” means a customer that is provided distribution services through a load transfer;

“Lies Along” means a Customer property or parcel of land that is directly adjacent to or abuts onto the public road allowance where Hydro Ottawa has distribution facilities of the appropriate voltage and capacity. Thus, the premise can be connected without Expanding or reinforcing the distribution system;

“Load” means any device (i.e. equipment, apparatus) or a collection of devices that rely on electricity to function;

"Maintenance" means any inspection, testing, cleaning, torquing, adjusting, and calibrating electrical equipment, or replace support structures associated with the electrical system but no electrical betterments;

“MCMS” means Hydro Ottawa’s multiple customer metering system;

“Measurement Canada” means the Special Operating Agency established in August 1996 by the Electricity and Gas Inspection Act, 1980-81-82-83, c. 87. and Electricity and Gas Inspection Regulations (SOR/86-131);

“Meter service provider” means any entity that performs metering services on behalf of a distributor or generator;

“Meter Installation” means the meter and, if so equipped, the instrument transformers, wiring, test links, fuses, lamps, loss of potential alarms, meters, data recorders, telecommunication equipment and spin-off data facilities installed to measure power past a meter point, provide remote access to the metered data and monitor the condition of the installed equipment;

“Meter Socket” means the mounting device for accommodating a socket type revenue meter;

“Metering services” means installation, testing, reading and maintenance of meters;

“Micro-embedded generation facility” means an embedded generation facility with a name-plate rated capacity of 10 kW or less;

“Micro FIT” means the Feed-In Tariff program under the Ontario Power Authority generation programs for micro-embedded renewable generation with a name plate rating of 10kW or less in size on a customer’s property;

“MIST meter” means an interval meter from which data is obtained and validated within a designated settlement timeframe. MIST refers to “Metering inside the Settlement Timeframe”;

“MOST meter” means an interval meter from which data is only available outside of the designated settlement timeframe. MOST refers to “Metering outside the Settlement Timeframe”;

“NCC” is the National Capital Commission;

“Offer to Connect” means provision of details to the Customer, on the requirements to get connected to the distribution network, as specified in the [DSC](#) Section 3.2 “Expansions;”

“Off-Site” means beyond the supply point just outside the Customer owned property;

“On-Site” means from the supply point into the Customer owned property;

“Ontario Electrical Safety Code” means the code adopted by O. Reg. 164/99 as the Electrical Safety Code;

“Ontario Energy Board” or “OEB” means the Ontario regulator of the electricity and natural gas sectors in the public interest under the mandate and authority of the [Ontario Energy Board Act, 1998](#), [the Electricity Act, 1998](#), plus other provincial statutes. Their website is www.oeb.gov.on.ca ;

“[Ontario Energy Board Act](#)” means the [Ontario Energy Board Act, 1998](#), S.O. 1998, c.15, Schedule B, as amended from time to time;

“Operational Demarcation Point” means the physical location in which a distributor’s responsibility for operational control of distribution equipment, including connection assets, ends and the Customer’s begins;

“Ownership Demarcation Point” means the physical location at which a distributor’s ownership of distribution equipment, including connection assets, ends and the Customer’s begins. Specific equipment belonging to the distributor may be within the Customer’s ownership side of the demarcation point as defined by the Ontario Electrical Distribution Safety Code. The electrical ownership demarcation point is normally not the same point as the support structure (of the electrical equipment) ownership demarcation point;

“Person” means an individual, partnership, corporation, association, or other incorporated or

unincorporated organization or legal entity;

"Plans" means approved plans, specifications, standards, working drawings, bill of materials, blueprints, schedules, standard work methods, and similar renderings for the construction and installation of Hydro Ottawa equipment;

"Point of Supply" see "Supply Point" definition;

"Power Line Carrier" means the use of existing electricity wire infrastructure to carry voice and data signals by transmitting high frequency data signals through the electric power lines;

"Premise" means the building or portion of a building that is provided with electricity through a meter with one Hydro Ottawa account;

"Primary Service" means any service which is supplied with a nominal voltage greater than 750 volts but less than 50,000 volts;

"Primary Voltage" means any voltage between 750 volts and 50,000 volts;

"Private Road" means any street, road, lane or other means of vehicular access to or egress from buildings, lots or units that are not owned by the City, and thus does not conform to approved road cross-sections acceptable to Hydro Ottawa;

"Property" means a piece of defined land within Ontario's land registry system that has a unique property identification number (PIN);

"Public Service" means "House Service" or "Common Element;"

"Rate" means any financial rate, charge or other consideration, and includes a penalty for a late payment;

"Regular Business Hours" are between 8:00 a.m. and 4:00 p.m. excluding holidays;

"Regulations" means the regulations made under applicable legislation;

"Renewable enabling improvement" means a modification or addition to the main distribution system identified in Section 3.3.2 of the DSC that is made to enable the main distribution system to accommodate generation from renewable energy generation facilities;

"Renewable energy" under the Ontario Power Authority ("OPA") Micro-FIT program means energy generated from wind (off-shore and on-shore), solar photovoltaic (PV), bioenergy (biogas, biomass or landfill gas) or water generation, or, as prescribed by regulation;

"Renewable energy expansion cost cap" means, in relation to a renewable energy generation facility, the dollar amount determined by multiplying the total name-plate rated capacity of the renewable energy generation facility referred to in Section 6.2.9(a) (in MW) by \$90,000, reduced where applicable in accordance with Section 3.2.27A of the DSC;

“Renewable energy generation facility” has the meaning given to it in the Ontario Energy Board Act, 1998;

“Renewable energy source” has the meaning given to it in the Ontario Energy Board Act, 1998;

"Representatives" in reference to party, means the party's directors, officers, employees, agents and contractors, the party's Affiliates, and all such Affiliates' respective directors, officers, employees, agents and contractors;

“Residential Underground Subdivision” means a residential area with three or more homes electrically supplied from an on-grade pad-mounted transformer(s), transformer sidewalk vault, or secondary pedestal(s) by underground secondary cables;

“Residential Service” is a secondary service that is for domestic or household use. Only new residential services are provided with a free basic credit or economic evaluation with one credit applied per property;

“Retail Settlement Code” means the code approved by the OEB and in effect at the relevant time, which, among other things, establishes a distributor's obligations and responsibilities associated with financial settlement among Retailers and Customers. It also provides for tracking and facilitating Customer transfers among competitive Retailers;

“Retailer” means a person who;

- a) Sells or offers to sell electricity to a Consumer; or
- b) Acts as an agent or broker for a Retailer with respect to the sale or offering for sale of electricity; or
- c) Acts or offers to act as an agent or broker for a Consumer with respect to the sale or offering for sale of electricity;

“Right-of-Way” or “Road Right-of-Way” or “Road Allowance” means, generally, the band of land between private property lines that has been set aside by a government for public use and access for the purpose of travel, or utility use and access, for example, traffic signs, traffic signals, and utility services;

“Service” means the conductor and equipment for transferring electrical energy between Hydro Ottawa's distribution system and the Customer's premise;

“Secondary Service” means any service that is supplied with nominal voltage not more than 750 volts;

“Service Area” means, with respect to a distributor, the area in which the distributor is authorized by its license to distribute electricity;

“Service Date” means the date that the Customer/Consumer and Hydro Ottawa mutually agree upon the permanent energization by Hydro Ottawa for billing purposes;

“Service Size” or “Service Entrance Size” means the maximum deliverable amperes allowed to an

installation as determined by the continuous ampere rating of the main device (breaker or switch). The over-current protection (such as the fuse or relay) installed in the main device may be less than the service size;

“Smart Meter” means a device that measures electrical energy use (kilowatt-hours, kWh) on an hourly or sub-hourly basis and is part of an integrated data management system. In some Commercial premises, smart meters also measure demand quantities (kW and/or KVA). The meter records, stores and transmits date- and time-stamped meter readings to a utility’s computer to process the data for Time-of-Use billing and customer presentment. Smart meters may also include other capabilities and features to aid in load management and energy conservation;

“Smart meters” includes smart meters, metering equipment, systems and technology and associated equipment, systems and technologies;

“Smart sub-metering” means a system, equipment and technology and any associated equipment, systems and technologies used to smart sub-meter a prescribed location, by an entity licensed to do so by the OEB;

“Standard Supply Service Code” (SSS) means the code approved by the OEB and in effect at the relevant time, which, amongst other things, establishes the minimum conditions that a distributor must meet in carrying out its obligations to sell electricity under Section 29 of [the Electricity Act](#);

“Sub-Service” means a separately metered service that is taken from the main building service;

“Substantially Complete” means the Hydro Ottawa primary distribution supply to the area has been energized;

“Supply Point” or “Point of Supply” means the Customer connection point, for both primary and secondary services, to the Hydro Ottawa distribution system. This might be located at an underground cable chamber, vault, pole, or pad-mounted device. This electrical supply point might be located on an adjacent property from which Hydro Ottawa has land access rights. With respect to an Embedded Generator, “Supply Point” means the connection point where electricity produced by the generator is injected into a distribution system. In all cases, Hydro Ottawa will designate the final supply point;

“Support Structure” means any equipment that physically supports and routes the distribution system between the substation and the Customer. This would include poles, overhead platforms, towers, anchors, guy wires, lashing messengers, underground cable chambers, transformer & switch bases, and ducts;

“Temporary Service” has three meanings with Hydro Ottawa: (i) the first meaning is a planned temporary service that is an ESA inspected electrical service and granted temporarily for a period of less than one year for purposes such as pole mounted service equipment, construction sites, trailers, cranes, boathouses, or special events. The default temporary service is defined as single phase, not more than 200A service that lies along an existing electrical distribution system and existing required transformation, (ii) the second meaning is an unplanned temporary service conductor that is provided by Hydro Ottawa for a faulted underground secondary conductor. This temporary service conductor will be

removed by Hydro Ottawa as soon as seasonally possible to effect repairs or replacement to the normal permanent service conductor, and (iii) the third meaning is a planned temporary distribution system configuration during an underground primary system expansion, the normal backup may not be available up to one year to accommodate the developer's subdivision construction phasing. Note that the requestor pays for all planned temporary works;

“Un-metered Loads” means electricity consumption that is not metered and is billed based on estimated usage and its load profile if it can be determined. These small services are 120 volts and not more than 15A, with the exception of traffic signals and street lighting if they are operated and maintained by a public road authority, and the load is not more than 100A. Un-metered services are not included in Hydro Ottawa's Customer count as submitted to the Ontario Energy Board and are therefore not subject to the service quality measures or the minimum standard guidelines included in the Distribution System Code;

“Upgrade” means a change from one service size to another, a relocation of a meter from one location to another, a change in service from overhead to underground, etc.;

“Upstream Cost” means a per kilo-watt enhancement cost estimate for the improvement of the distribution system including stations based on a historical three to five-year rolling average of the actual enhancement costs incurred in system expansions;

- In new residential or commercial servicing, the amount is based on the full service size.
- In upgraded residential or commercial servicing, the amount is based on the capacity in excess of the former service size.

Appendix A: Load Summary Form

The most current version of this form is found on Hydro Ottawa's website (see [Section 1.5](#)) or by hyperlink to [Appendix A: Load Summary Form](#).

Appendix B: Economic Evaluation Model for Distribution System Expansion/Enhancement

This costing method applies to all new servicing not covered by [Appendix G](#) that necessitates an expansion and/or enhancement of the Hydro Ottawa system. To support the costs of supplying the additional load, capital contributions will be required from new Customers who connect to the system. This model follows the requirements of chapter three (3) and the suggested formula from Appendix "B" of the [OEB's Distribution System Code](#) with Hydro Ottawa amendments detailed below.

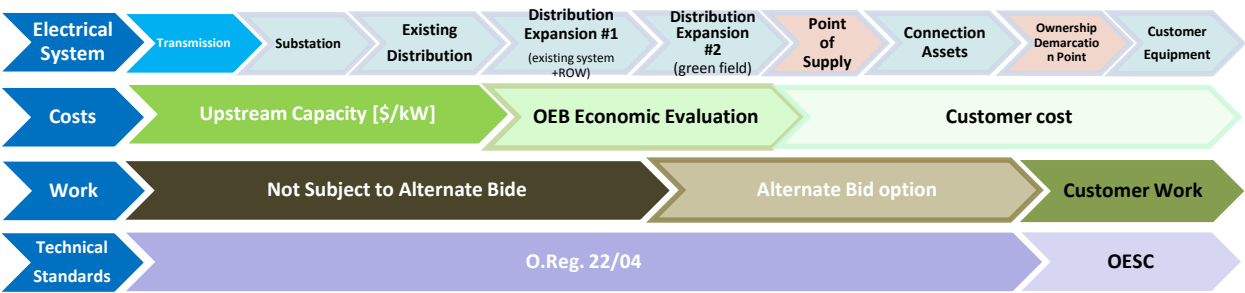
“Present Value” of Annual Wires Revenue and Annual Incremental O & M (including all applicable taxes and third party costs) is typically taken over 25-years for residential and 15-years (subject to review depending on nature of development) for general service.

The Customer shall pay any additional costs beyond what is expected for a specific expansion or enhancement project under normal circumstances. Such abnormal circumstances include, yet are not limited to, work in a contaminated, heritage, or archaeological area, or where there is a request or a need to apply significantly higher construction or reliability standards above Hydro Ottawa’s.

For primary serviced commercial projects, the servicing costs beyond the supply point specific to the project are recovered at 100% and not considered in the Economic Evaluation Model.

As of the first OEB rate approval after 2010, Hydro Ottawa shall cease to apply a per kilowatt enhancement cost (aka. upstream costs) as part of the Economic Evaluation for its distribution system.

Figure B-1: Hydro Ottawa’s Load and Non-Renewable Energy Customer Connection & Expansion Summary



Appendix C: Installation and Maintenance Agreement

The most current version of this agreement is found on Hydro Ottawa's website (see [Section 1.5](#)) or by hyperlink to [Appendix C: Installation & Maintenance Agreement](#)

Appendix D: Standard Application and Contract for Connection or Upgrade of an Electrical Service

The contract is implied (see Section 2.1.7.2 “Implied Contract”).

Appendix F: Table A - Primary Service Connection – Overhead Primary Line (radial and dual radial)

	Distribution Voltage (kV)						
	4.16 ^{GW}	8.32 ^{GW}	13.2 ^{GW}	13.2 ^Δ	27.6 ^{GW}	27.6 ^{GW}	44 ^Δ
Maximum 3Ø Primary Circuit Supply (kVA)	300 (Note 1)	1,000 (Note 1)	1,500 (Note 1)	8,000 (Note 1)	9,000 (Note 1)	6,000 (Note 1)	15,000 (Note 1)
Maximum 1Ø Primary Circuit Supply (kVA)	100	167 (Note 10)	167 (Note 10)	0	167 (Note 10)	167 (Note 10)	0 (Note 10)
Type of Supply (radial/looped)	radial	radial	radial	loop (Note 2)	radial	loop (Note 2)	radial
Type of Transformer (Pad mount or Vault)	Pad/Vault	Pad/Vault	Pad/Vault	Pad/Vault	Pad/Vault	Pad/Vault	Pad/Vault
Max Size of Hydro Ottawa Supplied 3Ø Transformer per Customer per Primary Circuit (kVA) (Note 5 & 7)	300 (Note 1)	1,000 (Note 1 & 3)	1,500 (Note 1 & 3)	1,500 (Note 1,3, & 8)	2,500 (Note 1,3, & 8)	2,500 (Note 1,3, & 8)	15,000 (Note 5)
Max Size of Hydro Ottawa Supplied 1Ø Transformer per Customer per Primary Circuit (kVA) (Note 5 & 7)	100 (Note 1)	167 (Note 1 & 4)	167 (Note 1 & 4)	0	167 (Note 1 & 4)	167 (Note 1 & 4)	0

Notes:

- The provision of 3-phase service from an Underground Feeder will only be allowed in areas where the distribution system can accommodate the proposed service. Contact Hydro Ottawa to discuss your requirements.
- A loop is defined as two supplies to one or more devices.
- Maximum pad-mount transformer size @ 120/208 volts is 500 kVA.
- Availability of pad-mount transformers is restricted within specific areas of the urban core.
- ^{3.6.1} The Customer shall own any non-Hydro Ottawa standard size transformer.
- ^{3.6.2} Maximum Motor Size for starting current on each primary circuit is determined by Hydro Ottawa Power Quality Guideline [ECG0008](#) (applicable to each service).
- ^{3.6.3} Hydro Ottawa's overhead design guideline limits the maximum size of a transformer(s) on a pole.
- For installations greater than 4,500 kVA, multiple banks are required.
- GW = 4 wire grounded wye primary configuration and Δ = 3 wire delta primary configuration.
- Up to a maximum of 100% rated 600A @ 120/240V for a single service entrance main switch supplied from a pad-mounted transformer.

Appendix F: Table B - Primary Service Connection – Underground Feeder

	Distribution Voltage (kV)				
	4.16 ^{GW}	8.32 ^{GW}	13.2 ^{GW}	13.2 ^Δ	27.6 ^{GW}
Maximum 3Ø Primary Circuit Supply (kVA)	300 (Note 1)	1,000 (Note 1)	1,500 (Note 1)	8,000 (Note 1)	9,000 (Note 1)
Maximum 1Ø Primary Circuit Supply (kVA)	100	167 (Note 9)	167 (Note 9)	0	167 (Note 9)
Type of Supply (radial/looped)	loop (Note 2)	loop (Note 2)	loop (Note 2)	loop (Note 2)	loop (Note 2)
Type of Transformer (Pad-mount or Vault)	Vault	Pad/Vault	Pad/Vault	Pad/Vault	Pad/Vault
Max Size of Hydro Ottawa Supplied 3Ø Transformer per Customer per Primary Circuit (kVA) (Note 5)	300 (Note 1)	1,000 (Note 1 & 3)	1,500 (Note 1 & 3)	1,500 (Note 1, 3, & 7)	2,500 (Note 1, 3, & 7)
Max Size of Hydro Ottawa Supplied 1Ø Transformer per Customer per Primary Circuit (kVA) (Note 5)	100 (Note 1)	167 (Note 1 & 4)	167 (Note 1 & 4)	0	167 (Note 1 & 4)

Notes:

1. The provision of 3-phase service from an Underground Feeder will only be allowed in areas where the distribution system can accommodate the proposed service.
3.6.4 Contact Hydro Ottawa to discuss your requirements.
2. A loop is defined as two supplies to one or more devices.
3. Maximum pad-mount transformer size @ 120/208 volts is 500 kVA.
4. Availability of pad-mount transformers is restricted within specific areas of the urban core.
5. The Customer shall own any non-Hydro Ottawa standard size transformer.
6. Maximum Motor Size for starting current on each primary circuit is determined by Hydro Ottawa Power Quality Guideline [ECG0008](#) (applicable to each service).
7. For installations greater than 4,500 kVA, multiple banks are required.
8. GW = 4 wire grounded wye primary configuration and Δ = 3 wire delta primary configuration.
9. Up to a maximum of 100% rated 600A @ 120/240V for a single service entrance main switch supplied from a pad-mounted transformer.

Appendix G: Methodology for Standard Fees for Various Services

G-0: General Notes and Guidelines when using Appendix G

1. Refer to the Glossary for the definitions, especially “Basic Credit,” “Basic Connection,” “Cost,” and “Upstream Cost.”
2. Appendix G applies to infill development, service upgrades, and special services where the Economic Evaluation Model ([Appendix B](#)) does not apply. For new subdivisions, cost is subject to the outcome of the Economic Evaluation Model inclusive of the basic credit.
3. Appendix G may be applied wherever a particular service voltage and size is available. However, Hydro Ottawa has design standards and the municipalities have by-laws that limit the availability of some types of services in parts of the service area. For example, an overhead service is not available in all underground areas and 400A services are not available in all overhead areas.
4. For new infill residential services (i.e. new services in an area where the electrical system is already established), a basic overhead 100A service up to 30m in length will be provided as the standard basic service and, thus, at no additional cost as the cost is included in the Hydro Ottawa portion of the electricity (non-commodity) rates. However, for other service sizes or for underground services, there will be a fee based on the cost of such a service less the value of a standard basic overhead service. There is no equivalent arrangement for commercial services; a new infill commercial customer pays the full cost of their service regardless of the service size.
5. A service upgrade means a change from one service size to another, a relocation of a meter from one location to another, a change of service from overhead to underground, work requiring an ESA permit, or other electrical improvements not designated as maintenance such as a change in wiring or electrical equipment. Note that there may be fees even when the size of the service is reduced. No deduction for the standard basic overhead service applies in the case of upgrades to existing services because the services are deemed to have received this deduction already.
6. Fees apply to the full rating of the main switch (e.g. 100 A, 200 A, etc.) and not to the installed protection that could be of smaller size.
7. For a quote, contact Hydro Ottawa’s Service Desk (see [Section 1.5 “Contact Information”](#)). Hydro Ottawa will assess final servicing and cost based on this Conditions of Service document including Appendix G.
8. Materials cost estimates are based on a five-year rolling average inventory cost, except where a new stock item is added, non-stock item is bought, or cost dramatically increases.

9. When a dedicated transformer supplies a Customer on private property, the Customer shall pay the actual costs less, if a residential service, the basic credit.
10. Provision of material:
 - Residential services $\leq 400\text{A}$: Hydro Ottawa provides and installs standard conductor up to 30m of either OH or UG wire at no extra cost. The Customer pays for lengths in excess of 30m.
 - All other services $> 400\text{A}$, and all Commercial services: Customer provides and installs electrics and civil at their cost for Hydro Ottawa to connect.
11. All fees will be quoted excluding applicable taxes, though applicable taxes will apply to the final total cost.
12. Quotes expire after 90-calendar days after date of issue.
13. If and when any customer service equipment work is undertaken requiring an ESA permit, the following non-standard service equipment configurations must be brought to Hydro Ottawa's current technical servicing standards:
 - a. Single or duplex residential premise with indoor metering;
 - b. Central metering (metering current transformer at the top of the pole);
 - c. Multiple secondary services to a property from the public road right of way or Hydro Ottawa easement;
 - d. Overhead supplied 400A or larger secondary service;
 - e. Three phase delta secondary service supplied for the public road allowance or Hydro Ottawa easement;
 - f. Secondary service voltages which are not 120/240V or 347/600V supplied from the public road right of way or Hydro Ottawa easement; or
 - g. Multiple pole structure supporting transformers and or switchgear.

To assist the customer in meeting Hydro Ottawa's current standards, a credit equivalent to one Isolation / Re-energization shall be provided to the customer.

14. Where Hydro Ottawa has legal land rights and is requested to relocate its distribution system, the conditions of Section 2.1.5 and 2.1.6 shall be applied.
15. Hydro Ottawa shall provide two free service layouts for secondary infill and upgrade service per property, per year. Additional service layouts within that calendar year shall have an additional layout fee, per request. If the property ownership changed during that year, the new property owner will be provided two free service layouts if required.

Contact Hydro Ottawa's Service Desk for a quote (see [Section 1.5 "Contact Information"](#)).

G-1: Methodology for Standard Fees for Various 120/240V Service Connections

G-1.1 Residential Infill – Basic Connection Fees

The basic residential service size is 100A, 120/240V supplied overhead. However, refer to the Glossary ([Section 4.0](#)) for the definition of the “basic connection.” Underground supply and services greater than 100A are available for a fee equivalent to the difference in cost to the basic connection. Reference should be made to [Section 3.1 “Residential”](#) for service requirements, and the Glossary for the definition of “Infill.”

Available service sizes at 120/240V are as follows:

- Overhead: 100A (basic service), and 200A
- Underground: 100A, 200A and 400A

For a quote, contact Hydro Ottawa’s Service Desk Hydro Ottawa’s Service Desk (see [Section 1.5 “Contact Information”](#)).

a) New Residential Infill

The Fee is based on:

- Shared cost of transformation & secondary buss (based on main switch size), *plus* cost of 30m service wire and metering *less* basic credit
- *Plus* additional cost if exceeding 30m of service wire

Notes:

1. Cost of installing a service less than 100A is the same as for 100A.
2. The basic credit for new residential infill services contains the average amount for the enhancement distribution system and sub-station costs based on an average monthly electrical energy (kWh) usage per premise.
3. As each service is different, for simplification, the fees are based on an average burdened cost of servicing for labour, vehicle time, equipment use, and material that includes metering and, a share of the buss and transformer, plus enhancement impact (distribution network including stations).
4. The customer is responsible for the cost of the wire beyond the standard 30m -- overhead or underground -- service wire allowance.
5. The customer shall be responsible for the installation cost of civil works from the meter base to the supply point, including the installation of the meter base. The customer shall be responsible for the on-going operation and maintenance for the civil infrastructure within their property unless a specific written agreement indicates otherwise.

6. For 400A or less, underground infill and upgrade, the Customer is responsible for the cost of the service cable that Hydro Ottawa will supply and install. Hydro Ottawa will assume ownership and maintenance for its standard cable size and type.
7. The transformer may be shared with several customers; the fee includes an averaged shared cost for the supplied transformation.
8. Cost of infill service in the “downtown” is higher than in the suburban areas as they include the cost for the distribution vault, the secondary buss, and duct.

b) **Upgraded Residential Services**

When there is a request for a residential service upgrade it can fall under 3 conditions and charged as such:

1. If the subdivision is older than 5 years (determined from the date on the signed Installation agreement) the upgrade cost will fall under Appendix G Fee Tables.
2. If the service has not been connected and the subdivision is newer than the 5 years (determined from the date on the signed Installation Agreement) the upgrade charge from 100A to 200A 120/240V will be \$740.00 plus applicable taxes.
3. If the service has been connected and an upgrade is requested the cost will fall under Appendix G Fee Tables regardless of the signing of the Installation agreement.

The existing meter and secondary conductor are removed by Hydro Ottawa, when possible, at no additional cost to the customer.

There is no credit for removed material or the basic new residential credit with upgraded residential services. Most old meters will not be re-used as the cost of testing nulls any residual value. Overhead wire (and underground wire when in duct) is removed with no fee.

As the basic credit was already given when the service was first installed, the cost for an upgrade is based as follows:

- If the service capacity is increased (i.e. service size grew)
 - Shared cost of transformation & secondary buss (based on main switch size), *plus* cost of 30m service wire (as needed) and metering (as needed)
 - *Plus* additional cost if exceeding 30m service wire
- If the service capacity is not increased (i.e. no service size change)
 - Cost of isolation / re-energization at either meter (less costly); standpipe; or pad-mounted transformer.

Notes:

1. For underground installations, the customer is responsible for the cost of the civil infrastructure from the supply point to the meter base, installation of the meter base (if applicable), wire beyond the standard 30m allowance including higher ampacity wire should the need arise.
2. For greater than a 400A service, underground infill and upgrade, the Customer supplies the service conductor. If the conductor is not to Hydro Ottawa standard, the Customer will retain ownership and maintenance responsibilities, otherwise, Hydro Ottawa will assume ownership and maintenance (see 3.1.1 “Point of Demarcation”).
3. For a 400A service, the fee includes an averaged shared cost for the supplied transformation.

G-1.15 Residential – Minor Upgrades

To qualify as “minor” secondary residential upgrades, three conditions apply:

1. The current Conditions of Service have been met;
2. Hydro Ottawa needs no material to do the work; and
3. There is no impact on Hydro Ottawa’s distribution network including stations.

Thus only a service isolation / re-energization (see G-1.3c Special Services) and the associated fee is required. Typical examples of minor upgrades are:

1. Change from a fuse panel to a breaker panel with no Hydro Ottawa material or transformation required (sometimes requested by insurance companies);
2. Replacement of a damaged main switch with the equivalent ampacity rating;
3. Tie up damaged stand pipe only;
4. Mutual benefit for small upgrades that both the Customer and Hydro Ottawa would better their situation and no conductor or significant transformation by Hydro Ottawa is needed;
5. Rewire of a premise without an increase in service size (so no Hydro Ottawa material or transformation needed, but, sometimes requested by insurance companies).

Additional cost may apply if a crew is needed on overtime for these minor upgrades, or other job specific circumstances result in other recoverable fees.

To promote electrical safety, Hydro Ottawa will give each Customer one electrical service isolation / re-energization at no charge for doing non-electrical maintenance (i.e. no betterments, no upgrades, or wire changes). Conditions are that no ESA permit is needed, and this applies to an existing electrical service, during regular business hours once per property per rolling year. Examples of non-electrical maintenance include tree trimming, painting, siding, and brick pointing. Government emergency crews, while performing their duties, are exempt from the associated isolation and re-energization fees.

G-1.2 General & Commercial Service – Basic Connection Fees

The basic general & commercial service sizes are referenced in Sections [3.2.2 “Service Requirements.”](#) In all cases, the Customer supplies and installs the service conductor. The applicable fees are for transformation, metering and connection of the service by Hydro Ottawa. Reference should be made to [Section 3.2 “General Services”](#) for further requirements.

For a quote, contact Hydro Ottawa’s Service Desk (see [Section 1.5 “Contact Information”](#)).

Available service sizes are at 120/240V as follows:

- Overhead: 100A, and 200A
- Underground: 100A, 200A and 400A

a) **New Commercial Infill**

The fee is based on:

- Shared cost of transformation & secondary buss (based on main switch size), *plus* cost of metering
- *Plus* upstream cost based on service size

The Customer shall provide and install all electrical works and civil infrastructure for the service from the supply point, plus the connection costs.

Notes:

1. Cost of installing a service less than 100A is the same as for 100A.
2. As each service is different, for simplification, the fees are based on an average burdened cost of servicing for labour, vehicle time, equipment use, and material that includes metering and, a share of the buss, and transformer.
3. The customer supplies all civil infrastructures from the supply point to the meter base, and installation of the meter base.
4. For 400A underground infill and upgrades, the Customer supplies the service conductor.
5. For a 400A service, the fee includes an averaged shared cost for the supplying transformer.
6. The transformer is shared with several customers. A dedicated transformer is at an additional cost.
7. Cost of services in the “downtown” is higher than in the suburban areas as they include the cost for the vault, the secondary buss, and duct.

b) **Upgraded Commercial Services**

Reference should be made to [Section 4 “Glossary”](#) for the definition of “Upgrade.” In every case, the existing meter is removed by Hydro Ottawa when possible, at no fee or

credit to the customer. Most old meters will not be re-used or the cost of testing negates any residual value. In cases where the existing service can be re-used without change, consider them under the "free isolation/re-energization once a year" practice.

Upgrade commercial infill cost is based on:

- If Capacity Increased (i.e. main switch grew)
 - Shared cost of transformation & secondary buss (based on main switch size), *plus* cost of metering (as needed)
- If Capacity Not Increased (i.e. no main switch change)
 - Cost of isolation / re-energization at either the meter socket (less costly); standpipe or pad-mounted transformer; or relocated service.

G-1.3 Special Services – 120V/240V Basic Connection Fees

In all cases, the Customer supplies and installs the service conductor. The applicable fees are for transformation, metering and connection of the service by Hydro Ottawa.

For a quote, including for situations not covered here, contact Hydro Ottawa's Service Desk (see [Section 1.5 "Contact Information"](#)).

a) Temporary Services

Reference should be made to [Section 4 "Glossary"](#) for the definition of "Temporary Service." The basic temporary service is an installation up to 200A, 120/240V, single-phase overhead that lies along where no transformation or secondary buss upgrade is needed. In this case, the cost will be based on:

- Connection and metering installation costs *plus* removal cost.

The Customer shall provide and install the wire at their cost to Hydro Ottawa's standards for Hydro Ottawa to make connections.

For non-basic temporary services <400A, 120/240V, the cost will be based on:

- Connection cost *plus* transformer rental fee (1/3rd of transformer cost for a minimum of 12-months paid in advance) *plus* delivery *plus* full metering cost *plus* removal cost

The transformer fee is based on the five-year average rolling stock cost for an average group of transformers within a similar transformation class. There is no charge for the transformer rental when the transformer is paid for and used as the permanent development transformer.

Transformer rental is a monthly charge on the energy bill after the first 12-months.

b) Un-metered Services

The fee is based on:

- Connection costs *plus* expansion costs.

The Customer provides and installs all their materials including their wire. Any expansion

cost is at the Customer's expense.

When more than one un-metered service connection can be made within close proximity of each other, and during the same service call, the connection costs will be based on time-and-material.

c) **Isolation/ Re-energization**

Three fees would apply, in increasing order of cost, each based on work done by regularly scheduled staff:

- (1) For when a meter technician simply isolates/re-energizes the service via the socket meter base only;
- (2) For when a two-person line crew isolates/re-energizes at the standpipe only, with or without material; and
- (3) For when a two-person line crew isolates/re-energizes at a pad-mounted device.

G-1.4 Residential – Basic Meter Fees

When more than one meter is needed at a premise in an existing gang meter base/ splitter trough of a meter centre by a meter technician already on site (thus no additional travel time needed), the fees described below will apply.

The available meter services are as follows:

- 120/240V (100A, or 200A);
- 208 V, 2-phase, network meter (100A, or 200A);
- 120/240V (100A, or 200A), not installed.

The metering fee is based on:

- Meter installation cost including meter material.

As they will be making the connection, Power Line Maintainers (PLM) will install meters <400A or at 400A when instrumentation transformers are not needed. However, Meter Technicians install meters for services >400A or where instrumentation transformers are needed.

See Section 2.3.7 for metering installation costs.

G-2: Methodology for Standard Fees for Various 347/600V Service Connections

G-2.1 Reserved

G-2.2 General and Commercial Service – Basic Connection Fees

In all cases, the Customer supplies and installs the service conductor. These fees are for

transformation and connection of the service by Hydro Ottawa. For metering costs, see G-2.4.

Available service sizes are at 347/600V as follows:

- Overhead: 100A, 200A;
- Underground: 100A, 200A or 400A.

For dedicated 200A & 400A underground services in the “downtown”, additional fees will apply for the vault, the secondary conductor and duct occupation.

Customers who wish to upgrade a service, in a premise that has two distinct voltage supplies (120/240V and 347/600V), will be provided with one voltage supply at time of upgrade.

G-2.3 Special Services – 347V/600V Basic Connection Fees

In all cases, the Customer supplies and installs the service conductor. These fees are for transformation and connection of the service by Hydro Ottawa. For metering cost see G-2.4. For situations not covered by this table, contact Hydro Ottawa for an estimate.

a) Temporary Services

Reference should be made to [Section 4 "Glossary"](#) for the definition of “Temporary Service.” In this case, the cost will be based on:

- Connection and metering installation costs *plus* removal cost.

The Customer shall provide and install the wire at their cost to Hydro Ottawa’s standards for Hydro Ottawa to make connections.

For non-basic temporary services where transformation is needed or the service size is $\geq 400A$, the cost will be based on:

- Transformer rental fee (1/3rd of transformer cost for a minimum of 12-months paid in advance) *plus* all installation and removal work costs on time & material

The transformer fee is based on the five-year average rolling stock cost for an average group of transformers within a similar transformation class. The transformer rental charge is waived when the Customer buys the transformer to service the same development.

Transformer rental is billed monthly after the first 12-months.

b) Un-metered Services

Not available.

c) Isolation/ Re-energization

Refer to G-3.1 “Primary Maintenance Shutdown Fees,” and G-3.2 “Vault Access Fees.”

G-2.4 Commercial – Basic Meter Fees

When extra meters are added to a gang meter base/ splitter trough of a meter centre by a meter technician already on site (thus no additional travel time needed).

The meter services available are as follows:

- 120/240 V, kWh meter (30/60A, 100A, or 200A);
- 208 V, 2-phase, network kWh meter (30/60A, 100A, or 200A);
- 208 V, 3-phase, 4-wire kWh meter (30/60A, 100A, 200A, or 400A – for temporary services only);
- 347/600 V, 3-phase, 4-wire kWh meter (30/60A, 100A, 200A, or 400A – for temporary services only);
- 600 V, 3-phase, 3-wire kWh meter (30/60A)
- 600 V, 3-phase, 3-wire, kW meter (100A, or 200A);
- 600 V, 3-phase, 3-wire, kVA meter (100A, or 200A);

The metering fee is based on:

- Meter installation cost including meter material.

As they will be making the connection, Power Line Maintainers (PLM) will install meters <400A or at 400A when instrumentation transformers are not needed. However, Meter Technicians install meters for services >400A or where instrumentation transformers are needed.

See Section 2.3.7 for metering installation costs.

G-3: Methodology for Standard Fees for Miscellaneous Services

G-3.1 Primary Maintenance Shutdown Fees

Hydro Ottawa refers to a primary maintenance shutdown as the electrical isolation from Hydro Ottawa's primary voltage supply, so the Customer can maintain their electrical equipment. Shutdown details and primary equipment maintenance details can be found in Hydro Ottawa's procedure [VIS0001](#). Typical primary, customer-owned enclosures and devices that Hydro Ottawa would isolate are vaults, unit substations, pad-mounted switching centres and pad-mounted transformers.

A Customer is allowed one primary maintenance shutdown (isolation and re-energization) at no charge, per location, per rolling twelve-months for the purpose of servicing their own primary voltage equipment. These shutdowns (isolation and re-energization) shall begin and end during regular business hours.

Each additional isolation and re-energization, or for other options such as isolation and re-energization for non-primary maintenance, the fees are based on the following:

a. During Regular Business Hours

We will attempt to be available for the scheduled isolation and re-energization; however, crews may be called to address distribution system reliability issues. Thus, a specific isolation or re-energization time is not guaranteed.

The fee is based on:

- i. Labour, travel time, and vehicle and equipment cost for isolation/ re-energization.
- b. Outside Regular Business Hours
We will attempt to be available for the scheduled isolation and re-energization; however, crews may be called to address distribution system reliability issues. Thus, a specific isolation or re-energization time is not guaranteed.

The fee is based on:

I As “During Regular Business Hours” except at overtime labour rates.

- c. Dedicated Hydro Ottawa Crew
This service is offered at anytime. The crew arrives on the scheduled time, and stays on site through the whole isolation and re-energization period. Actual costs are billed to the requesting Customer.

With the permission from the property owner, any other Customer or third party requests for primary isolation from Hydro Ottawa’s distribution system will be quoted on a case-by-case basis.

For further information, or to schedule services, refer to: [Section 1.5 “Contact Information” – Service Desk](#).

G-3.2 Vault Access Fees

Customers requiring vault access for the purposes of fire alarm testing, ventilation checks and testing, contractor supervision, customer inspections, or other non-primary equipment related work, must contact Hydro Ottawa to schedule a visit.

A minimum of one-week’s lead time is required to schedule vault access, subject to availability.

Hydro Ottawa’s charges for site visits for vault access that does not exceed two (2) hours duration are as follows:

- a. During Regular Vault Access Hours
The fee is based on:
 - i. Labour, travel time, and vehicle and equipment cost for isolation/ re-energization.
- b. Outside Regular Vault Access Hours
Same as “During Regular Vault Access Hours” except at overtime labour rates.

Regular vault access hours are defined as Monday to Friday between 7:30 a.m. and 3:30 p.m., excluding holidays. Overtime labour rates apply outside these regular vault access hours.

Hydro Ottawa will prepare an estimate, in advance, for any site visits for vault access exceeding two (2) hours duration.

For further information, or to schedule a visit through the Hydro Ottawa Vault Coordinator, refer to: [Section 1.5 “Contact Information” - Service Desk](#).

G-3.3 Unauthorized Energy Usage Fee

As per [Section 2.2](#) of Hydro Ottawa’s Conditions of Service, Hydro Ottawa reserves the right to isolate or disconnect the supply of electricity to a Customer for causes not limited to a safety concern, energy diversion, tampering, fraud or abuse on the part of the Customer, or, when ordered by law.

The Customer shall pay the cost for the isolation and re-energization of service, initiated by un-authorized energy usage.

Before re-energization proceeds, non-standard service equipment configurations must be brought to Hydro Ottawa’s current technical servicing standards, at the property owner’s cost as noted in Appendix G-0.

Re-inspection by ESA shall be completed and Hydro Ottawa shall have received full payment of associated charges before the service is reconnected.

The isolation/re-energization fee in these situations is based on recovery of Hydro Ottawa’s immediate out-of-pocket expenses such as labour and equipment damage (as applicable). Future potential legal or court fees may be applied separately, as the case may arise. The isolation/re-energization calculations are based on isolation outside of regular business hours and re-energization during regular business hours. The total labour hours are based on an average of costs for similar fieldwork. This pricing also includes the follow-up time that Service Layout Coordinators contribute to each event.

Hydro Ottawa shall take all remedies available to mitigate unauthorized energy usage; including collecting estimated costs of unmetered usage, as calculated by Hydro Ottawa. Hydro Ottawa will monitor losses and unaccounted energy usage on an ongoing basis.

Appendix H: Rate Schedule

For latest approved OEB rates, see Hydro Ottawa's website (see [Section 1.5 "Contact Information"](#)).

Appendix I: Pre-amalgamation Ownership Demarcation Points between the Local Hydro and Customer

This table applies where a specific ownership demarcation agreement does not exist with the Customer for the specific location.

Commercial							
Electrical Supply onto customer's property	Notes Applicable to All	Utility					
		Ottawa	Gloucester	Nepean	Kanata	Goulbourn	Casselman
		Utility Specific Notes					
Primary (>750V)							
Overhead	① ③ ④ ⑦ ⑩ ❶	--	--	--	--	--	--
Overhead – Customer Owned Station	⑤ ⑦ ⑩ ❶	--	--	--	--	--	--
Underground – Vault	① ② ③ ⑩	+⑥	+⑨	+⑦ ⑦	+⑥	+⑤ ⑦	+⑤ ⑦
Underground – Pad mount	① ② ③ ⑩	+⑥	+⑨	+⑦ ⑦	+⑥	+⑤ ⑦	+⑤ ⑦
Underground – Customer Owned Station	② ③ ⑩	+⑥	+⑨	+⑤ ⑦	+⑥	+⑤ ⑦	+⑤ ⑦
Secondary (≤ 750V)							
Underground	① ③ ⑦ ⑧ ❶	--	--	--	--	--	--
Overhead	① ③ ⑤ ⑦ ❶	--	--	--	--	--	--

Residential							
Electrical Supply onto customer's property	Notes Applicable to All	Utility					
		Ottawa	Gloucester	Nepean	Kanata	Goulbourn	Casselman
		Utility Specific Notes					
Primary (>750V)							
Underground	① ② ❶	+⑥	+⑤	+⑤	+⑥	+⑤	+⑤
Overhead							
Secondary (≤ 750V)							
Underground	① ② ❶	+⑥	+③ ⑤ ⑦	+③ ⑤ ⑦	+⑥	+③ ⑤ ⑦	+③ ⑤ ⑦
Overhead	① ③ ⑤ ⑦ ❶	--	--	--	--	--	--

NOTES:

⑦	Hydro owned all primary electrical equipment on customer property.
①	Normally, Hydro owned the transformer and meters within the customer's ownership demarcation unless otherwise noted on file.
②	The Customer owned all non-standard Hydro wires (both residential and commercial), to the supply point.
③	If Hydro supplied other customers from a customer's property, Hydro required an easement unless there was a common element agreement between customers.
④	Customer owned up to the overhead primary fuse/cut-out on/or closest to the road right-of-way / easement.
⑤	Hydro owned the electrical conductors on the customer's property for: (i) underground services, the connection to the line side of the first electrical device/connection, or (ii) overheads services, the first contact point with the building/pole where the customer owns and is responsible for the support structures on their building/pole.
⑥	Customer owned all equipment within the property line / outside the easement including all civil support structures and grounding equipment but excluding Items ① & ②. If a fault occurs on the supply cable, the customer's repair/replacement costs (or in-kind funding) are shared with Hydro Ottawa proportional to amount of cable inside versus outside of the customer's property.
⑦	The customer owned all civil support structures and grounding equipment on the customer's property. Hydro owned the support structures within the road right-of-way and on easements.
⑧	Customer owned the electrical conductors up to the hydro supply point connection (such as a pole, pad-mounted transformer, underground cable chamber).
⑨	Hydro owned underground ducts and all primary electrical equipment on customer property. The customer owned the vault civil structure, grounding equipment, lighting, ventilation, and secondary conductors.
⑩	Customer owned all 44kV electrical equipment and civil support structures up to the hydro supply point (such as a pole, underground cable chamber) including transformers.
⑪	Excludes electrical supplies to other utilities' equipment; similar to Item ⑧.
⑫	Excludes trailer parks.

Attached Drawings

The most current versions of drawings [ECGS0001](#), [ECS0002](#), [ECGS0003](#), [ECGS0004](#), [ECG0005](#), and [ECS0006 ECG0009](#) are found on Hydro Ottawa's website (see [Section 1.5](#)) or by hyperlink to [Commercial Design Specifications](#) or and [Residential Design Specifications](#).



LIST OF WITNESSES

1
2
3
4
5
6

Hydro Ottawa Limited ("Hydro Ottawa") will file a list of its witnesses, by panel or otherwise, shortly after the Ontario Energy Board approves and provides the Issues List for this proceeding. Hydro Ottawa proposes to provide a witness or a panel, as the case may be, for each issue or group of related issues.



1

CURRICULA VITAE

2

3 The curriculum vitae of each witness will be filed at the same time as, or shortly after,

4 Hydro Ottawa Limited's list of witnesses is established; see Exhibit A1-10-1.



SUMMARY OF APPLICATION

1.0 INTRODUCTION

Hydro Ottawa Limited ("Hydro Ottawa") is submitting a cost of service rate application, based on a forward test year, for 2011 Electricity Distribution Rates ("EDR") effective January 1, 2011. This application has been prepared in accordance with the Ontario Energy Board's (the "Board's") Update to Chapter 2 of the Filing Requirements for Transmission and Distribution Applications, May 27, 2009 ("Filing Requirements"). The Board's *2006 Electricity Distribution Rate Handbook* ("2006 EDR Handbook") was also used to guide certain elements of the application, such as the grouping of accounts.

2.0 SCOPE OF APPLICATION

This application seeks approval for a 2011 service revenue requirement, 2011 base revenue requirement and resultant rates based on a forecast for 2011 of Operations, Maintenance and Administration ("OM&A") expenses, return on rate base, depreciation expense, Payments in Lieu of taxes ("PILs") and revenue from other sources ("Other Revenue"). For OM&A, capital expenditures and other revenue, Hydro Ottawa has shown the individual Uniform System of Accounts ("USofA") in addition to grouping the accounts in the manner described in Appendix A of the 2006 EDR Handbook and/or the groupings provided in Appendix 2-E of the Filing Requirements.

The rate base is determined from a budgeted average of net book value ("NBV") of assets at year-end 2010 and 2011, plus a working capital requirement. Hydro Ottawa has followed the Board's policies related to cost of capital to determine the return on rate base. For the purposes of the working capital requirement, Hydro Ottawa has prepared a lead/lag study, resulting in a working capital allowance of 14.1%.



Hydro Ottawa has included a detailed variance analysis between the Test Year (2011 Budget) and the Bridge Year (2010 Budget), the Bridge Year and 2009 Actual, 2009 Actual and the Historical Year (2008 Actual), and the Historical Year and the Board-Approved Year (2008 Approved).

Hydro Ottawa has completed a detailed load and customer forecast using the same methodology from its 2008 EDR application. An updated cost allocation study has also been completed.

Rate riders related to the clearance of deferral and variance accounts are being proposed and Hydro Ottawa is seeking a decrease to the rates to recover the cost of low voltage ("LV") charges from Hydro One Networks Inc. ("Hydro One"). Hydro Ottawa is proposing that there be no change in the current Retail Transmission Service Rates.

3.0 MAJOR ELEMENTS AFFECTING 2011 REVENUE REQUIREMENT

A detailed analysis of the reasons for the increase in revenue requirement is provided in Exhibit A2-1-3 and Exhibit F1-1-1. The base revenue requirement in 2008 used to design distribution rates was \$142.3M, including the component related to the Smart Meter Program. The base revenue requirement proposed for 2011 is \$158.2M. With increases in rates in 2009 and 2010, and the updated load forecast, the revenue deficiency is \$11.7M. Details of this are provided in Exhibit F1-1-1. The main factors contributing to the revenue requirement are discussed in the following sections.

3.1 Cost of Capital

The return on rate base is determined using the Board deemed capital structure as determined in the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* dated December 20, 2006 ("2GIRM Report") and reconfirmed in the *Report of the Board on Cost of Capital for Ontario's*



1 *Regulated Utilities* ("Cost of Capital Report"), dated December 11, 2009. This deemed
2 capital structure is 56% long-term debt, 4% short-term debt and 40% equity.

3
4 The rate of return on equity ("ROE") and short-term interest rates have been determined
5 in accordance with the Board's Cost of Capital Parameter Updates for 2010 Cost of
6 Service Applications, dated February 24, 2010, consistent with the Cost of Capital
7 Report. Hydro Ottawa proposes that the ROE and short-term debt rates be updated
8 using the Board's formula based on September 2010 data.

9
10 The long-term debt rate is set at a forecast of Hydro Ottawa's actual weighted average
11 debt rate based on actual long-term debt as of April 2010, plus a small amount of new
12 long-term debt forecasted for 2011. This weighted average debt rate of 5.351% used by
13 Hydro Ottawa is lower than the 2010 deemed long-term debt rate of 5.87%.

14 15 **3.2 Payments in Lieu of Taxes**

16
17 PILs have been determined using the same methodology as in the 2006 EDR
18 Handbook. This same approach was also used for Hydro Ottawa's 2008 EDR. Large
19 Corporation Tax and Ontario Capital Tax have now been eliminated and are therefore no
20 longer included in the calculation. Corporate income tax rates have decreased from
21 34.5% in 2008 to 28.25% in 2011. This has an offsetting impact on the revenue
22 requirement. However it should be noted that 50% of the impact of tax rate reductions
23 from 2008 to 2010 have already been incorporated into rates as part of the 3rd
24 generation incentive regulation mechanism ("3GIRM").

25 26 **3.3 Depreciation**

27
28 Hydro Ottawa has continued to depreciate its fixed assets using the same straight line
29 methodology and useful lives as in prior years. The increase in depreciation expense is
30 therefore a direct result of the capital additions since 2008. Please refer to Section 7.0



on International Financial Reporting System ("IFRS") for further discussion on depreciation.

3.4 OM&A and Capital Spending

3.4.1 Infrastructure Renewal and Expansion

Continued investment in the distribution infrastructure results in a forecast increase in the year-end net book value of assets between 2008 and 2011 of \$60.2M. This includes investments related to the Asset Management Plan ("AMP"), capacity planning and new distribution plant due to customer demand and general plant requirements. The 2010 AMP is provided as Attachment O to Exhibit B1-2-2. This plan highlights the issues of managing an aging infrastructure and the need for substantial investments in 2011 and beyond.

While Hydro Ottawa's overall load has been declining, the AMP also identifies local areas in which capacity is restrained because of load growth within certain geographic pockets of the service area. On the basis of these system capacity issues, Hydro Ottawa began construction of the Ellwood substation in 2008, as identified in the 2008 EDR Application (called Albion substation at the time). This substation will be completed in 2010 and has been included in the proposed 2011 rate base. Furthermore, Hydro Ottawa has identified system constraints in its west end, and will commence construction of a new Terry Fox substation in 2011, scheduled for completion in 2013. Details of the projects are included in the AMP and the B4 Distribution Capital Exhibits.

The City of Ottawa (the "City") has also embarked on major projects related to infrastructure renewal, as funding became available during the economic downturn. This has resulted in an increase in Demand capital as Hydro Ottawa is required to relocate or rebuild its distribution plant to accommodate the City's projects, only partially funded



1 through capital contributions¹. This also increases the number of cable locates that
2 Hydro Ottawa is required to complete to accommodate the construction work.

3
4 Hydro Ottawa also has a number of requirements related to its General Plant. As
5 described in Exhibit B1-2-7, vendor support is no longer available for Hydro Ottawa's
6 Customer Information System ("CIS"). As a result, Hydro Ottawa is incurring increased
7 costs in the short-term to engage third party support. The risk of running an unsupported
8 system is significant and therefore the CIS will need to be transitioned as indicated in
9 Exhibit B1-2-7. Analysis work will be concluded in 2010 and the project will commence
10 in 2011. There is capital spending for the CIS in the 2011 budget, however, the CIS will
11 not go live in 2011 and therefore all spending is included in construction work in
12 progress and not included in rate base.

13
14 Hydro Ottawa has also provided details of its Facilities Strategy in Exhibit B1-2-5. The
15 current facilities are aging and will require significant capital investments if not replaced.
16 The location of most of the facilities is not optimal from the perspective of both efficiency
17 and response time. The Strategy covers the period from 2010 to 2014. Capital
18 expenditures on this project are planned to commence in 2011.

19 20 3.4.2 Workforce Planning

21
22 Exhibit D1-5-1 provides details of Hydro Ottawa's workforce planning strategy. This
23 includes an analysis of future retirements and the need for expansion of Hydro Ottawa's
24 apprenticeship program and other hiring to meet the ongoing need for a qualified
25 workforce. This strategy also identifies a number of areas in which additional staffing is
26 required to support technological changes and new responsibilities (e.g. the Green
27 Energy Act). Compensation increases related to labour contracts and increased costs of
28 benefits are discussed in Exhibit D4-1-1.

29
30

¹ As prescribed by the Public Service Works on Highways Act.



1 3.4.3 Strategic Initiatives

2
3 As part of the application, Hydro Ottawa is filing its initial Green Energy Plan. This is
4 discussed in Exhibit B1-2-3 and included as Attachment P. For the Smart Grid, Hydro
5 Ottawa is proposing a number of pilot projects. To facilitate the connection of renewable
6 generation, Hydro Ottawa has identified some additional staff required and is proposing
7 certain projects to enhance and expand the distribution system.

8
9 In 2010, Hydro Ottawa also finalized its Environmental Sustainability Strategy, as
10 discussed in Exhibit B1-2-8. The spending associated with this plan, such as the
11 increase use of hybrid vehicles, is designed to reduce the impact of the company's
12 operations on the environment and to improve the company's environmental
13 performance.

14
15 3.4.4 Smart Meter Program

16
17 Hydro Ottawa's Smart Meter initiative will be substantively complete by the end of 2010,
18 with all major expenditures having been completed and 50% of customer accounts
19 registered with the provincial meter data management and repository ("MDM/R"). All
20 customers are planned to be on time-of-use ("TOU") rates before the end of the second
21 quarter in 2011. Hydro Ottawa has documented all of the costs of its Smart Meter
22 initiative in Exhibit I2-1-1 and is seeking the Board's determination that all of the
23 spending has been prudent. Hydro Ottawa is seeking approval to include all of the
24 capital additions to the end of 2010 in its 2011 rate base.

25
26 As part of its 2008 EDR application, the Board approved an amortization period of six
27 years, starting in 2008, for stranded meters that have been removed from service as a
28 result of the Smart Meter program. As part of the Smart Meter combined proceeding
29 EB-2007-0063, the Board determined the following at page 16: *"Many of the utilities*
30 *suggested that at the present time, the stranded costs associated with existing meters*
31 *should stay in rate base. The Board accepts this proposition. Utilities can, if they*



1 *choose, bring forward applications for the recovery of stranded costs in their 2008 rates”.*
2 Hydro Ottawa’s 2008 rate base included these stranded meters. In keeping with this
3 approach, Hydro Ottawa is proposing to include the remaining balance of the stranded
4 meters in its 2011 rate base, and amortize this balance over the period ending
5 December 31, 2013. Details are provided in Exhibit I2-1-1.

6 7 **3.5 Other Revenue**

8
9 To determine the revenue requirement to be used for setting distribution rates, revenue
10 from other sources must be subtracted from the total service revenue, and the credit
11 provided to customers for transformer ownership must be added. The Other Revenue
12 for 2011 is forecast to be approximately the same as the actual Other Revenue from
13 2009 and a little higher than the Board-approved Other Revenue from 2008.

14 15 16 **4.0 CUSTOMER COUNT AND LOAD FORECAST**

17
18 Exhibit C1-1-1 provides details of Hydro Ottawa’s forecasted number of customers and
19 load for 2011. The load forecast methodology uses a series of regression models with
20 inputs of historical load data and customer counts, historical weather data and economic
21 variables from the Conference Board of Canada. An adjustment has been made to the
22 model results to reflect the anticipated conservation and demand management targets
23 which distributors will be required to meet.

24
25 The Exhibit shows that, while the number of customers has continued to grow (forecast
26 at 4.5% between 2008 and 2011), the usage per customer has been steadily declining.
27 As a result, there is a decrease of 0.4% in the forecast in the kWh sales from the
28 weather-normal 2008 actuals to the 2011 forecast.



5.0 COST ALLOCATION

Hydro Ottawa has updated its cost allocation model, and this model, completed by Elenchus, is included as Attachment AE to Exhibit G1-1-1. This update demonstrates that the revenue to cost ratios for all classes fall within the ranges established by the Report of the Board: Application of Cost Allocation for Electricity Distributors dated November 28, 2007. As such, no adjustments between classes are being proposed.

6.0 OTHER CHANGES AFFECTING RATES

In addition to changes in the revenue requirement, customer count and load forecasts and cost allocation, there are a number of other factors that will impact customer bills.

6.1 Clearance of Variance and Deferral Accounts

As of December 31, 2009, Hydro Ottawa had accumulated \$5.0M in deferral and variance accounts for which it is seeking disposition (including carrying charges projected to December 31, 2010). Details of these accounts are included in Exhibit I1-1-2. However, included within this total is \$17.0M related to Account 1588 – Sub-Account Global Adjustment. This balance was accumulated only from customers who are not on the regulated price plan (“RPP”) and therefore the balance should only be recovered from non-RPP customers. As a result, Hydro Ottawa has proposed rate riders to credit all customer class \$12.0M and to charge the \$17.0M only to non-RPP customers.

6.2 Matters Recommended for Generic Proceedings of the Board

There are two matters discussed within this application that Hydro Ottawa recommends be dealt with by way of one or more generic proceedings for all electricity distributors. These are the recovery of the settlement of costs related to the class action lawsuit on the former late payment charges for municipal utilities and the pass-through to



1 customers of expected new smart meter charges from the Independent Electricity
2 System Operation (the "IESO").

3 4 6.2.1 Settlement Costs for Late Payment Charge

5
6 Hydro Ottawa is party to a settlement agreement for a class action lawsuit that was
7 launched in 1998 related to late payment charges. Details are included in Exhibit 13-1-
8 1. The court is scheduled to hear this matter on July 16, 2010 and, should the
9 settlement agreement be approved, Hydro Ottawa will be seeking to recover these costs.
10 Since this involves virtually all of distributors in the province, a generic proceeding is the
11 most efficient mechanism for addressing this matter. If the Board does not agree to a
12 generic proceeding, Hydro Ottawa may amend this application to seek approval for a
13 rate rider in 2011.

14 15 6.2.2 Smart Meter Charges from the IESO

16
17 As noted in Exhibit I1-1-3, Hydro Ottawa expects that in 2010, the Board will approve
18 smart meter charges ("SMCs") for the IESO to recover its costs from electricity
19 distributors of developing and operating the provincial MDM/R. The details of these
20 SMCs are not yet known, but Hydro Ottawa will be seeking to pass-through these
21 charges to metered customers. These new charges will affect all distributors in the
22 province and therefore it will be most expedient for the Board to address the pass-
23 through of these charges by way of a generic proceeding. If the details of these SMCs
24 become known, and the matter is not addressed on a generic basis, an amendment may
25 be filed to this application.

26 27 **6.3 Low Voltage ("LV") Charges**

28
29 In 2009, Hydro Ottawa purchased Richmond South DS and Fallowfield DS from Hydro
30 One. Hydro Ottawa had been paying High Voltage Distribution Station charges to Hydro
31 One for the use of these stations. Predominately as a result of this purchase, Hydro



Ottawa is proposing to decrease the LV Charges to customers. Differences between amounts paid to Hydro One and amounts billed to customers are recorded in a variance account, as per the Board's Accounting Procedure's Handbook ("APH").

6.4 Distribution Loss Factor

Hydro Ottawa is proposing that the Total Loss Factor – Secondary Metered Customer < 5,000 kW be increased from 1.0344 to 1.0380, which represents the five year average.

7.0 INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Hydro Ottawa has filed this application in accordance with Canadian Generally Accepted Accounting Practices ("CGAAP") as details on the changes required to adopt IFRS, including final pronouncements on rate regulated accounting from the International Accounting Standards Board, are still being finalized. As discussed in Exhibit I1-1-3, Hydro Ottawa is seeking a new variance account to record differences between the revenue requirement approved by the Board in this proceeding and the corresponding revenue requirement under IFRS. This is expected to include changes to the useful lives and components of assets used for determining depreciation expense, and may impact capitalization policies and other IFRS requirements.

8.0 RATE IMPACTS

Exhibit H1-6-1 shows the impacts to electricity bills resulting from this application for all customer classes. The impact on the total electricity bill for the residential customer using 800 kilowatt-hours ("kWhs") per month is 0.6%, including all proposed rate riders. For the General Service less than 50 kilowatt ("kW") customer using 2,000 kWh per month, the impact on the total bill is 1.0%. These impacts assume that for the



1 commodity portion of the bill, the customer is on the current RPP non time-of-use rates
2 approved by the Board.
3
4 The Board typically requires the impact on the delivery portion of the bill to be published
5 in the Notice of Application for EDR applications. The increase to the delivery portion of
6 the bill is 1.1% for this residential customer and 2.5% for the General Service < 50 kW
7 customer.



REVENUE SUFFICIENCY/DEFICIENCY

The revenue sufficiency/deficiency for 2011 was calculated using the following inputs:

- 2010 approved rates,
- 2011 load forecast and forecast of customers and connections, as developed using the methodology described in Exhibit C1-1-1,
- The forecasted revenue from the 2010 Smart Meter Adder, and
- The base revenue requirement calculated as shown in Table 1 (details are provided in the model that is part of Exhibit H1-2-1).

Following the format of the Revenue Requirement Work Form, the Revenue with the 2011 Load at 2010 Rates plus the Revenue from the 2010 Smart Meter Adder minus the 2011 Base Revenue Requirement equals the Revenue Deficiency as shown in Table 1.

Table 1 – Revenue Sufficiency/Deficiency

	%	\$000
Rate Base		\$631,580
Cost of Capital	7.02	
Return on Rate Base		44,358
Distribution Expenses		64,766
Amortization		47,450
Payment in Lieu of Taxes		9,555
Service Revenue Requirement		166,129
Less Revenue Offsets		7,927
2011 Base Revenue Requirement		158,202
Revenue with 2011 Load at 2010 Rates		140,476
Revenue from 2010 Smart Meter Adder		6,015
Revenue Deficiency		(\$11,711)

Attachment H is the Revenue Requirement Work Form. Note that in calculating the Revenue Deficiency, the Revenue Requirement Work Form does not take into account



- 1 the Transformer Ownership Credit of \$1,171,602 which should be added to the 2011
- 2 Base Revenue Requirement before distribution rates are calculated.



REVENUE REQUIREMENT WORK FORM

Name of LDC: (1)
 File Number:
 Rate Year: Version: 1.0

Table of Content

<u>Sheet</u>	<u>Name</u>
A	Data Input Sheet
1	Rate Base
2	Utility Income
3	Taxes/PILS
4	Capitalization/Cost of Capital
5	Revenue Sufficiency/Deficiency
6	Revenue Requirement
7	Bill Impacts

Notes:

(1) Pale green cells represent inputs

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

Copyright

This Revenue Requirement Work Form Model is protected by copyright and is being made available to you solely for the purpose of preparing or reviewing your draft rate order. You may use and copy this model for that purpose, and provide a copy of this model to any person that is advising or assisting you in that regard. Except as indicated above, any copying, reproduction, publication, sale, adaptation, translation, modification, reverse engineering or other use or dissemination of this model without the express written consent of the Ontario Energy Board is prohibited. If you provide a copy of this model to a person that is advising or assisting you in preparing or reviewing your draft rate order, you must ensure that the person understands and agrees to the restrictions noted above.



REVENUE REQUIREMENT WORK FORM

Name of LDC: Hydro Ottawa Limited

File Number: EB-2010-0133

Rate Year: 2011

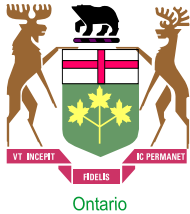
Data Input (1)

	Application	Adjustments	Per Board Decision
1 Rate Base			
Gross Fixed Assets (average)	\$1,064,584,367	(4)	\$1,064,584,367
Accumulated Depreciation (average)	(\$527,172,271)	(5)	(\$527,172,271)
Allowance for Working Capital:			
Controllable Expenses	\$64,766,506		\$64,766,506
Cost of Power	\$603,090,617		\$603,090,617
Working Capital Rate (%)	14.10%		14.10%
2 Utility Income			
Operating Revenues:			
Distribution Revenue at Current Rates	\$146,490,848	(6)	
Distribution Revenue at Proposed Rates	\$158,202,009	(7)	
Other Revenue:			
Specific Service Charges	\$3,707,794		
Late Payment Charges	\$1,400,000		
Other Distribution Revenue	\$1,153,946		
Other Income and Deductions	\$1,665,550		
Operating Expenses:			
OM+A Expenses	\$62,966,289		\$62,966,289
Depreciation/Amortization	\$47,449,596		\$47,449,596
Property taxes	\$1,800,217		\$1,800,217
Capital taxes			
Other expenses	\$ -		\$0
3 Taxes/PILs			
Taxable Income:			
Adjustments required to arrive at taxable income	\$615,777	(3)	
Utility Income Taxes and Rates:			
Income taxes (not grossed up)	\$6,855,758		
Income taxes (grossed up)	\$9,555,063		
Capital Taxes			
Federal tax (%)	16.50%		
Provincial tax (%)	11.75%		
Income Tax Credits	(\$348,000)		
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%		
Preferred Shares Capitalization Ratio (%)			
			Capital Structure must total 100%
Cost of Capital			
Long-term debt Cost Rate (%)	5.35%		
Short-term debt Cost Rate (%)	2.17%		
Common Equity Cost Rate (%)	9.85%		
Preferred 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.
- (6) 2011 Load at 2010 Rates plus SM Adder Forecast
- (7) Base Revenue Requirement



REVENUE REQUIREMENT WORK FORM

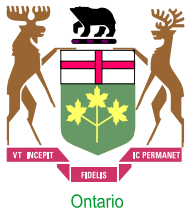
Name of LDC: Hydro Ottawa Limited
 File Number: EB-2010-0133
 Rate Year: 2011

Rate Base				
Line No.	Particulars	Application	Adjustments	Per Board Decision
1	Gross Fixed Assets (average) (3)	\$1,064,584,367	\$ -	\$1,064,584,367
2	Accumulated Depreciation (average) (3)	(\$527,172,271)	\$ -	(\$527,172,271)
3	Net Fixed Assets (average) (3)	\$537,412,096	\$ -	\$537,412,096
4	Allowance for Working Capital (1)	\$94,167,854	\$ -	\$94,167,854
5	Total Rate Base	\$631,579,950	\$ -	\$631,579,950

(1) Allowance for Working Capital - Derivation				
6	Controllable Expenses	\$64,766,506	\$ -	\$64,766,506
7	Cost of Power	\$603,090,617	\$ -	\$603,090,617
8	Working Capital Base	\$667,857,123	\$ -	\$667,857,123
9	Working Capital Rate % (2)	14.10% (4)		14.10%
10	Working Capital Allowance	\$94,167,854	\$ -	\$94,167,854

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.
 (4) Allowance for Working Capital as per Lead/Lag study



REVENUE REQUIREMENT WORK FORM

Name of LDC: Hydro Ottawa Limited

File Number: EB-2010-0133

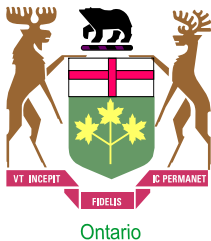
Rate Year: 2011

Utility income

Line No.	Particulars	Application	Adjustments	Per Board Decision
Operating Revenues:				
1	Distribution Revenue (at Proposed Rates)	\$158,202,009	\$ -	\$158,202,009
2	Other Revenue (1)	\$7,927,290	\$ -	\$7,927,290
3	Total Operating Revenues	\$166,129,299	\$ -	\$166,129,299
Operating Expenses:				
4	OM+A Expenses	\$62,966,289	\$ -	\$62,966,289
5	Depreciation/Amortization	\$47,449,596	\$ -	\$47,449,596
6	Property taxes	\$1,800,217	\$ -	\$1,800,217
7	Capital taxes	\$ -	\$ -	\$ -
8	Other expense	\$ -	\$ -	\$ -
9	Subtotal	\$112,216,103	\$ -	\$112,216,103
10	Deemed Interest Expense	\$19,473,884	\$ -	\$19,473,884
11	Total Expenses (lines 4 to 10)	\$131,689,987	\$ -	\$131,689,987
12	Utility income before income taxes	\$34,439,312	\$ -	\$34,439,312
13	Income taxes (grossed-up)	\$9,555,063	\$ -	\$9,555,063
14	Utility net income	\$24,884,249	\$ -	\$24,884,249

Notes

(1)	Other Revenues / Revenue Offsets		
	Specific Service Charges	\$3,707,794	\$3,707,794
	Late Payment Charges	\$1,400,000	\$1,400,000
	Other Distribution Revenue	\$1,153,946	\$1,153,946
	Other Income and Deductions	\$1,665,550	\$1,665,550
	Total Revenue Offsets	\$7,927,290	\$7,927,290



REVENUE REQUIREMENT WORK FORM

Name of LDC: Hydro Ottawa Limited

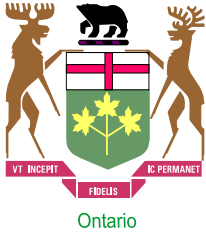
File Number: EB-2010-0133

Rate Year: 2011

Taxes/PILs

Line No.	Particulars	Application	Per Board Decision
<u>Determination of Taxable Income</u>			
1	Utility net income	\$24,884,250	\$24,884,250
2	Adjustments required to arrive at taxable utility income	\$615,777	\$615,777
3	Taxable income	<u>\$25,500,027</u>	<u>\$25,500,027</u>
<u>Calculation of Utility income Taxes</u>			
4	Income taxes	\$6,855,758	\$6,855,758
5	Capital taxes	\$ -	\$ -
6	Total taxes	<u>\$6,855,758</u>	<u>\$6,855,758</u>
7	Gross-up of Income Taxes	<u>\$2,699,305</u>	<u>\$2,699,305</u>
8	Grossed-up Income Taxes	<u>\$9,555,063</u>	<u>\$9,555,063</u>
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	<u>\$9,555,063</u>	<u>\$9,555,063</u>
10	Other tax Credits	(\$348,000)	(\$348,000)
<u>Tax Rates</u>			
11	Federal tax (%)	16.50%	16.50%
12	Provincial tax (%)	11.75%	11.75%
13	Total tax rate (%)	<u>28.25%</u>	<u>28.25%</u>

Notes



REVENUE REQUIREMENT WORK FORM

Name of LDC: Hydro Ottawa Limited

File Number: EB-2010-0133

Rate Year: 2011

Capitalization/Cost of Capital

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
Application					
	Debt				
1	Long-term Debt	56.00%	\$353,684,772	5.35%	\$18,925,672
2	Short-term Debt	4.00%	\$25,263,198	2.17%	\$548,211
3	Total Debt	60.00%	\$378,947,970	5.14%	\$19,473,884
	Equity				
4	Common Equity	40.00%	\$252,631,980	9.85%	\$24,884,250
5	Preferred Shares	0.00%	\$ -	0.00%	\$ -
6	Total Equity	40.00%	\$252,631,980	9.85%	\$24,884,250
7	Total	100%	\$631,579,950	7.02%	\$44,358,134
Per Board Decision					
	Debt				
8	Long-term Debt	56.00%	\$353,684,772	5.35%	\$18,925,672
9	Short-term Debt	4.00%	\$25,263,198	2.17%	\$548,211
10	Total Debt	60.00%	\$378,947,970	5.14%	\$19,473,884
	Equity				
11	Common Equity	40.0%	\$252,631,980	9.85%	\$24,884,250
12	Preferred Shares	0.0%	\$ -	0.00%	\$ -
13	Total Equity	40.0%	\$252,631,980	9.85%	\$24,884,250
14	Total	100%	\$631,579,950	7.02%	\$44,358,134

Notes

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



REVENUE REQUIREMENT WORK FORM

Name of LDC: Hydro Ottawa Limited

File Number: EB-2010-0133

Rate Year: 2011

Revenue Sufficiency/Deficiency

Line No.	Particulars	Per Application		Per Board Decision	
		At Current Approved Rates	At Proposed Rates	At Current Approved Rates	At Proposed Rates
1	Revenue Deficiency from Below		\$11,711,162		\$11,711,162
2	Distribution Revenue	\$146,490,848	\$146,490,847	\$146,490,848	\$146,490,847
3	Other Operating Revenue Offsets - net	\$7,927,290	\$7,927,290	\$7,927,290	\$7,927,290
4	Total Revenue	\$154,418,138	\$166,129,299	\$154,418,138	\$166,129,299
5	Operating Expenses	\$112,216,103	\$112,216,103	\$112,216,103	\$112,216,103
6	Deemed Interest Expense	\$19,473,884	\$19,473,884	\$19,473,884	\$19,473,884
	Total Cost and Expenses	\$131,689,987	\$131,689,987	\$131,689,987	\$131,689,987
7	Utility Income Before Income Taxes	\$22,728,151	\$34,439,312	\$22,728,151	\$34,439,312
	Tax Adjustments to Accounting				
8	Income per 2009 PILs	\$615,777	\$615,777	\$615,777	\$615,777
9	Taxable Income	\$23,343,928	\$35,055,089	\$23,343,928	\$35,055,089
10	Income Tax Rate	28.25%	28.25%	28.25%	28.25%
11	Income Tax on Taxable Income	\$6,594,660	\$9,903,063	\$6,594,660	\$9,903,063
12	Income Tax Credits	(\$348,000)	(\$348,000)	(\$348,000)	(\$348,000)
13	Utility Net Income	\$16,481,491	\$24,884,249	\$16,481,491	\$24,884,249
14	Utility Rate Base	\$631,579,950	\$631,579,950	\$631,579,950	\$631,579,950
	Deemed Equity Portion of Rate Base	\$252,631,980	\$252,631,980	\$252,631,980	\$252,631,980
15	Income/Equity Rate Base (%)	6.52%	9.85%	6.52%	9.85%
16	Target Return - Equity on Rate Base	9.85%	9.85%	9.85%	9.85%
	Sufficiency/Deficiency in Return on Equity	-3.33%	0.00%	-3.33%	0.00%
17	Indicated Rate of Return	5.69%	7.02%	5.69%	7.02%
18	Requested Rate of Return on Rate Base	7.02%	7.02%	7.02%	7.02%
19	Sufficiency/Deficiency in Rate of Return	-1.33%	0.00%	-1.33%	0.00%
20	Target Return on Equity	\$24,884,250	\$24,884,250	\$24,884,250	\$24,884,250
21	Revenue Sufficiency/Deficiency	\$8,402,759	(\$1)	\$8,402,759	(\$1)
22	Gross Revenue Sufficiency/Deficiency	\$11,711,162 (1)		\$11,711,162 (1)	

Notes:

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



REVENUE REQUIREMENT WORK FORM

Name of LDC: Hydro Ottawa Limited

File Number: EB-2010-0133

Rate Year: 2011

Revenue Requirement			
Line No.	Particulars	Application	Per Board Decision
1	OM&A Expenses	\$62,966,289	\$62,966,289
2	Amortization/Depreciation	\$47,449,596	\$47,449,596
3	Property Taxes	\$1,800,217	\$1,800,217
4	Capital Taxes	\$ -	\$ -
5	Income Taxes (Grossed up)	\$9,555,063	\$9,555,063
6	Other Expenses	\$ -	\$ -
7	Return		
	Deemed Interest Expense	\$19,473,884	\$19,473,884
	Return on Deemed Equity	\$24,884,250	\$24,884,250
8	Distribution Revenue Requirement before Revenues	\$166,129,299	\$166,129,299
9	Distribution revenue	\$158,202,009	\$158,202,009
10	Other revenue	\$7,927,290	\$7,927,290
11	Total revenue	\$166,129,299	\$166,129,299
12	Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)	(\$1) (1)	(\$1) (1)

Notes

(1)

Line 11 - Line 8



REVENUE REQUIREMENT WORK FORM

Name of LDC: Hydro Ottawa Limited

File Number: EB-2010-0133

Rate Year: 2011

		Selected Delivery Charge and Bill Impacts Per Draft Rate Order								
		Monthly Delivery Charge					Total Bill			
		Current	Per Draft Rate Order	Change			Current	Per Draft Rate Order	Change	
				\$	%				\$	%
Residential	800 kWh/month	\$ 35.87	\$ 36.25	\$ 0.38	1.1%		\$ 101.17	\$ 101.79	\$ 0.62	0.6%
GS < 50kW	2000 kWh/month	\$ 74.11	\$ 75.93	\$ 1.82	2.5%		\$ 249.87	\$ 252.28	\$ 2.41	1.0%

Notes:



CAUSES OF SUFFICIENCY/DEFICIENCY

The causes of the revenue deficiency of \$11,711,161 are enumerated in Table 1.

Table 1 – Causes of Deficiency

CAUSE	Impact on Revenue Requirement \$000
Increase in Amortization Expense	\$4,588
Increase in Revenue Offsets	(255)
Increase in OM&A Expenses	4,055
Increase in Return on Capital	6,726
Change in Payment in Lieu of Taxes	(2,072)
Load Growth	(1,330)
TOTAL Deficiency	\$11,711

Further discussion on the causes of the revenue deficiency can be found in Exhibit F1-1-1.



BUDGET OVERVIEW

An overview of Hydro Ottawa Limited's ("Hydro Ottawa") 2011 Budget, upon which this application is based, is presented below. Table 1 provides the Operation, Maintenance and Administration ("OM&A") in the groupings provided in Appendix 2-E of the *Update to Chapter 2 of the Filing Requirements for Transmission and Distribution Applications*, May 27, 2009.

Table 1 – 2011 OM&A Budget

Operation, Maintenance and Administration (OM&A)	2011 Budget
Operation	\$15,269,439
Maintenance	6,086,041
Billing and Collection	10,840,730
Community Relations	6,607,061
Administrative and General Expenses	24,163,018
Taxes Other Than Income Tax	1,800,217
TOTAL	\$64,766,506

Table 2 below provides Hydro Ottawa's 2011 Capital Expenditures Budget in the 2006 Electricity Distribution Rate Model groupings. The adjustment for the introduction of Harmonized Sales Tax on July 1, 2010, explained in Exhibit B4-4-1, is included.



1

Table 2 – Capital Expenditures

Capital Expenditures	2011 Budget \$000
Land and Buildings	\$9,334
TS Primary Above 50	12,182
DS	3,386
Poles, Wires	34,643
Line Transformers	8,963
Services and Meters	11,894
General Plant	1,155
Equipment	4,052
IT Assets	7,520
Other Distribution Assets	2,161
Gross TOTAL	\$95,291
Capital Contributions	(16,570)
Net TOTAL	\$78,721

2



BUDGET GUIDELINES

The following guidelines are extracted from the budget memo sent to each senior manager in June 2009 to provide guidance in preparing their department budgets.

“Budget Process - The Enterprise Executive Team (“EET”) has approved a timeline for the preparation and approval of the Operating (Opex) and Capital (Capex) Budgets. Management Accountants will be meeting with Directors in the coming weeks to discuss budget timelines, roles, and deliverables. The following are some of the changes from previous year budget process.

- *2010–2012 Opex Budget and 2010–2014 Capex Budget will be entered into JDE. The outer years Opex will be, in effect, the 2010 budget with the high level “top down” assumptions regarding compensation and inflationary increases only. The outer years Capex will be in as much detail as is available. Outer year detail is requested in order to prepare for the eventuality of a 2011 Cost of Service submission.*
- *Budget will be prepared and approved by quarters, no monthly information required.*
- *Top Down Approach: the Opex budget will be in accordance with 2008–2012 Strategic Direction and Financial Outlook. Regular Opex will be flat lined to the aggregate 2009 budget amount, adjusted for an inflation factor not to exceed revenue increase. Finance will perform trending analysis on 2010 assumptions and will meet with the Directors in each Division.*
- *All significant new initiatives arising from Green Energy Act/Smart Grid require approval by the COO and President & CEO. The budget requests will be supported by business cases and process in a separate schedule.”*

Also, the following budget guidelines were provided to the Board of Directors in November 2009.



- 1 • 2010 Electricity distribution revenue will be guided by applicable Ontario Energy
- 2 Board direction, including the Third Generation Incentive Regulation Mechanism,
- 3 and forecast load growth assumptions.
- 4 • Compensation estimates will be based on the collective bargaining envelope.
- 5 • OMERS contributory earnings, benefits and statutory employment contributions.
- 6 • No new headcount included until approved by COO and President & CEO.
- 7 • A productivity factor will be achieved.
- 8 • Conservation and Demand Management (“CDM”) and Smart Meters are ongoing
- 9 programs (i.e. not new initiatives).
- 10 • Time of Use billing will be implemented in 2010.
- 11 • Capital spending will provide for City growth and the replacement of ageing
- 12 infrastructure to maintain system reliability, and will align to the needs analysis
- 13 documented in the Asset Management Plan.

14 15 New Initiatives Guidelines

- 16
- 17 ▪ All new initiatives must be supported by a business case and be approved by the
- 18 EET prior to inclusion in the budget.
- 19 ▪ Hydro Ottawa Limited (“Hydro Ottawa”) operating and capital budget spending
- 20 will include mandated *Green Energy Act*, *Smart Grid*, and *Conservation and*
- 21 *Demand Management* compliance requirements.

22 23 Changes in Environment / Business

- 24
- 25 ▪ Green Economy Green Energy Act - In 2009 the Government of Ontario
- 26 introduced legislative framework known as the *Green Economy Green Energy*
- 27 *Act* (“GEA”). The legislation encourages distribution utilities to accommodate the
- 28 connection of renewable energy generation facilities and the development of a
- 29 smart grid.
- 30 ▪ International Financial Reporting Standards - In 2011, the accounting framework
- 31 under which financial statements in Canada are prepared for all Publicly



- 1 Accountable Enterprises will change to International Financial Reporting
2 Standards ("IFRS"). Generally Accepted Accounting Principles ("GAAP") in
3 Canada, as we currently know it, will cease to apply and will be replaced by the
4 IFRS framework.
- 5 ■ As a result of the changes in environment and business, Hydro Ottawa has
6 added budget implementation of the GEA and IFRS implementation.



CHANGES IN ACCOUNTING METHODOLOGY

Hydro Ottawa Limited ("Hydro Ottawa") has made a number of changes with respect to the preparation of its audited financial statements. These are the result of changes to accounting standards such as are included in the Canadian Institute of Chartered Accountants ("CICA") Handbook. While Hydro Ottawa generally seeks alignment between its financial accounting and the regulatory accounting set out by the Ontario Energy Board (the "Board"), not all of the changes described below have an impact on regulatory accounting.

In December 2007 the CICA amended section 1100 – "Generally Accepted Accounting Principles" ("GAAP") to remove a temporary exemption pertaining to the application of the Section to the recognition and measurement of assets and liabilities arising from rate regulation effective January 1, 2009. As permitted by the standard, Hydro Ottawa chose to implement a change to its capitalization policy effective January 1, 2008. In the past Hydro Ottawa used a fully allocated cost approach to calculate and allocate its general overhead costs to capital assets. Management believes the new policy of only allocating those costs which are directly attributable to specific capital assets is more reflective of industry practice and is in line with the trend towards more restrictive policies for the capitalization of costs. This change was applied prospectively beginning January 1 2008, as in management's opinion the retrospective application of this policy change would be difficult to determine due to complexity of the calculation and the period of time that must be restated.

Effective January 1, 2008, Hydro Ottawa adopted CICA Handbook section 3031 "Inventories" which is based on the International Accounting Standard Board's International Accounting Standard 2 and replaced existing CICA Handbook Section 3030. Under this new standard, inventories are required to be measured at the lower of cost and net realizable value and any items considered to be major future components of property, plant and equipment ("PP&E") are to be transferred to PP&E for reporting



1 purposes. The new standard also provided updated guidance on the appropriate
2 methods of determining cost and the impact of write-downs to net realizable value.

3
4 Effective January 1, 2009, Hydro Ottawa retrospectively adopted CICA Handbook
5 Section 3064 "Goodwill and Intangible Assets". Handbook Section 3064 replaces
6 Handbook Section 3062 and provides extensive guidance on recognition, measurement
7 and disclosure of intangible assets. There was no financial impact as a result of this
8 adoption.

9
10 Effective January 1, 2009, Hydro Ottawa adopted CICA Handbook Section 3465
11 "Income Taxes". The impact of the amendment to Section 3465 requires the recognition
12 of future income tax assets and liabilities and related regulatory liabilities and assets for
13 the amount of future income taxes expected to be refunded to, or recovered from,
14 customers in future electricity rates.

15
16 Effective January 1, 2009, with the removal of the temporary exemption in section 1100,
17 Hydro Ottawa must now apply section 1100 to the recognition of assets and liabilities
18 arising from the rate regulation. The company has determined that its assets and
19 liabilities arising from rate regulated activities qualify for recognition under Canadian
20 GAAP. There is no effect on the company's results for the year ended 2009.

21
22 Effective January 1, 2009, Hydro Ottawa adopted a number of amendments to CICA
23 Handbook Section 3855 Financial Instruments – Recognition and Measurement. The
24 amendments relate to revise definitions of certain financial assets, methods of assessing
25 impairments for certain financial assets, reclassifications of financial assets, assessment
26 of embedded derivatives on reclassification of a financial assets of the held for trading
27 category and subsequent account for impaired financial assets. The amendments did
28 not have an impact on the financial position, cash flows or income of the company.

29
30 In June 2009 the CICA amended Handbook Section 3862 - Financial Instruments-
31 Disclosures to further converge Canadian standards with International Financial



1 Reporting Standard 1 Financial Instruments - Disclosures. The amendments have no
2 impact on the financial results of the company.

3
4 Effective January 1, 2009, Hydro Ottawa adopted CICA emerging Issues Abstract
5 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC-173"),
6 which was issued January 20, 2009. Management has reviewed its financial
7 Instruments which consist of cash accounts receivable unbilled revenue accounts
8 payable and accrued liabilities and notes payable. In management's opinion there is no
9 effect on Hydro Ottawa's financial statements as a result of adopting EIC-173.

10
11 Hydro Ottawa is subject to environmental regulatory requirements related to the removal
12 and destruction of the Polychlorinated Biphenyls ("PCBs") in distribution transformers
13 and other clean up related to PCBs. Federal PCB Regulatory Framework under the
14 Canadian Environmental Protection Act, 1999 requires that certain equipment containing
15 PCBs be removed from service by December 31, 2009 and December 31, 2025
16 depending on equipment concentration and physical location.

17
18 Effective December 31, 2009, Hydro Ottawa recorded an Asset Retirement Obligation
19 ("ARO") of \$1,167k. The CICA Handbook Section 3110, "Asset Retirement Obligations"
20 defines an ARO as a legal obligation associated with the retirement of a tangible long-
21 lived asset that an entity is required to settle as a result of an existing or enacted law,
22 statute, ordinance or written or oral contract, etc. The associated asset retirement costs
23 are capitalized as part of the carrying amount of the long-lived asset and then amortized
24 over its estimated useful life. In subsequent periods, the ARO is adjusted for the
25 passage of time and any changes in the amount or timing of the underlying future cash
26 flows are reflected through charges to earnings.



1 **AUDITED FINANCIAL STATEMENTS FOR 2008 AND 2009**
2
3 Hydro Ottawa Limited's audited Financial Statements for 2008 and 2009 and Hydro
4 Ottawa Holding Inc.'s Annual Reports for 2008 and 2009 are attached as Attachment I
5 and J respectively.

Hydro Ottawa Limited

Financial Statements

December 31, 2008

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	Report of Management
	Auditors' Report
1	Statement of Income, Comprehensive Income and Retained Earnings
2	Balance Sheet
3	Statement of Cash Flows
4 - 21	Notes to the Financial Statements

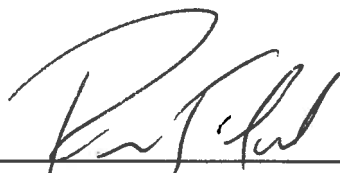
Report of Management

Management is responsible for the integrity of the financial data reported by the Company. Fulfilling this responsibility requires the preparation and presentation of financial statements and other data using management's best judgment, estimates and Canadian generally accepted accounting principles, applied on a basis consistent with the preceding year.

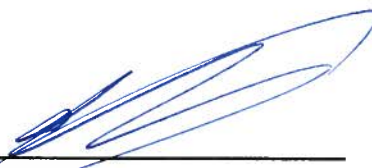
Management maintains appropriate systems of internal control and corporate wide policies and procedures which provide reasonable assurance that the Company's assets are safeguarded and that financial records are relevant and reliable.

The Board of Directors, through the Audit Committee, ensures that management fulfills its responsibility for financial reporting and internal control. The Audit Committee consists of outside directors and at regular meetings reviews audit, internal control and financial reporting matters with management and external auditors. The Audit Committee has reviewed the financial statements and submitted its report to the Board of Directors.

On behalf of Management,



Rosemarie T. Leclair
President and Chief Executive Officer



Alan Hoverd
Chief Financial Officer

AUDITORS' REPORT

To the Shareholder of
Hydro Ottawa Limited

We have audited the balance sheet of Hydro Ottawa Limited as at December 31, 2008 and the statements of income, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ottawa, Canada,
March 2, 2009.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Hydro Ottawa Limited

Statement of Income, Comprehensive Income and Retained Earnings
year ended December 31
(tabular amounts are in thousands of dollars)

	2008	2007
	\$	\$
Revenues (Note 20)		
Power recovery	544,192	548,081
Distribution sales	134,227	123,268
Other revenue	14,475	10,200
	692,894	681,549
Expenses (Note 20)		
Purchased power	544,192	548,081
Operations	60,676	48,100
Amortization of capital assets	39,480	37,552
	644,348	633,733
Income before other expenses (recoveries) and payments in lieu of corporate income taxes	48,546	47,816
Interest expense (Note 16)	14,050	13,697
Provision for (recovery of) regulatory asset write-down (Note 7)	(676)	679
Payments in lieu of provincial capital tax	914	834
	14,288	15,210
Income before payments in lieu of corporate income taxes	34,258	32,606
Payments in lieu of corporate income taxes (Note 17)	12,470	13,967
Net income and comprehensive income	21,788	18,639
Retained earnings, beginning of year	49,038	52,399
Dividends paid (Note 13)	(14,000)	(22,000)
Retained earnings, end of year	56,826	49,038

The accompanying notes are an integral part of these financial statements.

Hydro Ottawa Limited


Balance Sheet

as at December 31

(tabular amounts are in thousands of dollars)

	2008	2007
	\$	\$
Current assets		
Cash	-	3,432
Accounts receivable (Note 4)	47,581	54,942
Unbilled revenue (Note 5)	76,507	82,486
Prepays	672	857
Regulatory assets (Note 7)	3,039	1,745
Inventory (Note 6)	6,512	7,884
	134,311	151,346
Non-current assets		
Net regulatory assets (Note 7)	12,084	13,118
Capital assets (Note 8)	494,732	477,030
Other assets (Note 9)	962	585
Total assets	642,089	642,079
Current liabilities		
Bank indebtedness	134	-
Accounts payable and accrued liabilities (Note 10)	118,953	122,472
Payments in lieu of corporate income taxes payable	463	3,129
Regulatory liabilities (Note 7)	1,705	-
	121,255	125,601
Non-current liabilities		
Net regulatory liabilities (Note 7)	1,622	5,234
Employee future benefits (Note 11)	4,890	4,698
Customer deposits	8,230	8,242
Notes payable (Notes 12 and 20)	282,185	282,185
	418,182	425,960
Contingent liabilities (Note 18)		
Commitments (Note 19)		
Shareholder's equity		
Share capital (Note 13)	167,081	167,081
Retained earnings	56,826	49,038
	223,907	216,119
Total liabilities and shareholder's equity	642,089	642,079

ON BEHALF OF THE BOARD:


Director


Director

The accompanying notes are an integral part of these financial statements.

Hydro Ottawa Limited

Statement of Cash Flows

year ended December 31

(tabular amounts are in thousands of dollars)

	2008	2007
	\$	\$
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income and comprehensive income	21,788	18,639
Adjustments for non-cash items		
Amortization of capital assets	39,480	37,552
Gain (loss) on disposal of capital assets (Note 8)	(206)	(40)
Allowance for funds used during construction (Note 8)	(687)	(253)
Employee future benefits (Note 11)	192	281
Changes in non-cash working capital and other operating balances		
Decrease (increase) in accounts receivable	7,361	(279)
Decrease (increase) in unbilled revenue	5,979	(690)
Decrease (increase) in prepaids	185	(253)
Decrease (increase) in inventory	1,372	(753)
Decrease in regulatory assets net of liabilities	3,747	10,324
Increase in other assets (Note 9)	(377)	(194)
Increase (decrease) in accounts payable and accrued liabilities	4,681	(1,915)
Decrease in payments in lieu of corporate income taxes	(2,666)	(5,755)
	80,849	56,664
Financing		
Contributions in aid of construction	17,156	23,680
Advances from parent company (Note 20)	(5,000)	17,000
Customer deposits received	396	11
Dividends paid (Note 13)	(14,000)	(22,000)
	(1,448)	18,691
Investing		
Acquisition of capital assets	(83,189)	(93,801)
Proceeds from disposition of capital assets	222	40
	(82,967)	(93,761)
Net cash outflow	(3,566)	(18,406)
Cash, beginning of year	3,432	21,838
Cash (bank indebtedness), end of year	(134)	3,432
Other information		
Interest paid	15,146	14,922
Payments in lieu of corporate income taxes paid	12,426	11,130

The accompanying notes are an integral part of these financial statements.

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

1. DESCRIPTION OF BUSINESS

Hydro Ottawa Limited ("Hydro Ottawa" or the "Company") was incorporated on October 3, 2000 pursuant to the Business Corporations Act (Ontario) as mandated by the Ontario government's Electricity Act, 1998. The Company is a wholly owned subsidiary of Hydro Ottawa Holding Inc., which in turn is wholly owned by the City of Ottawa.

The Company is a regulated electricity distribution company that owns and operates electricity infrastructure in the City of Ottawa and the Village of Casselman and is responsible for the safe, reliable delivery of electricity to homes and businesses in its licensed service area. In addition to billing for distribution services, it also invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services and for debt retirement.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for publicly accountable entities, including principles prescribed by the Ontario Energy Board ("OEB") in the Accounting Procedures Handbook ("AP Handbook"). In the opinion of management, all adjustments necessary for fair presentation are reflected in the financial statements. The financial statements reflect the significant accounting policies summarized below.

Measurement uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the financial statement date. Accounts receivable, unbilled revenue and regulatory assets and liabilities are reported net of an appropriate allowance for unrecoverable amounts. Other significant estimates are used in determining the useful lives and asset impairments of long-lived assets and to calculate payments in lieu of corporate income taxes, employee future benefits and certain accruals.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the OEB or the provincial government. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies.

Regulation

Hydro Ottawa is regulated by the OEB under the authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs and revenues in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company.

The following regulatory treatments have resulted in accounting treatments that differ from GAAP for enterprises operating in a non-regulated environment:

a) *Regulatory assets and liabilities*

Regulatory assets primarily represent costs that have been deferred because it is probable that they will be recovered in future rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers for electricity services and the costs that the Company incurs to purchase these services.

Regulatory balances are comprised principally as follows:

Regulatory assets recovery account and regulatory liabilities refund account — On March 17, 2008, the Company received a decision from the OEB for new rates for the rate period beginning May 1, 2008, resulting from an application filed in September 2007. The new rates include the refund of regulatory liabilities and the recovery of certain regulatory assets accumulated up to October 31, 2007.

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retail services and settlement variances – The retail settlement variances relate to the charges Hydro Ottawa incurred for transmission services, generation (the commodity) and wholesale market operations from the Independent Electricity System Operator ("IESO") and Hydro One Networks Inc. that were not settled with customers during the period. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time and are reported at period-end dates in accordance with rules prescribed by the OEB. Hydro Ottawa has also recognized the net cost of providing retailer billing services and service transaction request services as a variance amount.

Deferred smart meter costs – The OEB has allowed electricity distributors to track the differences between the amounts funded through rates for smart meters, and program costs. Program costs include operating, maintenance, amortization and administrative expenses directly related to smart meters, a return on smart meter assets, and the net book value of conventional meters removed at the time of installation of smart meters.

Other variances and deferred costs – The OEB allows electricity distributors to record the difference between low voltage charges paid to Hydro One Network Inc. and charged to customers. The OEB previously allowed electricity distributors to record other expenditures as regulatory assets. Included in other regulatory assets are OEB annual cost assessments, incremental Ontario Municipal Employees Retirement System ("OMERS") pension expenditures, one time expenses incurred to issue the 2002 customer rebates arising from Bill 210 and incremental costs related to payment of the Ontario Price Credit.

Deferred payments in lieu of taxes ("PILs") – The OEB has established a PILs variance account in which distributors record the tax impact of legislative or regulatory changes to the tax rates or rules assumed in the electricity distribution rate application.

The Company has accrued interest on the regulatory asset and liability balances, as directed by the OEB.

b) Allowance for funds used during construction ("AFUDC")

An allowance for the cost of funds used during the construction period has been applied to major capital and development projects. Effective May 1, 2006, the OEB adopted the Scotia Capital Inc. All Corporates Mid-Term Average Weighted Yield as the approved rate of interest. The average annual interest rate for 2008 was 5.3% (2007 - 5.0%).

c) Payment in lieu of corporate income taxes

Hydro Ottawa is considered to be a municipal electric utility ("MEU") for purposes of the payments in lieu of taxes ("PILs") regime contained in the Electricity Act, 1998 as all of its capital is directly owned by the City of Ottawa and not more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. The Electricity Act, 1998 provides that a MEU that is exempt from tax under the Income Tax Act (Canada) ("ITA") and the Corporations Tax Act (Ontario) ("CTA") is required to make, for each taxation year, a "PILs" payment to the Ontario Electricity Financial Corporation ("OEFC") in an amount approximating the tax that it would be liable to pay under the ITA and the CTA if it were not exempt from tax.

The AP Handbook provides for the recovery of PILs by Hydro Ottawa through annual distribution rate adjustments as approved by the OEB.

The Company has adopted the taxes payable method to account for PILs as outlined in the AP Handbook. Under the taxes payable method, no provision is made for future income taxes as a result of unused tax losses or temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes are settled, it is expected that they will be included in the rates approved by the OEB.

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 3862 – “Financial Instruments – Disclosures” and 3863 – “Financial Instruments – Presentation”. These new standards replace accounting standard 3861 “Financial Instruments – Disclosure and Presentation”. Presentation requirements have not changed. Enhanced disclosure is required to assist users of the financial statements in evaluating the significance of financial instruments on the Company’s financial position and performance, including qualitative and quantitative information about the Company’s exposure to risks arising from financial instruments. The new accounting standards cover disclosure only and had no effect on the financial results of the Company. Further information can be found in (Note 15).

All financial instruments are initially recorded at fair value, unless fair value cannot be reliably determined. The subsequent measurement of each financial instrument depends on the balance sheet classification elected by the Company.

The Company classifies and measures its financial instruments as follows:

- (i) Cash is classified as “Assets Held-for-Trading” and is measured at fair value.
- (ii) Accounts receivable and unbilled revenue are classified as “Loans and Receivables” and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value with the exception of related party transactions which are measured at the carrying amount determined in accordance with Section 3840 “Related Party Transactions”. Subsequent measurements are recorded at amortized cost using the effective interest rate method if applicable.
- (iii) Accounts payable and accrued liabilities, notes payable and stand-by letter’s of credit are classified as “Other Financial Liabilities” and are initially measured at their fair value with the exception of related party transactions which are measured at the carrying amount determined in accordance with Section 3840 “Related Party Transactions”. Subsequent measurements are recorded at amortized cost using the effective interest rate method if applicable.

Inventory

Effective January 1, 2008, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3031 – “Inventories”, which requires inventories to be measured at the lower of cost or net realizable value; disallows the use of a last-in-first out inventory costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost no longer exists, the amount of the write down is to be reversed. This new standard also stipulates that any items considered to be major spare parts and standby equipment must be reclassified from inventory to property, plant and equipment when an entity expects to use them during more than one period.

The recommendations regarding the measurement of inventories had no impact on the Company. The reclassification of major spare parts and stand-by equipment from inventory to capital assets also had no material impact on the Company since the Company already includes certain major standby equipment as in-service fixed assets and amortized these assets. Further information can be found in (Note 6).

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

In December 2007, the CICA amended section 1100 – “Generally Accepted Accounting Principles” to remove a temporary exemption pertaining to the application of the Section to the recognition and measurement of assets and liabilities arising from rate regulation effective January 1, 2009. As permitted by the standard, the Company has chosen to implement a change to its capitalization policy effective January 1, 2008. In the past the Company used a fully allocated cost approach to calculate and allocate its general overhead costs to capital assets that resulted in the capitalization of certain overhead costs not directly attributable to specific capital assets. Management believes the new policy of only allocating those costs, which are directly attributable to specific capital assets, is more reflective of industry practice in the absence of rate regulation and is inline with the trend towards more restrictive policies for the capitalization of costs. The change in accounting policy has been applied prospectively beginning January 1, 2008. In management’s opinion the retrospective application of this policy change would be difficult to determine due to complexity of the calculation and the period of time that must be restated. Management also feels that this change would not enhance the utility of the financial statements to the user, nor the comparability of financial results, as the Company’s costs would not be in line with its approved OEB revenue requirements. The OEB currently does not advocate retrospective rate making. In 2007, the Company capitalized approximately \$6,500,000 in general overhead costs not directly attributable to specific capital assets.

Capital assets include distribution equipment, facilities and buildings, as well as construction and operating equipment.

Spare transformers, switchgear and meters are treated as capital assets. Spare transformer, switchgear and meters are items that are expected to be substituted for the original distribution plant transformers, switchgear and meters when these original plant assets are being repaired and are held and dedicated for the specific purpose of backing up plant-in-service as opposed to assets available for other uses.

Capital assets are recorded at cost and include contracted services, materials, labour, engineering costs, overheads and an allowance for the cost of funds used during construction. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Capital contributions received are treated as a contra account and are included in capital assets. The amount is amortized by a charge to accumulated amortization and a credit to amortization expense at an equivalent rate to that used for the depreciation of the related asset.

Significant renewals and enhancements to existing assets are capitalized only if the service life of the asset is increased, reliability is improved above original design standards or if operating costs are reduced by a substantial and quantifiable amount.

Amortization is recorded on a straight-line basis over the estimated service life of the related asset.

Estimated service lives for capital asset classes are as follows:

Land rights	50 years
Buildings and fixtures	25 to 50 years
Furniture and equipment	5 to 10 years
Rolling stock	4 to 8 years
Electricity distribution infrastructure	10 to 40 years

Assets under construction are not subject to amortization.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Company will estimate the future cash flows expected to result from the use of the asset group and their eventual disposition, and record an impairment loss if required.

Asset retirement obligations

The Company recognizes its obligation to retire certain tangible long-lived assets, whereby the fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and then amortized over its estimated useful life. In subsequent periods, the asset retirement obligation is adjusted for the passage of time and any changes in the amount or timing of the underlying future cash flows are reflected through charges to earnings. A gain or loss may be incurred upon settlement of the liability.

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee future benefits

Pension plan

The Company provides pension benefits for its employees through the Ontario Municipal Employees Retirement System ("OMERS") Fund (the "Fund"). OMERS is a multi-employer pension plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees and by the investment earnings of the Fund. The Company recognizes the expense related to this plan as contributions are made.

Employee future benefits other than pension plan

Employee future benefits other than pensions provided by the Company include medical and life insurance benefits, supplemental pensions, accumulated sick leave credits and a retirement grant. These plans provide benefits to certain employees when they are no longer providing active service.

Employee future benefit expense is recognized in the period in which the employees render services.

Employee future benefits are recorded on an accrual basis. The accrued benefit obligation and current service costs are calculated using the projected benefit method pro rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Actuarial gains and losses resulting from experience different from that assumed or from changes in actuarial assumptions are amortized based on the excess of unamortized net actuarial gains and losses over the 10% corridor calculated in the aggregate for all groups. The expected average remaining service life as at December 31, 2008 is 18 years.

Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills and fulfillment of construction obligations. Deposits estimated to be refundable to customers within the next fiscal year are classified as a current liability.

Capital disclosures

Effective January 1, 2008, the Company adopted the new CICA Handbook Section 1535 - "Capital Disclosures", which requires additional disclosure in the notes to the financial statements about capital and the manner in which it is managed. This additional disclosure includes quantitative and qualitative information regarding an entity's objectives, policies and processes for managing capital. Further information can be found in (Note 14).

Revenue recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, services have been delivered, the price has been fixed or determinable and collection is reasonably assured.

Power recovery

Power recovery revenue represents the pass through of the Company's purchased power costs to the consumer.

Distribution sales

Electricity distribution sales are recorded on the basis of regular meter readings and estimates of current usage from the last meter reading to the end of the fiscal period.

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Other revenue

Other revenue related to sales of other services is recognized as services are rendered. Contract revenue is accounted for using the percentage of completion method, whereby revenue is recognized proportionately with the degree of completion of the services under contract. Losses on contracts are fully recognized when they become evident.

Unbilled revenue

Unbilled revenue represents distribution sales, along with accrued revenue from electricity consumed by customers since the date of each customer's last meter reading that has not yet been billed.

3. CHANGES IN ACCOUNTING POLICIES

Emerging Changes

Rate regulated entities

In August 2007, the Canadian Accounting Standards Board ("AcSB") issued a decision, effective January 1, 2009, to withdraw the temporary exemption in CICA Handbook Section 1100, Generally Accepted Accounting Principles, which permits the recognition and measurement of assets and liabilities arising from rate regulation. Further, CICA Handbook Section 3465, Income Taxes, was amended to require the recognition of future income tax liabilities and assets for regulated enterprises that were previously not subject to these provisions. The Company is currently assessing the impact of the AcSB's decision on its financial statements.

Goodwill and intangible assets

In November 2007, the AcSB approved new CICA Handbook Section 3064, Goodwill and Intangible Assets which replaces CICA Handbook section 3062, Goodwill and Other Intangible Assets. The new section provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets and addresses when an internally developed intangible asset meets the criteria for recognition. The new section will be effective for fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the classification of certain of its assets to determine if they meet the definition of intangible assets. Assets that may potentially be reclassified include land rights and easements, certain software assets and amounts contributed to other entities as capital contributions. The Company is currently in the process of evaluating the potential impact of this standard on its financial statements.

International Financial Reporting Standards (IFRS)

On February 13, 2008, the AcSB confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. Some of the converged standards will be implemented in Canada during the transition period with the remaining standards adopted at the change over date. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. ACCOUNTS RECEIVABLE

	2008	2007
	\$	\$
Electricity receivables net of allowance for doubtful accounts of \$816,000 (2007 – \$1,283,000)	42,205	48,199
Other receivables net of allowance for doubtful accounts of \$132,000 (2007 – \$355,000)	3,223	4,841
Amounts due from related parties net of allowance for doubtful accounts of \$172,000 (2007 - \$198,000) (Note 20)	2,153	1,902
	47,581	54,942

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

5. UNBILLED REVENUE

	2008	2007
	\$	\$
Unbilled revenue	77,317	82,486
Less: allowance for doubtful accounts	(810)	-
	76,507	82,486

6. INVENTORY

Inventory consists primarily of parts and supplies acquired for internal construction or consumption and are stated at the lower of cost or net realizable value, with cost determined on a weighted average basis.

The amount of inventory consumed by the Company and recognized as an expense during the year was \$1,083,000 (2007 - \$1,006,000).

7. NET REGULATORY ASSETS AND LIABILITIES

Information about the Company's net regulatory assets and liabilities is as follows:

	2008	2007
	\$	\$
Regulatory assets		
Regulatory assets recovery account	-	2,229
Deferred smart meter costs	10,942	8,359
Retail services and settlement variances	3,833	-
Other variances and deferred costs	388	4,842
	15,163	15,430
Provision for doubtful recovery	(40)	(567)
Total net regulatory assets	15,123	14,863
Less: current portion	(3,039)	(1,745)
	12,084	13,118
	2008	2007
	\$	\$
Regulatory liabilities		
Regulatory liabilities refund account	1,860	-
Retail services and settlement variances	-	1,535
Deferred payments in lieu of taxes	206	2,314
	2,066	3,849
Provision for doubtful recovery	1,261	1,385
Total net regulatory liabilities	3,327	5,234
Less: current portion	(1,705)	-
	1,622	5,234

The regulatory liabilities refund account of \$1,860,000 (2007 – regulatory assets recovery account of \$2,229,000) is the aggregate of all regulatory assets and liabilities, which have been approved for recovery or disposition plus accrued interest earned of \$1,673,000 (2007 - \$1,069,000) up to December 31, 2008, less amounts already settled through distribution rates. The approved balance is being disposed over a 1-year period ending April 30, 2009.

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

7. NET REGULATORY ASSETS AND LIABILITIES (continued)

Regulatory assets are comprised of deferred smart meter costs of \$10,942,000 which includes accrued interest costs of \$82,000 (2007 – \$8,359,000 which includes accrued interest costs of \$nil), retail services and settlement variances of \$3,833,000 which includes accrued interest costs of \$431,000 (2007 – regulatory liability of \$1,535,000 which includes accrued interest costs of \$285,000) and other variances and deferred costs of \$388,000 which includes accrued interest earned of \$2,000 (2007 – \$4,842,000 which includes accrued interest earned of \$368,000).

Regulatory liabilities are comprised of deferred payments in lieu of taxes of \$206,000, which includes accrued interest costs of \$6,000 (2007 - \$2,314,000 which includes accrued interest earned of \$819,000).

In the absence of rate regulation, the earnings before PILs for the year ended December 31, 2008 would be \$2,167,000 lower (2007 - \$5,288,000 higher).

The regulatory process has provided for the clearing of regulatory assets and liabilities. The Company files a rate application to settle its regulatory assets and liabilities as required, and the time period for settlement is determined based on the magnitude of the balances to be cleared.

The Company continues to assess the likelihood of recovery of all regulatory assets subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation. The Company has recorded a net provision of \$1,301,000 (2007 - \$1,952,000) against regulatory assets. If future recovery becomes assured, the Company would recognize the recovery in the earnings for the period such a decision is made.

8. CAPITAL ASSETS

	2008		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land and land rights	6,268	917	5,351
Building and fixtures	62,774	14,726	48,048
Furniture and equipment	69,170	35,155	34,015
Rolling stock	20,969	12,165	8,804
Electricity distribution infrastructure	904,327	418,564	485,763
Assets under construction	19,114	-	19,114
	1,082,622	481,527	601,095
Contributions in aid of construction	(130,908)	(24,545)	(106,363)
	951,714	456,982	494,732
	2007		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land and land rights	4,622	870	3,752
Building and fixtures	56,650	13,624	43,026
Furniture and equipment	84,415	45,441	38,974
Rolling stock	22,904	14,312	8,592
Electricity distribution infrastructure	855,136	401,094	454,042
Assets under construction	24,164	-	24,164
	1,047,891	475,341	572,550
Contributions in aid of construction	(115,390)	(19,870)	(95,520)
	932,501	455,471	477,030

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

8. CAPITAL ASSETS (continued)

During the year, the Company capitalized an allowance for funds used during construction (AFUDC) of \$687,000 (2007 - \$253,000).

The OEB permits a deemed AFUDC to be attributed to the cost of an item of property, plant and equipment that is acquired, constructed, or developed over time. Since AFUDC includes not only carrying costs directly attributable to the acquisition, construction, or development activity, the actual capitalized amounts could differ for rate regulation purposes. In the absence of rate regulation, the income from continuing operations before PILs for the year ended December 31, 2008 would be \$1,000 higher (2007 - \$10,000 higher).

During the year the Company incurred a gain on disposal of capital assets of \$206,000 (2007 - \$40,000). This gain does not include the effects of the Ontario Government's smart meter initiative, which resulted in \$19,021,000 (2007 - \$9,567,000) in conventional meters being removed from service and would have resulted in a loss on disposal of \$5,914,000 (2007 - \$5,036,000) under GAAP. This loss on disposal is deemed by the OEB to be a regulatory asset, to be recovered through future rates.

9. OTHER ASSETS

	2008	2007
	\$	\$
Accounts receivable net of allowance for doubtful accounts of \$100,000 (2007 - \$250,000)	832	325
Deferred credits	260	391
	1,092	716
Less: current portion of deferred credits	(130)	(131)
	962	585

The accounts receivable balance included in other assets represents electricity receivables due from customers who have been placed on extended payment arrangements. These payment arrangements generally range from 24 to 36 months.

In 2004, the Company sold a server valued at \$541,000. The sale of the server did not result in any gain or loss on disposal. Consideration for the server consisted of credits to be applied against fees payable under the maintenance agreement with \$150,000 applied in 2004, \$131,000 applied in 2008 and the remaining to be applied as follows:

	\$
2009	130
2010	130
Total deferred credits	260

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2008	2007
	\$	\$
Purchased power payable	56,934	52,485
Rebates payable to eligible customers	2,060	1,248
Customer credit balances	9,708	10,528
Collateral funds held	16,027	15,619
Other accounts payable and accrued liabilities	20,104	21,794
Deferred revenue	510	1,282
Advances from parent company (Note 20)	12,000	17,000
Due to related parties (Note 20)	1,610	2,516
	118,953	122,472

11. EMPLOYEE FUTURE BENEFITS

(i) Pension Plan

The Company's participating employer contributions for the year was \$2,811,000 (2007 - \$2,556,000).

(ii) Employee future benefits other than pension plan

Employee future benefits are calculated using an annual compensation rate increase of 3.1% (2007 - 3.1%) and a discount rate of 7.25% (2007 - 5.25%) to calculate the liabilities.

Information about the Company's defined benefit plans is as follows:

	2008		
	Accumulated liability	Expense (recovery) for the year	Benefits paid
	\$	\$	\$
Life insurance	4,635	536	328
Retirement grant	726	66	-
Supplemental pensions	12	(3)	1
Sick leave	12	-	-
	5,385	599	329
Projected benefit obligation	6,506		
Actuarial deficit	(1,121)		

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

11. EMPLOYEE FUTURE BENEFITS (continued)

	2007		
	Accumulated liability	Expense (recovery) for the year	Benefits paid
	\$	\$	\$
Life insurance	4,427	574	341
Retirement grant provision	660	62	3
Supplemental pensions	16	1	1
Sick leave	12	-	-
	5,115	637	345
Projected benefit obligation	7,355		
Actuarial deficit	(2,240)		

An update of the actuarial valuation was performed as at January 1, 2009. The actuary has updated the assumptions and estimates at December 31, 2008. As a result of this exercise, the Company decreased the projected benefit obligation by \$849,000 (2007 - \$329,000). This amount is reflected in the projected benefit obligation and the excess over the 10% corridor will be charged to earnings over the average remaining service life of current employees of 18 years, beginning January 1, 2009.

The current liability portion of the accrued employee future benefits included in other accounts payable is \$495,000 (2007 - \$417,000) and the non-current portion of \$4,890,000 (2007 - \$4,698,000) is included in non-current liabilities.

12. NOTES PAYABLE

The Company has issued promissory notes payable to Hydro Ottawa Holding Inc. that are due on demand. The management of Hydro Ottawa Holding Inc. has confirmed that it does not intend on calling these notes within one year. The notes are subordinated and postponed to the obligation of the Company to a third party for the payment in full of any secured indebtedness and any and all security interests granted to secure such obligations of the Company.

The notes are convertible into fully paid and non assessable Class A common shares at a conversion rate equal to 1 Class A common share for each \$1 of the principal amount converted.

	2008	2007
	\$	\$
Long-term:		
5.9% promissory note payable issued July 1, 2005	32,185	32,185
5.14% promissory note payable issued July 1, 2005	200,000	200,000
5.318% promissory note payable issued December 20, 2006	50,000	50,000
	282,185	282,185

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

13. SHARE CAPITAL

Authorized

Unlimited voting first preferred shares, redeemable at \$1 per share

Unlimited non-voting second preferred shares, redeemable at \$10 per share

Unlimited non-voting third preferred shares, redeemable at \$100 per share

Unlimited voting (10 votes per share) fourth preferred shares, redeemable at \$100 per share

Unlimited voting Class A common shares

Unlimited non-voting Class B common shares

Unlimited non-voting Class C common shares, redeemable at the price at which such shares were issued

The above shares are without nominal or par value.

Holders of second preferred shares, fourth preferred shares and common shares are entitled to receive dividends as and when declared by the board of directors at their discretion.

	2008	2007
	\$	\$
154,798,000 Class A common shares	167,081	167,081

Any invitation to the public to subscribe for shares of the Company is prohibited by shareholder resolution.

On November 27, 2008, the Board of Directors declared a \$14,000,000 dividend on the common shares of the Company outstanding on September 30, 2008, paid to the sole shareholder, Hydro Ottawa Holding Inc., on November 28, 2008.

14. CAPITAL DISCLOSURES

The Company's main objectives when managing capital are to:

- (i) ensure continued access to funding to maintain and improve the operations and infrastructure of the Company;
- (ii) ensure compliance with covenants related to the credit facilities and senior unsecured debentures entered into by its parent company Hydro Ottawa Holding Inc.; and
- (iii) align the capital structure with the debt to equity structure recommended by the OEB.

The Company's capital consists of the following:

	2008	2007
	\$	\$
Advances from parent company	12,000	17,000
Notes payable	282,185	282,185
Total debt	294,185	299,185
Shareholder's equity	223,907	216,119
Total capital	518,092	515,304
Debt capitalization ratio	56.8 %	58.1 %

Prior to May 1, 2008 the Company was deemed by the OEB to have a capital structure that was funded by 60% long-term debt and 40% equity. Effective May 1, 2008 the deemed capital structure for the Company has changed to 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure only as a basis for setting distribution rates. The actual capital structure for the Company may differ from the OEB deemed structure.

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

14. CAPITAL DISCLOSURES (continued)

The Company met its capital management objectives and the objectives have not changed during the year.

The Company does not have any external debt arrangements as all financing is received from its parent company Hydro Ottawa Holding Inc.. Hydro Ottawa Holding Inc. is in compliance with all financial covenants, and limitations associated with its long-term debt.

15. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, notes payable and stand-by letters of credit. Regulatory assets and liabilities do not qualify as financial instruments as they do not meet the definition of a financial asset or liability. The carrying values of the Company's financial instruments, except for notes payable approximate their fair values because of the short maturity of the instruments.

The Company has estimated the fair value of the notes payable at December 31, 2008, at \$283,000,000 (2007 - \$283,000,000). The fair value has been determined based on discounting all future payments of interest and the principal repayment on January 1, 2010, at the estimated interest rate of 5.0% (2007 - 5.0%) that would be available to the Company on December 31, 2008. The Company has determined that the fair value of the accounts receivable included in other assets as at December 31, 2008 based on discounting all future payment arrangements approximates their carrying value.

Risk Factors

In the normal course of business the Company is exposed to market risk, credit risk and liquidity risk. The Company's exposure and strategies to mitigate these risks are noted below.

- a) Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk such as equity risk.

(i) The Company is exposed to interest rate risk on its borrowings. The Company mitigates exposure to interest rate risk by fixing interest rates on its notes payable with its parent company. Under Hydro Ottawa Holding's credit facilities, any advances on its operating line would expose the Company to fluctuations in short-term interest rates related to prime-rate loans and banker's acceptances as all short-term financing requirements are obtained through its parent company which passes on its borrowing costs. The interest rate risk is deemed to be low due to the immaterial cost of its short-term borrowings (Note 16). For the most part the borrowing requirements are for a very short duration as the advances serve to bridge gaps between the cash outflow related to the monthly power bill and the inflows related to the settlements with customers and as such, there is very limited exposure to interest rate risk.

(ii) As at December 31, 2008, the Company has limited exposure to fluctuations in foreign currency exchange rates. The Company does purchase goods and services which are denominated in foreign currencies, predominately the \$US. The impact of the fluctuation of foreign currencies on the gains or losses of payables denoted in foreign currencies is not material to disclose.

(iii) As at December 31, 2008, the Company has not entered into any hedging transactions or derivative contracts.

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

15. FINANCIAL INSTRUMENTS (continued)

- b) Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's parent, Hydro Ottawa Holding Inc., manages all the financing and investing activities for the Company. The liquidity risks associated with financial commitments relate to promissory notes issued to its parent company Hydro Ottawa Holding Inc. that are due on demand (Note 12), and \$119,550,000 in accounts payables and accrued liabilities, payments in lieu of corporate income taxes payable and bank indebtedness that are due within one year (December 31, 2007 - \$125,601,000).
- c) Credit risk is the risk that a counter-party will default on its obligations, causing a financial loss. Concentration of credit risk associated with accounts receivable and unbilled revenue is limited due to the large number of customers the Company services. The Company has over 291,000 customers, of which 91% are residential. As a result, the Company did not earn a significant amount of revenue and does not have a significant receivable from any individual customer. The Company monitors and limits its exposure to credit risk on a continuous basis. The Company also performs ongoing credit evaluations on its customers and requires collateral to support customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2008, the Company held security deposits in the amount of \$24,257,000 (December 31, 2007 - \$23,861,000).

The carrying amount of accounts receivable and unbilled revenue is reduced by an allowance for doubtful accounts based on the credit risk applicable to particular customers, and historical and other information. The Company records an allowance for doubtful accounts when the recoverability of an amount becomes doubtful. The amount of the related impairment loss is recognized in the income statement in the period such a decision is made. When the receivable amount is deemed to be uncollectible it is written-off and the allowance for doubtful accounts adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written-off are credited to the income statement. During the year, the Company's allowance for doubtful accounts remained relatively unchanged at \$2,030,000 (2007 - \$2,086,000).

Credit risk associated with accounts receivable and unbilled revenue is as follows:

	2008	2007
	\$	\$
Total accounts receivable	48,701	56,778
Total unbilled revenue	77,317	82,486
Total accounts receivable in other assets	932	575
Less: allowance for doubtful accounts	(2,030)	(2,086)
	124,920	137,753
	\$	\$
Of which:		
Outstanding for less than 30 days	40,365	44,289
Outstanding for more than 31 days but not more than 120 days	8,036	9,493
Outstanding for more than 121 days	1,232	3,571
Unbilled revenue	77,317	82,486
Less: allowance for doubtful accounts	(2,030)	(2,086)
	124,920	137,753

As at December 31, 2008, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties and approximately 19% (2007 - 23%) of the Company's accounts receivable was aged more than 30 days. The Company's maximum exposure to credit risk is equal to the carrying value of accounts receivable less deposits held.

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

16. INTEREST EXPENSE

	2008	2007
	\$	\$
Short term interest (net of interest income)	(141)	(887)
Interest on notes payable	14,878	14,837
Less: allowance for funds used during construction	(687)	(253)
	14,050	13,697

17. PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates.

A reconciliation between the statutory and effective tax rates is provided as follows:

	2008	2007
Federal and Ontario statutory income tax rate	33.50 %	36.12 %
Income before provision for PILs	\$ 34,258	\$ 32,606
Provision for PILs at statutory rate	11,476	11,777
Increase (decrease) resulting from:		
Permanent differences between accounting and tax basis of assets and liabilities	416	50
Temporary differences between accounting and tax basis of assets and liabilities	2,252	4,915
Change in rates	(1,992)	(2,668)
Other	318	(107)
Provision for PILs	\$ 12,470	\$ 13,967
Effective income tax rate	36.40 %	42.84 %

Hydro Ottawa, as a rate regulated utility, does not recognize future income taxes to the extent they are expected to be included in future approved rates charged to customers and recovered from them. Hydro Ottawa has deductible temporary differences between the tax basis of assets and their carrying amount for accounting purposes of approximately \$81,716,000 (2007 - \$74,582,000). These amounts translate into an unrecognized future tax asset of approximately \$23,828,000 (2007 - \$ 23,568,000) that can be used to reduce PILs calculated in future periods.

The Company is subject to PILs as long as it is exempt from federal taxation under paragraph 149(1)(d.6) of the ITA.

As prescribed by a regulatory rate order, income tax expense is recovered through customer rates based on the taxes payable method. Therefore, rates do not include the recovery of future income taxes related to unused tax losses or temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Hydro Ottawa has not recognized future income taxes, as it is expected that when these amounts are settled, they will be included in the rates approved by the OEB. GAAP for unregulated businesses require the recognition of future income tax liabilities and future income tax assets. In the absence of rate regulation, the earnings for the year ended December 31, 2008 would be \$260,000 higher (2007 - \$2,247,000 higher).

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

18. CONTINGENT LIABILITIES

(i) The Ministry of Revenue ("MOR") has completed the audit of the Company's tax returns for the fiscal years ending December 31, 2001, 2002 and 2003 and has issued notices of re-assessment. The Company has appealed two issues with the MOR and expects to have the decisions overturned. Based on managements' best estimate, a PILs payable provision of \$250,000 (2007 - \$250,000) has been recorded to cover the entire audit period. The tax provision reflects a full provision on the two outstanding issues and all other net tax adjustments agreed to by the Company. The two outstanding issues, which if resolved in the Company's favour would reduce this PILs payable provision and result in an increase in the Company's earnings in the period such a decision is made.

(ii) On November 18, 1998, a class action claiming \$500,000,000 in restitutionary payments plus interest was served on the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario ("LDCs"), which have charged late payment charges on overdue utility bills at any time after April 1, 1981. The claim is that late payment penalties result in electric utilities receiving interest at effective rates in excess of what is allowed under Section 347(1)(b) of the Criminal Code.

On April 22, 2004, the Supreme Court of Canada released a decision in the Enbridge Gas Distribution Inc. ("EGD") case, a case in which the Company is not a party to however the issues are analogous. The Supreme Court rejecting all of the defences, which had been raised by EGD, however it did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by EGD, which were approved by the Ontario Superior Court. In 2007, EGD filed an application to the OEB to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008 the OEB approved the recovery of the amounts from ratepayers over a five-year period.

It is anticipated that the plaintiffs in the LDC late payment penalties class action will proceed with their litigation against LDCs in light of the settlement in the EGD case. The Defendants may have defences available that were not raised in the EGD case. Also, given the preliminary status of these actions and that the amount of impermissible interest included in the penalty payments received is not determinable, it is not possible at this time to quantify the effect on the financial statements of the Company.

(iii) Purchasers of electricity in Ontario, through the Independent Electricity System Operator ("IESO"), are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Company fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. At December 31, 2008, the Company had drawn letters of credit of \$11,700,000 (2007 - \$11,700,000) against its credit facility to cover its prudential support obligation. In addition, the Company provided bank letters of credit of \$93,000 (2007 - \$108,000) to the City of Ottawa as security for construction projects.

(iv) Various lawsuits have been filed against the Company for incidents that arose in the ordinary course of business. In the opinion of management, the outcomes of the lawsuits, now pending, are neither determinable nor material. Should any loss result from the resolution of these claims, such losses would be claimed through the Company's insurance carrier with any unrecoverable amounts charged to earnings in the year of resolution.

(v) The Company participates with other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. The Company is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred. If any additional assessments were required in the future, their cost would be charged to earnings in the year in which they occur.

(vi) The Company is subject to environmental regulatory requirements related to the removal and destruction of polychlorinated biphenyls ("PCBs") in distribution transformers and other clean up related to PCBs. Federal PCB Regulatory Framework under the Canadian Environmental Protection Act, 1999 requires that certain equipment containing PCBs be removed from service by December 31, 2009 and December 31, 2025 depending on equipment concentration and physical location. This legislation will result in approximately \$1,600,000 being spent in 2009. This cost does not necessarily represent an incremental cost to the Company, as certain assets would be replaced as part of the Company's regular asset management program. An asset retirement obligation has not been recorded in these financial statements because the obligation to meet the December 31, 2009 requirements is not considered material, and all future asset retirement obligations cannot be reasonably estimated at this time as some uncertainty exists around the identification, final removal dates and costs of removal of the related assets.

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

19. COMMITMENTS

Hydro Ottawa has \$47,112,000 in total open commitments of which \$33,647,000 are for 2009, \$7,633,000 for 2010, \$2,034,000 for 2011, \$1,818,000 for 2012 and \$1,980,000 for 2013 (2007 – \$30,302,000 in total open commitments of which \$22,031,000 were for 2008, \$4,806,000 for 2009 and \$3,465,000 for 2010). This includes a customer information system services agreement, an arrangement to provide call centre services, purchase and installation of smart meters, meter reading services and overhead and underground services.

20. RELATED PARTY TRANSACTIONS

Trade amounts due from and to the Hydro Ottawa group of companies are non-interest bearing and have no specific terms of repayment.

The Company is wholly owned by Hydro Ottawa Holding Inc., which in turn is wholly owned by the City of Ottawa. Hydro Ottawa Holding Inc. is also the sole shareholder of Energy Ottawa Inc. and the Telecom Ottawa group of companies ("Telecom Ottawa").

The Company provides certain services to the City of Ottawa, Hydro Ottawa Holding Inc., Energy Ottawa Inc. and Telecom Ottawa in the normal course of business at commercial rates. Telecom Ottawa was sold on May 1, 2008.

For the year ended December 31, 2008, the Company earned revenues related to the:

- sale of electricity and other services in the amount of \$30,018,000 (2007 - \$26,850,000) to the City of Ottawa.
- supply of administration and corporate services in the amount of \$276,000 (2007 - \$278,000) to Hydro Ottawa Holding Inc..
- supply of administrative, corporate and other operational support by service level agreement in the amount of \$302,000 (2007 - \$296,000) to Energy Ottawa Inc..
- rental of poles and ducts in the amount of \$290,000 (2007 - \$577,000) to Telecom Ottawa.
- supply of administration and corporate services and other recoverable work in the amount of \$103,000 (2007 - \$334,000) to Telecom Ottawa.

The Company purchases certain services from the City of Ottawa, Hydro Ottawa Holding Inc., Energy Ottawa Inc. and Telecom Ottawa in the normal course of business at commercial rates.

For the year ended December 31, 2008, the Company purchased:

- certain services related to water and sewer charges, fuel and permits from the City of Ottawa in the amount of \$670,000 (2007 - \$980,000).
- certain administration and corporate services from Hydro Ottawa Holding Inc. totaling \$2,260,000 (2007 - \$2,290,000) and reimbursed Hydro Ottawa Holding Inc. for \$44,000 (2007 - \$69,000) in standby letter of credit fees. During the year the Company also paid Hydro Ottawa Holding Inc. for interest charged on temporary and long-term borrowings amounting to \$14,788,000 (2007 - \$13,970,000).
- power from Energy Ottawa Inc. in the amount of \$6,214,000 (2007 - \$5,171,000) and conservation demand management related goods and services in the amount of \$419,000 (2007 - \$nil).
- broadband data services from Telecom Ottawa in the amount of \$436,000 (2007 - \$1,309,000).

For the year ended December 31, 2008, the Company incurred property taxes payable to the City of Ottawa of \$1,731,000 (2007 - \$1,693,000). The Company also paid the City of Ottawa \$291,000 (2007 - \$nil) in support of its conservation and demand management initiatives.

At the end of the year, the amounts due from and to related parties, which are included in, accounts receivable and accounts payable and accrued liabilities are as follows:

Hydro Ottawa Limited

Notes to the Financial Statements

Period ending December 31, 2008

(tabular amounts are in thousands of dollars)

20. RELATED PARTY TRANSACTIONS (continued)

	2008	2007
	\$	\$
Due from related parties:		
City of Ottawa	2,153	1,902
Due to related parties:		
Hydro Ottawa Holding Inc	1,068	1,206
Telecom Ottawa Holding Inc	-	23
Energy Ottawa Inc	485	524
City of Ottawa	57	763
	1,610	2,516
Advances from parent company	12,000	17,000
Notes payable to parent company	282,185	282,185

21. COMPARATIVE FIGURES

In certain instances, the 2007 information presented for comparative purposes has been reclassified to conform to the financial statement presentation adopted for the current year.



Powering a Sustainable Future



Our Mission

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

Hydro Ottawa is both a community asset and an investment for our shareholder, the City of Ottawa. As a community asset, our goal is to continue to provide effective, efficient and reliable service to our customers, and to continue to be a strong strategic partner with the City, helping to deliver on its economic development and environmental agendas. As an investment, our goal is to provide stable, reliable and growing returns to our shareholder.



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■ Company Profile ■

Hydro Ottawa Holding Inc. is 100 percent owned by the City of Ottawa. It is a private company, registered under the Ontario Business Corporations Act, and overseen by an independent Board of Directors consisting of eleven members appointed by City Council. The core businesses of the Corporation are electricity distribution, renewable energy generation and related services. In 2008, Hydro Ottawa Holding Inc. owned and operated three subsidiary companies.

HYDRO OTTAWA LIMITED

Hydro Ottawa is a regulated electricity local distribution company that owns and operates distribution infrastructure in the City of Ottawa and the Village of Casselman. As the third largest municipally owned electrical distribution company in Ontario, Hydro Ottawa maintains one of the safest, most reliable and cost-effective electricity distribution systems in Ontario and serves over 291,000 residential and commercial customers across a service area of 1,104 square kilometres (km). The company added 4,633 new customers to its distribution system in 2008, an increase of 1.6%. The company's capital assets grew by \$17.7 million, or 3.7%, while the volume of electricity delivered through its distribution network decreased by 0.2%.

ENERGY OTTAWA INC.

Energy Ottawa is a generator of renewable energy and provider of commercial energy management services. Its twin 8-megawatt run of the river hydroelectric facilities at Chaudière Falls in the city's core produce almost 125,000-megawatt hours (MWh) of Tier III *EcoLogo* certified green power — the greenest electricity in Canada. The 5 megawatt Trail Road plant — a joint venture 60% owned by Energy Ottawa — converts millions of tonnes of previously wasted methane gas into renewable energy. Along with a fourth facility, the 0.7 megawatt Grinder Powerhouse, these facilities produce approximately 2 percent of Ottawa's total electricity requirement. Since 2001, the company has more than doubled its energy generation capacity. In 2008, Energy Ottawa achieved its highest energy production to date, increasing production by 25,000 megawatt hours compared to 2007.

TELECOM OTTAWA HOLDING INC.

Telecom Ottawa was a specialized telecommunications carrier that provided broadband facilities and Internet access to the metro Ottawa region. Through a 10-gigabit ethernet Internet Protocol (IP) network with more than 1,250 km of fibre optic cable, the company provided high-speed connectivity and reliable network performance to federal, provincial and municipal offices, universities, schools, hospitals, major telecommunications carriers and over 200 businesses. Hydro Ottawa Holding Inc. exited its telecommunications business and sold Telecom Ottawa's subsidiaries in May 2008.

■ Message to Our Shareholder ■

On behalf of the Board of Directors and management, we are very pleased to present this report on the performance of Hydro Ottawa Holding Inc. in 2008 — a year of solid performance and significant achievements.

This Annual Report is the first to report on progress against the company's 2008-2012 *Strategic Direction and Financial Outlook*, a five year business strategy endorsed by our shareholder in June 2008.

The goal of that strategy is to solidify Hydro Ottawa's position as a leading and trusted service provider, while capitalizing on an evolving industry landscape to become one of Canada's most successful integrated utilities.

In doing so, we are working to *Power a Sustainable Future* for our community, in a number of ways: by ensuring Ottawa's electricity infrastructure is in excellent shape for the future, and continuing to provide effective, efficient and reliable service to our customers; by increasing our production of renewable energy, and our focus on energy conservation, in keeping with our community's aspirations for a more sustainable energy future; and by continuing to provide stable, reliable, and growing returns to our shareholder, contributing to the City of Ottawa's objective of financial sustainability.

We are pleased to report that Hydro Ottawa made significant progress toward these goals in 2008, while meeting and exceeding the financial targets set out in our five-year plan.

In 2008, Hydro Ottawa achieved a comprehensive net income of \$49.996 million, and a return on equity of 16.3%, enabling the company to provide dividends of \$16.3 million based on operations, and an additional \$12.9 million based on gains from the sale of Telecom Ottawa. On a normalized basis — excluding one-time events and discontinued operations — the company achieved a net income of \$24.7 million, while increasing net revenues by 12% compared to the prior year.

Viewed over a longer period of time, Hydro Ottawa's key financial metrics, including normalized net income and revenues, have shown strong and steady growth over the past five years. Shareholder equity in the company has grown by \$86.5 million since the end of 2004. Dividends of \$69.6 million have been paid since the establishment of a dividend policy in 2005, including dividends arising from 2008 results.

Reflecting this positive and sustained financial performance, Standard and Poor's Ratings Services raised its long-term corporate credit and senior unsecured debt rating for Hydro Ottawa to 'A' from 'A-' in June 2008, and the Dominion Bond Rating Service followed suit in May 2009, upgrading its rating of Hydro Ottawa's Senior Unsecured Debt to 'A' from 'A (low)'.

Hydro Ottawa has also taken the first critical steps to implement the growth strategy endorsed by the company's shareholder in June 2008, including the strategic sale of Telecom



Pierre Richard, Q.C.
Chair, Board of Directors
Hydro Ottawa Holding Inc.
and Hydro Ottawa Limited



Rosemarie T. Leclair
President and Chief Executive Officer
Hydro Ottawa Holding Inc.

Ottawa to enable the corporation to focus capital investment in its core businesses, while lowering its risk profile. In addition, we have been actively evaluating opportunities to expand Hydro Ottawa Limited's electricity distribution business, and Energy Ottawa's renewable generation capacity.

As a company that provides an essential service to the public, nothing is more critical to Hydro Ottawa's success than the ability to deliver value to our customers. Our goal is to provide them with reliable, responsive and innovative services at competitive rates.

Our results in 2008 suggest we're doing just that, with electricity service reliability performance that continues to be among the best in the industry, overall customer satisfaction reaching 88% percent in our annual third-party administered survey, and costs per customer that continue to be below the industry average.

We also continued to enhance the company's efficiency and effectiveness over the course of 2008, and to make a positive contribution to the well being of our community as a responsible and engaged corporate citizen.

These efforts and achievements not only respond to the strategic objectives set out for Hydro Ottawa in our *2008-2012 Strategic Direction and Financial Outlook*; they also reflect the core mission and mandate of Hydro Ottawa, which has remained the same since the company's inception: to deliver value to our shareholder, while benefitting our customers and the community we serve.

We are proud of the strides we have made to fulfill that mission in 2008, and grateful to our 575 employees, whose commitment to excellence and continuous improvement has made these achievements possible.

We look forward to continued success in the coming years, as we pursue our vision to be a leading, trusted integrated utility services company.

Sincerely,

A handwritten signature in black ink, appearing to read "Pierre Richard".

Pierre Richard, Q.C.
Chair, Board of Directors

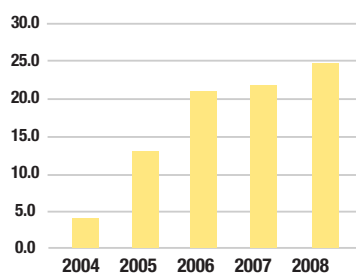
A handwritten signature in black ink, appearing to read "Rosemarie T. Leclair".

Rosemarie T. Leclair
President and Chief Executive Officer

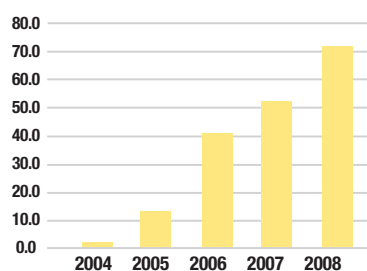
Financial Highlights

	2008	2007
Revenues (thousands)		
Power recovery	\$ 544,192	\$ 548,081
Distribution sales	134,227	123,268
Other income	19,341	14,265
	697,760	685,614
Earnings from continuing operations		
EBITDA	92,199	87,841
EBIT	51,597	49,350
Net income	25,290	24,008
Sources (uses) of cash		
Generated from operations	87,955	59,030
Capital assets	(83,872)	(97,119)
Financing	(35,567)	36,870
Ratios		
Working capital	1.36	1.07
Debt capitalization ratio	45:55	49:51
GWh consumption		
GWh consumption (purchased power)	7,867	7,865

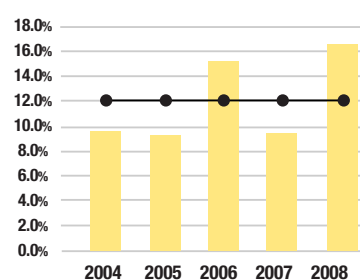
NORMALIZED NET INCOME
(\$ millions)



GROWTH IN SHAREHOLDER EQUITY
(\$ millions) adjusted for dividends paid the following year



RETURN ON EQUITY



■ Introduction to 2008 Annual Report ■

Hydro Ottawa's 2008 Annual Report is the first to report against the company's *2008-2012 Strategic Direction and Financial Outlook*, which was endorsed by the company's shareholder in June 2008.

The goal of the Strategic Direction is to solidify Hydro Ottawa's position as a leading and trusted service provider, while capitalizing on an evolving industry landscape to become one of Canada's most successful integrated utilities. This strategy is built on the company's strengths and achievements, and responds to a changing environment that presents significant opportunities for the Hydro Ottawa Group of Companies, and for the community we serve.

This sense of optimism and commitment to the well-being of our community is reflected

in the theme of this year's Annual Report, *Powering a Sustainable Future*. While the services we provide are only one part of creating a sustainable future for our community, we believe Hydro Ottawa has a role to play, and in some ways, a leading role.

Through sustained investment, we're maintaining a first-class electrical distribution system to support a sustainable economy. By promoting energy conservation and increasing the supply of renewable energy, we're contributing to a sustainable environment. And by delivering solid and growing financial returns to our shareholder, Hydro

Ottawa is contributing to the City of Ottawa's objective of financial sustainability.

Hydro Ottawa's business strategy — our roadmap for *Powering a Sustainable Future* — is structured around four critical areas of performance. We call these our four Key Areas of Focus, and this Annual Report follows these categories in reporting on the company's 2008 performance.

In each of the four areas, Hydro Ottawa has set one overarching objective for the next five years, as outlined below.

FOUR KEY AREAS OF FOCUS

FINANCIAL STRENGTH

Strategic Objective

We will create sustainable growth in our business and our earnings

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

CUSTOMER VALUE

Strategic Objective

We will deliver value across the entire customer experience

By providing reliable, responsive and innovative services at competitive rates

ORGANIZATIONAL EFFECTIVENESS

Strategic Objective

We will achieve performance excellence

By cultivating a culture of innovation and continuous improvement

CORPORATE CITIZENSHIP

Strategic Objective

We will contribute to the well being of the community

By acting at all times as a responsible and engaged corporate citizen

■ Report On Operations ■

Financial Strength

We will create sustainable growth in our business and our earnings, by improving productivity and pursuing business growth opportunities that leverage our strengths.

Reliable dividends and long-term growth in the company's value are at the heart of Hydro Ottawa's commitment to our shareholder. In 2008, Hydro Ottawa continued to deliver on that commitment, while providing effective and reliable service to our customers, and maintaining our focus on containing costs and improving productivity.

Since the adoption of a dividend policy by the company's shareholder four years ago, Hydro Ottawa has delivered dividends of \$69.6 million while growing shareholder equity in the company by \$69.3 million. This achievement reflects a determined effort to increase the company's financial strength, continually enhance its operational efficiency and effectiveness, position the company for future growth and increase its long term value.

The main indicators of financial strength on an annual basis are net income and revenue. Hydro Ottawa achieved superior performance in 2008, with a consolidated net income from continuing operations of \$25.3 million, and net income from discontinued operations of \$1.8 million³.

This enabled the Corporation to pay a dividends of \$16.3 million to its shareholder from operations, exceeding forecasts by more than \$2 million. All operating divisions exceeded their financial targets in 2008, and each made a positive contribution to net income.

The company also paid dividends of \$12 million in June 2008 based on the gain on the sale of Telecom Ottawa, and an additional dividend on this gain of \$900,000 in April 2009.

When normalized to exclude one-time impacts such as regulatory asset recovery, net income was \$24.7 million compared to \$21.9 million in the previous year.⁴

The company's strong financial performance was due mainly to continued productivity improvements and effective cost management in all business lines, with Gross Controllable Costs below forecasts due to enhanced productivity, reduced administration costs and other measures.

At the same time, the company continued to invest in its capital infrastructure. In 2008, the company invested \$84.4 million in capital assets, of which \$83.2 million

was invested in Hydro Ottawa Limited's electricity distribution and general plant initiatives. The company invested \$34.6 million to maintain the reliability of existing infrastructure, and \$20.2 million to deploy new infrastructure to meet the City's growing needs.

In the energy generation business, the company continued to employ fixed price contracts to reduce exposure to spot market prices, which have been below historical averages in the past few years. Since September 1, 2007, Energy Ottawa's production has been nearly 100% protected from exposure to the spot market, through a combination of long-term power-purchase agreements, participation in the province's Standard Offer Program, and a fixed price contract with the City of Ottawa.

In addition to these pricing strategies, Energy Ottawa achieved its highest energy production to date in 2008, through the addition of the Grinder Powerhouse in December 2007, shortening of annual maintenance shutdowns, the addition of gas wells at the Trail Road plant, and favourable water levels due to high precipitation. The company's commercial energy management services business also continued to perform

\$69.6 million

Dividends paid to City of Ottawa since 2005.

³ Relates to net income from Telecom Ottawa operations up to April 30, 2008.

⁴ See MD&A (page 19) for an explanation of how normalized net income is calculated.

well, with 56 turnkey energy management projects and 38 commercial energy audits completed. Projects undertaken with the City of Ottawa have continued to reduce the City's energy costs, with more than \$1.3 million in savings achieved by the end of 2008.

Consolidated net revenues, which exclude flow-through items such as the cost of purchasing power from the provincial grid, increased by 12% on a year over year basis, continuing a trend of steady revenue growth.

Overall, the Hydro Ottawa Group of Companies achieved a Return on Equity of 16.3% in 2008, while improving its cash-flow from operations by \$29 million on a year over year basis.

Access to affordable capital is critical to business success, and is primarily influenced by a company's credit rating. In 2008, Standard & Poor's Ratings Services raised its long-term corporate credit and senior unsecured debt rating for Hydro Ottawa to 'A' from 'A-', based on energy policy stability and regulatory consistency in Ontario, as well as the excellent business risk profile of Hydro Ottawa Limited, which provides more than 90% of the Corporation's cash flow. The Dominion Bond Rating Service (DBRS) annual rating remained at A (low) throughout 2008, and was upgraded to 'A' in May 2009 based on the company's strong financial profile, conservative financial policies, strong operational performance, and low business risk.

Over the longer term, shareholder value is tied not only to efficient and effective operations, but also to the company's pros-

pects for future growth in value. In 2008, Hydro Ottawa's shareholder endorsed a targeted growth strategy involving three basic components: expanding our distribution business beyond our current service territory; expanding our hydroelectric and other renewable generation capacity; and building on our existing core strengths to diversify our business lines, focusing on business opportunities that are compatible, low risk, and offer stable long-term returns.

In 2008, Hydro Ottawa took the first critical steps to the implementation of this targeted growth strategy. These include the strategic sale of Telecom Ottawa to enable

exemption, later extended to a third year, from paying the 33% electricity transfer tax when they sell electricity assets to other publicly owned electrical utilities in Ontario. In light of this change, Hydro Ottawa is assessing opportunities to grow its electricity distribution business beyond its current service territory.

Growth for Energy Ottawa is closely linked to energy production and new energy generation capacity. Energy Ottawa commissioned the Grinder Powerhouse in December 2007, and brought the Trail Road landfill gas plant to full production during the course of 2008 by adding new gas wells.

Hydro Ottawa achieved superior performance in 2008, with a consolidated net income from continuing operations of \$25.3 million.

the corporation to focus capital investment in its core businesses, while lowering its risk profile, and actively evaluating opportunities to expand Hydro Ottawa Limited's electricity distribution business, and Energy Ottawa's renewable generation capacity.

Value growth in the electricity distribution business is closely linked with growth in the number of electricity customers within the company's service territory, along with growth in assets. In 2008, Hydro Ottawa Limited added 4,633 net new customers to its network, an increase of 1.6% and increased its capital assets by \$17.7 million or 3.7%.

In October 2006, the Government of Ontario provided publicly owned utilities a two-year

Energy Ottawa continues to explore new opportunities for renewable energy generation, particularly small and medium-sized renewable projects envisaged by the Green Energy Act, and to grow its energy management services business.



"They're very proactive, thinking ahead and taking a long-term view on sustainability and efficiency. Top of the class in terms of reliability."

— Pierre de Gagné, University of Ottawa

Customer Value

We will deliver value across the entire customer experience, by providing reliable, responsive and innovative services at competitive rates.

As a company that provides an essential service to the public, nothing is more critical to Hydro Ottawa's success than the ability to deliver value to our customers. Whether the customer is one of the 291,000 homes and businesses who rely on our electricity distribution system every day, or an energy services client looking to cut their energy costs and environmental footprint, our goal is to provide them with effective, efficient and reliable service.

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

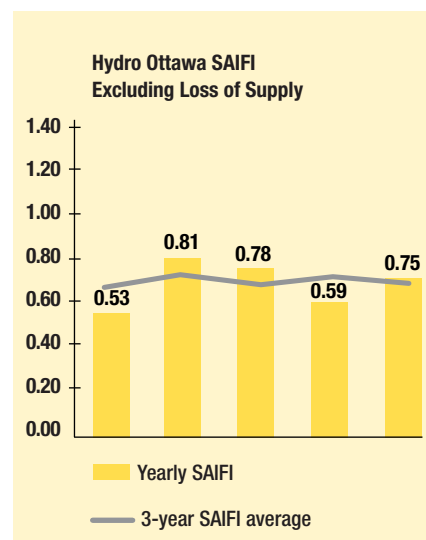
Hydro Ottawa has also focused on continuously improving our customer-facing processes, and ensuring that we develop and maintain a customer-centric culture across the group of companies. Focusing on the needs of individual customers, we continue to enhance customer communication, provide accurate, responsive, courteous and timely service, and deliver value added services to meet customer demand.

SERVICE QUALITY AND RELIABILITY

The number one thing customers want from their electrical utility is a safe, reliable supply of electricity, for the hundreds of activities in daily life and business that depend upon it.

Hydro Ottawa Limited is consistently among the top performers in the industry in providing uninterrupted electricity service, and restoring power quickly when outages do occur. We use two key indicators to measure our reliability of service — the System Average Interruption Frequency Index (SAIFI) and the System Average Interruption Duration Index (SAIDI). With a 2008 SAIFI of 0.75 interruptions, and a SAIDI of 0.92 hours, the average Hydro Ottawa customer would experience one outage every 16 months, and be without power for less than one hour per year, excluding outages due to a loss of supply from the provincial electricity grid. Hydro Ottawa is also actively working with Hydro One to look at ways of reducing instances of loss of supply.

It is common in the electrical distribution industry to measure reliability results using a three-year rolling average. As the adjoining graphs illustrate, Hydro Ottawa's three-year averages for both SAIFI and SAIDI improved moderately in 2008, demonstrating a con-



tinuation of the company's industry-leading performance in this area, and the value of its capital investments in maintaining reliable infrastructure.

Hydro Ottawa also tracks several key measures of service quality and customer satisfaction, which have shown steady improvement over the past several years.

Our success rate in resolving customer requests on the first call has continued to improve,

291,000

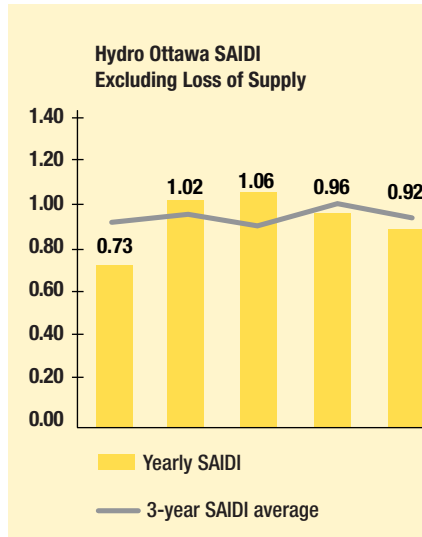
Approximate number of homes and businesses served by Hydro Ottawa in 2008.

with 78 percent of customer queries resolved on the first contact in 2008, up from 74 percent in 2007. Hydro Ottawa is one of a very few utilities across the country to track and target performance in this area. As a result of these efforts, and by enhancing online service options, calls to Hydro Ottawa's customer contact centre have declined by 10% over the past four years, while the number of customers served by Hydro Ottawa has grown by 5%. The number of customer complaints has also declined steadily year over year, and was reduced by more than 19% in 2008 compared to 2007.

Hydro Ottawa continued to enhance online customer service in 2008, re-launching its online customer service portal — MyHydroLink — with additional functionality such as E-billing and online updates to contact information. In 2009, this service will be further enhanced to allow customers with a Smart Meter to view their hourly electricity consumption patterns online, and analyze the cost savings they could achieve by shifting some of their electricity use to off-peak periods, once Time of Use electricity rates come into effect.

Hydro Ottawa has also continued to enhance communication with our customers about power outages when they do occur, through proactive media notification and more frequent updates of information on the company's dedicated outage line. Technology and process improvements have significantly reduced time-lags in outage communication, enabling more frequent, timely and accurate updates on Hydro Ottawa's outage line, with live call agents available 24-7.

As a result of these efforts, a third party-administered annual survey has continued to show strong customer satisfaction. In 2009,



Hydro Ottawa achieved 88% customer satisfaction — a 12% increase since tracking began in 2004.

KEEPING RATES LOW

While maintaining reliable service and investing for the future, Hydro Ottawa has also maintained its record as one of the most efficient electrical utilities in Ontario, maintaining competitive rates for our customers.

In 2009, Hydro Ottawa achieved 88% customer satisfaction in a third-party administered survey — a 12% increase since tracking began in 2004.

Of the money collected from Hydro Ottawa customers, only the portion known as distribution charges stays with Hydro Ottawa. Distribution charges cover the costs of constructing, maintaining and operating the local electricity distribution system, and ac-

count for approximately 25% of a typical residential customer's bill.

In September 2007, Hydro Ottawa filed a cost of service application to rebase its distribution rates effective May 1, 2008. As approved by the Ontario Energy Board, this application resulted in an increase to a typical residential customer's bill of only 0.6% on an annualized basis.

This trend of efficiency was continued with the company's application for distribution rates for 2009-2010, which requested an increase of approximately 0.3% on the total bill related to Hydro Ottawa's operations, an increase in transmission rates paid to Hydro One of approximately 0.8% on the total bill, an increase related to the provincial Smart Meter project of 54 cents per month, and additional adjustments totaling 0.8% on the total bill. When all of these adjustments are combined, a typical residential customer consuming 1,000 kWh of electricity per month will see their total bill increase by 2.4%, or \$2.73 per month, with the portion directly related to Hydro Ottawa's operations totaling 34 cents. All of the above adjustments are incorporated in the Delivery line on a customer's bill.

Similar adjustments to distribution rates are anticipated in 2010 and 2011, as Hydro Ottawa

Limited continues to invest in reliable infrastructure and implement the Smart Meter and apprenticeship programs, along with investments to meet new obligations under the provincial Green Energy Act.



"I received the most amazing service from Hydro Ottawa. They were very personable and friendly, and helped with tips and suggestions. I had many questions about my bill, and Hydro Ottawa answered them with more details than I could have hoped for. Great customer service."

— Bianca Colatruglio, Residential Customer

Organizational Effectiveness

We will achieve performance excellence by cultivating a culture of innovation and continuous improvement

Performance excellence — a simple phrase, but an ambitious objective. It is a goal we continually work toward in every key area of our operations, to ensure we continue to provide effective, efficient service to our customers and deliver solid returns to our shareholder, now and in the future.

Particularly important are the continuance of Hydro Ottawa's exceptional Health and Safety

Ottawa's costs per customer have consistently been lower than the provincial average.

Since 2007, Hydro Ottawa has set and achieved annual productivity improvement targets, and in 2008 we continued to focus on maximizing the efficiency and effectiveness of our operations by reducing waste and optimizing productivity at every opportunity. The Ontario Energy Board (OEB)

Hydro Ottawa Limited has achieved cost savings through productivity improvement of more than \$5.6 million over the past two years, through a reduction in overtime and sick leave as a percentage of hours worked, restructuring its operations into four zones to reduce travel time, integrating apprentices into overhead line crews, leveraging new technologies for improved scheduling and dispatching of field work, and other measures. Improving productivity will continue to be a strong focus in the future.

Hydro Ottawa Limited has achieved cost savings through productivity improvement of more than \$5.6 million over the past two years.

Record, the development of a skilled, engaged and prepared workforce for the future, and leveraging technology and innovation to improve our efficiency and enhance service.

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

A STRONG FOCUS ON PRODUCTIVITY

The Ontario Energy Board (OEB) regularly compares the operating, maintenance and administration costs of Ontario utilities, and Hydro

now mandates annual productivity improvements through its multi-year rate setting process, referred to as the Third Generation Incentive Regulation Mechanism. In keeping with our focus on continuous improvement, Hydro Ottawa sets internal targets for productivity improvement, across all of our operations, in addition to these OEB mandated efficiencies.

Energy Ottawa continued to achieve efficient operations at its generation facilities, limiting down time for planned maintenance to only 18.3 days, and achieving plant availability of 96.8%.

A HEALTHY AND PREPARED WORKFORCE

At Hydro Ottawa, we understand that our employees are our greatest asset. Recruiting, developing and retaining highly skilled employees, and ensuring they remain safe on the job, is crucial to Hydro Ottawa's continued success, and our mission to provide excellent value to our customers, our shareholder, and our community.

Our commitment to these objectives was acknowledged recently when Hydro Ottawa was named one of the National Capital Region's Top 25 Employers for 2009. This prestigious award, sponsored by MediaCorp, recognizes Hydro Ottawa and other employers in the region that offer exceptional places to work. A panel of independent judges

99.98888%

Percentage of time Hydro Ottawa customers have enjoyed uninterrupted power since 2006.

awarded this distinction based on eight criteria: Physical Workplace; Work Atmosphere and Social; Health, Financial and Family Benefits; Vacation and Time Off; Employee Communications; Performance Management; Training and Skills Development; and Community Involvement.

A fundamental component of Hydro Ottawa's commitment to operating efficiently and effectively is the very high priority we place on protecting the health and safety of our employees. In 2008, lost time injuries at Hydro Ottawa Limited continued to decline, improving on the company's already exceptional performance in this area. Lost time injuries were reduced by 17%. Total days lost to injuries decreased by 63%, following a reduction of 55% in 2007, for a total two-year reduction of 83%. Energy Ottawa achieved zero injury status. The number of safety training hours per employee increased by 36% in 2008 compared to 2007, and the company will maintain this enhanced level of training in the future.

In 2007, Hydro Ottawa Limited completed the integration of its health and safety and environmental management systems, achieving two internationally recognized standards of management. In 2008, the company was recertified to the International Organization for Standardization (ISO) 14001 Environmental Management System standard for a fifth consecutive year, and recertified to the Occupational Health and Safety Assessment Series (OHSAS) 18001 standard for a second straight year.

While safety is paramount, Hydro Ottawa's commitment to our employees goes far beyond

their health and safety. Our aim is to create a workplace that fosters employee satisfaction and productivity, while ensuring opportunities for skills development and growth.

In 2008, Hydro Ottawa continued to emphasize skills development by providing ongoing training opportunities, and continued to develop tomorrow's workforce through

its skilled trades apprenticeship programs. In 2008, Hydro Ottawa graduated its first three apprentices to journeyman status — a significant milestone — and hired 16 new apprentices to begin the multi-year program. In total, Hydro Ottawa has hired 44 apprentices since the program's inception, and has achieved 100 percent retention to date. The company also introduced a comprehensive two-year training program for front-line Supervisors and Managers and emerging leaders, focused on priority skill development areas. These programs position Hydro Ottawa to deal effectively with the industry-wide challenge of an aging workforce, by ensuring effective skills development and the transfer of critical knowledge from one generation to the next.

A FOCUS ON INNOVATION

Hydro Ottawa also continues to leverage new technologies to enhance service and prepare for the future. With more than 90% of electricity meters in our service territory

now replaced by Smart Meters, Hydro Ottawa has one of the largest active Advanced Metering Infrastructure (AMI) systems in Canada. This eliminates the need for field readings for the vast majority of Hydro Ottawa customers, avoiding estimated readings for meters in difficult to access locations and making moves and new service connections more seamless and convenient.

In 2008, Hydro Ottawa deployed more system components that can be remotely operated from our system control centre, reducing outage times by increasing our ability to re-route power when problems occur.

In addition, Hydro Ottawa continued to introduce more intelligence and automation into our distribution system, building on the substantial investments already made, such as the conversion to Geographical Information System (GIS) mapping that was completed in 2007. In 2008, Hydro Ottawa deployed more system components that can be remotely operated from our system control centre, reducing outage times by increasing our ability to re-route power when problems occur. And we installed more sensors that report faults back to the control centre, helping us to identify problems and respond more quickly.

We anticipate continued investment in Smart Grid technologies over the coming years, to enhance service, improve outage response times, provide more information to help our customers manage their energy consumption and costs, and accommodate distributed generation.



"Throughout the years, Hydro Ottawa has provided Ottawa Health Sciences Centre with an unparalleled level of reliability. Regardless of the challenges, the 'lights have remained on' at the hospital. I've been here for almost twelve years, and the only outage we've had was the province wide grid failure in 2003. Very reliable and professional."

— Gord Brown, P.Eng., Children's Hospital of Eastern Ontario

Corporate Citizenship

We will contribute to the well being of the community, by acting at all times as a responsible and engaged corporate citizen

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

We do so by providing a reliable and safe supply of electricity, increasing the supply of renewable energy and respecting the environment in our work, but our commitment also goes beyond our day-to-day operations. The Hydro Ottawa Group of Companies is active in our community promoting conservation and demand management, educating children and youth about electricity safety, helping to mitigate the impact of energy costs for those in need, and making other contributions to our City's quality of life.

Hydro Ottawa once again partnered with Enbridge Natural Gas Distribution, the United Way / Centraide Ottawa and the Salvation Army Booth Centre to deliver the Winter Warmth program in Ottawa in 2007/2008, helping low-income families to pay their energy bills during the coldest months of the year. The need for funds was higher than in previ-

ous years due to the unusually long and harsh winter, and Hydro Ottawa made an additional contribution to ensure the program could assist those in need. In total, Hydro Ottawa's contribution assisted 160 households — nearly double the number of households helped the previous year — and Hydro Ottawa will maintain this enhanced level of support for the 2008-2009 program.

Hydro Ottawa took this commitment to helping Ottawa residents stay safe and warm a step further in 2008, providing modest support to Action Logement — an organization devoted to helping low-income families to find and maintain safe, affordable housing — and to Habitat for Humanity. In addition, one half of Hydro Ottawa's corporate matching funds for the company's 2008 United Way campaign will go to organizations that help individuals in need to stay in their homes.

Hydro Ottawa's employees once again surpassed their previous best in the company's annual United Way campaign. A total contribution of \$153,424 was achieved through employee pledges, fundraising events, and corporate matching — a remarkable 22% increase over the company's record-setting campaign in 2007.

Hydro Ottawa also continued to play a leading role in creating a culture of conservation in our community. Since the company began actively promoting energy conservation in 2005, its conservation initiatives have resulted in nearly 100 million kilowatt hours saved — enough to power 11,000 homes for a year. In 2008, the company reached a number of milestones, including more than 14,000 old refrigerators reclaimed through the Great Refrigerator Round-up, with more than 100,000 reclaimed province-wide through this innovative program that was created by Hydro Ottawa.

Another Hydro Ottawa program — Companies for Conservation — received recognition from the company's peers recently, winning the Electricity Distributors' Association's Innovation Award in the Public Relations category. Created to promote conservation within the business community by showcasing the energy and cost savings achieved by Ottawa companies, the program has been highly successful, and is now in its second year.

In keeping with this commitment to environmental sustainability, Hydro Ottawa is working to reduce our own environmental footprint, focusing on energy conservation in our facilities, water conservation, waste

\$153,424

Amount raised for United Way by Hydro Ottawa's employee campaign in 2008.

stream management/recycling, and reduction in carbon dioxide emissions.

Hydro Ottawa helped launch two high profile community events in 2008 with a strong focus on energy conservation. As the presenting sponsor of the first annual Rideau Canal Festival, Hydro Ottawa and Energy Ottawa played a key role not just in creating an important community festival to celebrate Ontario's first UNESCO World Heri-

trical Workers (IBEW) Local 636 teamed up to connect electricity to the Ottawa Rotary Home's new respite care facility for children and adults with severe disabilities at no charge. Hydro Ottawa provided the equipment, and a number of our trades employees volunteered their time for this very special project.

Hydro Ottawa also continued to work with other leading Ottawa employers to champion diversity in the workplace, as co-chair of the

More than 15,200 students in 48 area elementary schools learned valuable lessons about using electricity safely and wisely through Hydro Ottawa Limited's Electricity Safety and Conservation presentations.

tage Site, but also in making it Canada's first zero footprint festival. And Hydro Ottawa joined with the City of Ottawa to promote Ottawa's first Earth Hour, calling attention to climate change and the importance of energy conservation by asking Ottawa residents to join others around the world in turning off their lights for one hour.

More than 15,200 students in 48 area elementary schools learned valuable lessons about using electricity safely and wisely through Hydro Ottawa Limited's Electricity Safety and Conservation presentations.

Hydro Ottawa Limited was once again honoured to host the Special Needs Day at the Gloucester Fair, with 30 Hydro Ottawa volunteers helping 800 disabled children enjoy a day at the fair, complete with rides, games and a barbeque lunch. And Hydro Ottawa and the International Brotherhood of Elec-

Employers' Council of Champions of the Hire Immigrants Ottawa initiative. Along with 27 other Ottawa employers, Hydro Ottawa is working to remove the barriers to employment for skilled immigrants, so that employers can get the full benefit of their skills and expertise.



"In Ottawa, we are fortunate to have many citizens — individual and corporate — helping to make our community strong. Chief among these are Hydro Ottawa and their employees, who are strongly committed to enhancing our community's quality of life."

— Michael Allen, President and CEO, United Way/Centraide Ottawa

■ Management's Discussion and Analysis ■

The Management's Discussion and Analysis (MD&A) is intended to provide a narrative review of Hydro Ottawa Holding Inc.'s operational performance and financial position, and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2008.

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP), including accounting principles prescribed by the Ontario Energy Board (OEB) in the Accounting Procedures Handbook, and are expressed in Canadian dollars.

The MD&A contains forward-looking statements, including, but not limited to, statements as to future operating results and plans. These statements reflect management's expectations as of the date of release. Risks and uncertainties may cause actual results, performance or achievements to differ materially from those projected here.

THE BUSINESS OF HYDRO OTTAWA HOLDING INC.

Hydro Ottawa Holding Inc. (Hydro Ottawa Holding or the Corporation) is a holding company created in November 2000, wholly owned by the City of Ottawa (the Shareholder), and governed by an independent Board of Directors appointed by the Shareholder. The Corporation and its subsidiaries are incorporated under the *Ontario Business Corporations Act*.

The Corporation's core businesses going forward are electricity distribution, renewable energy generation and related services.

For all or part of 2008, Hydro Ottawa Holding Inc. owned and operated three subsidiary companies, as follows:

Hydro Ottawa Limited (Hydro Ottawa): the core and by far the largest business of the Corporation is the distribution of electricity by its largest subsidiary, Hydro Ottawa, which accounts for more than 93 percent of the Corporation's capital assets and 97 percent of revenues. Hydro Ottawa is a regulated electricity local distribution company that owns and operates distribution infrastructure in the City of Ottawa and the Village of Casselman. As the third largest municipally-owned local distribution company in the Province of Ontario, Hydro Ottawa delivers safe and reliable electricity to over 291,000 residential and commercial customers across a service area of 1,104 square kilometres. Hydro Ottawa receives power from the provincial electricity grid and transports it across a distribution network comprising 85 distribution stations, 2,800 kilometres of underground cable, 2,900 kilometres of overhead lines, 40,000 transformers and 51,500 hydro poles. Hydro Ottawa added more than 4,600 net new customers to its distribution system in 2008, an increase of 1.6%.

Energy Ottawa Inc. (Energy Ottawa): a generator of renewable energy and provider of commercial energy management services. Energy Ottawa is Ottawa's largest producer of green power. Its run of the river hydro-electric facilities at Chaudière Falls in the city's downtown core produce more than 125,000-megawatt hours (MWh) of certified green power — the greenest electricity in Canada. In addition, the Trail Road landfill gas to energy plant, a joint venture 60% owned by Energy Ottawa, converts millions of tonnes of previously flared-off methane gas into renewable energy. In combination, Energy Ottawa's generation plants produced over 150,000 MWh of renewable green energy in 2008. This output amounts to about 2% of Ottawa's total electricity requirement, enough to meet the annual needs of more than 18,000 homes. In 2008, Energy Ottawa achieved its highest energy production to date, increasing production by over 25,000 MWh compared to 2007.

Telecom Ottawa Holding Inc. (Telecom Ottawa): a specialized telecommunications carrier that provided broadband facilities and internet access to the metro Ottawa region through its subsidiaries. In November 2007, the Board of Directors of Hydro Ottawa Holding approved a plan to sell the

100 million

Approximate number of kilowatt-hours saved so far through Hydro Ottawa's energy conservation programs.

Telecom Ottawa group of companies and to exit this business segment, subject to final approval of the terms and conditions of sale. A definitive sale agreement was signed February 25, 2008, and the sale closed on May 1, 2008. The 2008 consolidated financial statements present the January to April results of Telecom Ottawa subsidiaries as discontinued operations of Hydro Ottawa Holding, as well as a gain on sale.

Vision and Strategy

The Corporation's vision is to be a leading and trusted integrated utility services company. The Corporation will achieve that vision through a strategic direction structured around four key areas of performance:

- Financial Strength
- Customer Value
- Organizational Effectiveness; and
- Corporate Citizenship

In pursuing its strategic direction, Hydro Ottawa Holding intends to preserve and grow its core electricity distribution and renewable generation assets, and capitalize on the opportunities presented in its business environment. In line with this imperative, the Corporation completed the sale of Telecom Ottawa in 2008, in order to focus on its core businesses of electricity distribution, renewable energy generation and related services, and in light of the fact that the highly competitive telecommunications industry presents a higher level of risk than the Corporation's other investments.

Looking forward, the targeted growth strategy involves three components: expanding the electricity distribution business; ex-

panding hydroelectric and other renewable generation capacity; and building on existing core strengths to diversify business lines, focusing on compatible low risk business opportunities.

Regulatory Environment

Each of the Corporation's operating subsidiaries operate within a regulated environment.

The business of Hydro Ottawa Limited is both licensed and regulated by the OEB, who has a legislated mandate to oversee many aspects of the electricity industry. The *Ontario Energy Board Act, 1998* sets out two objectives to guide the work of the OEB: to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service, and to promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry.

The OEB must set or approve all rates charged by Hydro Ottawa and the OEB establishes standards of service and conduct that must be followed as a condition of being licensed to distribute electricity. Energy Ottawa is also licensed by the OEB as an electricity generator. However, the prices charged by Energy Ottawa for the electricity commodity are not subject to regulation.

The Ontario electricity commodity market is open to competition at both the wholesale and retail levels. At the wholesale level, generators can bid into the electricity market overseen by the Independent Electricity

System Operator (IESO). At the retail level, consumers have the choice of purchasing the electricity commodity through a contract with a licenced electricity retailer or from a licenced distributor, such as Hydro Ottawa, as part of a standard supply service (SSS).

Under SSS, the commodity is provided to customers on a pass-through basis such that commodity revenues reflect the cost. Residential and small commercial customers receive the SSS through a regulated price plan. Under the regulated price plan, the OEB sets the commodity rates for the province twice per year, in May and November, based on a forecast of the commodity costs. Differences between the forecast and actual costs are maintained by the Ontario Power Authority (OPA) in a variance account until the balance is cleared through future regulated commodity rates. Customers not on the regulated price plan pay for the commodity based on the provincial spot market price.

Regardless of whether customers have signed a contract with a retailer, or are supplied through the SSS, Hydro Ottawa continues to be responsible for the delivery of the electricity through its distribution system to all customers within the licenced service area.

Revenue regulation

The OEB must approve all rates charged by Hydro Ottawa to its customers. Electricity bills include charges for the commodity, wholesale market services, transmission services, distribution services, debt retirement, and goods and services tax. Revenues from all of these charges, except distribu-



"As the founding sponsor of Project Porchlight, Hydro Ottawa was an early champion of the idea that simple actions can make a big difference for our environment. Now, the project they helped to start here in Ottawa has spread to over 500 communities, and saved over one billion kilowatt hours of electricity."

— Stuart Hickox, Executive Director, OneChange

tion services, are collected from customers on a pass-through basis. Any differences between the revenue and the cost of providing that service are tracked as a regulatory asset or liability to be cleared through rates in a subsequent period. For distribution services, Hydro Ottawa applies to the OEB for approval of distribution rates which include a fixed charge and a variable charge based on electricity consumption or peak demand.

To establish rates for distribution service, the OEB has adopted an incentive regulation mechanism (IRM). Under IRM, a distributor first sets base rates through a cost of service application. This application determines the appropriate revenue requirement to cover the company's forecasted costs, plus a regulated return. For subsequent years in which no cost of service application is filed, rates are adjusted by an inflation factor less a productivity factor. Further adjustments may be permitted for incremental capital above a prescribed threshold, or for recovery of extraordinary event costs.

In September 2007, Hydro Ottawa filed a cost of service application to rebase distribution rates based on forecasted distribution costs and sales volumes for 2008. Using a formula established by the OEB, the regulated rate of return on equity (ROE) used to set the 2008 distribution rates was 8.57%, down from the previous regulated rate of 9.0%. This rate of ROE will remain until the next cost of service rate application. In addition, the application sought a decrease in retail transmission rates to reflect a decrease in wholesale transmission costs from Hydro One Networks Inc. The OEB issued its decision

on the application in March 2008 and the new rates became effective on May 1, 2008. The Decision also included approval to clear balances in certain regulatory asset and liability accounts accumulated to October 31, 2007. The resultant rate order, including a new rate adder to fund the Smart Meter program, resulted in an increase to the electricity bill for a typical residential customer of 0.6%.

In November 2008, Hydro Ottawa filed a rate application for rates effective May 1, 2009 using the IRM mechanism. Rates will be adjusted by an inflation factor determined based on the Gross Domestic Product Implicit Price Index on Final Domestic Demand (GDP-IPI FDD) released by Statistics Canada for 2008 at 2.3%, less a factor of 1.12% established by the OEB to encourage productivity improvements.

Under the OEB's IRM, if Hydro Ottawa's actual rate of return on equity is 300 basis points above or below 8.57%, the OEB will undertake a review with the possible outcome that a new cost of service application be required. Also proposed in the November 2008 application was an increase to retail transmission rates to reflect an increase in wholesale transmission costs from Hydro One Networks Inc. and an adjustment to reflect revenue lost as a result of load reductions from conservation activities.

CAPABILITY TO DELIVER RESULTS

Liquidity and capital resources

The table below shows the debt and liquidity profile of the Corporation as of December 31.

Liquidity and capital resources

	(\$000s)	
	2008	2007
Debt:		
Notes payable	251,481	251,418
Banker's acceptances and bank loans	—	24,576
Letters of credit	11,931	12,011
Liquidity:		
Unused bank facilities	163,169	143,639

Sources of Liquidity and capital resources

The Corporation's primary sources of liquidity and capital resources are derived from operating activities, banking facilities and proceeds from bond issuances, as and when required. Liquidity and capital resource requirements are primarily for capital expenditures to maintain the Hydro Ottawa electricity distribution system, cost of power, interest expense and prudential requirements. As at December 31, 2008, the Corporation has two credit facilities available that total \$174.9 million, with \$163.1 million of these facilities available.

On January 16, 2009 the credit facilities in place at December 31, 2008 were replaced with a new credit facility for \$140.2 million. The revised facility is more than adequate

18,000

Number of Ottawa homes that can be powered by renewable energy generated by Energy Ottawa.

for current and projected needs, and provides management with additional flexibility. The Corporation may use up to \$75 million of the new facility for general operating requirements and annual capital expenditures. In addition, a \$50 million five year revolving credit line has been secured for larger capital expenditures and acquisitions. Capital expenditure requirements in excess of this will be funded through future bond issuances. The remaining facility is adequate to support the short-term working capital deficit experienced each month to settle the IESO cost of power invoice in advance of receiving payment from customers.

CASH PROVIDED BY OPERATING ACTIVITIES

Cash generated by operating activities provided \$28.9 million more cashflow than in 2007. The majority of the increase arises from cashflow generated from working capital as a result of variations to accounts receivable, unbilled revenue, accounts payable and accrued liabilities. These changes are primarily a result of timing of payments.

Another significant change relates to a reduction of net regulatory assets of \$3.8 million, mainly due to the recovery of regulatory assets that were accumulated up to December 31, 2004. The recovery of these assets was completed in April 2008.

CASH USED IN INVESTING ACTIVITIES

Total investment in capital assets in 2008 was \$83.9 million, offset by contributions in aid of construction and proceeds from the disposition of assets, for net cash impact of \$66.5 million. Most of this — \$63.1 million — was invested in Hydro Ottawa's electricity distribution and general plant initiatives. Investments were approximately \$34.6 million on sustainment capital, to replace aging infrastructure and modify existing distribution system; \$20.2 million (net) on demand projects, which include third party driven growth projects such as new residential or commercial installations, and municipal improvement projects; and \$8.3 million on general plant and Conservation and Demand Management (CDM).

Investment in the Hydro Ottawa electricity distribution system continues to be robust. In 2008, 400 new poles, 729 transformers and 122 km of underground cable were installed. Over 235 demand capital projects were initiated including the addition of 4,000 new residential and 35 new commercial connections.

Additional capital acquisitions of \$0.5 million were invested to maintain or enhance the generation capability of Energy Ottawa facilities.

CASH USED IN FINANCING ACTIVITIES

In 2008, the Corporation repaid bank indebtedness of \$24.6 million. This was enabled by improved cash flow from operations and the proceeds from the sale of Telecom Ottawa subsidiaries.

Dividends were paid to the Shareholder in 2008 in accordance with the approved dividend policy. 2008 payments totaled \$28.4 million, with \$16.4 million arising from 2007 operations, and \$12.0 million from the sale of Telecom Ottawa subsidiaries. Dividends of \$12.0 million paid in 2007 arose from 2006 operations only.

SUMMARY OF SOURCES AND USES OF CASH

	(\$000)	
	2008	2007
Cash and cash equivalents, beginning of year	—	420
Net cash provided by operations	87,955	59,030
Net acquisition of capital assets	(66,486)	(73,369)
Bank indebtedness (repaid)	(24,576)	24,576
Dividends paid	(28,375)	(12,000)
Other	228	464
Net cash inflow from discontinued operations	52,586	879
Cash and cash equivalents, end of year	21,332	0

CREDIT RATINGS

As at December 31, 2008, the Corporation's bonds were rated as follows:

Rating Agency	Rating
Standard & Poors Rating Services Inc.	A (stable)
Dominion Bond Rating Service Inc.	A (low)



"When I first started, it was uncommon to see females in my role. But, over the years, our industry has changed — and Hydro Ottawa has made great strides in encouraging and promoting diversity in the workplace."

— Sandy Dickson, Hydro Ottawa System Operator

During 2008, the Standard & Poors rating was upgraded from A- to A "stable", to reflect the Corporation's continuing improvement in its financial metrics driven by strong operational performance and the low level of business risk associated with its regulated electricity distribution business. In May 2009, the Dominion Bond Rating Service upgraded its rating of Hydro Ottawa's Senior Unsecured Debt to 'A' from 'A (low)'. The Corporation's bonds carry covenants normally associated with this type of debt (see Note 15 of the consolidated financial statements for further details). The Corporation is in compliance with these covenants as at December 31, 2008.

CRITICAL NON-CAPITAL RESOURCES

The Corporation employs approximately 575 people. Hydro Ottawa employs over 90 percent of this workforce.

In the next 5 years, 84 employees will be eligible for early retirement with an unreduced pension in Hydro Ottawa. Over 50 percent are trades or technical employees; the other 50 percent are administrative/clerical and management group employees.

In preparation for these eventual retirements, which are similar to those being experienced by many other utilities in Ontario, Hydro Ottawa has undertaken an extensive in-house Apprenticeship Program. A Succession Planning and Management Program was also developed in 2008 to ensure that there are known employees in the pipeline for key positions of top priority positions and potential successors. This initiative will continue in 2009.

INTERNAL PROCESSES

Various technology initiatives have been introduced to better manage electrical distribution assets and improve customer service, by increasing the reliability of the network through faster repairs, and enhancing its sustainability through new technologies.

The Geographical Information System (GIS) continues to be leveraged to enhance outage management, asset management, system design, and other functions throughout the Corporation. A major upgrade of the Hydro Ottawa Outage Management System (OMS) took place in 2008 providing enhanced

functionality including faster data lookup and improved circuit tracing. Automatic event grouping and quicker data migration from GIS to OMS enables faster diagnosis and response to problems in the distribution system when they arise.

Looking forward, key upgrades or updates are anticipated for the Corporation's financial system and Customer Information System over the 2009 to 2011 timeframe.

Hydro Ottawa continues to be actively involved in implementing the province's Smart Meter program, which mandates the conversion of all electricity meters to Smart

Selected Consolidated Financial Results (\$000)

	2008	2007	Change \$	Change %
Revenue				
Power recovery	544,192	548,081	(3,889)	
Distribution and other	153,568	137,533	16,035	
	697,760	685,614	12,146	1.8%
Expenses				
Purchased power	537,979	542,911	(4,932)	
Operations, Maintenance and Admin	68,125	54,116	14,009	
	606,104	597,027	9,077	1.5%
EBITDA	91,656	88,587	3,069	3.5%
Amortization	40,602	38,491	2,111	
Interest	11,770	12,840	(1,070)	
Taxes	13,571	14,733	(1,162)	
Other	423	(1,485)	1,908	
Net income from continuing operations	25,290	24,008	1,282	5.3%
Income from discontinued ops.	1,775	3,392	(1,617)	
Gain on sale of discontinued ops.	22,931	(109)	23,040	
	24,706	3,283	21,423	652.5%
Comprehensive Income	49,996	27,291	22,705	83.2%

\$54.8 million

Dollars invested in 2008 for existing and new infrastructure.

Meters by the end of 2010. Deployment is ahead of target and by December 31, 2008, approximately 260,000 meters had been installed across our system. Approximately 244,000 of those meters are now fully connected and integrated with the billing system. Hydro Ottawa continues to work collaboratively with the Ministry of Energy and other industry stakeholders to plan for the implementation of Time-of-Use billing. Implementation timelines will be determined by the Province.

Hydro Ottawa continues to maintain certification with several international standards, including ISO 9001 Quality Management System, ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health and Safety. Internal and external third party audits are conducted as required to confirm and maintain certification.

RESULTS

The Corporation continued a positive trend of sustained profitability in 2008, both from continuing operations and the one time sale of the Telecom Ottawa subsidiaries.

SELECTED CONSOLIDATED FINANCIAL RESULTS

The selected consolidated financial results of the Corporation should be viewed in conjunction with the audited consolidated financial statements.

NET INCOME

Net income from continuing operations was \$25.3 million in 2008 compared to \$24.0 million in 2007, for a 5.3% increase. The increase is primarily due to increased revenue in the electrical distribution company from a May 1, 2008 rate increase, and higher electricity generation revenue from Energy Ottawa plants.

Comprehensive income, which includes continuing operations, plus income from Telecom Ottawa for the period January 1 to April 30, 2008, and an after tax gain on sale of the Telecom Ottawa subsidiaries completed on May 1, 2008, totalled just under \$50.0 million, for an 83% increase over 2007.

NORMALIZED NET INCOME

Adjusting for the impact of taxes and extraordinary items, normalized net income increased \$2.8 million over 2007.

REVENUE FROM CONTINUING OPERATIONS

Revenue is earned from electricity distribution, sales of generated power, energy management services and sundry revenue.

Hydro Ottawa power recovery — a flow-through of purchased power costs to the customer — decreased \$3.9 million, mainly due to a 12% reduction in transmission rates from 2007.

Revenue, excluding power recovery, increased \$16.0 million from 2007. Electricity distribution revenues are reflective of OEB approved distribution rates, and the amount of electricity consumed. Revenue from distribution sales increased due to the impact of the May 1, 2008 rate increase, load growth and other adjustments. Additional revenue was also earned from an expanded CDM program, and increased generation revenue was achieved in Energy Ottawa electricity generation plants on the Ottawa River and at the Trail Road Landfill.

Total revenues increased 1.8% over 2007.

Normalized Net Income

(\$000)

Comprehensive net income

Adjusted to reflect income tax at statutory rates
Non-recurring future tax asset

Comprehensive net income using statutory tax rates

Adjusted for non-recurring items (net of tax)

Provision (recovery) of regulatory asset write down
Discontinued operations
Gain on sale of discontinued operations

Normalized net income

Statutory tax rate

	2008	2007
Comprehensive net income	49,996	27,291
Adjusted to reflect income tax at statutory rates	(183)	657
Non-recurring future tax asset	-	(3,241)
Comprehensive net income using statutory tax rates	49,813	24,707
Adjusted for non-recurring items (net of tax)		
Provision (recovery) of regulatory asset write down	(450)	434
Discontinued operations	(1,775)	(3,392)
Gain on sale of discontinued operations	(22,931)	109
	(25,156)	(2,849)
Normalized net income	24,657	21,858
Statutory tax rate	33.5%	36.12%



"Proactive. Responsive. Helpful. The service is excellent — they go over and above the call of duty. Hydro Ottawa has helped us be more efficient and save money."

— Troy Hughes, Brookstreet Hotel

EXPENSES OF CONTINUING OPERATIONS

Purchased power costs represent the cost of electricity delivered to customers within the Hydro Ottawa's distribution service territory and consist of the commodity, wholesale market service charges and transmission charges levied by the IESO, net of energy generated by Energy Ottawa and supplied to Hydro Ottawa as an embedded generator within Hydro Ottawa's service territory. The cost of purchased power decreased by \$4.9 million, due mainly to the decrease in transmission rates noted above.

2008 operating, maintenance and administration expenses of \$68.1 million increased by \$14.0 million over 2007. The most significant expense increase, amounting to \$6.2 million, resulted from a decrease in allocation of overhead costs to the capital program, as the Corporation shifted from a fully allocated cost approach to a directly attributable approach, in line with the trend towards more restrictive policies for the capitalization of overhead costs. An additional \$2.7 million was spent on CDM programs. Labour costs increased \$2.1 million as a result wage and benefit increases, and the growth of the apprenticeship program in Hydro Ottawa.

Total expenses increased 1.5% over 2007.

OTHER EXPENSES/RECOVERIES

Amortization expenses rose by \$2.1 million primarily due to the Smart Meter program. Smart Meters are amortized over a 15 year period replacing conventional meters which were amortized over 25 years, thereby accelerating amortization expense. Continued investment in electricity distribution

assets also contributes to higher year over year amortization expenses.

Financing costs have decreased \$1.1 million, primarily due to the elimination of the Corporation's bank indebtedness in 2008.

PAYMENT-IN-LIEU OF TAXES (PILS)

The Corporation's effective income tax rate was 33.03 percent in 2008 compared to 37.97 percent the previous year. The effective rate for 2008 is closely representative of the statutory income tax rate of 33.5 percent.

DISCONTINUED OPERATIONS

In November 2007, the Board of Directors of Hydro Ottawa Holding approved a plan to sell the Telecom Ottawa subsidiaries and to exit this business segment, subject to final approval of the terms and conditions of sale. A definitive sale agreement dated February 25, 2008 was signed for gross proceeds of \$63 million, subject to post-closing adjustments. The sale was effective May 1, 2008.

Telecom Ottawa produced net income of \$1.8 million for the four months ended April 30, 2008, and an after tax gain of \$22.9 million has been recognized from the sale.

ASSETS

Total assets decreased by \$8.0 million from 2007. However, this decrease is primarily attributable to the sale of the Telecom Ottawa subsidiaries, as the 2007 statements contained \$30.0 million of assets held for sale which have been removed from the 2008 Balance Sheet. Adjusted for the impact of the sale, total assets have increased \$22.1 million over 2007.

Cash on hand is \$21.3 million at year end 2008, while at year end 2007 the Corporation was in a \$24.6 million bank indebtedness position. Capital assets are up \$17.1 million resulting from continued investment in electrical distribution and generation infrastructure net of contributions in aid of construction and amortization. These asset increases are offset by reductions in the year end positions of accounts receivable, unbilled revenue, and inventory.

Balance Sheet Summary

(\$000)

	2008	2007	Change \$	Change %
Assets	703,335	711,295	(7,960)	-1.1%
Current liabilities	116,197	141,956		
Non current liabilities	269,406	271,825		
Total liabilities	385,603	413,781	(28,178)	-6.8%
Shareholder's equity	317,732	297,514	20,218	6.8%
Liabilities and shareholder's equity	703,335	711,295	(7,960)	-1.1%

3,615,000

Kilowatt hours saved for Energy Ottawa clients through energy management services provided in 2008 — equal to \$360,000 in annual energy cost savings.

LIABILITIES

Total liabilities declined by \$28.2 million in 2008. This change is largely attributable to the Corporation's positive cash position at year-end 2008, where bank indebtedness of \$24.6 million was carried at year-end 2007.

NET CAPITAL EXPENDITURES

Net capital expenditures decreased in 2008 from 2007 by \$10.2 million, primarily due to completion of the GIS project in 2007. The installation of smart meters continued to be a significant component of the capital program in 2008, with expenditures of greater than \$14.5 million. An additional \$8.0 million is projected for 2009 to substantially complete the installation program. In total, net capital expenditures of approximately \$68.7 million are forecast for 2009, for an increase of \$5.1 million from the 2008 actual program. Sustainment capital spending on the Corporation's distribution and generation system in accordance with asset management plans is

expected to be maintained at or above 2008 levels through to 2012.

SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of commitments and contingencies at the date of the financial statements.

These estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Because they involve varying degrees of judgment and uncertainty, the amounts currently reported in the financial statements could prove to be inaccurate in the future.

The following accounting estimates require management's judgments and estimates in

preparing our financial statements and, as such, are considered to be critical. Most of these are disclosed in the notes to the Corporation's consolidated financial statements for the year ended December 31, 2008:

- Regulatory asset recovery, Note 7
- Employee future benefits, Note 13
- Estimated useful life of major asset categories, Note 2
- Customer deposits, Note 2

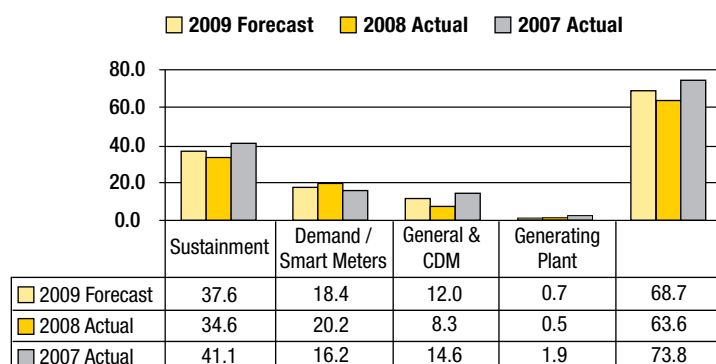
Allowance for doubtful accounts

The financial statements contain an estimate of bad debt losses arising from uncollectible accounts receivable, calculated based on a combination of reviewing specific accounts and taking a specific percentage of remaining balances over 60 days (2007 – 90 days). Management has reduced the threshold for the allowance in 2008 based on available indicators of local economic performance, particularly in the fourth quarter of 2008.

Unbilled revenue

Management establishes unbilled revenue balances based upon an estimate of customer electricity consumption to the end of the financial reporting period. Customer consumption estimates include instances where the meter reading is not scheduled to take place until the next period. This requires management to estimate based on historical usage. Consumption estimates are also necessary when meter readings are not available at the end of a financial reporting period. In the future, with the full rollout of Smart Meter technology the requirement for management estimates of consumption will be reduced if not eliminated.

Net Capital Expenditures (\$ millions)



"Very satisfied with delivery time, coordination, service — they're very honest and reliable. They do what they say they will do. In fact, they saved us more than estimated — over \$70,000 so far. Our corporate mission is to reduce our environmental impact. Hydro Ottawa has helped us every step of the way."

— Marc Deselliers, Morguard Investments Limited

Although unbilled revenue is based on current pricing information, additional estimates are required by management to match power purchases, as invoiced by the IESO, with power sales from a pricing perspective.

Allocation of Overhead Costs to Capital Assets

In December 2007, the Canadian Institute of Chartered Accountants (CICA) amended Handbook section 1100 — Generally Accepted Accounting Principles. As permitted by the standard, the Corporation has chosen to implement a change to its capitalization policy effective January 1, 2008. Management believes the new policy of allocating only those costs directly attributable to specific capital assets is more reflective of industry practice and is in line with the trend towards more restrictive policies for the capitalization of costs. The change in policy has been applied prospectively beginning January 1, 2008.

EMERGING ACCOUNTING PRONOUNCEMENTS

Emerging changes to accounting policies are discussed at Note 3 to the consolidated financial statements. Further commentary with respect to these changes are provided below.

International Financial Reporting Standards (IFRS)

In 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. Some of the converged standards will be implemented in Canada during the transition period with the remaining standards adopted at the change over date. In 2008, the Corporation launched a project for conversion to IFRS that has engaged outside professional expertise to work with internal professionals, and completed a diagnostic analysis. The project will continue through 2009 and into 2010. Due to the complexity of the new accounting framework, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Accounting for Rate Regulated Entities

In 2007, the AcSB issued a decision, effective January 1, 2009, to withdraw the temporary exemption in CICA Handbook Section 1100, GAAP, which permits the recognition and measurement of assets and liabilities arising from rate regulation. Further, CICA Handbook Section 3465, Income Taxes, was amended to require the recognition of future income tax liabilities and assets for regulated enterprises that were previously not subject to these provisions. The new rules will apply prospectively on January 1, 2009 and for Hydro Ottawa will result in accrual accounting being followed for payments in lieu of corporate taxes, rather than the cash basis of accounting, which has been consistent with OEB direction. The regulatory impact of this ruling will be reflected through the recognition of regulatory assets and/or liabilities. As such, the Corporation does not believe this will have an impact on reported results at this time.

Goodwill and Intangible Assets

In November 2007, the AcSB approved new CICA Handbook Section 3064, Goodwill and Intangible Assets, to replace CICA Handbook section 3062, Goodwill and Other Intangible Assets. The new section provides guidance on the recognition of goodwill and intangible assets and addresses when an internally developed intangible asset meets the criteria for recognition. The new section will be effective for fiscal years beginning on or after October 1, 2008. Assets that may potentially be reclassified include land rights and easements, certain software assets and amounts contributed to other entities as capital contributions. The Corporation is currently in the process of evaluating the potential impact of this standard on its financial statements.

RISKS AND UNCERTAINTIES

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

The Corporation's Enterprise Risk Management (ERM) system establishes the infrastructure to allow the Corporation to predict and respond to risks and opportunities impacting Strategic Direction and business activities, and to do so in an effective, consistent and integrated manner across the enterprise. A three-year Business Planning cycle, with annual updates, also enables continuous review of assumptions and the state of the market in which the Corporation operates.

Some of the key factors that could adversely impact the achievement of the projected results outlined above are:

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

The OEB approves local electricity distribution rates based on projected load growth and consumption levels. If actual experience varies from the projections, the Corporation's net income will be affected. CDM programs call for a 5 percent reduction in Ontario's peak electricity demand by 2010. The OEB has recognized the need to compensate for such lost revenue, but there is no certainty that such compensation will be sufficient to cover all lost revenue.

The ability to maintain and operate the electrical distribution system reliably and safely relies on sufficient funding and the OEB allowing recovery of capital expenditures on distribution infrastructure repair and replacement.

Economy – The state of the local and national economy could have a significant impact on the Corporation's business per-

formance, through factors such as interest rates, inflation, customer credit risk, and weakening demand for electricity and/or value-added services.

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

Labor Force Demographics – An inability to recruit and retain a sufficient number of skilled employees would negatively impact the Corporation's ability to deliver on the objectives set out in the strategic plan. Current workforce demographics across the electricity sector present an emerging risk that must be managed, particularly in the trades, as retirements are outpacing new entrants to the workforce. Apprentice training and succession planning programs are underway.

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

OUTLOOK

Subject to the risks and uncertainties already discussed in this document, Hydro Ottawa Holding will continue to provide efficient, reliable electricity distribution

services to customers at a competitive cost, while creating sustainable growth in earnings. The Corporation will achieve this by continuing to invest in core distribution assets, improving productivity and pursuing business growth opportunities that leverage corporate strengths.

The Corporation will pursue positive long-term financial performance through strategies such as stabilizing and protecting revenues, managing net controllable costs, achieving positive cash flow, and maximizing rate of return. The Corporation will continue to make prudent investments in maintaining and building its infrastructure, subject to rate-of-return and other financial considerations.

In June 2008, the City of Ottawa endorsed a targeted growth strategy for the Corporation involving three basic components: expanding the electricity distribution business beyond its current service territory, expanding hydroelectric and other renewable generation capacity, and diversification of business lines with a focus on compatible, low risk opportunities that offer stable long-term returns. The Corporation has begun and will continue to actively pursue opportunities for expansion in accordance with the endorsed strategy.

Hydro Ottawa Holding is projected to continue the trend of solid financial performance, in line with the 2008 – 2012 Strategic Direction and Financial Outlook.

■ Consolidated Financial Statements ■

December 31, 2008

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Report of Management

Management is responsible for the integrity of the financial data reported by the Corporation. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements and other data using management's best judgment, estimates and Canadian generally accepted accounting principles, applied on a basis consistent with the preceding year.

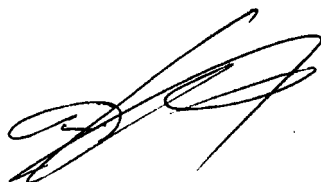
Management maintains appropriate systems of internal control and corporate wide policies and procedures, which provide reasonable assurance that the Corporation's assets are safeguarded and that financial records are relevant and reliable.

The Board of Directors, through the Audit Committee, ensures that management fulfills its responsibility for financial reporting and internal control. The Audit Committee consists of outside directors and at regular meetings reviews audit, internal control and financial reporting matters with management and external auditors. The Audit Committee has reviewed the consolidated financial statements and submitted its report to the Board of Directors.

On behalf of Management,

A handwritten signature in black ink, appearing to read "Rosemarie T. Leclair".

Rosemarie T. Leclair
President and Chief Executive Officer

A handwritten signature in black ink, appearing to read "Alan Hoverd".

Alan Hoverd
Chief Financial Officer

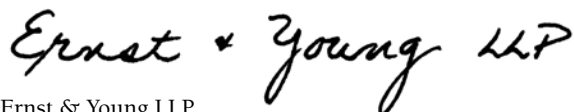
Auditors' Report

To the Shareholder of
Hydro Ottawa Holding Inc.

We have audited the consolidated balance sheet of Hydro Ottawa Holding Inc. as at December 31, 2008 and the consolidated statements of income, comprehensive income and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

March 2, 2009

Consolidated Statement of Income, Comprehensive Income and Retained Earnings

Year ended December 31
(tabular amounts are in thousands of dollars)

	2008	2007
Revenues (Note 23)		
Power recovery	544,192	548,081
Distribution sales	134,227	123,268
Other revenue	19,341	14,265
	697,760	685,614
Expenses (Note 23)		
Purchased power	537,979	542,911
Operations, maintenance and administration	68,125	54,116
Amortization of capital and intangible assets	40,602	38,491
	646,706	635,518
Income from continuing operations before other expenses (recoveries) and payments in lieu of corporate income taxes	51,054	50,096
Financing costs (Note 16)	11,770	12,840
Provision (recovery of provision) for regulatory asset write-down	(676)	679
Payments in lieu of provincial capital tax	966	1,010
	12,060	14,529
Non-controlling interest in PowerTrail Inc. (Note 14)	(133)	(67)
Income from continuing operations before payments in lieu of corporate income taxes	38,861	35,500
Payments in lieu of corporate income taxes (Note 20)	13,571	14,733
Recovery of future payments in lieu of corporate income taxes related to a prior year (Note 20)	–	(3,241)
Income from continuing operations	25,290	24,008
Income from discontinued operations (Note 9)	1,775	3,392
Gain (loss) on disposal of discontinued operations (Note 9)	22,931	(109)
Net income and comprehensive income	49,996	27,291
Retained earnings, beginning of year	69,061	53,770
Refundable dividend tax paid	(1,403)	–
Dividends paid (Note 17)	(28,375)	(12,000)
Retained earnings, end of year	89,279	69,061

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

Year ended December 31
(tabular amounts are in thousands of dollars)

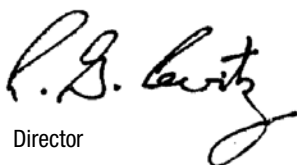
	2008	2007
Current assets		
Cash	21,332	–
Accounts receivable (Note 4)	49,046	57,520
Unbilled revenue (Note 5)	76,507	82,376
Inventory (Note 6)	6,512	7,994
Regulatory assets (Note 7)	3,039	1,745
Other assets (Note 8)	773	981
Assets related to discontinued operations (Note 9)	566	1,409
	157,775	152,025
Non-current assets		
Net regulatory assets (Note 7)	12,084	13,118
Capital assets (Note 10)	530,546	513,403
Other assets (Note 8)	2,930	2,686
Assets held for sale (Note 9)	–	30,063
Total assets	703,335	711,295
Current liabilities		
Bank indebtedness (Note 11)	–	24,576
Accounts payable and accrued liabilities (Note 12)	114,218	114,080
Regulatory liabilities (Note 7)	1,705	–
Liabilities related to discontinued operations (Note 9)	274	3,300
	116,197	141,956
Non-current liabilities		
Net regulatory liabilities (Note 7)	1,622	5,234
Employee future benefits (Note 13)	5,041	4,834
Customer deposits	8,230	8,242
Future income tax liability (Note 20)	2,338	1,521
Repayable grant	93	109
Non controlling interest (Note 14)	601	467
Notes payable (Note 15)	251,481	251,418
	385,603	413,781
Contingent liabilities (Note 21)		
Commitments (Note 22)		
Shareholder's equity		
Share capital (Note 17)	228,453	228,453
Retained earnings	89,279	69,061
	317,732	297,514
Total liabilities and shareholder's equity	703,335	711,295

The accompanying notes are an integral part of these consolidated financial statements.

ON BEHALF OF THE BOARD:



Director



Director

Consolidated Statement of Cash Flows

Year ended December 31

(tabular amounts are in thousands of dollars)

	2008	2007
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income from continuing operations	25,290	24,008
Adjustments for non-cash items		
Amortization of capital and intangible assets	40,602	38,491
Loss (gain) on disposal of capital assets	(199)	10
Allowance for funds used during construction (Note 10)	(687)	(253)
Amortization of debt issue costs	226	328
Write off of capital assets and inventory	18	–
Employee future benefits (Note 13)	207	291
Recovery of future payments in lieu of corporate income taxes related to a prior year (Note 20)	–	(3,241)
Future payments in lieu of corporate income taxes	817	631
Non controlling interest in PowerTrail	134	67
Change in non-cash operating working capital items		
Decrease (increase) in accounts receivable	8,474	(1,542)
Decrease (increase) in unbilled revenue	5,869	(690)
Decrease (increase) in inventory	1,482	(701)
Decrease in regulatory assets net of liabilities	3,747	10,324
Increase in other assets	(169)	(582)
Increase (decrease) in accounts payable and accrued liabilities	2,144	(8,134)
Increase in deferred revenue	–	23
	87,955	59,030
Financing		
Bank indebtedness and banker's acceptances	(24,576)	24,576
Contributions in aid of construction	17,156	23,710
Customer deposits received	396	12
Repayable grant	(8)	(28)
Notes payable (Note 15)	(160)	600
Dividends paid	(28,375)	(12,000)
	(35,567)	36,870
Investing		
Acquisition of capital assets	(83,872)	(97,119)
Proceeds from disposition of capital assets	230	40
Deposit on equipment and deferred costs	–	(120)
Net investing activities related to discontinued operations	(791)	(5,786)
	(84,433)	(102,985)
Net cash outflow from continuing operations	(31,254)	(1,299)
Net cash inflow from discontinued operations	52,586	879
Cash, beginning of year	–	420
Cash, end of year	21,332	–
Other information		
Interest paid	12,625	12,889
Payments in lieu of corporate income taxes paid	12,477	11,437

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2008

(tabular amounts are in thousands of dollars)

1. DESCRIPTION OF BUSINESS

Hydro Ottawa Holding Inc. ("Hydro Ottawa Holding" or the "Corporation") was incorporated on October 3, 2000 pursuant to the *Business Corporations Act* (Ontario) as mandated by the Ontario government's *Electricity Act*, 1998. The Corporation is wholly owned by the City of Ottawa (the Shareholder). Hydro Ottawa Holding owns 100% of each of Hydro Ottawa Limited ("Hydro Ottawa"), Energy Ottawa Inc. ("Energy Ottawa") and Telecom Ottawa Holding Inc. ("Telecom Ottawa").

Hydro Ottawa – A regulated electricity distribution company that owns and operates electricity infrastructure in the City of Ottawa and the Village of Casselman and is responsible for the safe, reliable delivery of electricity to homes and businesses in its licensed service area. In addition to billing for distribution services, it also invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services and for debt retirement.

Energy Ottawa – A power generation company that generates and markets EcoLogo-certified green power. Energy Ottawa also offers a range of expert energy management and procurement services to large energy consuming organizations and corporations. Energy Ottawa holds a 60% interest in PowerTrail Inc. ("PowerTrail"), which was incorporated on August 10, 2005, to construct and operate a generation plant and gas collection system at the Trail Road landfill site in Ottawa, Ontario. PowerTrail commenced commercial operations on January 31, 2007.

Telecom Ottawa – In 2008, Telecom Ottawa sold the shares of all of its wholly owned subsidiaries (Note 9). Telecom Ottawa was a broadband data carrier and Internet service provider based in Ottawa. Telecom Ottawa owned and operated a metropolitan wide network and provided fibre optic services to both public and private sector organizations. This broadband infrastructure enabled the provision of transparent LAN services, high speed Internet transit and dark fibre services. The following is the list of the subsidiaries that were sold: Telecom Ottawa Limited, 2038455 Ontario Inc. and Telecom Ottawa Regional Limited.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for publicly accountable entities, including principles prescribed by the Ontario Energy Board ("OEB") in the Accounting Procedures Handbook ("AP Handbook"). In the opinion of management, all adjustments necessary for fair presentation are reflected in the consolidated financial statements. The consolidated financial statements reflect the significant accounting policies summarized below.

Basis of consolidation

The consolidated financial statements include the accounts of Hydro Ottawa Holding and its subsidiaries: Hydro Ottawa, Energy Ottawa, which includes the accounts of PowerTrail, and Telecom Ottawa, which includes the accounts of Telecom Ottawa Limited, Telecom Ottawa Regional Limited and 2038455 Ontario Inc. (Note 9). All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Consolidation of variable interest entities

The consolidation of a variable interest entity ("VIE") is required by a corporation if that corporation is subject to a majority of the risk of loss from the VIE's residual returns. The initial equity investment at risk was not sufficient to permit PowerTrail to finance its activities without additional subordinated financial support from its shareholders and as such PowerTrail is consolidated in the consolidated financial statements of Hydro Ottawa Holding and Energy Ottawa.

Long term investments

Investments in which the Corporation has significant influence are accounted for using the equity method.

The Corporation holds a 28.33% interest in Chaudière Water Power Inc. ("CWPI"), a company incorporated to act as an agent for the three principals of CWPI, with the mandate to control operate and maintain the Chaudière dam. This investment is recorded at cost plus the Corporation's share of income or loss which to date has been \$nil in the consolidated financial statements of Hydro Ottawa Holding and Energy Ottawa.

Measurement uncertainty

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the financial statement date. Accounts receivable, unbilled revenue and regulatory assets and liabilities are reported net of an appropriate allowance for unrecoverable amounts. Other significant estimates are used in determining the useful lives and asset impairments of long lived assets and to calculate payments in lieu of corporate income taxes, employee future benefits and certain accruals.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by the OEB or the provincial government. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies.

Regulation

Hydro Ottawa is regulated by the OEB under the authority of the *Ontario Energy Board Act, 1998*. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs and revenues in the rates of a specific period, resulting in a change in the timing of accounting recognition from that, which would have applied in an unregulated company.

The following regulatory treatments have resulted in accounting treatments that differ from GAAP for enterprises operating in a non-regulated environment:

a) Regulatory assets and liabilities

Regulatory assets primarily represent costs that have been deferred because it is probable that they will be recovered in future rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers for electricity services and the costs that Hydro Ottawa incurs to purchase these services.

Regulatory balances are comprised principally as follows:

Regulatory assets recovery account and regulatory liabilities refund account – On March 17, 2008, Hydro Ottawa received a decision from the OEB for new rates for the rate period beginning May 1, 2008, resulting from an application filed in September 2007. The new rates include the refund of regulatory liabilities and the recovery of certain regulatory assets accumulated up to October 31, 2007.

Retail services and settlement variances – The retail settlement variances relate to the charges Hydro Ottawa incurred for transmission services, generation (the commodity) and wholesale market operations from the Independent Electricity System Operator ("IESO") and Hydro One Networks Inc. that were not settled with customers during the period. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time and are reported at period-end dates in accordance with rules prescribed by the OEB. Hydro Ottawa has also recognized the net cost of providing retailer billing services and service transaction request services as a variance amount.

Deferred smart meter costs – The OEB has allowed electricity distributors to track the differences between the amounts funded through rates for smart meters, and program costs. Program costs include operating, maintenance, amortization and administrative expenses directly related to smart meters, a return on smart meter assets, and the net book value of conventional meters removed at the time of installation of smart meters.

Other variances and deferred costs – The OEB allows electricity distributors to record the difference between low voltage charges paid to Hydro One Network Inc. and charged to customers. The OEB previously allowed electricity distributors to record other expenditures as regulatory assets. Included in other regulatory assets are OEB annual cost assessments, incremental Ontario Municipal Employees Retirement System ("OMERS") pension expenditures, one time expenses incurred to issue the 2002 customer rebates arising from Bill 210 and incremental costs related to payment of the Ontario Price Credit.

Deferred payments in lieu of taxes ("PILs") – The OEB has established a PILs variance account in which distributors record the tax impact of legislative or regulatory changes to the tax rates or rules assumed in the electricity distribution rate application.

Hydro Ottawa has accrued interest on the regulatory asset and liability balances, as directed by the OEB.

b) Allowance for funds used during construction ("AFUDC")

An allowance for the cost of funds used during the construction period has been applied to major capital and development projects. Effective May 1, 2006, the OEB adopted the Scotia Capital Inc. All Corporates Mid Term Average Weighted Yield as the approved rate of interest. The annual effective interest rate for 2008 was 5.3% (2007 – 5.0%).

c) Payment in lieu of corporate income taxes

Hydro Ottawa is considered to be a municipal electric utility ("MEU") for purposes of the payments in lieu of taxes ("PILs") regime contained in the *Electricity Act, 1998* as all of its capital is directly owned by the City of Ottawa and not more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. The *Electricity Act, 1998* provides that an MEU that is exempt from tax under the *Income Tax Act* (Canada) ("ITA") and the *Corporations Tax Act* (Ontario) ("CTA") is required to make, for each taxation year, a "PILs" payment to the Ontario Electricity Financial Corporation ("OEFC") in an amount approximating the tax that it would be liable to pay under the ITA and the CTA if it were not exempt from tax.

The AP Handbook provides for the recovery of PILs by Hydro Ottawa through annual distribution rate adjustments as approved by the OEB.

Hydro Ottawa has adopted the taxes payable method to account for PILs as outlined in the AP Handbook. Under the taxes payable method, no provision is made for future income taxes as a result of unused tax losses or temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes are settled, it is expected that they will be included in the rates approved by the OEB.

Hydro Ottawa Holding, Energy Ottawa, Telecom Ottawa Holding Inc., Telecom Ottawa Limited and 2038455 Ontario Inc. provide for PILs using the liability method. Under the liability method, future income tax assets and liabilities are recognized for unused tax losses and the temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Future income tax assets and liabilities are measured using substantively enacted rates expected to apply to taxable income in the years those temporary differences are expected to be settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change is substantively enacted. Future income tax assets are recognized only to the extent that it is more likely than not that these assets will be realized.

Telecom Ottawa Regional Limited is taxable under the ITA and CTA since more than 10% of the Company's income is from activities carried on outside the municipal boundaries of the City of Ottawa. The Company provides for corporate income taxes using the liability method.

PowerTrail is taxable under the ITA and CTA as less than 90% of its capital is indirectly owned by the City of Ottawa. The Company provides for corporate income taxes using the liability method.

Financial instruments

Effective January 1, 2008, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 3862 – “Financial Instruments – Disclosures” and 3863 – “Financial Instruments – Presentation”. These new standards replace accounting standard 3861 – “Financial Instruments – Disclosure and Presentation”. Presentation requirements have not changed. Enhanced disclosure is required to assist users of the financial statements in evaluating the significance of financial instruments on the Corporation's financial position and performance, including qualitative and quantitative information about the Corporation's exposure to risks arising from financial instruments. The new accounting standards cover disclosure only and had no effect on the financial results of the Corporation (Note 19).

All financial instruments are initially recorded at fair value, unless fair value cannot be reliably determined. The subsequent measurement of each financial instrument depends on the balance sheet classification elected by the Corporation.

The Corporation classifies and measures its financial instruments as follows:

- (i) Cash is classified as “Assets Held for Trading” and is measured at fair value.
- (ii) Accounts receivable and unbilled revenue are classified as “Loans and Receivables” and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value with the exception of related party transactions which are measured at the carrying amount determined in accordance with Section 3840 “Related Party Transactions”. Subsequent measurements are recorded at amortized cost using the effective interest rate method if applicable.
- (iii) Accounts payable and accrued liabilities, notes payable and standby letters of credit are classified as “Other Financial Liabilities” and are initially measured at their fair value with the exception of related party transactions which are measured at the carrying amount determined in accordance with Section 3840 “Related Party Transactions”. Subsequent measurements are recorded at amortized cost using the effective interest rate method if applicable.

Inventory

Effective January 1, 2008, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3031 – “Inventories”, which requires inventories to be measured at the lower of cost or net realizable value; disallows the use of a last in first out inventory costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost no longer exists, the amount of the write down is to be reversed. This new standard also stipulates that any items considered to be major spare parts and standby equipment must be reclassified from inventory to capital assets when an entity expects to use them during more than one period.

The recommendations regarding the measurement of inventories had no significant impact on the Corporation. The reclassification of major spare parts and standby equipment from inventory to capital assets also had no material impact on the Corporation since the Corporation already includes certain major standby equipment as in-service capital assets and amortized these assets (Note 6).

Capital assets

In December 2007, the CICA amended section 1100 – “Generally Accepted Accounting Principles” to remove a temporary exemption pertaining to the application of the Section to the recognition and measurement of assets and liabilities arising from rate regulation effective January 1, 2009. As permitted by the standard, Hydro Ottawa has chosen to implement a change to its capitalization policy effective January 1, 2008. In the past Hydro Ottawa used a fully allocated cost approach to calculate and allocate its general overhead costs to capital assets that resulted in the capitalization of certain overhead costs not directly attributable to specific capital assets. Management believes the new policy of only allocating those costs, which are di-

rectly attributable to specific capital assets, is more reflective of industry practice in the absence of rate regulation and is inline with the trend towards more restrictive policies for the capitalization of costs. The change in accounting policy has been applied prospectively beginning January 1, 2008. In management's opinion the retrospective application of this policy change would be difficult to determine due to complexity of the calculation and the period of time that must be restated. Management also feels that this change would not enhance the utility of the financial statements to the user, nor the comparability of financial results, as Hydro Ottawa's costs would not be in line with its approved OEB revenue requirements. The OEB currently does not advocate retrospective rate making. In 2007, Hydro Ottawa capitalized approximately \$6,500,000 in general overhead costs not directly attributable to specific capital assets.

Capital assets include generation plant, distribution equipment, facilities and buildings, as well as construction and operating equipment.

Spare transformers, switchgear and meters are treated as capital assets. Spare transformers, switchgear and meters are items that are expected to be substituted for the original distribution plant transformers, switchgear and meters when these original plant assets are being repaired and are held and dedicated for the specific purpose of backing up plant in service as opposed to assets available for other uses.

Capital assets are recorded at cost and include contracted services, materials, labour, engineering costs, overheads and an allowance for the cost of funds used during construction. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Capital contributions received are treated as a contra account and are included in capital assets. The amount is amortized by a charge to accumulated amortization and a credit to amortization expense at an equivalent rate to that used for the depreciation of the related asset.

Significant renewals and enhancements to existing assets are capitalized only if the service life of the asset is increased, reliability is improved above original design standards or if operating costs are reduced by a substantial and quantifiable amount.

Amortization is recorded on a straight-line basis over the estimated service life of the related asset.

Estimated service lives for capital asset classes are as follows:

Land rights	50 years
Buildings and fixtures	25 to 50 years
Furniture, equipment and software	5 to 10 years
Rolling stock	4 to 8 years
Electricity distribution infrastructure	10 to 40 years
Civil works	10 to 25 years
Generating plant and equipment	50 to 60 years

Assets under construction are not subject to amortization.

The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Corporation will estimate the future cash flows expected to result from the use of the asset group and their eventual disposition, and record an impairment loss if required.

Asset retirement obligations

The Corporation recognizes its obligation to retire certain tangible long-lived assets, whereby the fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long lived asset and then amortized over its estimated useful life. In subsequent periods, the asset retirement obligation is adjusted for the passage of time and any changes in the amount or timing of the underlying future cash flows are reflected through charges to income. A gain or loss may be incurred upon settlement of the liability.

Deferred costs

Deferred debt issue costs

The Corporation incurred debt issue costs that were external, direct and incremental in nature arising from the Corporation's debenture offerings and credit facility restructuring. The debt issue costs were netted against the proceeds of debt and amortized using the effective yield method. Credit facility restructuring costs were amortized over the initial three-year term of the revolving term credit facility.

Deferred contract costs

The Corporation accumulates costs directly associated with securing long term energy contracts where the recovery of such is probable. Deferred costs include legal, professional and engineering fees that are external, direct and incremental in nature. Deferred costs are amortized on a straight-line basis over the term of the underlying contract.

Deferred royalty costs

Deferred royalty costs consist of royalties paid under a long term contract for the utilization of landfill gas to generate electricity at the Trail Road landfill site in Ottawa, Ontario. Deferred royalty costs are amortized on a straight line basis over the term of the contract.

Deferred development costs

The Corporation accumulates costs associated with development activities. These costs are external, direct and incremental in nature and are incurred for the completion of a potential construction project. Development costs are included in operating expenses until the construction of a generation plant is likely to occur and there is a reasonable expectation of commercial success. Costs associated with successful projects are reclassified from long term assets to capital assets and amortized over the useful life of the related assets. Costs of unsuccessful projects are written off in the year the project is abandoned.

Employee future benefits**Pension plan**

The Corporation provides pension benefits for its employees through the Ontario Municipal Employees' Retirement System ("OMERS") Fund (the "Fund"). OMERS is a multi-employer pension plan, which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a contributory-defined benefit pension plan, which is financed by equal contributions from participating employers and employees and by the investment earnings of the Fund. The Corporation recognizes the expense related to this plan as contributions are made.

Employee future benefits other than pension plan

Employee future benefits other than pensions provided by the Corporation include medical and life insurance benefits, supplemental pensions, accumulated sick leave credits and a retirement grant. These plans provide benefits to certain employees when they are no longer providing active service.

Employee future benefit expense is recognized in the period in which the employees render services.

Employee future benefits are recorded on an accrual basis. The accrued benefit obligation and current service costs are calculated using the projected benefit method pro rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Actuarial gains and losses resulting from experience different from that assumed or from changes in actuarial assumptions are amortized based on the excess of unamortized net actuarial gains and losses over a 10% corridor calculated in the aggregate for all groups. The expected average remaining service life as at December 31, 2008 is 18 years.

Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills and fulfillment of construction obligations. Deposits estimated to be refundable to customers within the next fiscal year are classified as a current liability.

Capital disclosures

Effective January 1, 2008, the Corporation adopted the new CICA Handbook Section 1535 – "Capital Disclosures", which requires additional disclosure in the notes to the financial statements about capital and the manner in which it is managed. This additional disclosure includes quantitative and qualitative information regarding an entity's objectives, policies and processes for managing capital (Note 18).

Revenue recognition

The Corporation recognizes revenue when persuasive evidence of an arrangement exists, services have been delivered, the price has been fixed or determinable and collection is reasonably assured.

Power recovery

Power recovery revenue represents the pass through of the cost of power to the consumer as purchased by Hydro Ottawa from the IESO and Energy Ottawa. Hydro Ottawa's cost of purchased power and Energy Ottawa's generation revenue are eliminated upon consolidation. The cost of the electricity generated by Energy Ottawa is included in operations, maintenance and administration.

Distribution sales

Electricity distribution sales are recorded on the basis of regular meter readings and estimates of current usage from the last meter reading to the end of the fiscal period.

Other revenue

Other revenue related to sales of other services is recognized as services are rendered. Other revenue includes contract revenue, generation revenue and commercial services.

Contract revenue is accounted for using the percentage of completion method, whereby revenue is recognized proportionately with the degree of completion of the services under contract. Losses on contracts are fully recognized when they become evident.

Generation revenue is recorded on the basis of regular meter readings.

Commercial services revenue includes energy management and procurement services. Revenue is recognized on a percentage of completion basis.

Unbilled revenue

Unbilled revenue represents distribution sales, along with accrued revenue from electricity consumed by customers since the date of each customer's last meter reading that has not yet been billed.

3. CHANGES IN ACCOUNTING POLICIES

Emerging Changes

Rate regulated entities

In August 2007, the Canadian Accounting Standards Board ("AcSB") issued a decision, effective January 1, 2009, to withdraw the temporary exemption in CICA Handbook Section 1100, Generally Accepted Accounting Principles, which permits the recognition and measurement of assets and liabilities arising from rate regulation. Further, CICA Handbook Section 3465, Income Taxes, was amended to require the recognition of future income tax liabilities and assets for regulated enterprises that were previously not subject to these provisions. The Corporation is currently assessing the impact of the AcSB's decision on its financial statements.

Goodwill and intangible assets

In November 2007, the AcSB approved new CICA Handbook Section 3064, Goodwill and Intangible Assets that replaces CICA Handbook section 3062, Goodwill and Other Intangible Assets. The new section provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets and addresses when an internally developed intangible asset meets the criteria for recognition. The new section will be effective for fiscal years beginning on or after October 1, 2008. The Corporation is currently evaluating the classification of certain of its assets to determine if they meet the definition of intangible assets. Assets that may potentially be reclassified include land rights and easements, certain software assets and amounts contributed to other entities as capital contributions. The Corporation is currently in the process of evaluating the potential impact of this standard on its financial statements.

International Financial Reporting Standards ("IFRS")

On February 13, 2008, the AcSB confirmed that publicly accountable enterprises would be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. Some of the converged standards will be implemented in Canada during the transition period with the remaining standards adopted at the change over date. While the Corporation has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. ACCOUNTS RECEIVABLE

	2008	2007
Trade receivables net of allowance for doubtful accounts of \$817,000 (2007 – \$1,337,000)	43,360	49,692
Other receivables net of allowance for doubtful accounts of \$304,000 (2007 – \$553,000)	5,686	7,828
	49,046	57,520

5. UNBILLED REVENUE

	2008	2007
Unbilled revenue	77,317	82,376
Less: allowance for doubtful accounts	(810)	–
	76,507	82,376

6. INVENTORY

Inventory consists primarily of parts and supplies acquired for internal construction or consumption and are stated at the lower of cost or net realizable value, with cost determined on a weighted average basis.

The amount of inventory consumed by the Corporation and recognized as an expense during the year was \$1,083,000 (2007 – \$1,006,000)

Energy Ottawa has retrospectively reclassified its entire inventory consisting of engine spare parts for its generation facility from inventory to capital assets. Once capitalized, these items are not amortized until they are put into service. As at December 31, 2008, \$127,000 (2007 – \$140,000) was reclassified out of inventory and into capital assets.

7. NET REGULATORY ASSETS AND LIABILITIES

Information about the Corporation's net regulatory assets and liabilities is as follows:

	2008	2007
Regulatory assets		
Regulatory assets recovery account	–	2,229
Deferred smart meter costs	10,942	8,359
Retail services and settlement variances	3,833	–
Other variances and deferred costs	388	4,842
	15,163	15,430
Provision for doubtful recovery	(40)	(567)
Total net regulatory assets	15,123	14,863
Less: current portion	(3,039)	(1,745)
	12,084	13,118
Regulatory liabilities		
Regulatory liabilities refund account	1,860	–
Retail services and settlement variances	–	1,535
Deferred payments in lieu of taxes	206	2,314
	2,066	3,849
Provision for doubtful recovery	1,261	1,385
Total net regulatory liabilities	3,327	5,234
Less: current portion	(1,705)	–
	1,622	5,234

The regulatory liabilities refund account of \$1,860,000 (2007 – regulatory assets recovery account of \$2,229,000) is the aggregate of all regulatory assets and liabilities, which have been approved for recovery or disposition plus accrued interest earned of \$1,673,000 (2007 – \$1,069,000) up to December 31, 2008, less amounts already settled through distribution rates. The approved balance is being disposed over a 1-year period ending April 30, 2009.

Regulatory assets are comprised of deferred smart meter costs of \$10,942,000 which includes accrued interest costs of \$82,000 (2007 – \$8,359,000 which includes accrued interest costs of \$nil), retail services and settlement variances of \$3,833,000 which includes accrued interest costs of \$431,000 (2007 – regulatory liability of \$1,535,000 which includes accrued interest costs of \$285,000) and other variances and deferred costs of \$388,000 which includes accrued interest earned of \$2,000 (2007 – \$4,842,000 which includes accrued interest earned of \$368,000).

Regulatory liabilities are comprised of deferred payments in lieu of taxes of \$206,000, which includes accrued interest costs of \$6,000 (2007 – \$2,314,000 which includes accrued interest earned of \$819,000).

In the absence of rate regulation, income from continuing operations before payments in lieu of corporate income taxes for the year ended December 31, 2008 would be \$2,167,000 lower (2007 – \$5,288,000 higher).

The regulatory process has provided for the clearing of regulatory assets and liabilities. The Corporation files a rate application to settle its regulatory assets and liabilities as required, and the time period for settlement is determined based on the magnitude of the balances to be cleared.

The Corporation continues to assess the likelihood of recovery of all regulatory assets subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation. The Corporation has recorded a net provision of \$1,301,000 (2007 – \$1,952,000) against regulatory assets. If future recovery becomes assured, the Corporation would recognize the recovery in income in the period such a decision is made.

8. OTHER ASSETS

	2008	2007
Deferred debt issue costs net of accumulated amortization of \$434,000 (2007 – \$431,000)	–	3
Deferred contract and royalty costs	1,941	2,062
Goodwill, customer lists and incorporation costs	27	36
Server deferred credits	260	391
Prepays	643	850
Accounts receivable net of allowance for doubtful accounts of \$100,000 (2007 – \$250,000)	832	325
	3,703	3,667
Less: current portion	(773)	(981)
	2,930	2,686

The accounts receivable balance included in other assets represents electricity receivables due from customers who have been placed on extended payment arrangements. These payment arrangements generally range from 24 to 36 months.

In 2004, the Corporation sold a server valued at \$541,000. The sale of the server did not result in any gain or loss on disposal. Consideration for the server consisted of credits to be applied against fees payable under the maintenance agreement with \$150,000 applied in 2004, \$131,000 applied in 2008, \$130,000 to be applied in 2009 and \$130,000 to be applied in 2010.

9. DISCONTINUED OPERATIONS

In November 2007, the Board of Directors of Hydro Ottawa Holding approved a plan to sell the Telecom Ottawa group of companies and to exit this business segment, subject to final approval of the terms and conditions of sale. On May 1, 2008, Telecom Ottawa sold the shares of all its subsidiaries for gross proceeds of approximately \$63,000,000, subject to post closing adjustments. Accordingly the results of operations and financial position of the telecommunications business have been segregated and presented as discontinued operations in these consolidated financial statements. As at December 31, 2008 and 2007, the net assets of the telecommunications business have been measured at the lower of the carrying amount and fair value less costs to sell. The assets and liabilities of the business segment are as follows:

	2008	2007
Assets related to discontinued operations		
Accounts receivable and other current assets	566	1,409
Assets held for sale		
Property, plant and equipment	–	30,063
Liabilities related to discontinued operations		
Accounts payable and accrued liabilities	274	2,993
Other long term liabilities	–	307
	274	3,300

For the four month period ended April 30, 2008 and the year ended December 31, 2007, the following revenue and expenses of the telecommunications business have been reclassified from continuing operations to discontinued operations.

	Four month period ended April 30 2008	Year ended December 31 2007
Revenue		
Telecommunications and service revenue	5,755	14,770
Expenses		
Operating, maintenance and administration	2,929	6,807
Amortization of capital and intangible assets	1,274	4,517
Income before payments in lieu of corporate income taxes	1,552	3,446
Payments (recoveries) in lieu of corporate income taxes	(223)	54
Income from discontinued operations	1,775	3,392

For the year ended December 31, 2008 an after tax gain of \$22,907,000 (2007 – \$183,000 loss due to sale disposition costs) was recognized as a result of the sale of the Telecom Ottawa subsidiaries.

During the year ended December 31, 2006, the Corporation sold its Voice over Internet Protocol business line (effective September 1, 2006) and its Internet Service Provider business (effective December 1, 2006). These non-core telecommunication business line dispositions were treated as discontinued operations. A gain on sale of \$24,000 (2007 – \$74,000) was recorded in relation to these non-core telecommunication dispositions.

The net cash flow from discontinued operations is generated from operating activities, including income from discontinued operations adjusted for non-cash items and changes in non-cash working capital. Net investing activities related to discontinued operations has been disclosed as a separate line in the investing activities on the Consolidated Statement of Cash Flows.

10. CAPITAL ASSETS

	2008		
	Cost	Accumulated amortization	Net book value
Land and land rights	6,268	917	5,351
Building and fixtures	62,774	14,726	48,048
Furniture, equipment and software	69,273	35,189	34,084
Rolling stock	20,969	12,165	8,804
Electricity distribution infrastructure	904,327	418,564	485,763
Generating plant and equipment	45,515	8,810	36,705
Assets under construction	19,151	–	19,151
	1,128,277	490,371	637,906
Contributions in aid of construction	(132,032)	(24,672)	(107,360)
	996,245	465,699	530,546

	2007		
	Cost	Accumulated amortization	Net book value
Land and land rights	4,622	870	3,752
Building and fixtures	56,650	13,624	43,026
Furniture, equipment and software	84,514	45,465	39,049
Rolling stock	22,904	14,312	8,592
Electricity distribution infrastructure	855,136	401,094	454,042
Generating plant and equipment	45,117	7,804	37,313
Assets under construction	24,164	–	24,164
	1,093,107	483,169	609,938
Contributions in aid of construction	(116,514)	(19,979)	(96,535)
	976,593	463,190	513,403

Included in capital assets is \$19,151,000 (2007 – \$24,164,000) of assets under construction not subject to amortization, and included in the cost of generating plant and equipment is \$1,273,000 (2007 – \$1,253,000) related to Energy Ottawa's undivided interest in the Chaudière dam (Note 2).

During the year, the Corporation capitalized an allowance for funds used during construction ("AFUDC") of \$687,000 (2007 – \$253,000).

The OEB permits a deemed AFUDC to be attributed to the cost of a capital assets item that is acquired, constructed, or developed over time. Since AFUDC includes not only carrying costs directly attributable to the acquisition, construction, or development activity, the actual capitalized amounts could differ for rate regulation purposes. In the absence of rate regulation, the income from continuing operations before payments in lieu of corporate income taxes for the year ended December 31, 2008 would be \$1,000 higher (2007 – \$10,000 higher).

During the year the Corporation incurred a gain on disposal of capital assets of \$199,000 (2007 – \$10,000 loss). The current year gain and prior year loss do not include the effects of the Ontario Government's smart meter initiative which resulted in \$19,021,000 (2007 – \$9,567,000) in conventional meters being removed from service, and would have resulted in a loss on disposal of \$5,914,000 (2007 – \$5,036,000) under GAAP. This loss on disposal is deemed by the OEB to be recoverable through future rates.

In addition, the Corporation wrote off \$18,000 (2007 – \$nil) in capital assets.

Energy Ottawa entered into an agreement with the federal government's Department of Natural Resources whereby project funding of up to \$220,000 would be provided to Energy Ottawa to field trial a mini-hydro turbine developed by the CANMET Small Hydro Program. Under the terms of the agreement, up to \$150,000 of the funding received is repayable at a rate of 2.5% of revenue received from the project, over a maximum period of 10 years. As at December 31, 2008, the funding received has been allocated \$56,000 (2007 – \$59,000) to contributions in aid of construction, \$21,000 (2007 – \$13,000) to accounts payable and accrued liabilities and \$93,000 (2007 – \$109,000) to repayable grant.

11. BANK INDEBTEDNESS AND BANKER'S ACCEPTANCES

	2008	2007
Bank indebtedness and banker's acceptances	–	24,576

On January 16, 2009 the Corporation entered into a new credit facility for \$140,150,000. The new facility is structured into four types of credit availability. It consists of a \$75,000,000, 364-day revolving operating line, a \$50,000,000, 5-year revolving line to fund capital expenditures and growth opportunities, a \$15,000,000 line to fund letters of credit and other guarantees, and a \$150,000 corporate Visa facility. This new credit facility contains customary covenants and events of default, including a covenant to maintain the consolidated tangible net worth in excess of \$175,000,000 at all times. It also requires the debt to capitalization ratio to be at or below 75% on a consolidated basis.

As at December 31, 2008, the Corporation had two credit facilities available which were subsequently replaced by the new credit facility. The first one was a \$150,000,000 three year, extendible, revolving term credit facility, and the second one was a \$25,000,000 credit facility that consisted of a \$24,850,000, 364-day revolving term operating credit line and a \$150,000 corporate Visa facility.

As at December 31, 2008, the Corporation had drawn against these two facilities \$11,831,000 (2007 – \$12,011,000) in standby letters of credit, \$nil (2007 – \$11,850,000) on the operating credit line and \$nil (2007 – \$7,500,000) in banker's acceptances.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2008	2007
Purchased power payable	56,934	52,485
Rebates payable to eligible customers	2,060	1,248
Customer credit balances	9,708	10,528
Collateral funds held	16,027	15,619
Other accounts payable and accrued liabilities	22,932	25,855
Deferred revenue	510	1,282
Payments in lieu of corporate income taxes payable	2,135	3,129
Accrued interest on notes payable (Note 15)	3,912	3,934
	114,218	114,080

13. EMPLOYEE FUTURE BENEFITS***Pension plan***

The Corporation's participating employer contributions under OMERS and other defined contribution plans for the year ended December 31, 2008, were approximately \$3,193,000 (January 1, 2008 – \$3,083,000).

Employee future benefits other than pension plan

Employee future benefits are calculated using an annual compensation rate increase of 3.1% (2007 – 3.1%), and a discount rate of 7.25% (2007 – 5.25%) to calculate the liabilities.

Information about the Corporation's defined benefits plans is as follows:

	2008		
	Accumulated liability	Expense (recovery for the year)	Benefits paid
Life insurance	4,786	551	328
Retirement grant provision	726	66	–
Supplemental pensions	12	(3)	1
Sick leave	12	–	–
	5,536	614	329
Projected benefit obligation	6,568		
Actuarial deficit	(1,032)		

	2007		
	Accumulated liability	Expense for the year	Benefits paid
Life insurance	4,563	587	341
Retirement grant provision	660	62	3
Supplemental pensions	16	1	1
Sick leave	12	–	–
	5,251	650	345
Projected benefit obligation	7,454		
Actuarial deficit	(2,203)		

An update of the actuarial valuation was performed as of January 1, 2009. The actuary has updated the assumptions and estimates at December 31, 2008. As a result of this exercise, the Corporation decreased the projected benefit obligation by \$886,000 (2007 – \$355,000). This amount is reflected in the projected benefit obligation and the excess over the 10% corridor will be charged to income over the average remaining service life of current employees of 18 years, beginning January 1, 2009.

The current liability portion of the accrued employee future benefits included in other accounts payable and accrued liabilities is \$495,000 (2007 – \$417,000) and the non-current portion of \$5,041,000 (2007 – \$4,834,000) is included in non current liabilities.

14. NON-CONTROLLING INTEREST IN POWERTRAIL INC.

The non controlling interest at December 31, 2008, consists of IGRS's non-controlling interest in the assets of PowerTrail. PowerTrail commenced commercial operations on January 31, 2007.

15. NOTES PAYABLE

	2008	2007
4.968% Senior Unsecured Debentures, series 2006-1 due December 19, 2036	49,710	49,700
4.93% Senior Unsecured Debentures, series 2005-1, due February 9, 2015	198,691	198,478
Integrated Gas Recovery Services Inc. ("IGRS"), non interest bearing note	3,080	3,240
	251,481	251,418

On December 20, 2006, the Corporation issued \$50,000,000 4.968% Senior Unsecured Debenture, series 2006-1 due December 19, 2036. The debentures bear interest at a rate of 4.968% per annum, payable semi-annually in arrears in equal installments on June 19 and December 19 commencing June 19, 2007. The debentures were purchased at 100% of their principal amount.

On February 9, 2005, the Corporation issued \$200,000,000 4.93% Senior Unsecured Debentures, series 2005-1 due February 9, 2015. The debentures bear interest at a rate of 4.93% per annum, payable semi-annually in arrears in equal installments on February 9 and August 9 commencing August 9, 2005. The debentures were purchased at 100% of their principal amount.

The trust indentures contain customary covenants and events of default, including a covenant to ensure the aggregate principle amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization.

Interest payments on these debentures over the next five years will be \$12,344,000 per year.

The IGRS promissory note for \$3,080,000 (2007 – \$3,240,000) was issued by PowerTrail to fund the construction of the gas collection and generation plant at the Trail Road landfill site. Pursuant to the Shareholder Agreement dated November 3, 2005, among Energy Ottawa, IGRS and PowerTrail, the note is non-interest bearing, and subject to certain conditions stipulated in this agreement. The management of IGRS has confirmed that it does not intend on calling this note within one year.

16. FINANCING COSTS

	2008	2007
Short term interest (net of interest income)	(345)	195
Interest on notes payable	12,547	12,535
Amortization of debt issue costs	3	145
Other	252	244
Less:		
Allowance for funds used during construction	(687)	(253)
Interest capitalized on construction of fibre optic equipment	–	(26)
	11,770	12,840

17. SHARE CAPITAL

Authorized

Unlimited voting first preferred shares, redeemable at \$1 per share

Unlimited non-voting second preferred shares, redeemable at \$10 per share

Unlimited non-voting third preferred shares, redeemable at \$100 per share

Unlimited voting (10 votes per share) fourth preferred shares, redeemable at \$100 per share

Unlimited voting Class A common shares

Unlimited non-voting Class B common shares

Unlimited non-voting Class C common shares, redeemable at the price at which such shares are issued

The above shares are without nominal or par value.

Holders of second preferred shares, fourth preferred shares and common shares are entitled to receive dividends as and when declared by the Board of Directors at their discretion.

	2008	2007
Issued		
214,901,003 Class A common shares	228,453	228,453

Any invitation to the public to subscribe for shares of the Corporation is prohibited by shareholder resolution.

In June 2008, the shareholder passed a resolution approving a new dividend policy for Hydro Ottawa Holding. The new policy directs Hydro Ottawa Holding to make an annual dividend payment of \$14,000,000 or 60% of consolidated net income, whichever is greater.

On April 10, 2008, the Board of Directors declared a \$16,375,000 dividend to the City of Ottawa, which was paid on April 18, 2008 (2007 – April 26, 2007, the Board of Directors declared a \$12,000,000 dividend to the City of Ottawa, which was paid on April 30, 2007). On May 29, 2008, the Board of Directors declared a \$12,000,000 (2007 – \$nil) dividend to the City of Ottawa, which was paid on June 25, 2008, which related to the gain on sale of the Telecom Ottawa subsidiaries.

18. CAPITAL DISCLOSURES

The Corporation's main objectives when managing capital are to:

- (i) Ensure continued access to funding to maintain and improve the operations and infrastructure of the Corporation;
- (ii) Ensure compliance with covenants related to the credit facilities and senior unsecured debentures and;
- (iii) Align Hydro Ottawa's capital structure with the debt to equity structure recommended by the OEB.

The Corporation's capital consists of the following:

	2008	2007
Bank indebtedness	–	24,576
Letters of credit	11,931	12,011
Notes payable	251,481	251,418
Total debt	263,412	288,005
Shareholder's equity	317,732	297,514
	581,144	585,519
Debt capitalization ratio	45%	49%

The Corporation is in compliance with all financial covenants and limitations associated with its credit facilities and its long term debt.

Prior to May 1, 2008, Hydro Ottawa was deemed by the OEB to have a capital structure that was funded by 60% long term debt and 40% equity. Effective May 1, 2008 the deemed capital structure for Hydro Ottawa has changed to 56% long term debt, 4% short term debt and 40% equity. The OEB uses this deemed structure only as a basis for setting distribution rates. Hydro Ottawa's actual capital structure may differ from the OEB deemed structure.

Hydro Ottawa's capital structure is aligned with the debt to equity structure recommended by the OEB.

The Corporation is meeting its capital management objectives and the objectives have not changed during the year.

19. FINANCIAL INSTRUMENTS

The Corporation's financial instruments consist of cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, notes payable and standby letters of credit. Regulatory assets and liabilities do not qualify as financial instruments as they do not meet the definition of a financial asset or liability. The carrying values of the Corporation's financial instruments, except for notes payable approximate their fair values because of the short maturity of the instruments.

The Corporation's financial instruments carrying values and fair values are as follows:

	December 31, 2008		December 31, 2007	
	Carrying value	Fair value	Carrying value	Fair value
Cash	21,332	21,332	—	—
Accounts receivables, net of allowance for doubtful accounts	49,046	49,046	57,520	57,520
Unbilled revenue, net of allowance for doubtful accounts	76,507	76,507	82,376	82,376
Accounts receivable in other assets, net of allowance for doubtful accounts	832	832	325	325
Assets related to discontinued operations	566	566	1,409	1,409
Bank indebtedness	—	—	24,576	24,576
Accounts payable and accrued liabilities	114,218	114,218	114,080	114,080
Liabilities related to discontinued operations	274	274	2,993	2,993
4.93% Senior Unsecured Debentures series 2005-1	198,691	203,127	198,478	203,112
4.968% Senior Unsecured Debentures series 2006-1	49,710	50,174	49,700	50,177
IGRS note payable	3,080	n/a	3,240	n/a
Standby letters of credit	11,931	11,931	12,011	12,011

The Corporation has determined the fair value of the notes payable based on discounting all future payments of interest and the principle repayment on February 9, 2015, and December 19, 2036 for the Senior Unsecured Debentures, at the estimated interest rate of 5% (2007 – 5%) that would be available to the Corporation on December 31, 2008.

The Corporation cannot determine the fair value of the IGRS note payable as the amount is non-interest bearing and has no specific repayment terms. It is unlikely that the Corporation would be able to enter into a similar loan agreement with a third party.

The Corporation determined that the fair value of the accounts receivable included in other assets as at December 31, 2008 based on discounting all future payment arrangements approximates their carrying value.

Risk Factors

In the normal course of business the Corporation is exposed to market risk, credit risk and liquidity risk. The Corporation's exposure and strategies to mitigate these risks are noted below.

- (a) Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk such as equity risk.
 - (i) The Corporation is exposed to interest rate risk on its borrowings. The Corporation mitigates exposure to interest rate risk by issuing

long-term fixed interest rate debt. Under Hydro Ottawa Holding's credit facilities, any advances on its operating line would expose the Corporation to fluctuations in short-term interest rates related to prime-rate loans and banker's acceptances. In addition, the fees payable on banker's acceptances and letters of credit are based on a margin determined by reference to the Corporation's credit rating. As at December 31, 2008, the Corporation has not drawn down on its operating line and it does not have any outstanding banker's acceptances therefore interest rate risk is minimal.

(ii) As at December 31, 2008, the Corporation has limited exposure to fluctuations in foreign currency exchange rates. The Corporation does purchase goods and services which are denominated in foreign currencies, predominately the \$US. The impact of the fluctuation of foreign currencies on the gains or losses of payables denoted in foreign currencies is not material to disclose.

(iii) As at December 31, 2008, the Corporation has not entered into any hedging transactions or derivative contracts.

- (b) Credit risk is the risk that a counter-party will default on its obligations, causing a financial loss. Concentration of credit risk associated with accounts receivable and unbilled revenue is limited due to the large number of customers the Corporation services. Hydro Ottawa has over 291,000 customers, of which 91% are residential. As a result, Hydro Ottawa did not earn a significant amount of revenue and does not have a significant receivable from any individual customer. Hydro Ottawa also performs ongoing credit evaluations on its customers and requires collateral to support customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2008, Hydro Ottawa held security deposits in the amount of \$24,257,000 (December 31, 2007 – \$23,861,000). Energy Ottawa limits its credit risk by dealing with customers that are considered to be of high credit quality. The Corporation monitors and limits its exposure to credit risk on a continuous basis.

The carrying amount of accounts receivable and unbilled revenue is reduced by an allowance for doubtful accounts based on the credit risk applicable to particular customers, and historical and other information. The Corporation records an allowance for doubtful accounts when the recoverability of an amount becomes doubtful. The amount of the related impairment loss is recognized in the income statement in the period such a decision is made. When the receivable amount is deemed to be uncollectible it is written-off and the allowance for doubtful accounts adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written-off are credited to the income statement. As December 31, 2008 the allowance for doubtful accounts was \$2,031,000 (2007 – \$2,140,000) and there have been no significant fluctuations in the allowance during the year.

Credit risk associated with accounts receivable and unbilled revenue is as follows:

	2008	2007
Total accounts receivable	50,167	59,410
Total unbilled revenue	77,317	82,376
Total accounts receivable in other assets	932	575
Less: allowance for doubtful accounts	(2,031)	(2,140)
	126,385	140,221
Of which:		
Outstanding for less than 30 days	41,537	46,663
Outstanding for more than 31 days but not more than 120 days	8,056	9,619
Outstanding for more than 121 days	1,506	3,703
Unbilled revenue	77,317	82,376
Less: allowance for doubtful accounts	(2,031)	(2,140)
	126,385	140,221

As at December 31, 2008, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties and approximately 19% (2007 – 22%) of the Corporation's accounts receivable was aged more than 30 days. The Corporation's maximum exposure to credit risk is equal to the carrying value of accounts receivable less deposits held.

- (c) Liquidity risk is the risk that the Corporation will not meet its financial obligations as they come due. The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and capital investment requirements. The Corporation achieves this objective by ensuring that sufficient facilities are maintained to meet obligations as they come due while minimizing standby fees and interest.

Liquidity risks associated with financial commitments are as follows:

	December 31, 2008		
	Due within 1 year	Due between 1 year and 5 years	Due after 5 years
Accounts payable and accrued liabilities	114,218	–	–
Notes payable			
4.93% Senior Unsecured Debentures Series 2005-1	–	–	198,691
4.968% Senior Unsecured Debentures Series 2006-1	–	–	49,710
IGRS demand note payable	–	3,080	–
	114,218	3,080	248,401

20. PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates.

A reconciliation between the statutory and effective tax rates is provided as follows:

	2008	2007
Federal and Ontario statutory income tax rate	33.50%	36.12%
Income before provision for PILs, including discontinued operations	40,413	38,946
Provision for PILs at statutory rate	13,538	14,067
Increase (decrease) resulting from:		
Permanent differences	483	50
Change in valuation allowance	(515)	–
Tax effect of non capital losses for which no benefit has been recorded	–	(1,029)
Temporary differences between accounting and tax basis of assets and liabilities	2,252	4,915
Rate differential on current year temporary differences	(98)	–
Changes in tax rates	(2,504)	(3,221)
Income taxed at different rate	(48)	–
Other	294	(49)
Corporate minimum tax	(54)	54
	13,348	14,787
Consists of:		
Current PILs corporate income tax expense	13,091	14,073
Future PILs corporate income tax expense	257	714
	13,348	14,787
Effective income tax rate	33.03%	37.97%
Reported as:		
Payments in lieu of corporate income taxes	13,571	14,733
Income (loss) from discontinued operations (Note 9)	(223)	54
	13,348	14,787

Hydro Ottawa, as a rate regulated utility, does not recognize future income taxes to the extent they are expected to be included in future approved rates charged to customers and recovered from them. Hydro Ottawa has deductible temporary differences between the tax basis of assets and their carrying amount for accounting purposes of approximately \$81,716,000 (2007 – \$74,582,000). These amounts translate into an unrecognized future tax asset of approximately \$23,828,000 (2007 – \$23,568,000) that can be used to reduce payments in lieu of taxes calculated in future periods.

Hydro Ottawa is subject to PILs as long as it is exempt from federal taxation under paragraph 149(1)(d.6) of the ITA.

As prescribed by a regulatory rate order, income tax expense is recovered through customer rates based on the taxes payable method. Therefore, rates do not include the recovery of future income taxes related to unused tax losses or temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Hydro Ottawa has not recognized future income taxes, as it is expected that when these amounts are settled, they will be included in the rates approved by the OEB. GAAP for unregulated businesses require the recognition of future income tax liabilities and future income tax assets. In the absence of rate regulation the net income for the year ended December 31, 2008 would be \$260,000 higher (2007 – \$2,247,000 higher).

As at December 31, 2008, Energy Ottawa had \$6,205,000 (2007 – \$7,327,000) of non-capital tax loss carryforwards, which have been used to reduce its future PILs liability. These losses expire between 2010 and 2028.

In 2007, the Ministry of Revenue issued a notice of re-assessment for Energy Ottawa's 2001 taxation year, establishing the 2001 tax value of the Chaudière dam and allowing other deductions from income. This resulted in a reduction to future income tax liability and a corresponding recovery of future income tax expense of approximately \$3,241,000.

Significant components of the Corporation's future income tax liability are as follows:

	2008	2007
Capital and intangible assets	5,423	4,876
Non-capital loss carryforwards	(1,914)	(2,381)
Other taxable temporary differences	(1,171)	(974)
	2,338	1,521

Hydro Ottawa Holding has deductible temporary differences between the tax basis of assets and their carrying amount for accounting purposes of approximately \$436,000 (2007 – \$505,000). These amounts translate into a future tax asset of approximately \$126,000 (2007 – \$169,000), the benefit of which has not been recognized in these financial statements.

Hydro Ottawa Holding has unused non-capital tax losses of approximately \$1,432,000 (2007 – \$1,158,000) which expire between 2010 and 2028.

Non-capital losses are available to offset taxable income in future years for purposes of the PILs regime. The companies considered to be MEUs, are subject to PILs as long as they are exempt from federal taxation under paragraph 149(1)(d.6) of the ITA. The non-capital tax losses generated from the PILs regime will not be available to offset taxable income of these companies if the companies are no longer exempt for federal and provincial tax purposes.

21. CONTINGENT LIABILITIES

- (i) The Ministry of Revenue ("MOR") has completed the audit of Hydro Ottawa's tax returns for the fiscal years ended December 31, 2001, 2002 and 2003 and has issued notices of re-assessment. Hydro Ottawa has appealed two issues with the MOR. Based on management's best estimate, a PILs payable provision of \$250,000 (2007 – \$250,000) has been recorded to cover the entire audit period. The tax provision reflects a full provision on the two outstanding issues and all other net tax adjustments agreed to by Hydro Ottawa. The two outstanding issues, which if resolved in Hydro Ottawa's favour would reduce this PILs payable provision and result in an increase in Hydro Ottawa's income in the period such a decision is made.
- (ii) On November 18, 1998, a class action claiming \$500,000,000 in restitutionary payments plus interest was served on the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario ("LDCs"), which have charged late payment charges on overdue utility bills at any time after April 1, 1981. The claim is that late payment penalties result in electric utilities receiving interest at effective rates in excess of what is allowed under Section 347(1)(b) of the Criminal Code.

On April 22, 2004, the Supreme Court of Canada released a decision in the Enbridge Gas Distribution Inc. ("EGD") case, a case in which the Corporation is not a party to however the issues are analogous. The Supreme Court rejected all of the defences, which had been raised by EGD, however it did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for determination of

the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by EGD, which were approved by the Ontario Superior Court. In 2007, EGD filed an application to the OEB to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008 the OEB approved the recovery of the amounts from ratepayers over a five-year period.

It is anticipated that the plaintiffs in the LDC late payment penalties class action will proceed with their litigation against LDCs in light of the settlement in the EGD case. The Defendants may have defences available that were not raised in the EGD case. Also, given the preliminary status of these actions and that the amount of impermissible interest included in the penalty payments received is not determinable, it is not possible at this time to quantify the effect on the financial statements of the Corporation.

- (iii) Purchasers of electricity in Ontario, through the Independent Electricity System Operator ("IESO"), are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. At December 31, 2008, the Corporation had drawn standby letters of credit of \$11,738,000 (2007 – \$11,738,000) against its credit facility to cover its prudential support obligation. In addition, the Corporation provided bank letters of credit of \$93,000 (2007 – \$108,000) to the City of Ottawa as security for construction projects.
- (iv) Various lawsuits have been filed against the Corporation for incidents that arose in the ordinary course of business. In the opinion of management, the outcomes of the lawsuits, now pending, are neither determinable nor material. Should any loss result from the resolution of these claims, such losses would be claimed through the Corporation's insurance carrier with any unrecoverable amounts charged to income in the year of resolution.
- (v) Energy Ottawa was awarded a \$70,000,000, twenty-year contract to supply the Government of Ontario with renewable energy. This contract was subsequently assigned to PowerTrail. Under the terms of the contract, PowerTrail constructed a generation plant and gas collection system at the Trail Road landfill site in Ottawa, Ontario. The Corporation has a standby letter of credit in the amount of \$100,000 (2007 – \$165,000), expiring on January 31, 2010 related to this contract.
- (vi) The Corporation participates with other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. The Corporation is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred. If any additional assessments were required in the future, their cost would be charged to income in the year in which they occur.
- (vii) The Corporation is subject to environmental regulatory requirements related to the removal and destruction of polychlorinated biphenyls ("PCBs") in distribution transformers and other clean up related to PCBs. Federal PCB Regulatory Framework under the Canadian Environmental Protection Act, 1999 requires that certain equipment containing PCBs be removed from service by December 31, 2009 and December 31, 2025 depending on equipment concentration and physical location. This legislation will result in approximately \$1,600,000 being spent in 2009. This cost does not necessarily represent an incremental cost to the Corporation, as certain assets would be replaced as part of the Corporation's regular asset management program. An asset retirement obligation has not been recorded in these financial statements because the obligation to meet the December 31, 2009 requirements is not considered material, and all future asset retirement obligations cannot be reasonably estimated at this time as some uncertainty exists around the identification, final removal dates and costs of removal of the related assets.
- (viii) Telecom Ottawa sold the shares of its subsidiaries during the year. Part of this transaction included the Corporation posting a three-year guarantee for Telecom Ottawa's obligation for claims arising from breaches of representations or warranties. Claims are subject to exceeding a \$630,000 threshold to a maximum of \$10,000,000. Management assesses that there is minimal risk that a claim of this magnitude will transpire.

22. COMMITMENTS

- (i) Hydro Ottawa has \$47,112,000 in total open commitments of which \$33,647,000 are for 2009, \$7,633,000 for 2010, \$2,034,000 for 2011, \$1,818,000 for 2012 and \$1,980,000 for 2013 (2007 – \$30,302,000 in total open commitments of which \$22,031,000 were for 2008, \$4,806,000 for 2009 and \$3,465,000 for 2010). This includes a customer information system services agreement, an arrangement to provide call centre services, purchase and installation of smart meters, meter reading services and overhead and underground services.
- (ii) The Corporation entered into a Gas Utilization License of Occupation Agreement with the City of Ottawa, which was subsequently assigned to PowerTrail. Under this agreement the City of Ottawa is to provide facilities for the collection and use of the gas generated by the Trail Road landfill site in consideration for a royalty of 5.5% of PowerTrail's gross annual receipts derived from the sale of electricity associated with the use of gas from the landfill payable over the term of the agreement and a one time royalty of up to \$2,000,000, represented by the initial repairs to the gas collection system (Note 23). As at December 31, 2008 the Corporation has fulfilled its obligation related to the one time royalty, and the 2008 obligation related to the gross annual receipts royalty.

(iii) Operating lease obligations:

2009	255
2010	113
2011	104
2012	91
2013	48
Beyond	435
Total minimum lease payments	1,046

23. RELATED PARTY TRANSACTIONS

The Corporation and its subsidiaries provide certain services to the City of Ottawa in the normal course of business at commercial rates.

For the year ended December 31, 2008, the Corporation earned revenues related to the sale of electricity, telecommunications products and services, energy management consulting and other services in the amount of \$30,909,000 (2007 – \$29,210,000) from the City of Ottawa.

For the year ended December 31, 2008, the Corporation purchased certain services related to water and sewer charges, fuel and permits from the City of Ottawa in the amount of \$687,000 (2007 – \$1,037,000); and property taxes in the amount of \$1,731,000 (2007 – \$1,693,000). By agreement, Energy Ottawa agreed to repair the City's gas collection system at the Trail Road landfill site in Ottawa, Ontario. In 2008, the royalties paid related to this agreement amounted to \$119,000, (2007 – \$120,000). The Corporation also paid the City of Ottawa \$291,000 (2007 – \$nil) in support of its conservation and demand management initiatives.

PowerTrail maintains a credit facility with a Canadian Chartered bank. The facility consists of \$100,000 in standby letters of credit. The facility also contains customary covenants and events of default, including a covenant to maintain a net worth of \$1,000,000. As at December 31, 2008, PowerTrail had outstanding standby letters of credit of \$100,000 (2007 – \$165,000).

CWPI maintains a credit facility with a Canadian Chartered bank. The facility consists of a \$500,000 operating credit line, which is secured by the three principals. The operating credit line is repayable on demand, bears interest at the bank's prime lending rate per annum with interest payable monthly. The facility also contains customary covenants and events of default. As at December 31, 2008, CWPI had drawn down the operating credit line by \$119,000 (2007 – \$256,000).

By agreement, all costs incurred by CWPI are recovered from the three principals based on their pro-rata interest in CWPI. The Corporation's share of these costs included in operations, maintenance and administration expenses and capital assets are as follows:

	2008	2007
Operations, maintenance and administration expenses	387	399
Capital assets	20	83

The Corporation and IGRS jointly control PowerTrail. By agreement, IGRS provided construction and management services to PowerTrail in the amount of \$1,237,000 (2007 – \$1,604,000).

As at December 31, 2008, the Corporation had \$2,373,000 (2007 – \$2,939,000) due from the City of Ottawa.

As at December 31, 2008, the Corporation had \$94,000 (2007 – \$764,000) due to the City of Ottawa, \$177,000 (2007 – \$701,000) due to IGRS and \$54,000 (2007 – \$83,000) due to CWPI.

24. COMPARATIVE FIGURES

In certain instances, the 2007 information presented for comparative purposes has been reclassified to conform the financial statement adopted for the current period.

Statement of Executive Compensation

The Governance and Compensation Committee of the Board of Directors, made up entirely of independent directors, is responsible for developing and approving the compensation framework for the Corporation and each of its subsidiaries.

In developing the compensation framework, the Governance and Compensation Committee is guided by two principles: the need to provide a total compensation package that will attract and retain qualified and experienced executives, and linking compensation to performance.

Executive compensation is reviewed by the Governance and Compensation Committee and approved by the Board of Directors. In making its recommendations to the Board, the Committee examines the responsibilities and performance of individual executives, and considers the recommendations of the Chief Executive Officer.

In an effort to attract and retain qualified and experienced executives, the Corporation aims to offer a total compensation package that is competitive with other organizations of a similar size and scope. Executive compensation levels are reviewed on an annual basis and are compared to market data every two to three years to ensure competitiveness. In line with

best practices for the sector, as identified by the Ontario Minister of Energy's Agency Review Panel in 2007, Hydro Ottawa applies a 50/50 weighting of market data from public and private comparators. The industry component of the market comparator group has a strong sector affiliation (e.g. Transportation and Utilities sector), and is assessed by revenue levels to ensure comparability.

Total cash compensation for Executives consists of two components: base salary and an at risk performance incentive. Total cash is benchmarked to companies of comparable size and scope in both the Ontario and national markets, with the target for total cash compensation set at the 50th percentile, or midpoint, of the market.

The at risk performance incentive component is paid on an annual basis, and is expressed as a percentage of base salary. It is designed to retain and motivate executives, to reward them for their performance during the preceding year, and to ensure alignment with shareholder objectives. Payments are based on the achievement of individual and corporate objectives, both financial and non-financial, which are established each year by the Board of Directors. Non-financial targets are designed to achieve continuous improvement in relation to a number of strategic

objectives including, but not limited to, customer service, operational and organizational efficiency and effectiveness, and service reliability.

Executives participate in a benefits program which includes extended health care, dental care, basic and optional life insurance, and short-term and long-term disability insurance. This same program is available to all management group employees of the Corporation.

Executives also participate in the OMERS pension plan. This plan is a multi-employer, contributory, defined benefit pension plan established by the Province for employees of municipalities, local boards and school boards in Ontario. Pension benefits are determined by a formula based on the highest consecutive 5-year average of contributory earnings and years of service. Pension benefits are indexed to increases in the Consumer Price Index subject to an annual maximum of 6%. Both participating employers and participating employees are required to make plan contributions based on the participating employees' contributory earnings. All full-time employees of the Corporation are required to participate in OMERS.

SUMMARY OF COMPENSATION

President and Chief Executive Officer of the Corporation, the Chief Financial Officer and the Chief Operating Officers of the Subsidiary Companies

Name and Principal Position ¹	Year	Salary (\$) ²	Incentive (\$) ³	Other Annual Compensation (\$) ⁴
Rosemarie Leclair <i>President and Chief Executive Officer</i>	2008	\$251,616	\$140,700	\$29,335
	2007	\$234,040	\$124,550	\$11,902
	2006	\$219,615	\$105,000	\$14,125
Alan Hoverd <i>Chief Financial Officer</i>	2008	\$65,327 ⁵	\$34,496	\$12,450
	2007	N/A	N/A	N/A
	2006	N/A	N/A	N/A
Norm Fraser <i>Chief Operating Officer Hydro Ottawa Limited</i>	2008	\$194,885	\$85,654	\$11,949
	2007	\$183,423	\$75,873	\$15,187
	2006	\$158,173 ⁶	\$57,909	\$14,786
Gregory Clarke <i>Chief Operating Officer Energy Ottawa Limited</i>	2008	\$150,000	\$68,434	\$11,233
	2007	\$142,370	\$51,203	\$ 8,560
	2006	N/A	N/A	N/A

1 Executives whose earnings are reported are those who occupied the position at December 31, 2008

2 Amounts shown in this column have been rounded to the nearest dollar

3 Amounts shown in this column reflect the at risk performance incentive paid to the executive in 2009 in respect of the achievement of 2008 performance objectives

4 Amounts in this column include Board Approved discretionary payments such as payment of earned and unused vacation credits, car allowance, computer allowance, taxable relocation allowance and employers share of basic and optional life insurance premiums

5 Mr. Hoverd assumed this position on September 2, 2008. Had Mr. Hoverd been employed for the entire year, his base salary would have been \$215,000

6 Mr. Fraser assumed this position in December 2006, prior to that he was employed by the corporation in another position. The amount reported is his actual remuneration for 2006. Had Mr. Fraser held this position for the entire year, his base salary would have been \$175,000

■ Corporate Governance ■

Hydro Ottawa Holding is committed to the goal of having leading governance practices for a company of its size and mandate. This goal requires constant attention, because governance standards are continuously evolving. As such, the company seeks to continuously improve its governance practices.

Hydro Ottawa Holding Inc. is a private company, incorporated under the Business Corporations Act of Ontario. At the same time, the company has a public sector shareholder and a public mandate, and is mindful of its responsibility to be accountable both to the shareholder and to the public. The company's governance practices are guided not simply by legal obligations, but by best business practices and standards established by independent agencies.

While Hydro Ottawa is not a reporting issuer under the Securities Act, and, therefore, is not required to meet governance standards that apply to publicly-traded companies, the company is guided by these standards, and seeks to meet or exceed them. In addition, Hydro Ottawa regularly compares itself to the practices of both private and public sector organizations, and to the standards set by agencies such as the Canadian Securities Administrators and the Ontario Securities Commission.

GOVERNANCE STRUCTURE

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

In carrying out its oversight function, the Board of Directors is guided by a Shareholder

Declaration issued by Ottawa City Council and revised from time to time (most recently in June 2006). The company's Code of Business conduct, its Director Conflict of Interest and Conduct Guidelines and a Related Party Transaction Disclosure Policy and Process also govern the actions of the Board.

In 2006, a separate Board of Directors was established to oversee the operations of Hydro Ottawa Limited, in accordance with the *Affiliate Relationships Code for Electricity*

Corporation's Board of Directors through the President and Chief Executive Officer.

2008 GOVERNANCE ACHIEVEMENTS

In 2008, the Corporation took a number of measures to refine its governance practices and improve the functioning of its Boards. In June, the company's Strategic Direction and Financial Outlook was presented to and endorsed by Ottawa City Council, and the Corporation committed to report back annually on progress against this plan.

The company's governance practices are guided not simply by legal obligations, but by best business practices and standards established by independent agencies.

Distributors and Transmitters issued by the Ontario Energy Board. The powers and functions of that Board are set out in a Shareholder Declaration issued by the Hydro Ottawa Holding Inc. Board of Directors. Ottawa City Council appoints the members of the Board of Directors of Hydro Ottawa Limited. A majority of the members of both Boards are independent of management and the shareholder.

On a day-to-day basis, the Corporation is led by an Enterprise Executive Team, comprised of the Corporation's President and Chief Executive Officer, the Chief Financial Officer and the senior executives of the subsidiaries. This team oversees the alignment of business practices and strategies with the goals of the Corporation, and drives performance by managing risks and opportunities. The Executive Team is accountable to the

The Corporation implemented a new Code of Business Conduct applicable to employees, members of the Boards of Directors and contractors working on company premises. The Corporation also implemented a Business Conduct Hotline providing a mechanism for reporting anonymously through a third-party service provider non-compliance with the Code and other applicable policies and laws. The Corporation also initiated and substantially completed the development of a Business Continuity Plan and initiated the development of a management succession planning process.

The Board of Directors initiated a review of its governance framework to further define the respective roles of the Boards of Directors and their committees. The resulting changes to the governance framework, including the implementation of appropriate

delegation of responsibilities to committees, will permit the Board to increase its focus on the implementation of strategic initiatives.

APPOINTMENTS TO THE BOARDS OF DIRECTORS

In accordance with the terms of the Shareholder Declaration, the City of Ottawa appoints all Directors to the Boards except the President and Chief Executive Officer. In doing so, the City considers candidates recommended by the Nominating Committee of the Board of Hydro Ottawa Holding Inc., but is not obliged to select these candidates. The Nominating Committee is required to utilize the services of a recognized recruitment firm to search for candidates for appointment to the Board.

As set out in the Shareholder Declaration, all candidates for appointment to the Boards must meet certain requirements, including demonstrated integrity and high ethical standards, relevant career experience and expertise, and an understanding of the role of Hydro Ottawa both as a service to local ratepayers and an asset of taxpayers.

In addition, the nomination and selection process is designed to maintain a Board that includes the following competencies among one or more directors: strong business background; a strong financial background including financial accreditation; industry sector experience in the areas of business of the Subsidiary companies; strategic planning and corporate stewardship experience; competitive business experience; an awareness of the needs of the Corporation's customers; public or private market financing experience; and board experience.

COMMITTEES

The following committees were created to help the Boards of Directors carry out their duties. The committees meet regularly and provide feedback on their discussions to their respective Boards.

Hydro Ottawa Holding Inc.

Audit: The Audit Committee reviews financial statements, accounting practices and policies, auditing processes and the results of internal and external audits and related matters. It also oversees financial risk management and assesses internal controls. This committee met five times in 2008.

Governance and Compensation: The Governance and Compensation Committee reviews the Corporation's governance structures and practices to ensure that the Board of Directors can fulfill its mandate. It reviews compensation practices to ensure systems are in place to attract, retain and motivate qualified management personnel. It also reviews and assesses the performance of executive management and oversees the Board Assessment process. This committee met five times in 2008.

Nominating: The Nominating Committee, with the assistance of outside consultants, identifies and evaluates potential candidates for appointment as Directors. The Nominating Committee makes recommendations to the shareholder (represented by Ottawa City Council) for the appointment of directors.

Hydro Ottawa Limited

Audit: The Audit Committee of Hydro Ottawa Limited reviews financial statements, accounting practices and policies, auditing processes and the results of internal and external audits and related matters. It also oversees financial risk management and assesses internal controls for the company, including attention to accounting rules and practices applicable to the regulated environment of electricity distribution companies. The Audit Committee met five times in 2008.

BOARD AND COMMITTEE MEETING ATTENDANCE

The following tables illustrate the attendance of members at meetings of the Boards of Directors and their committees. Committee attendance results include committees involved in the recruitment and recommendation of candidates for Executive positions.

Hydro Ottawa Holding

Member	Board Meetings	Committee Meetings
Pierre Richard (Chair)	8/8	16/16
Patrick Dion	7/8	5/5
Shawn Gibbons	8/8	5/5
Jan Harder	6/8	N/A
Peter Hume	6/8	2/4
John Kelly	6/8	4/5
Rosemarie Leclair	8/8	N/A
Gerald Levitz	8/8	11/11
Larry O'Brien	2/8	N/A
Ford Ralph	8/8	5/5
Ken Wigglesworth	7/8	10/11

Hydro Ottawa Limited

Member	Board Meetings	Committee Meetings
Pierre Richard (Chair)	6/6	5/5
George Anderson	4/6	N/A
Alex Cullen	6/6	N/A
Manon Harvey	6/6	9/10
O. Allan Kupcis	6/6	N/A
Rosemarie Leclair	6/6	N/A
Duncan Watt	5/6	5/5

Members of the Boards of Directors

Hydro Ottawa Holding Inc.



Pierre Richard
(Chair), Q.C.



Mayor
Larry O'Brien



Patrick Dion



Shawn Gibbons



Councillor
Jan Harder



Councillor
Peter Hume



John Kelly



Rosemarie Leclair,
LL.B.



Gerald Levitz, C.A.



Ford Ralph



Ken Wigglesworth,
C.A.



Pierre Richard
(Chair), Q.C.



George Anderson



Councillor
Alex Cullen



Manon Harvey,
C.A.



O. Allan Kupcis



Rosemarie Leclair,
LL.B.



Duncan Watt

Hydro Ottawa Limited

Glossary of Terms

ELECTRICITY INDUSTRY

IESO The Independent Electricity System Operator is responsible for day-to-day operation of Ontario's electrical system. It operates the wholesale electricity market, forecasting demand and ensuring an adequate supply to meet that demand.

MDM/R The Meter Data Management and Repository system will store and manage consumption data received from Smart Meters, enabling Time-of-Use billing and the provision of consumption information to customers as part of the provincial Smart Meter Initiative.

OEB The Ontario Energy Board regulates the provincial electricity and natural gas industries in the public interest.

OPA The Ontario Power Authority is responsible for ensuring an adequate long-term supply of electricity for Ontario. It creates and implements conservation and demand management programs, ensures adequate investment in new supply infrastructure, performs long-term electricity system planning, and facilitates the development of a more sustainable and competitive electricity system.

Smart Meters Smart Meters measure and store data about when customers use electricity as the foundation for future Time-of-Use (TOU) billing.

TOU A Time-of-Use rate structure would charge customers higher rates for electricity used during peak times of the day and lower rates for off-peak usage.

INTERNAL SYSTEMS AND PROCESSES

GIS Geographic information systems capture, store, analyze, and display geographically referenced spatial information.

OMS The Outage Management System, when integrated with the GIS (see above) results in a single computerized map of the electricity distribution system to facilitate system planning and outage response.

SCADA Supervisory control and data acquisition refers to large-scale measurement and control systems used to monitor power generation and other distribution processes.

FINANCIAL REPORTING

AcSB Accounting Standards Board is an independent body with the authority to develop and establish standards and guidance governing financial accounting and reporting in Canada.

CICA Canadian Institute of Chartered Accountants represents the CA profession nationally. It supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government, and issues guidance on control and governance.

GAAP Generally accepted accounting principles are a common set of accounting principles, standards and procedures companies use to prepare their financial statements.

IFRS International Financial Reporting Standards are standards and interpretations adopted by the International Accounting Standards Board (IASB). All Publicly Accountable Enterprises in Canada, including Hydro Ottawa Holding Inc., will be required to report under International Financial Reporting Standards rather than GAAP (see above) for years beginning on or after January 1, 2011.

EARNINGS

There are a number of different ways of looking at how much a company earns. The most common is "net earnings" but other measurements, such as EBITDA, can be useful in judging the company's ability to borrow and to expand its business.

EBITDA Earnings Before Interest, Taxes, Depreciation and Amortization is a measure of financial health that helps to show how much money a company generates to pay for its obligations (such as interest on money borrowed and taxes) and fund its future growth (through depreciation and amortization).

EBIT Earnings Before Interest and Taxes is the same as EBITDA, except that amounts for depreciation and amortization have been deducted in computing EBIT.

Net earnings This is what is left over after the company has met all its expenses and obligations.

CASH SOURCES AND USES

While most companies are concerned about profitability, they also must ensure that they

have enough cash to pay their expenses on a day-to-day basis.

Generated from operations Similar to EBITDA, this is the amount of money that Hydro Ottawa Holding produced during 2008, after all the expenses paid during the year and adding back non-cash "accounting" items such as amortization and depreciation. Essentially, it is net income adjusted for all expenses and revenues that do not include a cash outlay or receipt.

Capital Assets This is primarily the amount Hydro Ottawa invested across its distribution system in 2008 to improve and expand service and to ensure its reliability. The total also includes expenditures made at Telecom Ottawa and Energy Ottawa.

Financing The process that makes money available for projects and activities. Financing can come from many sources — from existing resources or corporate cash flow or from money raised in financial markets through bank loans or the issuance of bonds, debentures or shares, for instance.

RATIOS

Managers and analysts use a host of ratios to help determine the financial health of the company.

Working Capital This measure compares the company's easy access to funds (through its cash, accounts receivables, inventories and other assets that can be readily turned into cash) versus its immediate liabilities (such as bank debt, accounts payable, etc.). Healthy companies have more current assets than liabilities, represented by a ratio greater than 1.0.

Debt Capitalization Ratio This value computes the proportion of a company's long-term debt compared to its available capital. By using this ratio, investors can identify the amount of leverage utilized by a specific company and compare it to others to help analyze the company's risk exposure.

MISCELLANEOUS

OMERS Ontario Municipal Employees' Retirement System is one of Canada's largest pension plans, providing pension services to 390,000 active and retired members and about 921 employers.



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Hydro Ottawa Limited

Financial Statements
December 31, 2009

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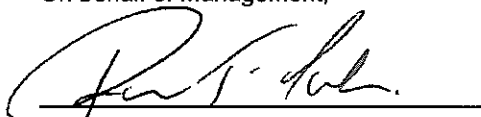
Report of Management

Management is responsible for the integrity of the financial data reported by the Company. Fulfilling this responsibility requires the preparation and presentation of financial statements and other data using management's best judgment, estimates and Canadian generally accepted accounting principles, applied on a basis consistent with the preceding year.

Management maintains appropriate systems of internal control and corporate-wide policies and procedures which provide reasonable assurance that the Company's assets are safeguarded and that financial records are relevant and reliable.

The Board of Directors of Hydro Ottawa Limited, with the advice of the Audit Committee of Hydro Ottawa Holding Inc., ensures that management fulfills its responsibility for financial reporting and internal control. The Audit Committee, including membership of outside directors of the Board of Directors of Hydro Ottawa Limited, at regular meetings reviews audit internal control and financial reporting matters with management and external auditors for Hydro Ottawa Holding Inc. and its subsidiaries. Directors of Hydro Ottawa Limited who are members of the Audit Committee, as well as the Chief Executive Officer and the Chief Financial Officer, advise the Board of Directors of Hydro Ottawa Limited of any matters of concern raised by the Audit Committee in reviewing the financial affairs of Hydro Ottawa Limited.

On behalf of Management,



Rosemarie T. Leclair
President and Chief Executive Officer



Alan Hoverd
Chief Financial Officer

AUDITORS' REPORT

To the Shareholder of
Hydro Ottawa Limited

We have audited the balance sheet of Hydro Ottawa Limited as at December 31, 2009 and the statements of income, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ottawa, Canada,
February 26, 2010 (except for Note 20(i)
which is as of March 11, 2010).

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Hydro Ottawa Limited

Statement of Income, Comprehensive Income and Retained Earnings

Year ended December 31

(tabular amounts are in thousands of dollars)

	2009	2008
Revenues (Note 22)		
Power recovery	587,958	544,192
Distribution sales	141,213	134,227
Other revenue	16,364	14,475
	745,535	692,894
Expenses (Note 22)		
Purchased power	587,958	544,192
Operating costs	62,182	60,676
Depreciation (Note 2)	33,823	32,331
Amortization (Note 2)	7,030	7,149
	690,993	644,348
Income before other expenses (recoveries) and payments in lieu of corporate income taxes	54,542	48,546
Financing costs (Note 18)	14,642	14,050
Recovery of regulatory asset write-down	-	(676)
Payments in lieu of provincial capital tax	1,543	914
	16,185	14,288
Income before payments in lieu of corporate income taxes	38,357	34,258
Payments in lieu of corporate income taxes (Note 19)	12,377	12,470
Net income and comprehensive income	25,980	21,788
Retained earnings, beginning of year	56,826	49,038
Dividends paid (Note 15)	(7,000)	(14,000)
Retained earnings, end of year	75,806	56,826

The accompanying notes are an integral part of these financial statements.

Hydro Ottawa Limited

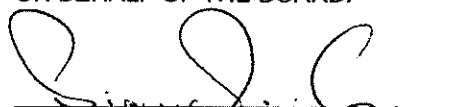
Balance Sheet

As at December 31

(tabular amounts are in thousands of dollars)

	2009	2008
Assets		
Current assets		
Cash	1,041	-
Accounts receivable (Note 4)	58,784	47,581
Unbilled revenue (Note 5)	86,426	76,660
Prepays	728	672
Regulatory assets (Note 7)	3,039	3,039
Inventory (Note 6)	7,088	6,512
Future income tax assets (Note 19)	867	-
	157,973	134,464
Non-current assets		
Net regulatory assets (Note 7)	11,859	12,084
Property, plant and equipment (Notes 2, 8)	486,817	465,304
Intangible assets (Notes 2, 9)	25,773	29,428
Other assets (Note 10)	156	962
Future income tax assets (Note 19)	28,364	-
Total assets	710,942	642,242
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	-	134
Accounts payable and accrued liabilities (Notes 11, 12)	123,307	119,106
Payments in lieu of corporate taxes payable	130	463
Regulatory liability for future income tax assets (Note 19)	867	-
Regulatory liabilities (Note 7)	-	1,705
	124,304	121,408
Non-current liabilities		
Regulatory liability for future income tax assets (Note 19)	28,364	-
Net regulatory liabilities (Note 7)	1,434	1,622
Employee future benefits (Note 12)	4,983	4,890
Asset retirement obligations (Note 14)	1,167	-
Customer deposits	10,618	8,230
Notes payable (Notes 13, 22)	297,185	282,185
	468,055	418,335
Contingencies (Note 20)		
Commitments (Note 21)		
Shareholder's equity		
Share capital (Note 15)	167,081	167,081
Retained earnings	75,806	56,826
	242,887	223,907
Total liabilities and shareholder's equity	710,942	642,242

ON BEHALF OF THE BOARD:


Director


Director

The accompanying notes are an integral part of these financial statements.

Hydro Ottawa Limited

Statement of Cash Flows

Year ended December 31

(tabular amounts are in thousands of dollars)

	2009	2008
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income and comprehensive income	25,980	21,788
Adjustments for non-cash items		
Depreciation	33,823	32,331
Amortization	7,030	7,149
Gain on disposal of property, plant and equipment (Note 8)	(12)	(206)
Allowance for funds used during construction (Note 8)	(895)	(687)
Employee future benefits (Note 12)	93	192
Changes in non-cash working capital and other operating balances		
(Increase) decrease in accounts receivable	(11,203)	7,361
(Increase) decrease in unbilled revenue	(9,766)	5,826
(Increase) decrease in prepaids	(56)	185
(Increase) decrease in inventory	(576)	1,372
Decrease in regulatory assets, net of liabilities	186	3,747
Decrease (increase) in other assets (Note 10)	806	(377)
Increase in accounts payable and accrued liabilities	7,713	4,834
Decrease in payments in lieu of corporate taxes payable	(333)	(2,666)
	52,790	80,849
Financing		
Contributions in aid of construction	25,353	17,156
Advances to parent company (Note 22)	(4,000)	(5,000)
Customer deposits received	3,231	396
Dividends paid (Note 15)	(7,000)	(14,000)
Notes payable (Note 13)	15,000	-
	32,584	(1,448)
Investing		
Acquisition of property, plant and equipment	(80,818)	(78,689)
Acquisition of intangible assets	(3,509)	(4,500)
Proceeds from disposal of property, plant and equipment	128	222
	(84,199)	(82,967)
Net cash inflow (outflow)	1,175	(3,566)
(Bank indebtedness) cash, beginning of year	(134)	3,432
Cash (bank indebtedness), end of year	1,041	(134)
Supplementary cash flow information		
Interest paid	15,162	15,148
Payments in lieu of corporate income taxes paid	12,178	12,426

The accompanying notes are an integral part of these financial statements.

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

1. DESCRIPTION OF BUSINESS

Hydro Ottawa Limited (the "Company") was incorporated on October 3, 2000 pursuant to the Business Corporations Act (Ontario) as mandated by the Ontario government's Electricity Act, 1998. The Company is a wholly owned subsidiary of Hydro Ottawa Holding Inc., which in turn is wholly owned by the City of Ottawa.

The Company is a regulated electricity distribution company that owns and operates electricity infrastructure in the City of Ottawa and the Village of Casselman and is responsible for the safe, reliable delivery of electricity to homes and businesses in its licensed service area. In addition to billing for distribution services, the Company invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services and for debt retirement.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for publicly accountable entities, including principles prescribed by the Ontario Energy Board ("OEB") in the Accounting Procedures Handbook ("AP Handbook"). In the opinion of management, all adjustments necessary for fair presentation are reflected in the financial statements. The financial statements reflect the significant accounting policies summarized below.

Measurement uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the financial statement date. Accounts receivable, unbilled revenue and regulatory assets and liabilities are reported net of an appropriate allowance for unrecoverable amounts. Other significant estimates are used in determining the useful lives and asset impairments of long-lived assets and to calculate payments in lieu of corporate income taxes, employee future benefits and certain accruals.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the OEB or the provincial government. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies.

Regulation

Effective January 1, 2009, the Company adopted the amended Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1100 – "Generally Accepted Accounting Principles", which withdrew the temporary exemption permitting the recognition and measurement of assets and liabilities arising from rate regulation, and Section 3465 – "Income Taxes", requiring the recognition of future income tax assets and liabilities for regulated enterprises that were previously not subject to these provisions. These amendments apply prospectively to fiscal years beginning on or after January 1, 2009.

The Company is regulated by the OEB under the authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs and revenues in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company.

The following regulatory treatments have resulted in accounting treatments that comply with GAAP for publicly accountable enterprises, but differ from GAAP for enterprises operating in a non-regulated environment:

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) *Regulatory assets and liabilities*

Effective January 1, 2009, with the removal of the temporary exemption in Section 1100, the Company must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Section 1100 directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in the CICA Handbook Section 1000 – "Financial Statement Concepts". Using professional judgment and guidance issued by bodies authorized to issue accounting standards in other jurisdictions, the Company has determined that its assets and liabilities arising from rate-regulated activities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Accounting Standards Codification 980 – "Regulated Operations". As a result, there is no effect on the Company's financial results for the year ended December 31, 2009.

Regulatory assets primarily represent costs that have been deferred because it is probable that they will be recovered in future rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers for electricity services and the costs that the Company incurs to purchase these services.

Regulatory balances are comprised principally as follows:

Regulatory assets recovery account and regulatory liabilities refund account – On March 17, 2008, the Company received a decision from the OEB for new rates for the rate period beginning May 1, 2008, resulting from an application filed in September 2007. The new rates included the refund of regulatory liabilities and the recovery of certain regulatory assets accumulated up to October 31, 2007. The Company has not filed any further applications for the recovery of regulatory assets or disposition of regulatory liabilities.

Retail services and settlement variances – The retail settlement variances relate to the charges the Company incurred for transmission services, generation (the commodity) and wholesale market operations from the Independent Electricity System Operator ("IESO") and Hydro One Networks Inc. that were not settled with customers during the period. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time and are reported at period-end dates in accordance with rules prescribed by the OEB. The Company has also recognized the net cost of providing retailer billing services and service transaction request services as a variance amount.

Deferred smart meter costs – The OEB has allowed electricity distributors to track the differences between the amounts funded through rates for smart meters, and program costs. Program costs include operating, maintenance, depreciation and administrative expenses directly related to smart meters, a return on smart meter assets, and the net book value of conventional meters removed at the time of installation of smart meters.

Other variances and deferred costs – The OEB allows electricity distributors to record the difference between low voltage charges paid to Hydro One Networks Inc. and charged to customers. In 2009, the OEB approved a deferral account for distributors to record one-time administrative incremental International Financial Reporting Standards ("IFRS") transition costs, which were not already approved and included for recovery in distribution rates.

Deferred payments in lieu of taxes ("PILs") – The OEB has established a PILs variance account in which distributors record the tax impact of legislative or regulatory changes to the tax rates or rules assumed in the electricity distribution rate application.

The Company has accrued interest on the regulatory asset and liability balances, as directed by the OEB.

b) *Allowance for funds used during construction ("AFUDC")*

An allowance for the cost of funds used during the construction period has been applied to major capital and development projects. Effective May 1, 2006, the OEB adopted the Scotia Capital Inc. All Corporates Mid-Term Average Weighted Yield as the approved rate of interest. The average annual interest rate for 2009 was 5.9% (2008 - 5.3%).

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Payment in lieu of corporate income taxes

Effective January 1, 2009, with the amendment to CICA Handbook Section 3465 the Company is required to recognize future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future electricity rates. The requirement for rate-regulated enterprises to recognize future income taxes, as well as regulatory liabilities and assets, applies for fiscal years beginning on or after January 1, 2009 without restating the financial statements of prior periods. Previously, the Company used the taxes payable method to account for PILs where no provision was made for future income taxes as a result of unused tax losses or temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes as it was expected that they would be collected in future rates. With the adoption of the amended Section 3465, the Company has recorded a future income tax asset and a corresponding regulatory liability (Note 19). The implementation of this standard did not impact the Company's income or cash flows in 2009.

The Company is considered to be a Municipal Electric Utility ("MEU") for purposes of the PILs regime contained in the Electricity Act, 1998 as all of its share capital is indirectly owned by the City of Ottawa and not more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. The Electricity Act, 1998 provides that a MEU that is exempt from tax under the Income Tax Act (Canada) ("ITA") and the Taxation Act Ontario ("TAO") is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation ("OEFC") in an amount approximating the tax that it would be liable to pay under the ITA and the TAO if it were not exempt from tax.

The AP Handbook provides for the recovery of PILs by the Company through annual distribution rate adjustments as approved by the OEB.

Financial instruments

Effective January 1, 2009, the Company adopted a number of amendments to CICA 3855 Financial Instruments – Recognition and Measurement. The amendments relate to revised definitions of certain financial assets, methods of assessing impairments for certain financial assets, reclassifications of financial assets, assessment of embedded derivatives on reclassification of a financial asset out of the held-for-trading category and subsequent accounting of impaired financial assets. The amendments did not have an impact on the financial position, cash flows, or income of the Company.

In June 2009, the CICA amended Handbook Section 3862 – "Financial Instruments – Disclosures" to further converge Canadian standards with IFRS 7 – "Financial Instruments: Disclosures". Amendments included additional disclosure requirements about the fair value measurement of financial instruments and enhancing liquidity risk disclosures. The amendments to Section 3862 apply to annual financial statements relating to fiscal years ending after September 30, 2009. The amendments have no impact on the financial results of the Company.

All financial instruments are initially recorded at fair value, unless fair value cannot be reliably determined. The subsequent measurement of each financial instrument depends on the balance sheet classification elected by the Company.

The Company classifies and measures its financial instruments as follows:

- (i) Cash is classified as "Held-for-Trading" and is measured at fair value.
- (ii) Accounts receivable and unbilled revenue are classified as "Loans and Receivables" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value with the exception of related party transactions which are measured at the carrying amount determined in accordance with Section 3840 - "Related Party Transactions". Subsequent measurements are recorded at amortized cost using the effective interest rate method, if applicable.

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- (iii) Accounts payable and accrued liabilities and notes payable are classified as "Other Financial Liabilities" and are initially measured at their fair value with the exception of related party transactions which are measured at the carrying amount determined in accordance with Section 3840 - "Related Party Transactions". Subsequent measurements are recorded at amortized cost using the effective interest rate method, if applicable.

Credit risk and the fair value of financial assets and financial liabilities

Effective January 1, 2009, the Company adopted the CICA Emerging Issues Abstract "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC-173"), which was issued on January 20, 2009. EIC-173 clarifies that the Company's own credit risk and the credit risk of its counterparties be taken into account in determining the fair value of a financial instrument. For the Company, only cash is held at fair value. Therefore, when assessing the impact of EIC-173 on financial instruments outside of cash, the Company will have to assess the fair value impact on the fair value disclosures.

Management has reviewed its financial instruments which consist of cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities and notes payable. In management's opinion, there is no effect on the Company's financial statements as a result of adopting EIC-173.

Property, plant and equipment

Property, plant and equipment include distribution equipment, facilities and buildings, as well as construction and operating equipment.

Spare transformers, switchgear and meters are treated as property, plant and equipment. Spare transformers, switchgear and meters are items that are expected to be substituted for the original distribution plant transformers, switchgear and meters when these original plant assets are being repaired and are held and dedicated for the specific purpose of backing up plant in service as opposed to assets available for other uses. Spare transformers, switchgear and meters begin depreciating as soon as they are designated as stand-by equipment.

Property, plant and equipment are recorded at cost and include contracted services, materials, labour, engineering costs, overheads and an allowance for the cost of funds used during construction. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Contributions in aid of construction received are treated as a contra account and are included in property, plant and equipment. The amount is amortized by a charge to accumulated depreciation and a credit to depreciation expense at an equivalent rate to that used for the depreciation of the related asset.

Significant renewals and enhancements to existing assets are capitalized only if the service life of the asset is increased, reliability is improved above original design standards or if operating costs are reduced by a substantial and quantifiable amount.

Depreciation is recorded on a straight-line basis over the estimated service life of the related asset.

Estimated service lives for property, plant and equipment classes are as follows:

Buildings and fixtures	25 to 50 years
Furniture and equipment	5 to 10 years
Rolling stock	4 to 8 years
Electricity distribution infrastructure	10 to 40 years

Assets under construction are not subject to depreciation.

The Company reviews its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Company will estimate the future cash flows expected to result from the use of the asset group and their eventual disposition, and record an impairment loss, if required.

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill and intangible assets

Effective January 1, 2009, the Company adopted CICA Handbook Section 3064 – "Goodwill and Intangible Assets". In accordance with the transitional provisions of Section 3064, the Company has restated its prior period comparative figures and related note disclosures. As a result of the adoption of Section 3064, the Company has reclassified land rights and computer software from property, plant and equipment to intangible assets (Note 9).

Amortization is recorded on a straight-line basis over the estimated service life of the related asset.

Estimated service lives for intangible assets are as follows:

Land rights	50 years
Computer software	5 to 10 years

Assets which are not ready for use are not subject to amortization.

The Company reviews its intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Company will estimate the future cash flows expected to result from the use of the asset group and their eventual disposition, and record an impairment loss, if required.

Leases

The Company classifies leases as capital or operating at the outset of the lease agreement based on whether the terms transfer substantially all of the benefits and risks incidental to ownership to the Company.

Asset retirement obligations

The Company recognizes its obligation to retire certain tangible long-lived assets, whereby the fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and then amortized over its estimated useful life. In subsequent periods, the asset retirement obligation is adjusted for the passage of time and any changes in the amount or timing of the underlying future cash flows are reflected through charges to income. A gain or loss may be incurred upon settlement of the liability.

Employee future benefits

Pension plan

The Company provides pension benefits for its employees through the Ontario Municipal Employees Retirement System ("OMERS") Fund (the "Fund"). OMERS is a multi-employer pension plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees and by the investment earnings of the Fund. The Company recognizes the expense related to the fund as contributions are made.

Employee future benefits other than pension plan

Employee future benefits other than pensions provided by the Company include medical and life insurance benefits, supplemental pensions, accumulated sick leave credits and a retirement grant. These plans provide benefits to certain employees when they are no longer providing active service.

Employee future benefit expense is recognized in the period in which the employees render services.

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee future benefits are recorded on an accrual basis. The accrued benefit obligation and current service costs are calculated using the projected benefit method pro rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Actuarial gains and losses resulting from experience different from that assumed or from changes in actuarial assumptions are amortized based on the excess of unamortized net actuarial gains and losses over the 10% corridor calculated in the aggregate for all groups. The expected average remaining service life as at December 31, 2009 is 13 years.

Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills and fulfillment of construction obligations. Deposits estimated to be refundable to customers within the next fiscal year are classified as a current liability.

Revenue recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, services have been delivered, the price has been fixed or determinable and collection is reasonably assured.

Power recovery

Power recovery revenue represents the pass-through of the Company's purchased power costs to the consumer.

Distribution sales

Electricity distribution sales represents charges for providing distribution services, and are recorded on the basis of regular meter readings and estimates of current usage from the last meter reading to the end of the fiscal period.

Other revenue

Other revenue related to sales of other services is recognized as services are rendered. Contract revenue is accounted for using the percentage of completion method, whereby revenue is recognized proportionately with the degree of completion of the services under contract. Losses on contracts are fully recognized when they become evident.

Unbilled revenue

Unbilled revenue represents distribution sales, along with accrued revenue from electricity consumed by customers since the date of each customer's last meter reading that has not yet been billed.

3. CHANGES IN ACCOUNTING POLICIES

Emerging Changes

International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The adoption of IFRS will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010 and the opening balance sheet as at January 1, 2010. Some of the converged standards will be implemented in Canada during the transition period with the remaining standards adopted at the change-over date. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. The Company does expect a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required, as well as information system changes that may be necessary to gather and process the information.

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

4. ACCOUNTS RECEIVABLE

	2009	2008
Electricity receivables, net of allowance for doubtful accounts of \$632,000 (2008 – \$816,000)	50,945	42,205
Other receivables, net of allowance for doubtful accounts of \$111,000 (2008 – \$132,000)	4,821	3,223
Amounts due from related parties, net of allowance for doubtful accounts of \$1,000 (2008 - \$172,000) (Note 22)	3,018	2,153
	58,784	47,581

5. UNBILLED REVENUE

	2009	2008
Unbilled revenue	87,542	77,470
Less: allowance for doubtful accounts	(1,116)	(810)
	86,426	76,660

6. INVENTORY

Inventory consists primarily of parts and supplies acquired for internal construction or consumption and are stated at the lower of cost and net realizable value, with cost determined on a weighted average basis.

The amount of inventory consumed by the Company and recognized as an expense during the year was \$1,066,000 (2008 - \$1,083,000).

7. NET REGULATORY ASSETS AND LIABILITIES

Information about the Company's net regulatory assets is as follows:

	2009	2008
Regulatory assets recovery account	569	-
Deferred smart meter costs	9,867	10,942
Retail services and settlement variances	4,408	3,833
Other variances and deferred costs	228	388
	15,072	15,163
Provision for doubtful recovery	(174)	(40)
Total net regulatory assets	14,898	15,123
Less: current portion	(3,039)	(3,039)
	11,859	12,084

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

7. NET REGULATORY ASSETS AND LIABILITIES (continued)

Information about the Company's net regulatory liabilities is as follows:

	2009	2008
Regulatory liabilities refund account	-	1,860
Deferred payments in lieu of taxes	209	206
	209	2,066
Provision for doubtful recovery	1,225	1,261
Total net regulatory liabilities	1,434	3,327
Less: current portion	-	(1,705)
	1,434	1,622

The regulatory assets recovery account of \$569,000 (2008 – regulatory liabilities refund account of \$1,860,000) is the aggregate of all regulatory assets and liabilities which have been approved for recovery or disposition plus accrued interest earned of \$1,649,000 (2008 - \$1,673,000) up to December 31, 2009, less amounts already settled through distribution rates.

Regulatory assets are comprised of deferred smart meter costs of \$9,867,000 which include accrued interest costs of \$103,000 (2008 – \$10,942,000 which includes accrued interest costs of \$82,000), retail services and settlement variances of \$4,408,000 which includes accrued interest earned of \$31,000 (2008 – \$3,833,000 which includes accrued interest costs of \$431,000) and other variances and deferred costs of \$228,000 which includes accrued interest earned of \$7,000 (2008 – \$388,000 which includes accrued interest earned of \$2,000).

Regulatory liabilities are comprised of deferred payments in lieu of taxes of \$209,000, which include accrued interest costs of \$8,000 (2008 - \$206,000 which includes accrued interest earned of \$6,000).

In the absence of rate regulation, the income before PILs for the year ended December 31, 2009 would be \$1,668,000 lower (2008 - \$2,167,000 lower).

The regulatory process has provided for the clearing of regulatory assets and liabilities. The Company files a rate application to settle its regulatory assets and liabilities as required, and the time period for settlement is determined based on the magnitude of the balances to be cleared.

The Company continues to assess the likelihood of recovery of all regulatory assets subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation. The Company has recorded a net provision of \$1,399,000 (2008 - \$1,301,000) against regulatory assets. If future recovery becomes assured, the Company will recognize the recovery in the income for the period such a decision is made.

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

8. PROPERTY, PLANT AND EQUIPMENT

	2009		
	Cost	Accumulated depreciation	Net book value
Land	3,793	-	3,793
Buildings and fixtures	65,495	15,908	49,587
Furniture and equipment	16,002	9,712	6,290
Rolling stock	21,438	13,424	8,014
Electricity distribution infrastructure	902,083	381,045	521,038
Assets under construction	24,175	-	24,175
	1,032,986	420,089	612,897
Contributions in aid of construction	(151,278)	(25,198)	(126,080)
	881,708	394,891	486,817
	2008		
	Cost	Accumulated depreciation	Net book value
Land	3,430	-	3,430
Building and fixtures	62,774	14,726	48,048
Furniture and equipment	15,335	7,550	7,785
Rolling stock	20,969	12,165	8,804
Electricity distribution infrastructure	904,327	418,564	485,763
Assets under construction	17,837	-	17,837
	1,024,672	453,005	571,667
Contributions in aid of construction	(126,473)	(20,110)	(106,363)
	898,199	432,895	465,304

During the year, the Company capitalized an AFUDC of \$895,000 (2008 - \$687,000).

The OEB permits a deemed AFUDC to be attributed to the cost of an item of property, plant and equipment that is acquired, constructed, or developed over time. Since AFUDC includes not only carrying costs directly attributable to the acquisition, construction, or development activity, the actual capitalized amounts could differ for rate regulation purposes. In the absence of rate regulation, the income before PILs for the year ended December 31, 2009 would be \$76,000 lower (2008 - \$1,000 higher).

During the year, the Company incurred a gain on disposal of property, plant and equipment of \$12,000 (2008 - \$206,000). This gain does not include the effects of the Ontario government's smart meter initiative, which resulted in \$4,549,000 (2008 - \$19,021,000) in conventional meters being removed from service and would have resulted in a loss on disposal of \$1,854,000 (2008 - \$5,914,000) under GAAP for non-regulated entities. This loss on disposal is deemed by the OEB to be a regulatory asset, to be recovered through future rates.

On March 13, 2009, a fire destroyed a transformer station located in the east end of Ottawa and, as a result, equipment with a net book value of \$116,000 has been written off. The Company has adequate property insurance coverage and recorded insurance proceeds receivable of \$116,000 in respect of the damaged equipment. As a result, no gain or loss related to damaged equipment has been reflected in income. The Company has also recorded a receivable of \$1,095,000 for the recovery of expenses incurred to clean up and restore services at the site. The Company has submitted a claim for damages and is in the process of negotiating a settlement with the insurance company.

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

9. INTANGIBLE ASSETS

	2008	Acquisitions	Retirements	2009
Cost				
Land rights	2,838	1	-	2,839
Computer software	50,677	3,374	(26)	54,025
	53,515	3,375	(26)	56,864
	2008	Amortization	Retirements	2009
Accumulated amortization				
Land rights	917	47	-	964
Computer software	23,170	6,983	(26)	30,127
	24,087	7,030	(26)	31,091
		Cost	Accumulated amortization	Net book value
Net book value as at December 31, 2009				
Land rights		2,839	(964)	1,875
Computer software		54,025	(30,127)	23,898
		56,864	(31,091)	25,773
	2007	Acquisition	Retirements	2008
Cost				
Land rights	2,444	394	-	2,838
Computer software	59,586	3,490	(12,399)	50,677
	62,030	3,884	(12,399)	53,515
	2007	Amortization	Retirements	2008
Accumulated amortization				
Land rights	870	47	-	917
Computer software	28,467	7,102	(12,399)	23,170
	29,337	7,149	(12,399)	24,087
		Cost	Accumulated amortization	Net book value
Net book value as at December 31, 2008				
Land rights		2,838	(917)	1,921
Computer software		50,677	(23,170)	27,507
		53,515	(24,087)	29,428

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

9. INTANGIBLE ASSETS (continued)

Included in intangible assets at December 31, 2009 is \$3,112,000 (2008 - \$1,277,000) in computer software that has not yet commenced being amortized as software is not available for use.

There was no impairment of intangible assets for the year ended December 31, 2009 or for the year ended Wednesday, December 31, 2008.

10. OTHER ASSETS

	2009	2008
Accounts receivable, net of allowance for doubtful accounts of \$28,000 (2008 - \$100,000)	156	832
Deferred credits	130	260
	286	1,092
Less: current portion of deferred credits	(130)	(130)
	156	962

The accounts receivable balance included in other assets represents electricity receivables due from customers who have been placed on extended payment arrangements. These payment arrangements generally range from 24 to 36 months.

In 2004, the Company sold a server valued at \$541,000. The sale of the server did not result in any gain or loss on disposal. Consideration for the server consisted of credits to be applied against fees payable under the maintenance agreement. As at December 31, 2009, \$411,000 in credits have been applied against fees payable under the maintenance agreement with the remaining \$130,000 to be applied in 2010.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Purchased power payable	64,864	56,934
Rebates payable to eligible customers	2,571	2,213
Customer credit balances	9,633	9,708
Collateral funds held	16,870	16,027
Other accounts payable and accrued liabilities	19,099	20,104
Deferred revenue	-	510
Advances from parent company (Note 22)	8,000	12,000
Due to related parties (Note 22)	2,270	1,610
	123,307	119,106

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

12. EMPLOYEE FUTURE BENEFITS

(i) Pension plan

The Company's participating employer contributions for the year were \$2,850,000 (2008 - \$2,811,000).

(ii) Employee future benefits other than pension plan

Employee future benefits are calculated using an annual compensation rate increase of 3.1% (2008 - 3.1%) and a discount rate of 6.00% (2008 - 7.25%) to calculate the liabilities.

Information about the Company's defined benefit plans is as follows:

	2009		
	Accumulated liability	Expense (recovery) for the year	Benefits paid
Life insurance	4,777	511	369
Retirement grant	793	83	16
Supplemental pensions	5	(6)	1
Sick leave	9	-	3
	5,584	588	389
Projected benefit obligation	7,411		
Actuarial deficit	(1,827)		

	2008		
	Accumulated liability	Expense (recovery) for the year	Benefits paid
Life insurance	4,635	536	328
Retirement grant provision	726	66	-
Supplemental pensions	12	(3)	1
Sick leave	12	-	-
	5,385	599	329
Projected benefit obligation	6,506		
Actuarial deficit	(1,121)		

An update of the actuarial valuation was performed as at January 1, 2010. The actuary has updated the assumptions and estimates at December 31, 2009. As a result of this exercise, the Company increased the projected benefit obligation by \$905,000 (2008 - decreased by \$849,000). At December 31, 2009 there were \$1,841,000 (2008 - \$1,146,000) of unamortized losses. The excess over the 10% corridor will be charged to income over the average remaining service life of current employees of 13 years, beginning January 1, 2010.

The current liability portion of the accrued employee future benefits included in other accounts payable and accrued liabilities is \$601,000 (2008 - \$495,000) and the non-current portion of \$4,983,000 (2008 - \$4,890,000) is included in non-current liabilities.

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

13. NOTES PAYABLE

On January 1, 2009, the Company entered into a grid promissory note credit facility with its parent, Hydro Ottawa Holding Inc. The total amount of the grid promissory note is for an amount not to exceed \$75,000,000. The grid promissory note can bear interest at the actual cost of external long-term debt, including issuance costs, if available, or an estimated "deemed interest rate" based on the methodology outlined in the OEB's "Report of the Board" on the Cost of Capital for Ontario's Regulated Utilities EB-2009-0084 dated December 11, 2009. The principal and any accrued and outstanding interest payable under the note shall be payable in full on February 9, 2015, unless otherwise agreed to by the two parties. On December 21, 2009, the Company received an advance of \$15,000,000, bearing interest at 5.85%.

The Company has issued promissory notes payable to Hydro Ottawa Holding Inc. that are due on demand. The management of Hydro Ottawa Holding Inc. has confirmed that it does not intend on calling these notes within one year. The notes are subordinated and postponed to the obligation of the Company to a third party for the payment in full of any secured indebtedness and any and all security interests granted to secure such obligations of the Company. The notes are convertible into fully paid and non-assessable Class A common shares at a conversion rate equal to 1 Class A common share for each \$1 of the principal amount converted.

	2009	2008
5.9% promissory note payable issued July 1, 2005	32,185	32,185
5.14% promissory note payable issued July 1, 2005	200,000	200,000
5.318% promissory note payable issued December 20, 2006	50,000	50,000
5.85% grid promissory note payable issued December 21, 2009	15,000	-
	297,185	282,185

14. ASSET RETIREMENT OBLIGATIONS

	2009	2008
Balance, beginning of year	-	-
Liabilities incurred in the year	1,167	-
Liabilities settled in the year	-	-
Accretion expense	-	-
Revisions in estimated cash flows	-	-
Balance, end of year	1,167	-

The Company is subject to environmental regulatory requirements related to the removal and destruction of polychlorinated biphenyls ("PCBs") in distribution transformers and other clean-up related to PCBs. Federal PCB Regulatory Framework under the Canadian Environmental Protection Act, 1999 requires that certain equipment containing PCBs be removed from service by December 31, 2009 and December 31, 2025, depending on equipment concentration and physical location.

Effective December 31, 2009, the Company recorded an asset retirement obligation ("ARO") of \$1,167,000. The ARO was calculated using an estimated undiscounted cash flow over four years totaling \$1,255,000 and a discount rate of 5.3%. No assets have been legally restricted for settlement of the liability.

An ARO was not previously recorded as it could not be reasonably estimated as uncertainty existed around the identification, final removal dates and costs of removal of the related assets.

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

15. SHARE CAPITAL

Authorized

Unlimited voting first preferred shares, redeemable at \$1 per share
Unlimited non-voting second preferred shares, redeemable at \$10 per share
Unlimited non-voting third preferred shares, redeemable at \$100 per share
Unlimited voting (10 votes per share) fourth preferred shares, redeemable at \$100 per share
Unlimited voting Class A common shares
Unlimited non-voting Class B common shares
Unlimited non-voting Class C common shares, redeemable at the price at which such shares were issued

The above shares are without nominal or par value.

Holders of second preferred shares, fourth preferred shares and common shares are entitled to receive dividends as and when declared by the Board of Directors at their discretion.

	2009	2008
154,798,000 Class A common shares	167,081	167,081

Any invitation to the public to subscribe for shares of the Company is prohibited by shareholder resolution.

On August 27, 2009, the Board of Directors declared a \$7,000,000 dividend on the common shares of the Company outstanding on June 30, 2009, paid to the sole shareholder, Hydro Ottawa Holding Inc., on September 3, 2009 (2008 - declared and paid common dividends in the amount of \$14,000,000 to the sole shareholder, Hydro Ottawa Holding Inc.).

16. CAPITAL DISCLOSURES

The Company's main objectives when managing capital are to:

- (i) ensure continued access to funding to maintain and improve the operations and infrastructure of the Company;
- (ii) ensure compliance with covenants related to the credit facilities and senior unsecured debentures entered into by its parent company, Hydro Ottawa Holding Inc.; and
- (iii) align the capital structure with the debt to equity structure recommended by the OEB.

The Company's capital consists of the following:

	2009	2008
Advances from parent company	8,000	12,000
Notes payable	297,185	282,185
Total debt	305,185	294,185
Shareholder's equity	242,887	223,907
Total capital	548,072	518,092
Debt capitalization ratio	55.7 %	56.8 %

Prior to May 1, 2008, the Company was deemed by the OEB to have a capital structure that was funded by 60% long-term debt and 40% equity. Effective May 1, 2008, the deemed capital structure for the Company has changed to 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure only as a basis for setting distribution rates. As such, the actual capital structure for the Company may differ from the OEB deemed structure.

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

16. CAPITAL DISCLOSURES (continued)

The Company met its capital management objectives and the objectives have not changed during the year.

The Company does not have any external debt arrangements as all financing is received from its parent company, Hydro Ottawa Holding Inc.. Hydro Ottawa Holding Inc. is in compliance with all financial covenants and limitations associated with its long-term debt.

17. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities and notes payable. Regulatory assets and liabilities do not qualify as financial instruments as they do not meet the definition of a financial asset or liability. The only financial instrument recorded at fair value is cash and it is classified as level 1 in the fair value hierarchy. The carrying values of the Company's remaining financial instruments, except for notes payable, approximate their fair values because of the short maturity of the instruments.

The Company has estimated the fair value of the notes payable at December 31, 2009 as \$298,000,000 (2008 - \$283,000,000). The fair value has been determined based on discounting all future payments of interest and the principal repayment on January 1, 2011, at the estimated interest rate of 5.0% (2008 - 5.0%) that would be available to the Company on December 31, 2009. The Company has determined that the fair value of the accounts receivable included in other assets as at December 31, 2009 based on discounting all future payment arrangements approximates their carrying value.

Risk Factors

In the normal course of business, the Company is exposed to market risk, credit risk and liquidity risk. The Company's exposure and strategies to mitigate these risks are noted below.

- a) Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk such as equity risk.
 - (i) The Company is exposed to interest rate risk on its borrowings. The Company mitigates exposure to interest rate risk by fixing interest rates on its notes payable with its parent company. Under Hydro Ottawa Holding Inc.'s credit facilities, any advances on its operating line would expose the Company to fluctuations in short-term interest rates related to prime rate loans and banker's acceptances as all short-term financing requirements are obtained through its parent company, which passes on its borrowing costs. The interest rate risk is deemed to be low due to the immaterial cost of its short-term borrowings (Note 18). For the most part, the borrowing requirements are for a very short duration as the advances serve to bridge gaps between the cash outflow related to the monthly power bill and the inflows related to the settlements with customers and, as such, there is very limited exposure to interest rate risk.
 - (ii) As at December 31, 2009, the Company has limited exposure to fluctuations in foreign currency exchange rates. The Company does purchase goods and services which are denominated in foreign currencies, predominately the US dollar. The impact of the fluctuation of foreign currencies on the gains or losses of payables denoted in foreign currencies is not material to disclose.
 - (iii) As at December 31, 2009, the Company has not entered into any hedging transactions or derivative contracts.
- b) Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's parent, Hydro Ottawa Holding Inc., manages all the financing and investing activities for the Company. The liquidity risks associated with financial commitments relate to promissory notes issued to its parent company, Hydro Ottawa Holding Inc., that are due on demand (Note 13), and \$123,307,000 in accounts payable and accrued liabilities and bank indebtedness that are due within one year (December 31, 2008 - \$119,240,000).

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

17. FINANCIAL INSTRUMENTS (continued)

Hydro Ottawa Holding Inc. has arranged a credit facility which consists of a \$75,000,000, 364-day revolving operating line maturing on July 15, 2010. This line of credit is available to the Company to help meet its financial obligations as they come due.

- c) Credit risk is the risk that a counterparty will default on its obligations, causing a financial loss. Concentration of credit risk associated with accounts receivable and unbilled revenue is limited due to the large number of customers the Company services. The Company has over 296,000 customers, of which 91% are residential. As a result, the Company did not earn a significant amount of revenue and does not have a significant receivable from any individual customer. The Company monitors and limits its exposure to credit risk on a continuous basis. The Company also performs ongoing credit evaluations on its customers and requires collateral to support customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2009, the Company held customer deposits and collateral funds in the amount of \$27,488,000 (2008 - \$24,257,000).

The carrying amount of accounts receivable and unbilled revenue is reduced by an allowance for doubtful accounts based on the credit risk applicable to particular customers, and historical and other information. The Company records an allowance for doubtful accounts when the recoverability of an amount becomes doubtful. The amount of the related impairment loss is recognized in income in the period such a decision is made. When the receivable amount is deemed to be uncollectible it is written off and the allowance for doubtful accounts adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written off are credited to income. During the year, the Company's allowance for doubtful accounts remained relatively unchanged at \$1,888,000 (2008 - \$2,030,000).

Credit risk associated with accounts receivable and unbilled revenue is as follows:

	2009	2008
Total accounts receivable	59,528	48,701
Total unbilled revenue	87,542	77,470
Total accounts receivable in other assets	184	932
Less: allowance for doubtful accounts	(1,888)	(2,030)
	145,366	125,073
Of which:		
Outstanding for less than 30 days	51,764	40,365
Outstanding for more than 31 days but not more than 120 days	6,751	8,036
Outstanding for more than 121 days	1,197	1,232
Unbilled revenue	87,542	77,470
Less: allowance for doubtful accounts	(1,888)	(2,030)
	145,366	125,073

As at December 31, 2009, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties and approximately 13% (2008 - 19%) of the Company's accounts receivable was aged more than 30 days. The Company's maximum exposure to credit risk is equal to the carrying value of accounts receivable less deposits held.

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

18. FINANCING COSTS

	2009	2008
Short-term interest (net of interest income)	258	(141)
Interest on notes payable	14,864	14,878
Other	415	-
Less: allowance for funds used during construction	(895)	(687)
	14,642	14,050

19. PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates.

The Company is subject to PILs as long as it is exempt from federal taxation under paragraph 149(1)(d.6) of the ITA.

A reconciliation between the statutory and effective tax rates is provided as follows:

	2009	2008
Federal and Ontario statutory income tax rate	% 33.00 %	33.50
Income before provision for PILs	\$ 38,357 \$	34,258
Provision for PILs at statutory rate	12,658	11,476
Increase (decrease) resulting from:		
Permanent differences	897	416
Temporary differences	1,099	(2,252)
Changes in future tax rates	1,480	1,992
Income tax reassessments	(537)	-
Regulatory offset to temporary differences and changes in future tax rates	(2,579)	260
Other	(641)	578
Provision for PILs	\$ 12,377 \$	12,470
Effective income tax rate	% 32.27 %	36.40

Effective January 1, 2009, with the amendment to Section 3465, the Company is required to recognize future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future electricity rates. Prior to that the Company, as a rate-regulated utility, did not recognize future income taxes to the extent they were expected to be included in future approved rates charged to customers and recovered from them.

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

19. PAYMENTS IN LIEU OF CORPORATE INCOME TAXES (continued)

Provision for PILs consists of the following:

	2009	2008
Current PILs corporate income tax expense	12,377	12,470
Future PILs corporate income tax expense:		
Future income tax recovery before regulatory adjustment	(29,231)	-
Regulatory adjustment for the disposition of future income tax recovery in future customer rates	29,231	-
	12,377	12,470

The future income tax assets and regulatory liability for future income tax assets are presented on the balance sheet as follows:

	2009	2008
Assets		
Future income tax assets, current	867	-
Future income tax assets, non-current	28,364	-
	29,231	-
Liabilities		
Regulatory liability for future income tax assets, current	867	-
Regulatory liability for future income tax assets, non-current	28,364	-
	29,231	-

Significant components of the Company's future income tax asset are as follows:

	2009	2008
Property, plant and equipment and intangible assets	27,017	-
Employee future benefits	2,132	-
Other taxable temporary differences	82	-
	29,231	-
Deductible temporary differences	77,862	81,716

As at December 31, 2008, the deductible temporary differences between the tax basis of assets and their carrying amount for accounting purposes translated into an unrecognized future tax asset of approximately \$23,828,000, which can be used to reduce PILs calculated in future periods. In the absence of rate regulation, the income for the year ended December 31, 2008 would have been \$260,000 higher.

20. CONTINGENT LIABILITIES

(i) On November 18, 1998, a class action claiming \$500,000,000 in restitutionary payments plus interest was served on the former Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario ("LDCs"), which have charged late payment charges on overdue utility bills at any time after April 1, 1981. The claim is that late payment penalties result in electric utilities receiving interest at effective rates in excess of what is allowed under Section 347(1)(b) of the Criminal Code.

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

20. CONTINGENT LIABILITIES (continued)

On April 22, 2004, the Supreme Court of Canada released a decision in the Enbridge Gas Distribution Inc. ("EGD") case, a case in which the Company is not a party to, however, the issues are analogous. The Supreme Court rejected all of the defences, which had been raised by EGD, however, it did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by EGD, which were approved by the Ontario Superior Court. In 2007, EGD filed an application to the OEB to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008, the OEB approved the recovery of the amounts from ratepayers over a five-year period.

On March 2, 2010, the Electricity Distributors Association informed distributors of a conditional settlement in the class action suit. If any utility opts out of the settlement the plaintiff would likely withdraw from the proposed settlement and the matter would proceed at increased cost to the parties. The tentative settlement is also conditional upon court approval. The amount paid by each utility will be its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. The proposed settlement would involve payment of \$18,382,000 by all utilities imposing late payment charges. The Company's share, relating to late payment charges collected between 1998 and 2001, would be approximately one million dollars, and any payment of settlement funds would not be required until June 30, 2011. In the interim, utilities involved in the settlement, including the Company, are expected to request an order from the OEB allowing for the future recovery from customers of all costs related to the proposed settlement. The Company has not accrued any liabilities in relation to this proposed settlement. There is no guarantee that the OEB will allow for total or partial recovery of such costs in the future. The Company has not accrued any liabilities in relation to this proposed settlement as there is ultimate uncertainty as to whether any utility will opt out of the settlement by April 12, 2010, and if the settlement will be approved by the court.

(ii) Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Company fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. At December 31, 2009, the Company had drawn letters of credit of \$11,738,000 (2008 - \$11,738,000) against its credit facility to cover its prudential support obligation. In addition, the Company provided bank letters of credit of \$93,000 (2008 - \$93,000) to the City of Ottawa as security for construction projects.

(iii) Various lawsuits have been filed against the Company for incidents that arose in the ordinary course of business. In the opinion of management, the outcomes of the lawsuits, now pending, are neither determinable nor material. Should any loss result from the resolution of these claims, such losses would be claimed through the Company's insurance carrier, with any unrecoverable amounts charged to income in the year of resolution.

(iv) The Company participates with other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. The Company is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred. If any additional assessments were required in the future, their cost would be charged to income in the year in which they occur.

21. COMMITMENTS

The Company has \$44,281,000 in total open commitments, of which \$37,373,000 are for 2010, \$3,077,000 for 2011, \$1,815,000 for 2012, \$1,991,000 for 2013 and \$25,000 for 2014. This includes a customer information system services agreement, an arrangement for call centre services, purchase and installation of smart meters and overhead and underground services.

22. RELATED PARTY TRANSACTIONS

Trade amounts due from and to the Hydro Ottawa group of companies are non-interest bearing and have no specific terms of repayment.

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

22. RELATED PARTY TRANSACTIONS (continued)

The Company is wholly owned by Hydro Ottawa Holding Inc., which in turn is wholly owned by the City of Ottawa. Hydro Ottawa Holding Inc. is also the sole shareholder of Energy Ottawa Inc. The Telecom Ottawa group of companies ("Telecom Ottawa") was sold on May 1, 2008.

The Company provides certain services to the City of Ottawa, Hydro Ottawa Holding Inc. and Energy Ottawa Inc. in the normal course of business at commercial rates. The Company also provided certain services to Telecom Ottawa up until May 1, 2008.

For the year ended December 31, 2009, the Company earned revenues related to the:

- sale of electricity and other services in the amount of \$35,181,000 (2008 - \$30,018,000) to the City of Ottawa.
- supply of administrative and corporate support by service level agreement in the amount of \$599,000 (2008 - \$276,000) to Energy Ottawa Inc.
- supply of administrative, corporate and other operational support by service level agreement in the amount of \$333,000 (2008 - \$302,000) to Energy Ottawa Inc..
- rental of poles and ducts in the amount of \$nil (2008 - \$290,000) to Telecom Ottawa.
- supply of administration and corporate services and other recoverable work in the amount of \$nil (2008 - \$103,000) to Telecom Ottawa.

The Company purchases certain services from the City of Ottawa, Hydro Ottawa Holding Inc. and Energy Ottawa Inc. in the normal course of business at commercial rates. The Company also purchased certain services from Telecom Ottawa up until May 1, 2008.

For the year ended December 31, 2009, the Company purchased:

- certain services related to water and sewer charges, fuel and permits from the City of Ottawa in the amount of \$374,000 (2008 - \$670,000).
- certain administration and corporate services from Hydro Ottawa Holding Inc. totaling \$3,892,000 (2008 - \$2,260,000) and reimbursed Hydro Ottawa Holding Inc. for \$502,000 (2008 - \$nil) in IFRS costs and \$455,000 (2008 - \$44,000) in financing costs. During the year, the Company also paid Hydro Ottawa Holding Inc. for interest charged on short-term and long-term borrowings amounting to \$15,138,000 (2008 - \$14,788,000).
- power from Energy Ottawa Inc. in the amount of \$3,676,000 (2008 - \$6,214,000) and conservation demand management related goods and services in the amount of \$260,000 (2008 - \$419,000).
- broadband data services from Telecom Ottawa in the amount of \$nil (2008 - \$436,000).

For the year ended December 31, 2009, the Company incurred property taxes payable to the City of Ottawa of \$1,757,000 (2008 - \$1,731,000). The Company also paid the City of Ottawa \$1,000 (2008 - \$291,000) in support of its conservation and demand management initiatives.

At the end of the year, the amounts due from and to related parties, which are included in accounts receivable and accounts payable and accrued liabilities, are as follows:

Hydro Ottawa Limited

Notes to the Financial Statements

December 31, 2009

(tabular amounts are in thousands of dollars)

22. RELATED PARTY TRANSACTIONS (continued)

	2009	2008
Due from related party:		
City of Ottawa, net of allowance for doubtful accounts of \$1,000 (2008 - \$172,000)	3,018	2,153
Due to related parties:		
Hydro Ottawa Holding Inc.	1,358	1,068
Energy Ottawa Inc.	763	485
City of Ottawa	149	57
	2,270	1,610
Advances from parent company	8,000	12,000
Notes payable to parent company	297,185	282,185

23. COMPARATIVE FIGURES

In certain instances, the 2008 information presented for comparative purposes has been reclassified to conform to the financial statement presentation adopted for the current year.

2009 ANNUAL REPORT



The Power to Lead



Our Mission

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

Hydro Ottawa is both a community asset and an investment for our shareholder, the City of Ottawa. As a community asset, our goal is to provide effective, efficient and reliable service to our customers, and to be a strong strategic partner with the City, helping to deliver on its economic development and environmental agendas. As an investment, our goal is to provide stable, reliable and growing returns to our shareholder.



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Company Profile

Hydro Ottawa Holding Inc. (Hydro Ottawa) is 100 percent owned by the City of Ottawa. It is a private company, registered under the Ontario Business Corporations Act, and overseen by an independent Board of Directors consisting of eleven members appointed by City Council. The core businesses of the Corporation are electricity distribution, renewable energy generation and related services. In 2009, Hydro Ottawa owned and operated two subsidiary companies.

Hydro Ottawa Limited

Hydro Ottawa Limited is a regulated electricity local distribution company that owns and operates distribution infrastructure in the City of Ottawa and the Village of Casselman. As the third largest municipally owned electrical distribution company in Ontario, and the largest in Eastern Ontario, Hydro Ottawa maintains one of the safest, most reliable and cost-effective electricity distribution systems in the province and serves over 296,000 residential and commercial customers across a service area of 1,104 square kilometres (km). The company added approximately 4,400 new customers to its distribution system in 2009, an increase of 1.5 percent, while the volume of electricity delivered through its distribution network was virtually the same as the previous year. The company's capital assets grew by \$17.9 million, or 3.6 percent.

Energy Ottawa Inc.

Energy Ottawa is a generator of renewable energy and provider of commercial energy management services. Its twin 8-megawatt run of the river hydro-electric facilities at Chaudière Falls in the city's core produce more than 125,000-megawatt hours (MWh) of Tier III *EcoLogo* certified green power – the greenest electricity in Canada. The 5 megawatt Trail Road plant – a joint venture 60 percent owned by Energy Ottawa – converts millions of tonnes of previously wasted methane gas into renewable energy. Along with a fourth facility, the 0.7 megawatt Grinder Powerhouse, these facilities produce approximately 2 percent of Ottawa's total electricity requirement, enough to meet the annual needs of more than 18,000 homes.

Message to our Shareholder



Pierre Richard, Q.C.
Chair, Board of Directors
Hydro Ottawa Holding Inc.
and Hydro Ottawa Limited



Rosemarie T. Leclair
President and
Chief Executive Officer
Hydro Ottawa Holding Inc.

On behalf of the Board of Directors and management, we are very pleased to present this report on the performance of Hydro Ottawa Holding Inc. in 2009.

This Annual Report is the second to report on progress against the company's *2008-2012 Strategic Direction and Financial Outlook*, a five-year business strategy endorsed by our shareholder in June 2008.

The goal of that strategy is to solidify Hydro Ottawa's position as a leading and trusted service provider, while capitalizing on an evolving industry landscape to become one of Canada's most successful integrated utilities.

We are pleased to report that Hydro Ottawa continued to show excellent progress in the achievement of this strategy, meeting and exceeding its financial targets while continuing to deliver industry-leading service and contribute to the community as an engaged and responsible corporate citizen.

Based on the trend of solid performance established by Hydro Ottawa over the past several years, we truly believe the company has *The Power to Lead*, in an industry where service, efficiency and innovation are the defining features of leadership.

In 2009, Hydro Ottawa achieved a comprehensive net income of \$29.4 million, and a return on equity of 9.1 percent, enabling the company to provide dividends of \$17.6 million based on operations – our largest contribution to date.

On a normalized basis – excluding one-time events – the company increased its net income by \$4 million compared to the previous year, while increasing revenues by 8.6 percent.

Viewed over a longer period of time, Hydro Ottawa's key financial metrics have shown strong and steady growth over the past five years. Since the establishment of a dividend policy in 2005, Hydro Ottawa has paid dividends of \$87.2 million, while increasing shareholder equity in the company by \$80.9 million.

Reflecting this positive and sustained financial performance, the Dominion Bond Rating Service raised its credit rating on Hydro Ottawa's Senior Unsecured Debt to 'A' from 'A (low)' in May 2009, following a similar upgrade by Standard and Poor's Ratings Services in June 2008.

At the same time, Hydro Ottawa has continued to focus on the critical factors that have driven its success to date – in particular, service and efficiency.

As a company that provides an essential service to the public, nothing is more important to Hydro Ottawa's success than the ability to deliver value to our customers, by providing reliable, responsive and innovative services at competitive rates.

Indeed, with strong and growing demand for energy management and other value-added services, the ability to meet and exceed customers' expectations is more important than ever.

Our results in 2009 suggest we're doing just that, with electricity service reliability performance that continues to be among the best in the industry, and overall customer satisfaction reaching 89 percent – a 13 percent increase since 2004.

Hydro Ottawa also continued to perform well above the industry average in terms of productivity and efficiency, ranking 12th of 81 Ontario utilities in a recent Ontario Energy Board report comparing the unit operating costs of electrical utilities.

As a community asset, Hydro Ottawa is enhancing our City's *Power to Lead* in the critical areas of environmental performance and economic development – by ensuring Ottawa's electricity infrastructure is in excellent shape for the future; by increasing our production of renewable energy and promoting renewable generation opportunities for local homeowners and businesses; by investing in energy efficiency and conservation; and by continuing to provide stable, reliable, and growing returns to our shareholder, contributing to the City of Ottawa's objective of financial sustainability.

These efforts and achievements not only respond to the strategic objectives set out for Hydro Ottawa in our *2008-2012 Strategic Direction and Financial Outlook*; they also reflect the core mission and mandate of Hydro Ottawa, which has remained the same since the company's inception: to deliver value to our shareholder, while benefitting our customers and the community we serve.

We are proud of the strides we have made to fulfill that mission in 2009, and grateful to our 580 employees, whose commitment to excellence and continuous improvement has made these achievements possible.

We look forward to continued success in the coming years, as we pursue our vision to be a leading, trusted integrated utility services company.

Sincerely,

A handwritten signature in black ink, appearing to read "Pierre Richard".

Pierre Richard, Q.C.
Chair, Board of Directors

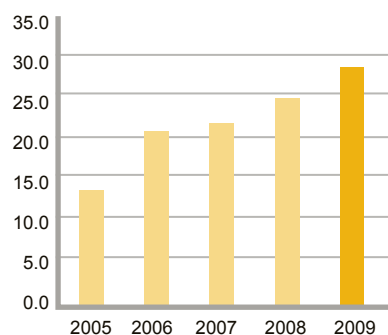
A handwritten signature in black ink, appearing to read "Rosemarie T. Leclair".

Rosemarie T. Leclair
President and Chief Executive Officer

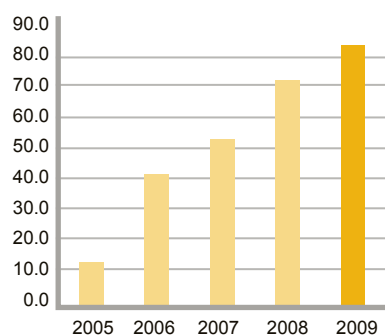
Financial Highlights

(\$ 000)	2009	2008
Revenues		
Power recovery	587,958	544,192
Distribution sales	141,213	134,227
Other income	25,561	19,341
	754,732	697,760
Earnings from continuing operations		
EBITDA	98,678	92,199
EBIT	56,723	51,597
Net income	29,353	25,290
Sources (uses) of cash		
Generated from operations	55,315	87,955
Capital assets	(84,381)	(83,872)
Financing	11,283	(10,991)
Ratios		
Working capital	1.35	1.36
Debt capitalization ratio	43:57	44:56
GWh consumption		
GWh consumption (purchased power)	7,785	7,867

Normalized Net Income

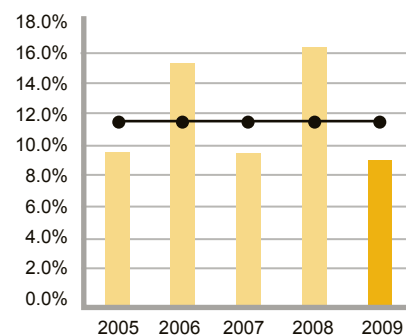


Growth in Shareholder Equity



Adjusted for dividends paid the following year

Return on Equity



Introduction to 2009 Annual Report

Hydro Ottawa's 2009 Annual Report is the second to report against the company's *2008-2012 Strategic Direction and Financial Outlook*, which was endorsed by the company's shareholder in June 2008.

The goal of the Strategic Direction is to solidify Hydro Ottawa's position as a leading and trusted service provider, while capitalizing on an evolving industry landscape to become one of Canada's most successful integrated utilities.

This strategy is built on the company's strengths and achievements, and responds to a changing environment that presents significant opportunities for the Hydro Ottawa Group of Companies, and for the community we serve.

To ensure we can take full advantage of these opportunities, Hydro Ottawa

is focused on the fundamentals of leading performance: Financial Strength, Customer Value, Organizational Effectiveness, and Corporate Citizenship. These four Key Areas of Focus guide our business strategy, and form the basis of our annual reporting.

Hydro Ottawa's performance in each of these areas in 2009 demonstrates that the company has *The Power to Lead*. With strong financial performance, leading customer service, recognition as an employer of choice, and efficient and effective operations, Hydro Ottawa is a leading utility today, and is poised for continued leadership in an industry that is ripe with opportunity. Based on a solid foundation established over several years of exceptional performance, Hydro Ottawa is prepared to be a leader

in the development of a Smart Grid, the deployment of renewable energy, and meeting the changing needs and expectations of our customers, including the growing demand for energy conservation programs and services.

These objectives are aimed at delivering continued financial performance as a valued asset for our shareholder, and making an essential contribution to our community's well-being and competitiveness. By achieving solid performance while planning for our City's long-term electricity needs and investing in conservation and renewable energy, we're working to ensure our community has *The Power to Lead* on economic development and environmental responsibility in the years to come.

FOUR KEY AREAS OF FOCUS

Financial Strength Strategic Objective We will create sustainable growth in our business and our earnings By improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people	Customer Value Strategic Objective We will deliver value across the entire customer experience By providing reliable, responsive and innovative services at competitive rates
Organizational Effectiveness Strategic Objective We will achieve performance excellence By cultivating a culture of innovation and continuous improvement	Corporate Citizenship Strategic Objective We will contribute to the well-being of the community By acting at all times as a responsible and engaged corporate citizen

Report on Operations

Financial Strength

We will create sustainable growth in our business and our earnings, by improving productivity and pursuing business growth opportunities that leverage our strengths.

Reliable dividends and long-term growth in the company's value are at the heart of Hydro Ottawa's commitment to our shareholder. In 2009, Hydro Ottawa continued to deliver on that commitment, while providing effective and reliable service to our customers, containing costs and improving productivity.

Since the adoption of a dividend policy by the company's shareholder five years ago, Hydro Ottawa has delivered dividends of \$87.2 million, while growing shareholder equity in the company by \$80.9 million.¹ This achievement reflects a determined effort to increase the company's financial strength, continually enhance its operational efficiency and effectiveness, position the company for future growth and increase its long-term value.

The main indicators of financial strength on an annual basis are net income and revenue. Hydro Ottawa achieved superior performance in 2009, with a consolidated net income of \$29.4 million.

This enabled the Corporation to pay dividends of \$17.6 million to its shareholder, exceeding forecasts by \$3.6 million. All operating divisions exceeded their financial targets in 2009, and each made a positive contribution to net income.

When normalized to exclude one-time impacts, net income was \$28.7 million compared to \$24.7 million in the previous year.²

The company's strong financial performance was due to continued productivity improvements and effective cost management, as well as increased revenues from commercial and residential energy management services, the company's growing customer base and an increase to electricity distribution rates of 1.18 percent in accordance with the Ontario Energy Board's Incentive Regulation Mechanism.

At the same time, the company continued to invest in its capital infrastructure. In 2009, \$79.9 million was invested in capital assets, of which \$79.4 million, or 99.4 percent, was invested in Hydro Ottawa Limited's electricity distribution and general plant initiatives. The company invested \$38.5 million to maintain the reliability of existing infrastructure, and \$14.9 million to deploy new infrastructure to meet the City's growing needs.

In the energy generation business, the company continued to employ fixed price contracts to reduce exposure to spot market prices, which have been below historical averages in the past few years. In 2009, the company secured 20-year fixed price contracts with the Province of Ontario for a portion of the power produced from its Chaudière Falls generating stations through the Renewable Energy Standard Offer Program (RESOP), worth an estimated \$70 million over the 20 year life of the contracts. Since September 1, 2007, Energy Ottawa's production has been

nearly 100 percent protected from exposure to the spot market, through a combination of long-term power-purchase agreements, participation in the province's Standard Offer Program, and a fixed price contract with the City of Ottawa.

In addition to these pricing strategies, Energy Ottawa maintained its energy production near the record levels achieved in 2008. The Chaudière Falls generating stations continued to achieve production above historical levels, due to minimal maintenance shut-downs, relatively favourable water levels and the addition of the Grinder Powerhouse in late 2007. At the Trail Road plant, expansion to the gas collection system undertaken in 2008, and upgrades to the gas treatment system in 2009 are expected to increase production in 2010 and beyond.

The company's energy management and conservation business lines saw growth across the board, with Energy Ottawa's commercial energy management services business increasing revenues by nearly 130 percent, and Hydro Ottawa Limited's Conservation and Demand Management (CDM) results also exceeding expectations. This reflects strong demand for these services in both the private and public sectors, with more than one hundred commercial energy management projects completed by the company in 2009. Projects undertaken with the City of Ottawa have continued to reduce the City's energy costs, with more than \$3.0 million in savings achieved by the

¹ Adjusted for dividends paid the following year.

² See MD&A (p.18) for an explanation of how normalized net income is calculated.

\$87.2 million

end of 2009. Demand for residential conservation programs delivered in partnership with the province also continued to be strong.

prospects for future growth in value. In 2008, Hydro Ottawa's shareholder endorsed a targeted growth strategy involving three basic components: expanding our distribution business

company's energy management services business increased by nearly 130 percent in 2009.

In support of the company's objective to pursue business growth in areas that build on existing core strengths, Hydro Ottawa in 2009 made a modest strategic investment in Streetlight Intelligence Inc., which manufactures adaptive street lighting systems that can significantly reduce the energy and maintenance costs of street lighting. This technology is in the early stages of commercialization, and is well positioned to be a market leader in meeting an increasing demand for more energy efficient street lighting. Hydro Ottawa currently holds 4,166,667 shares in this company, as well as options and warrants for the purchase of additional shares.

**Hydro Ottawa achieved superior performance
in 2009, with a consolidated net income of
\$29.4 million.**

Consolidated revenues, excluding flow-through items such as the cost of purchasing power from the provincial grid, increased by 8.6 percent on a year over year basis, continuing a trend of steady revenue growth.

Overall, the Hydro Ottawa Group of Companies achieved a Return on Equity of 9.1 percent in 2009.

Access to affordable capital is critical to business success, and is primarily influenced by a company's credit rating. In 2009, the Dominion Bond Rating Service (DBRS) upgraded its rating on Hydro Ottawa's Senior Unsecured Debt to 'A' from 'A (low)', continuing a trend of strengthening credit ratings over the past several years. In announcing the upgrade, DBRS cited Hydro Ottawa's strong financial profile, conservative financial policies, strong operational performance and low business risk. This followed a similar upgrade by Standard & Poor's Ratings Services, which in 2008 raised its long-term corporate credit and senior unsecured debt rating for Hydro Ottawa to 'A' from 'A-'. Over the longer term, shareholder value is tied not only to efficient and effective operations, but also to the company's

beyond our current service territory; expanding our hydroelectric and other renewable generation capacity; and building on our existing core strengths to diversify our business lines, focusing on business opportunities that are compatible, low risk, and offer stable long-term returns.

In 2009, Hydro Ottawa continued to actively evaluate and pursue opportunities to expand its electricity distribution, renewable generation and energy services business lines.

In October 2006, the Government of Ontario provided publicly owned utilities a two-year exemption, later extended indefinitely, from paying the 33 percent electricity transfer tax when they sell electricity assets to other publicly owned electrical utilities in Ontario. In light of this change, Hydro Ottawa continues to assess opportunities to grow its electricity distribution business beyond its current service territory. The company also continues to explore new opportunities for renewable energy generation, particularly small- and medium-sized renewable projects envisaged by Ontario's *Green Energy and Green Economy Act*. And, as noted above, revenues in the

Dividends paid to the City of Ottawa since 2005

Customer Value

We will deliver value across the entire customer experience, by providing reliable, responsive and innovative services at competitive rates.

As a company that provides an essential service to the public, nothing is more critical to Hydro Ottawa's success than the ability to deliver value to our customers. Whether the customer is one of the 296,000 homes and businesses who rely on our electricity distribution system every day, or one of a growing number of commercial energy services clients looking to cut their energy costs and environmental footprint, our goal is to provide effective, efficient and reliable service.

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

We are also continuously working to improve our customer-facing processes and maintain a customer-centric culture throughout our group of companies. In 2009, we continued to enhance customer communication and our ability to provide accurate, responsive, courteous and timely service to meet customer needs.

Service Quality and Reliability

Hydro Ottawa Limited is consistently among the top performers in the industry in providing uninterrupted electricity service, and restoring power quickly when outages do occur. We use two key indicators to measure our reliability of service – the System Average Interruption

Frequency Index (SAIFI), which measures the average number of outages a Hydro Ottawa customer experiences in a year, and the System Average Interruption Duration Index (SAIDI), which measures the total time (in hours) that an average customer is without power in a year.

With a 2009 SAIFI of 0.82 interruptions, and a SAIDI of 1.05 hours, the average Hydro Ottawa customer would experience one outage every fifteen months, and be without power for just over one hour (63 minutes) per year, excluding outages due to a loss of supply from the provincial electricity grid.

It is common in the electrical distribution industry to measure reliability results using a three-year rolling average. As the adjoining graphs illustrate, Hydro Ottawa's three-year averages for both SAIFI and SAIDI held steady in 2009, demonstrating a continuation of the company's industry-leading performance in this area, and the value of its capital investments in maintaining reliable infrastructure.

Given that system-wide performance remains very strong, Hydro Ottawa continues to emphasize targeted investments in areas that have experienced lower reliability. In 2009, this included completing the purchase of the Fallowfield and Richmond distribution stations from Hydro One in order to improve outage response in south Nepean, as well as targeted investments in the areas of Leitrim Road, Kanata, east of Rockcliffe, Orleans and Beechwood.

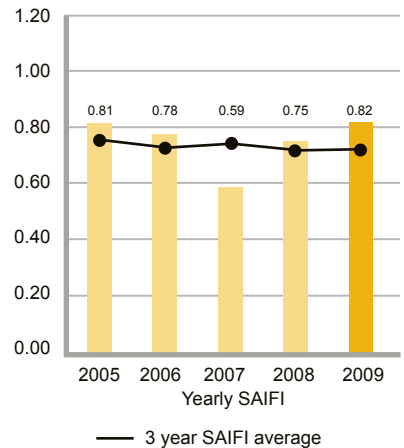
In addition, the company is completely rebuilding the Beacon Hill substation, which was destroyed in a fire in 2009, expanding a substation in Ottawa south (Albion Road) to meet growing demand, and planning for a new substation in Kanata.

Hydro Ottawa also tracks several key measures of service quality and customer satisfaction, which have shown steady improvement over the past several years.

Our success rate in resolving customer requests on the first call has continued to show strong performance, with

Number of service interruptions per year for an average customer

Hydro Ottawa SAIFI Excluding Loss of Supply



78 percent of customer queries resolved on the first contact in 2009, consistent with 2008. Hydro Ottawa is one of a very few utilities across the country to track and target performance in this area.

2009, while customers subscribing to E-billing, a new service offering launched in late 2008, reached 9,200 by year end. As Hydro Ottawa customers transition to Time-of-Use rates in 2010 and 2011, they will have access to a new set of tools that allow them to view their hourly electricity

Keeping Rates Low

While maintaining reliable service and investing for the future, Hydro Ottawa has also maintained its record as one of the most efficient electrical utilities in Ontario, maintaining competitive rates for our customers.

Of the money collected from Hydro Ottawa customers, only the portion relating to distribution charges stays with Hydro Ottawa. Distribution charges cover the costs of constructing, maintaining and operating the local electricity distribution system, and account for approximately 25 percent of a typical residential customer's bill.

In 2009, Hydro Ottawa's distribution rates increased 1.18 percent in accordance with the Ontario Energy Board's Incentive Regulation Mechanism. For a typical residential customer, this amounts to an increase of approximately 0.3 percent on the total bill related to Hydro Ottawa's operations, or approximately 34 cents per month. When combined with other adjustments reflected in the Delivery line on the customer's bill, including an increase in transmission rates paid to Hydro One, costs related to the provincial Smart Meter project and other adjustments not related to Hydro Ottawa's operations, the total increase for a typical residential customer was 2.4 percent, or approximately \$2.73 per month.

In April 2010, the OEB approved new distribution rates for Hydro Ottawa resulting in a decrease of 0.5 percent on the total bill, or 46 cents per month for a typical residential customer, beginning May 1, 2010. This was offset by an increase in transmission rates paid to Hydro One. The combined impact of these changes is a 0.5 percent increase on the total bill.

In 2009, Hydro Ottawa achieved 89 percent customer satisfaction – a 13 percentage point increase since tracking began in 2004.

The company's online customer service offerings through *MyHydroLink* also continued to be enhanced, and customer demand for these services continued to grow. The number of customers who have signed up for a *MyHydroLink* account nearly doubled to 29,100 in

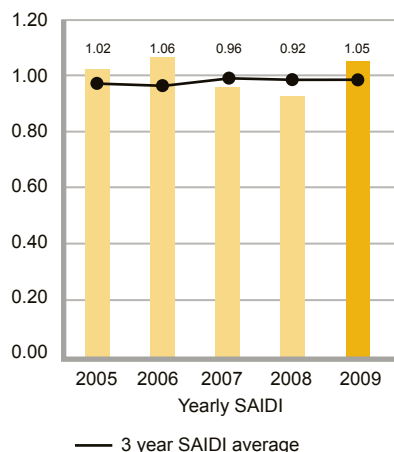
consumption patterns online, and analyze the cost savings they could achieve by shifting some of their electricity use to off-peak periods.

Hydro Ottawa has also continued to enhance communication with our customers about power outages when they do occur, through proactive media notification and updates of information on the company's dedicated outage line. Technology and process improvements have resulted in more frequent, timely and accurate updates on the outage line, with live call agents available 24-7. As a result, Hydro Ottawa was recognized as a finalist for the Electricity Distributors' Association's *Innovation Award* in the Customer Service category for 2009.

These efforts have led to a continuing trend of strong customer satisfaction in a third-party administered annual survey. In 2009, Hydro Ottawa achieved 89 percent customer satisfaction – a 13 percentage point increase since tracking began in 2004.

Hours of service interruptions per year for an average customer

Hydro Ottawa SAIDI Excluding Loss of Supply



Percentage of time Hydro Ottawa customers have enjoyed uninterrupted power since 2007

Organizational Effectiveness

We will achieve performance excellence by cultivating a culture of innovation and continuous improvement.

Performance excellence is an objective we strive toward in every area of our operations, in order to provide effective, efficient service to our customers and deliver solid returns to our shareholder, now and in the future.

Particularly important are the continuance of Hydro Ottawa's exceptional health and safety record, the development of a skilled, engaged and prepared workforce for the future, and leveraging technology and innovation to improve our efficiency and enhance service.

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

A Strong Focus on Productivity

The Ontario Energy Board regularly compares the operating, maintenance and administration costs of Ontario utilities, and Hydro Ottawa's costs per customer have consistently been lower than the provincial average. A recent Ontario Energy Board report comparing the unit operating costs of Ontario electrical utilities ranked Hydro Ottawa 12th of 81 utilities in the province.

Since 2007, Hydro Ottawa has set and achieved annual productivity improvement targets, and in 2009 we continued to focus on maximizing the efficiency and effectiveness of our operations by reducing waste and optimizing productivity at every opportunity. The Ontario Energy Board now establishes annual productivity improvement expectations through its multi-year rate setting process, referred to as the Third Generation Incentive Regulation Mechanism. In keeping with our focus on continuous improvement, Hydro Ottawa sets internal targets for productivity improvement, across all of our operations, in addition to these OEB mandated efficiencies.

Hydro Ottawa has achieved cost savings through productivity improvement of more than \$7 million over the past three years, by restructuring its operations into four zones to reduce travel time, integrating apprentices into overhead line crews, leveraging new technologies for improved scheduling and dispatching of field work, a move to paperless processing for new and upgraded customer connections to the distribution system, and other measures. Energy Ottawa continued to achieve efficient operations at its generation facilities, achieving plant availability of 97 percent.

A Healthy and Prepared Workforce

At Hydro Ottawa, we understand that our employees are our greatest asset. Recruiting, developing and retaining highly skilled employees, and ensuring they remain safe on the job, is crucial to Hydro Ottawa's continued success, and our mission to provide excellent value to our customers, our shareholder, and our community.

Our commitment to these objectives was acknowledged recently when Hydro Ottawa was named one of the National Capital Region's Top 25 Employers for a second straight year. This prestigious award, sponsored by MediaCorp and adjudicated by an independent panel of judges, recognizes Hydro Ottawa and other employers in the region that offer exceptional places to work.

A fundamental component of Hydro Ottawa's commitment to operating efficiently and effectively is the very high priority we place on protecting the health and safety of our employees. In 2007, Hydro Ottawa completed the integration of its health and safety and environmental management systems, achieving two internationally recognized standards of management. In 2009, the company was recertified to the International Organization for Standardization (ISO)

14001 Environmental Management System standard for a sixth consecutive year, and recertified to the Occupational Health and Safety Assessment Series (OHSAS) 18001 standard for a third straight year.

development programs to facilitate leadership succession and train and develop front-line Supervisors, Managers and emerging leaders. These programs position Hydro Ottawa to deal effectively with the industry-wide challenge of an aging workforce, by ensuring effective

moves and new service connections more seamless and convenient.

In addition, Hydro Ottawa has continued to introduce more intelligence and automation into our distribution system, building on the substantial investments already made, such as the conversion to Geographical Information System (GIS) mapping that was completed in 2007. In 2009, Hydro Ottawa continued to improve its ability to diagnose and respond to outages from its system control centre, by deploying more sensors within the distribution system, and more controls that can be remotely operated to re-route power when problems occur. These investments improve service to customers through faster outage response times. The company also deployed a new interactive voice response (IVR) system on its customer outage reporting line, enhancing customer service while dramatically reducing blocked calls and reducing average call handling time from three minutes to less than one.

In 2010, Hydro Ottawa will complete the development of a more detailed Smart Grid plan, as required by the *Green Energy and Green Economy Act*, and a broader technology strategy to maximize the effectiveness of future technology investments, for the benefit of our customers and shareholder.

Hydro Ottawa's costs per customer have consistently been lower than the provincial average.

While safety is paramount, Hydro Ottawa's commitment to our employees goes far beyond their health and safety. Our aim is to create a workplace that fosters employee satisfaction and productivity, while ensuring opportunities for skills development and growth.

In 2009, Hydro Ottawa continued to emphasize skills development by providing ongoing training opportunities throughout the organization, and continued to develop tomorrow's workforce through its skilled trades apprenticeship programs. In 2010, Hydro Ottawa will graduate six apprentices to journeyman status, marking the completion of a four to five year process for each of these employees.

The company currently has 50 apprentices active in various stages of its Trades Apprenticeship Programs, training to become Powerline Maintainers, Cable Jointers, Meter Technicians, Stations Electricians and System Operators. In 2009, the company also introduced an Engineering Intern Training and Development Program, and continues to implement management and leadership

skills development and the transfer of critical knowledge from one generation to the next.

A Focus on Innovation

Hydro Ottawa also continues to leverage new technologies to enhance service and prepare for the future. Increasingly, technology is enabling utilities to identify and respond to problems in the electricity distribution system more quickly, to improve service to customers and provide them with more information and control, and to offer value-added services to meet customers' evolving needs and expectations – innovations increasingly recognized as the development of a Smart Grid.

With more than 99 percent of electricity meters in our service territory now replaced by Smart Meters, Hydro Ottawa has one of the largest active Advanced Metering Infrastructure (AMI) systems in Canada. This eliminates the need for field readings for the vast majority of Hydro Ottawa customers, avoiding estimated readings for meters in difficult to access locations and making

Number of apprentices currently active in Hydro Ottawa's Trades Apprenticeship Programs

Corporate Citizenship

We will contribute to the well-being of the community, by acting at all times as a responsible and engaged corporate citizen.

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

We do so by providing a reliable and safe supply of electricity, increasing the supply of renewable energy and respecting the environment in our work; but our commitment also goes beyond our day to day operations. The Hydro Ottawa Group of Companies is active in our community promoting conservation and demand management, educating children and youth about electricity safety, helping to mitigate the impact of energy costs for those in need, and making other contributions to our City's quality of life.

Hydro Ottawa once again partnered with Enbridge Gas Distribution, the United Way/Centraide Ottawa and the Salvation Army Booth Centre to deliver the Winter Warmth program in Ottawa in 2008/2009, helping low-income families to pay their energy bills during the coldest months

of the year. In total, Hydro Ottawa's contribution assisted 184 households, benefiting 581 individuals.

Hydro Ottawa took this commitment to helping Ottawa residents stay safe and warm a step further in 2009, launching an innovative community investment fund called the Hydro Ottawa Shelter and Warmth Fund, in partnership with the United Way/Centraide Ottawa. This fund – the first of its kind in Ottawa – uses the corporate matching funds from Hydro Ottawa's annual workplace United Way campaign to support local organizations working to ensure Ottawa residents in need have access to secure, affordable housing. In 2009, the first year of operation for the Shelter and Warmth Fund, a total of \$38,000 was provided to four local organizations.

Contributions through the Shelter and Warmth Fund will grow in 2010, thanks to the efforts of Hydro Ottawa's employees, who once again surpassed their previous best in the company's annual United Way campaign. A total contribution of over \$154,600 was achieved through employee pledges, fundraising events, and corporate matching.

More than 19,500 students at 51 elementary schools learned valuable lessons about using electricity safely and wisely through Hydro Ottawa's Electricity Safety and Conservation presentations. And Hydro Ottawa was once again honoured to host the Special Needs Day at the Gloucester Fair, with 30 Hydro Ottawa volunteers helping 800 disabled children enjoy a day at the fair, complete with rides, games and a barbeque lunch.

Hydro Ottawa also continued to play a leading role in creating a culture of conservation in our community. Since the company began actively promoting energy conservation in 2005, its conservation initiatives have resulted in more than 100 million kilowatt hours saved. More than 18,500 old, inefficient refrigerators have been reclaimed and recycled in Ottawa through the Great Refrigerator Round-up, nearly 14,500 Ottawa households are now registered in the *peaksaver* program, and more than 1,480 small businesses have taken advantage of up to \$1,000 in lighting upgrades and audits through the Power Savings Blitz program, while over \$225,000 in incentives were provided in 2009 to larger commercial customers completing energy efficiency upgrades through the Electricity Retrofit Incentive Program.

\$154,600

In addition to these ongoing programs, Hydro Ottawa funded a 2.1 kilowatt solar photovoltaic (PV) and solar hot water installation as part of the Now House project in Ottawa, which completed an extreme energy retrofit of a wartime home owned by Ottawa Community Housing, to make it nearly a "net zero energy" home.

its environmental impact in four areas: reducing our carbon footprint, specifically through improvements in fleet, facilities, and information technology infrastructure; improving waste reduction and diversion; greening the company's procurement and supply chain; and building a culture of environmental sustainability

Ottawa also joined with the City of Ottawa to promote Ottawa's second Earth Hour, calling attention to climate change and the importance of energy conservation by asking Ottawa residents to join others around the world in turning off their lights for one hour. And, recognizing the importance of the building industry in making our community more sustainable, the company sponsored the new "Green LEED Home of the Year Award" as part of the Greater Ottawa Homebuilders' Association's Housing Design Awards.

Hydro Ottawa also continued to work with other leading Ottawa employers to champion diversity in the workplace, as an active member of the Employers' Council of Champions of the Hire Immigrants Ottawa initiative. Along with 33 other Ottawa employers, Hydro Ottawa is working to remove the barriers to employment for skilled immigrants, so that employers can get the full benefit of their skills and expertise.

More than 19,500 elementary students learned valuable lessons about using electricity safely and wisely through Hydro Ottawa's Electricity Safety and Conservation presentations.

Hydro Ottawa's Energy Conservation Events Van visited 75 community events, and made presentations to over 800 grade five students in 17 schools. Hydro Ottawa's Companies for Conservation program, which recognizes and promotes the efforts of large businesses and organizations that are showing leadership on energy conservation, was recognized with the Electricity Distributors' Association's *Innovation Award* in the Public Relations category in 2008, and will be expanded in 2010 to acknowledge the leading efforts of small businesses as well.

In keeping with this commitment to environmental sustainability, Hydro Ottawa is working to reduce our own environmental footprint, and made significant enhancements to the company's Environmental Sustainability Strategy in 2009. This strategy focuses on improving the company's environmental performance and reducing

throughout our workforce and business practices. Action plans are in place for each of these areas. Successes in 2009 included continued improvements in the energy efficiency of our facilities and the emissions intensity of our fleet, as well as successful verification by the Canadian Electricity Association of Hydro Ottawa's compliance with its Environmental Commitment Responsibility Program.

Hydro Ottawa continued to support community initiatives that help to raise awareness of the importance of energy conservation and sustainable living as well. As the presenting sponsor of the Rideau Canal Festival, recognized as one of Ontario's best 100 festivals and the Best New Festival (2008), Hydro Ottawa and Energy Ottawa helped to further establish this important community celebration of Ontario's first UNESCO World Heritage Site. It is also one of our community's greenest celebrations, as Canada's first zero footprint festival. Hydro

Amount raised for United Way by Hydro Ottawa's employee campaign in 2009

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) is intended to provide a narrative review of Hydro Ottawa Holding Inc.'s operational performance and financial position, and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2009.

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP), including accounting principles prescribed by the Ontario Energy Board (OEB) in the Accounting Procedures Handbook, and are expressed in Canadian dollars.

The MD&A contains forward-looking statements, including, but not limited to, statements as to future operating results and plans. These statements reflect management's expectations as of the date of release. Risks and uncertainties may cause actual results, performance or achievements to differ materially from those projected here.

THE BUSINESS OF HYDRO OTTAWA HOLDING INC.

Hydro Ottawa Holding Inc. (Hydro Ottawa or the Corporation) is a holding company created in October 2000, wholly owned by the City of Ottawa (the Shareholder), and governed by an independent Board of Directors appointed by the Shareholder. The Corporation and its subsidiaries are incorporated under the *Business Corporations Act (Ontario)*.

The Corporation's core businesses are electricity distribution, renewable energy generation and related services. In 2009, Hydro Ottawa owned and operated two subsidiary companies, as follows:

Hydro Ottawa Limited: the core and by far the largest business of the Corporation is the distribution of electricity by its largest subsidiary, Hydro Ottawa Limited, which accounts for more than 94 percent of the Corporation's capital assets and 94 percent of revenues. Hydro Ottawa Limited is a regulated electricity local distribution company (LDC) that owns and operates distribution infrastructure in the City of Ottawa and the Village of Casselman. Hydro Ottawa Limited is the largest LDC in eastern Ontario and the third largest municipally-owned LDC in the Province of Ontario. Hydro Ottawa Limited delivers safe and reliable electricity to over 296,000 residential and commercial customers across a service area of 1,104 square kilometres. Hydro Ottawa Limited receives power from the provincial electricity grid and transports it across a distribution network comprising 84 distribution stations, 2,700 kilometres of underground cable, 2,700 kilometres of overhead lines, 40,500 transformers and 48,700 hydro poles. Hydro Ottawa

Limited added approximately 4,400 net new customers to its distribution system in 2009, an increase of 1.5 percent.

Energy Ottawa Inc. (Energy Ottawa): a generator of renewable energy and provider of commercial energy management services, Energy Ottawa is Ottawa's largest producer of green power. Its run of the river hydro-electric facilities at Chaudière Falls in the city's core produce more than 125,000-megawatt hours (MWh) of certified green power. In addition, the Trail Road landfill gas-to-energy plant, a joint venture 60 percent owned by Energy Ottawa, converts millions of tonnes of previously flared-off methane gas into renewable energy. In combination, Energy Ottawa's generation plants produced approximately 150,000 MWh of renewable green energy in 2009. This output is enough to meet the annual needs of more than 18,000 homes.

VISION AND STRATEGY

The Corporation's vision is to be a leading and trusted integrated utility services company. The Corporation will achieve that vision through a strategic direction structured around four key areas of performance:

- Financial Strength
- Customer Value
- Organizational Effectiveness; and
- Corporate Citizenship

In pursuing its strategic direction, Hydro Ottawa intends to preserve and grow its core electricity distribution and renewable generation assets, and capitalize on the opportunities presented in its business environment.

Looking forward, the Corporation's targeted growth strategy involves three components: expanding the electricity distribution business; expanding hydroelectric and other renewable generation capacity; and building on existing core strengths to diversify business lines, focusing on compatible low risk business opportunities.

REGULATORY ENVIRONMENT

Hydro Ottawa and its subsidiaries operate within the framework of the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* (OEB Act).

Hydro Ottawa Limited, as an electricity distributor, is both licensed and regulated by the OEB, which has a legislated mandate to oversee many aspects of the electricity industry. Hydro Ottawa Holding Inc. and Energy Ottawa also have restrictions on business activities because they are affiliates to a distributor that is owned, directly or indirectly, by a municipal corporation.

The OEB must set or approve all rates charged by Hydro Ottawa Limited and the OEB establishes standards of service and conduct that must be followed as a condition of being licensed to distribute electricity. Energy Ottawa is also licensed by the OEB as an electricity generator. However, the prices charged by Energy Ottawa for the electricity commodity are not subject to regulation.

The permitted business activities of Hydro Ottawa Limited were expanded as a result of the *Green Energy and Green Economy Act, 2009* (Green Energy Act), to include the ownership and operation of generation and energy storage facilities under established criteria, in addition to the existing permitted activities of distributing electricity, load management, the promotion of electricity conservation and the efficient use of electricity and cleaner energy sources. In addition, the City of Ottawa's Shareholder Declaration for Hydro Ottawa states that the Corporation may not, without the prior written approval of its shareholder, engage in the retailing of electricity or gas on a basis which exposes the Corporation or a subsidiary to the risk of fluctuations in the market price of the commodity.

The Green Energy Act requires all distributors to file plans to the OEB on facilitating renewable energy generation and implementing a smart grid. It also amended the mandate of the OEB, expanding its objectives to include promoting conservation and demand management, facilitating the implementation of a smart grid and promoting the use and generation of electricity from renewable energy sources.

Permitted activities for Hydro Ottawa and Energy Ottawa include the same activities as Hydro Ottawa Limited, plus distributing or retailing energy products (e.g. gas) through pipes or wires, activities that enhance the work of a distributor or more effectively use corporate assets, managing or operating public utilities for a municipal corporation and renting or selling hot water heaters.

The Electricity Act establishes the structure of the electricity industry and the roles and responsibilities of parties such as the Independent Electricity System Operator (IESO), Electrical Safety Authority (ESA), Ontario Power Authority (OPA) and the Smart Meter Entity (SME). The Electricity Act further establishes both rights and obligations for distributors. Upon request, distributors are obligated to connect any building that lies along their distribution systems and access to this system must be non-discriminatory. New as a result of the Green Energy Act are mandatory timelines and information requirements for each step of a process established for the connection of generation facilities that will sell electricity through the distribution grid.

The Ontario electricity commodity market is open to competition at both the wholesale and retail levels. At the wholesale level, generators can bid into the electricity market overseen by the IESO or enter into a contract with the OPA. At the retail level, consumers have the choice of purchasing the electricity commodity through a contract with a licenced electricity retailer or from a licenced distributor, such as Hydro Ottawa Limited, as part of a standard supply service (SSS).

Under SSS, the commodity is provided to customers on a pass-through basis such that commodity revenues match the cost. Residential and small commercial customers receive the SSS through a regulated price plan. Under the regulated price plan, the OEB sets the commodity rates for the province twice per year, in May and November, based on a forecast of the commodity costs. Differences between the forecast and actual costs are maintained by the OPA in a variance account until the balance is cleared through future regulated commodity rates. Customers not on the regulated price plan pay for the commodity based on the provincial spot market price or through the terms of a retail contract.

Regardless of whether customers have signed a contract with a retailer, or are supplied through the SSS, Hydro Ottawa continues to be responsible for the delivery of the electricity through its distribution system to all customers within the licenced service area.

Rate Regulation

Electricity bills include charges for the commodity, wholesale market services, transmission services, distribution services, debt retirement, goods and services tax and starting in 2010, harmonized sales tax. Revenues from all of these charges, except distribution services, are collected from customers on a pass-through basis, and any differences between costs and revenues collected are tracked as a regulatory asset or liability to be cleared through rates in a subsequent period. For distribution services, Hydro Ottawa applies to the OEB for approval of distribution rates which include a fixed charge and a variable charge based on electricity consumption or peak demand.

To establish rates for distribution service, the OEB has adopted an incentive regulation mechanism (IRM). Under IRM, a distributor first sets base rates through a cost of service application. This application determines the appropriate revenue requirement to cover the company's forecasted costs, plus a regulated return. For subsequent years in which no cost of service application is filed, rates are adjusted by an inflation factor less a productivity factor. Further adjustments may be permitted for incremental capital above a prescribed threshold, or for recovery of extraordinary event costs.

Hydro Ottawa Limited last established base rates effective May 1, 2008 using 2008 forecast costs and a rate of return on equity deemed by the OEB at 8.57 percent. For 2009, the OEB approved an adjustment to rates effective May 1, 2009 using the IRM mechanism. Rates were increased by an inflation factor of 2.3 percent determined from the Gross Domestic Product Implicit Price Index on Final Domestic Demand (GDP-IPI FDD) released by Statistics Canada for 2008, less a factor of 1.12 percent

established by the OEB to encourage productivity improvements. In October 2009, a further rate application was filed for rates effective May 1, 2010. If approved, rates would once again be adjusted using the same IRM mechanism.

Under the OEB's IRM, if Hydro Ottawa Limited's actual rate of return on equity (ROE) is 300 basis points above or below 8.57 percent, the OEB will undertake a review with the possible outcome that a new cost of service application be required. In 2009, the OEB held a proceeding to determine if formulas used for calculating the deemed components of the cost of capital were appropriate. The OEB concluded that the formulas should be amended to ensure that they adequately and appropriately accommodate changing economic and financial conditions. As a result, the deemed ROE will start from 9.75 percent at September 2009 and will then be adjusted based on interest rates going forward. The new formula will be effective at the time of Hydro Ottawa Limited's next cost of service rate application. Hydro Ottawa Limited is planning to file a cost of service rate application with the OEB in 2010, which would go into effect in 2011.

CAPABILITY TO DELIVER RESULTS

Liquidity and Capital Resources

The table below shows the debt and liquidity profile of the Corporation as at December 31.

(\$000s)	2009	2008
Debt:		
Notes payable	251,705	251,481
Letters of credit	11,931	11,931
Liquidity:		
Unused bank facilities	128,319	163,169

Sources of Liquidity and Capital Resources

The Corporation's primary sources of liquidity and capital resources are derived from operating activities, banking facilities and proceeds from bond issuances, as and when required. Liquidity and capital resource requirements are primarily for capital expenditures to maintain the Hydro Ottawa Limited electricity distribution system, cost of power, interest expense and prudential requirements.

On January 16, 2009 the credit facilities in place at December 31, 2008 were replaced with a new credit facility for \$140.2 million. The revised facility is more than adequate for current and projected needs, and provides management with additional flexibility. The Corporation may use up to \$75 million of the new facility for general operating requirements and annual capital expenditures. In addition, a \$50 million five-year revolving credit line has been secured for larger capital expenditures and acquisitions. Capital expenditure requirements, if any, in excess of this will be funded through future bond issuances.

This new credit facility was subsequently renewed on October 7, 2009. As at December 31, 2009, the Corporation had drawn \$11.8 million in standby letters of credit against its credit facility. The remaining facility is adequate to support the short-term working capital deficit experienced each month to settle the IESO cost of power invoice in advance of receiving payment from customers.

The Corporation's joint venture, Powertrail Inc., maintains a separate credit facility with a Canadian Chartered bank. The facility consists of \$0.1 million in standby letters of credit. As at December 31, 2009, the joint venture had drawn \$0.1 million in standby letters of credit against this credit facility.

Summary of Sources and Uses of Cash

(\$000s)	2009	2008
Cash (bank indebtedness), beginning of year	21,332	(24,576)
Net cash provided by operations	55,315	87,955
Net acquisition of capital assets	(58,900)	(66,486)
Dividends paid to the City of Ottawa	(17,200)	(28,375)
Streetlight Intelligence Investment	(500)	
Other	3,130	228
Net Cash inflow from discontinued operations	312	52,586
Cash, end of year	3,489	21,332

Cash Provided by Operating Activities

Cash generated by operating activities provided \$32.6 million less cash flow than in 2008. The majority of the decrease arises from less cash flow being generated from working capital as a result of higher accounts receivable and unbilled revenue balances, as year-over-year fourth quarter electricity revenues increased by 10 percent.

Cash Used in Investing Activities

Total investment in property, plant and equipment and intangible assets in 2009 was \$84.4 million, offset by contributions in aid of construction and proceeds from the disposition of assets, for net cash impact of \$58.9 million. Most of this was invested in Hydro Ottawa Limited's electricity distribution and general plant initiatives. Capital investments in 2009 included approximately \$31.7 million on sustainment capital, to replace aging infrastructure and modify existing distribution system; \$15.0 million (net) on demand projects, which include third-party driven growth projects such as new residential or commercial installations, and municipal improvement projects; and \$5.8 million on general plant and Conservation and Demand Management (CDM).

Investment in the Hydro Ottawa Limited electricity distribution system continues to be robust. In 2009, 674 new poles, 477 transformers, 87 km of overhead lines and 100 km of underground cable were installed. Over 180 demand capital projects were initiated including the addition of 4,330 new residential and 38 new commercial connections.

Additional capital acquisitions of \$0.5 million were invested to maintain or enhance the generation capability of Energy Ottawa facilities.

Cash Used in Financing Activities

Dividends were paid to the Shareholder in 2009 in accordance with the approved dividend policy. 2009 payments totaled \$17.2 million, including \$15.2 million arising from 2008 continuing operations, \$1.1 million from discontinued operations (Telecom Ottawa), and \$0.9 million from the gain on sale of Telecom Ottawa. 2008 payments totaled \$28.4 million, with \$16.4 million arising from 2007 operations, and \$12.0 million from the gain on sale of Telecom Ottawa.

Credit Ratings

As at December 31, 2009, the Corporation's bonds are rated as follows:

Rating Agency	Rating
Standard & Poor's Rating Services Inc.	A (stable)
Dominion Bond Rating Service Inc.	A (stable)

On May 1, 2009 the Dominion Bond Rating Service ("DBRS") upgraded Hydro Ottawa Holdings Inc.'s rating to "A" from "A (low)", and changed the trend to Stable from Positive. DBRS noted that the rating upgrade reflects the Corporation's strong financial profile, which has improved over the past five years, conservative financial policies, strong operational performance and low business risk.

The Corporation's bonds carry covenants normally associated with this type of debt (see Note 16 of the consolidated financial statements for further details). The Corporation is in compliance with these covenants as at December 31, 2009.

Critical Non-Capital Resources

The Corporation employs approximately 600 people. Hydro Ottawa Limited employs over 90 percent of this workforce. The Corporation experiences low attrition rates.

In the next five years, 85 employees in Hydro Ottawa Limited will be eligible for early retirement with an unreduced pension. Over 60 percent are trades or technical employees; the other 40 percent are administrative/clerical and management group employees.

In preparation for these eventual retirements, which are similar to those being experienced by many other utilities in Ontario, Hydro Ottawa Limited has undertaken an extensive in-house apprenticeship program to ensure the continuation of qualified tradespersons. A succession planning and management development program and numerous training and development programs are also in place to ensure that there are known qualified employees in the pipeline for key positions. These initiatives are ongoing.

Internal Processes

Various technology and process initiatives have been introduced to better manage electrical distribution assets and improve customer service, by increasing the reliability of the network through faster repairs, and enhancing its sustainability through new technologies.

The Geographical Information System (GIS) continues to be leveraged to enhance outage management, asset management, system design, and other functions throughout the Corporation. A major enhancement of the Hydro Ottawa Limited Outage Management System (OMS) took place in 2009 providing a connection between the Supervisory Control System (SCADA) and OMS. This enhancement now provides OMS with immediate notification of equipment operation in the field, allowing OMS to diagnose problems faster and more accurately than before. More mobile computing was also added in 2009 that will enhance the ability to electronically dispatch construction work to field crews. Hydro Ottawa Limited will be able to increase the volume of electronically dispatched work orders as more mobile computing technology is deployed.

Hydro Ottawa Limited continues to be actively involved in implementing the province's Smart Meter Program. As of December 31, 2009, a total of 289,600 smart meters have been installed, representing 99 percent deployment. Hydro Ottawa Limited is in the final testing stages with the provincial Meter Data Management & Repository (MDM/R) system, and plans to transition customers to Time-of-Use (TOU) billing beginning in 2010.

An upgrade to the Corporation's financial system began in 2009 and will continue into 2010. The main reason for the upgrade is to assist the organization in preparing for its transition to International Financial Reporting Standards (IFRS). A key upgrade or migration to a new Customer Information System (CIS) is also anticipated beginning in 2011.

Hydro Ottawa Limited continues to maintain certification with several international standards, including ISO 9001 Quality Management System, ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health and Safety. Internal and external third-party audits are conducted as required to confirm and maintain certification.

The Corporation also continues to emphasize cost containment and productivity improvement in order to enhance financial strength and operational performance. The OEB sets productivity improvement targets for electricity distributors as part of its incentive regulation mechanism, and the Corporation pursues corporate-wide efficiencies in addition to these targets. In line with these objectives, Hydro Ottawa Limited began a Lean process improvement pilot in 2009, using an established methodology focused on improving the efficiency and effectiveness of core processes. This program will continue in 2010.

RESULTS

The Corporation continued a positive trend of sustained profitability from continuing operations in 2009.

Selected Consolidated Financial Results

The selected consolidated financial results of the Corporation presented below should be viewed in conjunction with the audited consolidated financial statements.

(\$000)	2009	2008	Change \$	Change %
Revenues				
Power recovery	587,958	544,192	43,766	
Distribution and other	166,774	153,568	13,206	
	754,732	697,760	56,972	
Expenses				
Purchased power	584,282	537,979	46,303	
Operating costs	71,765	68,125	3,640	
	656,047	606,104	49,943	
EBITDA	98,685	91,656	7,029	7.7%
Depreciation and amortization	41,955	40,602	1,353	
Interest	12,315	11,770	545	
Taxes	13,416	13,571	(155)	
Other	1,646	423	1,223	
Net income from continuing operations	29,353	25,290	4,063	16.1%
Income from discontinued ops.	0	1,775	(1,775)	
Gain on sale of discontinued ops.	20	22,931	(22,911)	
	20	24,706	(24,686)	-99.9%
Net income and comprehensive income	29,373	49,996	(20,623)	-41.2%

Normalized Net Income

Adjusting for the impact of taxes and extraordinary items, normalized net income increased \$4.0 million over 2008.

(\$000)	2009	2008
Net income and comprehensive income	29,373	49,996
Adjusted to reflect income tax at statutory rates	(697)	(183)
Net income and comprehensive income using statutory tax rates	28,676	49,813
Adjusted for non-recurring items (net of tax)		
Recovery of regulatory asset write-down	-	(450)
Income from discontinued operations	-	(1,775)
Gain on disposal of discontinued operations	(20)	(22,931)
	(20)	(25,156)
Normalized net income	28,656	24,657
<i>Statutory tax rate</i>	33.0%	33.5%

Revenues

Revenue is earned from electricity distribution, sales of generated power, energy management services, the CDM program and sundry revenue.

Hydro Ottawa Limited's power recovery – a flow-through of purchased power costs to the customer – increased \$43.8 million, mainly due to a large increase in the global adjustment rate, offset by small decreases in sales, commodity rates and transmission rates.

Revenue, excluding power recovery, increased \$13.2 million (8.6 percent) from 2008. Electricity distribution revenues are reflective of OEB approved distribution rates, and the amount of electricity consumed. Revenue from distribution sales increased due to the impact of the May 1, 2009 rate increase and load growth. Additional revenue was also earned from an expanded CDM program, and increased commercial services revenue was achieved at Energy Ottawa. Energy Ottawa's generation revenue decreased from the prior year as electricity commodity pricing declined in 2009 and production was higher in 2008 due to more favourable weather conditions.

Expenses

Purchased power costs represent the cost of electricity delivered to customers within Hydro Ottawa Limited's distribution service territory. These costs consist of the commodity, wholesale market service charges and transmission charges levied by the IESO, net of energy generated by Energy Ottawa and supplied to Hydro Ottawa Limited as an embedded generator within Hydro Ottawa Limited's service territory. The cost of purchased power increased by \$46.3 million, due mainly to the global adjustment rate, which was offset by small decreases in purchases, commodity rates and transmission rates as noted above.

2009 operating costs of \$71.8 million increased by \$3.6 million over 2008. The most significant increases in operating costs related to Hydro Ottawa Limited's expanded CDM program and Energy Ottawa's commercial services. As noted above, these two revenue generating activities experienced increased revenues in 2009. Expenses also increased due to compensation and other inflationary increases.

Other Expenses

Depreciation and amortization expenses rose by \$1.4 million primarily due to the Smart Meter program. Smart Meters are depreciated over a 15 year period replacing conventional meters, which were depreciated over 25 years, thereby accelerating depreciation expense. Continued investment in electricity distribution assets also contributes to higher year-over-year depreciation and amortization expenses.

Other expenses increased in 2009 due to an increase in capital taxes and due to a recovery for regulatory asset write-downs, which was received and offset against other expenses in the prior year; there was no similar recovery in the current year.

Payments-in-Lieu of Corporate Taxes (PILs)

The Corporation's effective income tax rate was 31.37 percent in 2009 compared to 33.03 percent the previous year. The year-over-year decrease results from a reduction in the statutory rate from 33.5 percent to 33.0 percent combined with the recovery of taxes from prior years' assessment changes.

Total expenses, excluding purchased power, increased 5.3 percent over 2008.

Net Income

Net income from continuing operations was \$29.4 million in 2009 compared to \$25.3 million in 2008, for a 16.1 percent increase. The increase primarily relates to increased distribution revenue in Hydro Ottawa Limited (due to the increased customer base and the May 1, 2009 rate increase), productivity improvements, and higher commercial services revenue from Energy Ottawa, which more than offset a small decrease in generation revenue.

Net income and comprehensive income of \$29.4 million was 41.2 percent lower than in the previous year, due primarily to the fact that 2008 results included an after-tax gain on sale of the Telecom Ottawa subsidiaries.

Balance Sheet Summary

(\$000)	2009	2008	Change \$	Change %
Assets	753,177	703,461	49,716	7.1%
Current liabilities	121,153	116,350		
Non-current liabilities	302,231	269,406		
Total liabilities	423,384	385,756	37,628	9.8%
Shareholder's equity	329,793	317,705	12,088	3.8%
Liabilities and shareholder's equity	753,177	703,461	49,716	7.1%

Assets

Total assets increased by \$49.7 million from 2008. Cash on hand of \$3.5 million is down compared to the prior year as the 2008 cash on hand position of \$21.3 million included proceeds from the sale of the Telecom Ottawa subsidiaries. However, the cash decrease is more than offset by a number of significant increases. Property, plant and equipment and intangible assets are up \$17.0 million resulting from continued investment in electrical distribution and generation infrastructure, net of contributions in aid of construction, depreciation and amortization. Future income tax assets are up \$29.2 million due to the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465 changes adopted prospectively in 2009. There were also increases in the year-end positions of accounts receivable, which increased \$12.2 million over the prior year, and unbilled revenue, which increased \$9.8 million. The higher accounts receivable and unbilled revenue balances were the result of a 10 percent increase in year-over-year fourth quarter electricity revenues.

Investment in Streetlight Intelligence Inc.

In 2009, Hydro Ottawa completed a strategic investment of \$500,000 in Streetlight Intelligence Inc., (SLI) a publicly listed company based in British Columbia that develops advanced street light optimization systems. This investment supports the Corporation's strategy to invest in areas with direct application and synergy with its existing core business lines, in this case energy conservation. A second strategic investment of \$500,000 in SLI was completed in January 2010. These investments secured options to purchase shares in SLI. A third strategic investment of \$500,000 was completed in March 2010, involving the purchase of 4,166,667 common shares in SLI by Hydro Ottawa as well as purchase warrants for additional shares. Hydro Ottawa continues to hold the previously acquired purchase options, and discussions are underway between Hydro Ottawa and SLI regarding a potential distribution agreement for the Province of Ontario.

Beaconhill Station Fire

On March 13, 2009 a fire destroyed a transformer station located in the east end of Ottawa and, as a result, equipment with a net book value of \$116,000 has been written-off. The Corporation has adequate property insurance coverage and recorded insurance proceeds receivable of \$116,000 in respect of the damaged equipment. As a result, no gain or loss related to damaged equipment has been reflected in 2009 income. The Corporation has also recorded a receivable of \$1,095,000 for the recovery of expenses incurred to clean-up and restore services at the site. The Corporation has submitted a claim for damages and is in the process of negotiating a settlement with the insurance company. Reconstruction will begin in 2010, at an approximate cost of \$6.0 million.

Liabilities

Total liabilities increased by \$37.6 million in 2009. This change is largely attributable to the Corporation's prospective adoption of CICA Handbook Section 3465 changes, which accounts for \$29.2 million. There was also an increase in the year-end position of accounts payable and accrued liabilities of \$5.9 million. Hydro Ottawa continued to see significantly reduced credit facility borrowing requirements throughout the year due to the cash inflow from the Telecom Ottawa sale in 2008.

Asset Retirement Obligations

The Corporation is subject to environmental regulatory requirements related to the removal and destruction of polychlorinated biphenyls ("PCBs") in distribution transformers and other clean-up related to PCBs. The Federal PCB Regulatory Framework under the *Canadian Environmental Protection Act, 1999* requires that certain equipment containing PCBs be removed from service by December 31, 2009 and December 31, 2025, depending on equipment concentration and physical location. Hydro Ottawa received authorization from Environment Canada to extend the service date beyond December 31, 2009 for 57 distribution vault transformers to December 31, 2011 and for 12 power transformer bushings to December 31, 2014.

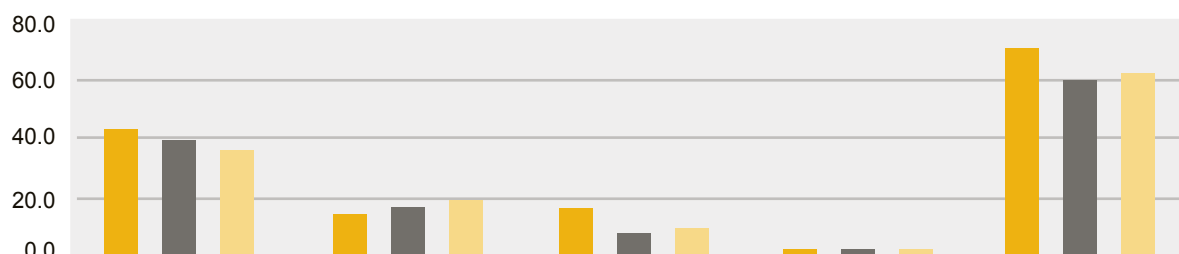
Effective December 31, 2009, the Corporation recorded an asset retirement obligation (ARO) of \$1,167,000. The ARO was calculated using an estimated undiscounted cash flow over four years totaling \$1,255,000, and a discount rate of 5.3 percent. No assets have been legally restricted for settlement of the liability.

An ARO was not previously recorded as it could not be reasonably estimated due to uncertainty around the identification, final removal dates and costs of removal of the related assets.

Net Capital Expenditures

Actual net capital expenditures decreased by \$2.4 million in 2009 compared to 2008, primarily due to the installation of fewer smart meters as the installation program was substantially completed in 2009. In 2010, total net capital expenditures are budgeted to increase by \$9.6 million from the 2009 actual program. The budgeted increase in Sustainment capital spending is due to aging infrastructure and the Beaconhill Station reconstruction. The budgeted increase in General Plant is primarily for additional customer service and financial system solutions and environmental strategies. Sustainment capital spending on Hydro Ottawa's distribution and generation systems, in accordance with asset management plans, is expected to be maintained at or above 2008 levels through to 2012.

Net Capital Expenditures



(\$ millions)	Sustainment	Demand/ Smart Meters	General & CMD	Generating Plant	Total
■ 2010 Budget	44.3	13.1	12.4	1.0	70.8
■ 2009 Actual	38.5	14.9	7.4	0.5	61.2
■ 2008 Actual	34.6	20.2	8.3	0.5	63.6

Significant Accounting Estimates

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of commitments and contingencies at the date of the financial statements.

These estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Because they involve varying degrees of judgment and uncertainty, the amounts currently reported in the financial statements could prove to be inaccurate in the future.

The following accounting estimates require management's judgments in preparing our financial statements and, as such, are considered to be critical. Most of these are disclosed in the notes to the Corporation's consolidated financial statements for the year ended December 31, 2009:

- Estimated useful life of major asset categories, Note 2
- Customer deposits, Note 2
- Regulatory asset recovery, Note 8
- Asset retirement obligations, Note 13
- Employee future benefits, Note 14

Allowance for doubtful accounts

The financial statements contain an estimate of bad debt losses arising from uncollectible accounts receivable, calculated based on a combination of reviewing specific accounts and taking a specific percentage of remaining balances over 60 days.

Unbilled revenue

Management establishes unbilled revenue balances based upon an estimate of customer electricity consumption to the end of the financial reporting period. Customer consumption estimates include instances where the meter reading is not scheduled to take place until the next period. This requires management to estimate based on historical usage. Consumption estimates are also necessary when meter readings are not available at the end of a financial reporting period.

Changes in Accounting Policies and Presentation

Accounting for Rate Regulated Entities

As at January 1, 2009, the Corporation prospectively adopted the amendments to the CICA Handbook Section 1100 – "Generally Accepted Accounting Principles" and Handbook Section 3465 – "Income Taxes".

Effective January 1, 2009, with the removal of the temporary exemption in Section 1100, Hydro Ottawa Limited must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Section 1100 directs Hydro Ottawa Limited to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in the CICA Handbook Section 1000 – "Financial Statement Concepts". Using professional judgment and guidance issued by bodies authorized to issue accounting standards in other jurisdictions, Hydro Ottawa Limited has determined that its assets and liabilities arising from rate regulated activities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Accounting Standards Codification 980 – "Regulated Operations". As a result, there is no effect on the Corporation's financial results for the year ended December 31, 2009.

Effective January 1, 2009, with the amendment to Section 3465 the Corporation is required to recognize Hydro Ottawa Limited's future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future electricity rates. Previously, Hydro Ottawa Limited used the taxes payable method to account for PILs where no provision was made for future income taxes as a result of unused tax losses or temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes as it was expected that they would be collected in future rates. With the adoption of the amended Section 3465, the Corporation has recorded a future income tax asset and a corresponding regulatory liability. The implementation of this standard did not impact the Corporation's earnings or cash flows in 2009.

Goodwill and Intangible Assets

Effective January 1, 2009, the Corporation adopted CICA Handbook Section 3064 – "Goodwill and Intangible Assets". In accordance with the transitional provisions of Section 3064, the Corporation has restated its prior period comparative figures and related note disclosures. As a result of the adoption of Section 3064, the Corporation has reclassified land and water rights and computer software from property, plant and equipment to intangible assets (Note 10). Also as a result of the adoption of Section 3064, the Corporation has restated prior year opening retained earnings and other assets by \$27,000 as deferred incorporation costs no longer meet the definition of an asset.

Financial Instruments

Effective January 1, 2009, the Corporation adopted a number of amendments to CICA Handbook Section 3855 – "Financial Instruments – Recognition and Measurement". The amendments relate to revised definitions of certain financial assets, methods of assessing impairments for certain financial assets, reclassifications of financial assets, assessment of embedded derivatives on reclassification of a financial asset out of the held-for-trading category and subsequent accounting of impaired financial assets. The amendments had no impact on the financial results of the Corporation.

Effective September 30, 2009, the Corporation prospectively adopted CICA amended Handbook Section 3862 – "Financial Instruments – Disclosure", which was released in June 2009. The amended section includes additional disclosure requirements about fair value measurement of financial instruments and enhanced liquidity risk disclosures. The amendments have no impact on the financial results of the Corporation.

Credit risk and the fair value of financial assets and financial liabilities

Effective January 1, 2009, the Corporation adopted the CICA Emerging Issues Abstract (EIC) 173 – "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". EIC-173 clarifies that the Corporation's own credit risk and the credit risk of its counterparties be taken into account in determining the fair value of a financial instrument. There was no effect on the Corporation's financial statements as a result of adopting EIC- 173.

Emerging Accounting Pronouncements

International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises are required to transition to IFRS effective January 1, 2011. Government Business Enterprises (e.g. municipally owned utilities) are required by the Public Sector Accounting Board to also adopt IFRS on January 1, 2011.

The Corporation launched its IFRS conversion project in 2008, involving a steering committee consisting of senior level management and external advisors. Status updates are provided to the Corporation's executive team and the Audit Committee of the Board of Directors on a regular basis. A project to upgrade information systems is also underway as part of the IFRS conversion project.

In December 2008, the International Accounting Standards Board (IASB) initiated a project on the application of IFRS to rate regulated activities. In July 2009, the IASB issued an exposure draft on rate-regulated activities which, among other things, allowed the continued recognition of regulatory assets and liabilities on the Balance Sheet as well as the continued capitalization of certain costs to property, plant and equipment that would otherwise not meet the recognition criteria under IFRS, provided these costs were included in the regulated rate base. As part of the IASB comment letter process, the Corporation supported letters from several industry associations that were supportive of the exposure draft. The IASB received approximately 150 letters relating to this exposure draft, many of which were not supportive.

The IASB staff prepared an analysis of all the comment letters and the IASB Board met in February 2010 to review the analysis and the project. The IASB Board has requested that IASB staff prepare a technical analysis on one of the key areas of debate – namely, whether or not regulatory assets and liabilities exist within the definition of assets and liabilities in the IFRS conceptual framework. Prior to this, a rate-regulated standard was expected to be issued in advance of Canada's adoption date; however, given these recent developments, the issuance of a standard will be delayed and/or possibly cancelled which will most likely affect the Corporation's IFRS conversion project.

The adoption of IFRS will require the restatement, for comparative purposes, of amounts reported by the Corporation for its year ended December 31, 2010 and the opening balance sheet as at January 1, 2010. The Corporation is currently assessing the impact of the adoption of IFRS on its financial results; however, the financial impact cannot be reasonably estimated at this time due to continuing uncertainty regarding the treatment of rate-regulated activities. The Corporation expects a significant increase in financial statement note disclosure as a result of adopting IFRS.

RISKS AND UNCERTAINTIES

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

The Corporation's Enterprise Risk Management (ERM) system establishes the framework to help the Corporation track and respond to risks and opportunities impacting strategic direction and business activities, in a consistent and integrated manner across the enterprise. A three-year Business Planning cycle, with annual updates, enables continuous review of assumptions and the state of the market in which the Corporation operates.

Hydro Ottawa continues to monitor and manage traditional risks and sources of risk that are structural within the industry and the regulated environment. It is possible, nonetheless, that some of these risks could adversely impact Hydro Ottawa's results and objectives. These include but are not restricted to, the weather, the regulatory and policy environment, the state of the economy and macro-economic trends, government policies relating to the production and procurement of renewable and clean energy as well as carbon emissions and conservation, labour force demographics with a particular emphasis on the renewal of human resources in the trades, and the impact of fiscal policies on customers. In addition, the evolution of the industry presents new and emerging risks that need to be managed effectively.

The emerging as well as the traditional risks are discussed below.

Technology Infrastructure

The Corporation's business performance is dependent upon complex technology systems, including administrative information technology, customer information systems, advanced metering, and operational technologies such as geographic information systems, system control and outage management systems. Increasing automation, the integration of systems, and extensive use of common technology in facilitating such integration and connectivity present emerging risks that the Corporation must manage effectively. The failure of one or more of these key systems, or a failure of the Corporation to plan effectively for future technology needs or transition effectively to new technology systems, such as the provincial MDM/R, could adversely impact the Corporation's business operations.

LDCs in Ontario will be required to comply with mandatory reliability standards prescribed by the North American Electric Reliability Corporation (NERC). Considerable investments may need to be made to conform to, and sustain, NERC standards for Critical Infrastructure Protection in respect of IT and physical security, as well as to create mechanisms to monitor and demonstrate compliance.

Cyber Security

An environment marked by increasing automation and higher integration and connectivity between utility control systems could magnify cyber security risks for Hydro Ottawa Limited as well as for other market participants with whom it is integrated. A security breach, data corruption or system failure at the shared resources or common service providers could put at risk Hydro Ottawa Limited's information systems and information assets.

Time-of-Use Technology

Given the number of devices, systems and web interfaces involved in the Smart Meter – TOU billing process, as well as the number of external and internal service providers engaged, risks arising from the reliability and performance of any single component of this integrated network or of the system as a whole could lead to a disruption of the meter-to-cash cycle. This could present a risk of billing errors and customer dissatisfaction.

Economy

The state of the local and national economy could have a significant impact on the Corporation's business performance, through factors such as interest rates, inflation, customer credit risk, weakening demand for electricity and/or value-added services, and availability of market capital to fund growth. The economic climate could also have an effect on the stability and performance of some of Hydro Ottawa's key business partners, notably in pension plans and insurance.

Reduced Demand for Electricity and its Impact

Through the latter half of 2009, energy commodity prices moved consistently downwards, at least in part owing to recessionary conditions, which could persist in the medium term and lead to a reduction in the Corporation's revenues and net income from energy generation.

Further, as spot market commodity prices slide, the Global Adjustment that the IESO charges to LDCs, to account for the difference between spot market commodity prices and prices paid to OPG for regulated generation assets, could have a significant and adverse impact on Hydro Ottawa's operating cash flows, mainly owing to timing differences.

Pension Plan Risk

For 2008, the Ontario Municipal Employees Retirement System (OMERS), to which the Corporation and its employees contribute, posted a total rate of return of -15.3 percent and reported a \$279 million funding shortfall, which could grow to more than \$6 billion over the next few years. For 2009, OMERS posted a total rate of return of 10.6 percent and reported a gain of \$4.3 billion in investment income, recovering from an \$8 billion loss for 2008. However, OMERS continues to report a plan deficit based on actuarial value of net assets of \$1.5 billion. OMERS may choose to eliminate its deficit through higher contribution increases from members and employers, perhaps along with changes (reductions) to benefits.

Policy and Regulatory Environment

Hydro Ottawa's businesses operate in a regulated environment. Business performance could be adversely affected by significant policy and regulatory changes, including but not limited to changes in rate regulation, policies relating to the production and procurement of renewable and clean energy, carbon emissions, conservation and demand management (CDM), the consolidation of electrical utilities, or restrictions on utility service provisioning.

The OEB approves local electricity distribution rates based on projected load growth and consumption levels. If actual experience varies from the projections, the Corporation's net income will be affected. CDM programs call for a 5 percent reduction in Ontario's peak electricity demand by 2010. The OEB has recognized the need to compensate for such lost revenue, but there is no certainty that such compensation will be sufficient to cover all lost revenue.

The ability to maintain and operate the electrical distribution system reliably and safely depends on sufficient funding and the OEB allowing recovery of capital expenditures on distribution infrastructure repair and replacement.

Weather

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

Labour Force Demographics

An inability to recruit and retain a sufficient number of skilled employees would negatively impact the Corporation's ability to deliver on the objectives set out in the strategic plan. Current workforce demographics across the electricity sector present an emerging risk that must be managed, particularly in the trades, as retirements are outpacing new entrants to the workforce. Apprentice training and succession planning programs are underway.

OUTLOOK

Subject to the risks and uncertainties already discussed in this document, Hydro Ottawa will continue to provide efficient, reliable electricity distribution services to customers at a competitive cost, while creating sustainable growth in earnings. The Corporation will achieve this by continuing to invest in core distribution assets, improving productivity and pursuing business growth opportunities that leverage corporate strengths.

The Corporation will pursue positive long-term financial performance through strategies such as stabilizing and protecting revenues, managing net controllable costs, and maximizing operating cash flow and rate-of-return. The Corporation will continue to make prudent investments in maintaining and building its infrastructure, subject to rate-of-return and other financial considerations.

In June 2008, the City of Ottawa endorsed a targeted growth strategy for the Corporation involving three basic components: expanding the electricity distribution business beyond its current service territory, expanding hydroelectric and other renewable generation capacity, and diversification of business lines with a focus on compatible, low-risk opportunities that offer stable long-term returns. The Corporation continues to actively pursue opportunities for expansion in accordance with the endorsed strategy.

Hydro Ottawa is projected to continue the trend of solid financial performance, in line with its *2008 – 2012 Strategic Direction and Financial Outlook*.

| Consolidated Financial Statements |

December 31, 2009

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REPORT OF MANAGEMENT

Management is responsible for the integrity of the financial data reported by the Corporation. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements and other data using management's best judgment, estimates and Canadian generally accepted accounting principles, applied on a basis consistent with the preceding year.

Management maintains appropriate systems of internal control and corporate-wide policies and procedures, which provide reasonable assurance that the Corporation's assets are safeguarded and that financial records are relevant and reliable.

The Board of Directors, through the Audit Committee, ensures that management fulfills its responsibility for financial reporting and internal control. The Audit Committee consists of outside directors and at regular meetings reviews audit, internal control and financial reporting matters with management and external auditors. The Audit Committee has reviewed the consolidated financial statements and submitted its report to the Board of Directors.

On behalf of Management,



Rosemarie T. Leclair
President and Chief Executive Officer



Alan Hoverd
Chief Financial Officer

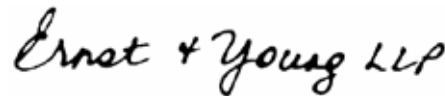
AUDITORS' REPORT

To the Shareholder of Hydro Ottawa Holding Inc.

We have audited the consolidated balance sheet of Hydro Ottawa Holding Inc. as at December 31, 2009 and the consolidated statements of income, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Ottawa, Canada
February 26, 2010 (except for Note 23(i) and,
Note 26 which are as of March 11, 2010).

Chartered Accountants
Licensed Public Accountant

CONSOLIDATED STATEMENT OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

Year ended December 31 (tabular amounts are in thousands of dollars)	2009	2008
Revenues (Note 25)		
Power recovery	587,958	544,192
Distribution sales	141,213	134,227
Other revenue	25,561	19,341
	754,732	697,760
Expenses (Note 25)		
Purchased power	584,282	537,979
Operating costs	71,765	68,125
Depreciation (Note 2)	34,814	33,323
Amortization (Notes 2, 7 and 10)	7,141	7,279
	698,002	646,706
Income from continuing operations before other expenses (recoveries), non-controlling interest and payments in lieu of corporate income taxes	56,730	51,054
Financing costs (Note 17)	12,315	11,770
Recovery of regulatory asset write-down	-	(676)
Payments in lieu of provincial capital tax	1,639	966
	13,954	12,060
Non-controlling interest in PowerTrail Inc. (Note 15)	(7)	(133)
Income from continuing operations before payments in lieu of corporate income taxes	42,769	38,861
Payments in lieu of corporate income taxes (Note 22)	13,416	13,571
Income from continuing operations	29,353	25,290
Income from discontinued operations (Note 18)	-	1,775
Gain on disposal of discontinued operations (Note 18)	20	22,931
Net income and comprehensive income	29,373	49,996
Retained earnings, beginning of year (Note 2)	89,252	69,034
Refundable dividend tax paid	(85)	(1,403)
Dividends paid (Note 20)	(17,200)	(28,375)
Retained earnings, end of year	101,340	89,252

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at December 31 (tabular amounts are in thousands of dollars)

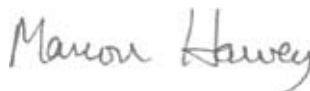
	2009	2008
Current assets		
Cash	3,489	21,332
Accounts receivable (Note 4)	61,225	49,046
Unbilled revenue (Note 5)	86,426	76,660
Inventory (Note 6)	7,088	6,512
Regulatory assets (Note 8)	3,039	3,039
Other assets (Note 7)	1,334	773
Future income tax assets (Note 22)	867	-
Assets related to discontinued operations (Note 18)	-	566
	163,468	157,928
Non-current assets		
Net regulatory assets (Note 8)	11,859	12,084
Property, plant and equipment (Notes 2 and 9)	521,727	501,118
Intangible assets (Notes 2 and 10)	25,773	29,428
Other assets (Notes 2 and 7)	1,986	2,903
Future income tax assets (Note 22)	28,364	-
Total assets	753,177	703,461
Current liabilities		
Accounts payable and accrued liabilities (Note 12)	120,286	114,371
Regulatory liabilities (Note 8)	-	1,705
Regulatory liability for future income tax assets (Note 22)	867	-
Liabilities related to discontinued operations (Note 18)	-	274
	121,153	116,350
Non-current liabilities		
Net regulatory liabilities (Note 8)	1,434	1,622
Regulatory liability for future income tax assets (Note 22)	28,364	-
Employee future benefits (Note 14)	5,144	5,041
Asset retirement obligations (Note 13)	1,167	-
Customer deposits	10,618	8,230
Future income tax liabilities (Note 22)	3,106	2,338
Repayable grant (Note 9)	85	93
Non-controlling interest (Note 15)	608	601
Notes payable (Note 16)	251,705	251,481
	423,384	385,756
Contingent liabilities (Note 23)		
Commitments (Note 24)		
Shareholder's equity		
Share capital (Note 20)	228,453	228,453
Retained earnings	101,340	89,252
	329,793	317,705
Total liabilities and shareholder's equity	753,177	703,461

The accompanying notes are an integral part of these consolidated financial statements.

ON BEHALF OF THE BOARD:



Director



Director

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31 (tabular amounts are in thousands of dollars)	2009	2008
Net inflow (outflow) of cash related to the following activities:		
Operating		
Income from continuing operations	29,353	25,290
Adjustments for non-cash items		
Depreciation	34,814	33,323
Amortization	7,141	7,279
Gain on disposal of property, plant and equipment	(12)	(199)
Allowance for funds used during construction (Note 9)	(895)	(687)
Amortization of debt issue costs	224	226
Write off of property, plant and equipment	-	18
Employee future benefits (Note 14)	103	207
Future payments in lieu of corporate income taxes	768	817
Non-controlling interest in PowerTrail Inc.	7	133
Changes in non-cash operating working capital items		
(Increase) decrease in accounts receivable	(12,179)	8,474
(Increase) decrease in unbilled revenue	(9,766)	5,716
(Increase) decrease in inventory	(576)	1,482
Decrease in regulatory assets, net of liabilities	186	3,747
Decrease (increase) in other assets	745	(169)
Increase in accounts payable and accrued liabilities	5,402	2,298
	55,315	87,955
Financing		
Contributions in aid of construction	25,353	17,156
Notes payable	-	(160)
Dividends paid	(17,200)	(28,375)
Refundable dividend tax paid	(85)	-
Repayable grant	(16)	(8)
Customer deposits received	3,231	396
	11,283	(10,991)
Investing		
Proceeds from disposal of property, plant and equipment	128	230
Acquisition of property, plant and equipment	(80,872)	(79,372)
Acquisition of intangible assets	(3,509)	(4,500)
Available-for-sale investments	(500)	-
Net investing activities related to discontinued operations	-	(791)
	(84,753)	(84,433)
Net cash outflow from continuing operations	(18,155)	(6,678)
Net cash inflow from discontinued operations	312	52,586
Cash (bank indebtedness), beginning of year	21,332	(24,576)
Cash, end of year	3,489	21,332
Supplementary cash flow information		
Interest paid	12,402	12,625
Payments in lieu of corporate income taxes paid	14,223	12,477

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (tabular amounts are in thousands of dollars)

1. DESCRIPTION OF BUSINESS

Hydro Ottawa Holding Inc. ("Hydro Ottawa" or the "Corporation") was incorporated on October 3, 2000 pursuant to the *Business Corporations Act (Ontario)* as mandated by the Ontario government's *Electricity Act, 1998*. The Corporation is wholly owned by the City of Ottawa (the "Shareholder"). Hydro Ottawa owns 100% of each of Hydro Ottawa Limited, Energy Ottawa Inc. ("Energy Ottawa") and Telecom Ottawa Holding Inc. ("Telecom Ottawa").

Hydro Ottawa Limited – A regulated electricity distribution company that owns and operates electricity infrastructure in the City of Ottawa and the Village of Casselman and is responsible for the safe, reliable delivery of electricity to homes and businesses in its licensed service area. In addition to billing for distribution services, Hydro Ottawa Limited invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services and for debt retirement.

Energy Ottawa – A power generation company that generates and markets *EcoLogo*-certified green power. Energy Ottawa also offers a range of expert energy management and procurement services to large energy-consuming organizations and corporations. Energy Ottawa holds a 60% interest in PowerTrail Inc. ("PowerTrail"), which was incorporated on August 10, 2005, to construct and operate a generation plant and gas collection system at the Trail Road landfill site in Ottawa, Ontario. PowerTrail commenced commercial operations on January 31, 2007.

Telecom Ottawa – In 2008, Telecom Ottawa sold the shares of all of its wholly-owned subsidiaries (Note 18). Telecom Ottawa was a broadband data carrier and Internet service provider based in Ottawa. Telecom Ottawa owned and operated a metropolitan-wide network and provided fibre optic services to both public and private sector organizations. This broadband infrastructure enabled the provision of transparent LAN services, high-speed Internet transit and dark fibre services. The following is the list of the subsidiaries that were sold: Telecom Ottawa Limited, 2038455 Ontario Inc. and Telecom Ottawa Regional Limited.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for publicly accountable entities, including principles prescribed by the Ontario Energy Board ("OEB") in the Accounting Procedures Handbook ("AP Handbook"). In the opinion of management, all adjustments necessary for fair presentation are reflected in the consolidated financial statements. The consolidated financial statements reflect the significant accounting policies summarized below.

Basis of consolidation

The consolidated financial statements include the accounts of Hydro Ottawa and its subsidiaries: Hydro Ottawa Limited, Energy Ottawa, which includes the accounts of PowerTrail, and Telecom Ottawa, which in 2008 included the accounts of Telecom Ottawa Limited, Telecom Ottawa Regional Limited and 2038455 Ontario Inc. (Note 18). All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Consolidation of variable interest entities

The consolidation of a variable interest entity ("VIE") is required by a corporation if that corporation is subject to a majority of the risk of loss from the VIE's residual returns. The initial equity investment at risk was not sufficient to permit PowerTrail to finance its activities without additional subordinated financial support from its shareholders and as such PowerTrail is consolidated in the consolidated financial statements of Hydro Ottawa and Energy Ottawa.

Long-term investments

Investments in which the Corporation has significant influence are accounted for using the equity method.

The Corporation holds a 28.33% interest in Chaudière Water Power Inc. ("CWPI"), a company incorporated to act as an agent for the three principals of CWPI, with the mandate to control, operate and maintain the Chaudière dam. This investment is recorded at cost plus the Corporation's share of income or loss which to date has been \$nil in the consolidated financial statements of Hydro Ottawa and Energy Ottawa.

Measurement uncertainty

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the

consolidated financial statement date. Accounts receivable, unbilled revenue and regulatory assets and liabilities are reported net of an appropriate allowance for unrecoverable amounts. Other significant estimates are used in determining the useful lives and asset impairments of long-lived assets and to calculate payments in lieu of corporate income taxes, employee future benefits and certain accruals.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by the OEB or the provincial government. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies.

Regulation

Effective January 1, 2009, the Corporation adopted the amended Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1100 – "Generally Accepted Accounting Principles", which withdrew the temporary exemption permitting the recognition and measurement of assets and liabilities arising from rate regulation, and Section 3465 – "Income Taxes", requiring the recognition of future income tax assets and liabilities for regulated enterprises that were previously not subject to these provisions. These amendments apply prospectively to fiscal years beginning on or after January 1, 2009.

Hydro Ottawa Limited is regulated by the OEB under the authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs and revenues in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company.

The following regulatory treatments have resulted in accounting treatments that comply with GAAP for publicly accountable enterprises, but differ from GAAP for enterprises operating in a non-regulated environment:

a) *Regulatory assets and liabilities*

Effective January 1, 2009, with the removal of the temporary exemption in Section 1100, Hydro Ottawa Limited must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Section 1100 directs Hydro Ottawa Limited to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in the CICA Handbook Section 1000 – "Financial Statement Concepts". Using professional judgment and guidance issued by bodies authorized to issue accounting standards in other jurisdictions, Hydro Ottawa Limited has determined that its assets and liabilities arising from rate-regulated activities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Accounting Standards Codification 980 – "Regulated Operations". As a result, there is no effect on Hydro Ottawa Limited's financial results for the year ended December 31, 2009.

Regulatory assets primarily represent costs that have been deferred because it is probable that they will be recovered in future rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers for electricity services and the costs that Hydro Ottawa Limited incurs to purchase these services.

Regulatory balances are comprised principally as follows:

Regulatory assets recovery account and regulatory liabilities refund account – On March 17, 2008, Hydro Ottawa Limited received a decision from the OEB for new rates for the rate period beginning May 1, 2008, resulting from an application filed in September 2007. The new rates include the refund of regulatory liabilities and the recovery of certain regulatory assets accumulated up to October 31, 2007. Hydro Ottawa Limited has not filed any further applications for the recovery of regulatory assets or disposition of regulatory liabilities.

Retail services and settlement variances – The retail settlement variances relate to the charges Hydro Ottawa Limited incurred for transmission services, generation (the commodity) and wholesale market operations from the Independent Electricity System Operator ("IESO") and Hydro One Networks Inc. that were not settled with customers during the period. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time and are reported at period-end dates in accordance with rules prescribed by the OEB. Hydro Ottawa Limited has also recognized the net cost of providing retailer billing services and service transaction request services as a variance amount.

Deferred smart meter costs – The OEB has allowed electricity distributors to track the differences between the amounts funded through rates for smart meters and program costs. Program costs include operating, maintenance, depreciation and administrative expenses directly related to smart meters, a return on smart meter assets, and the net book value of conventional meters removed at the time of installation of smart meters.

Other variances and deferred costs – The OEB allows electricity distributors to record the difference between low voltage charges paid to Hydro One Networks Inc. and charged to customers. In 2009, the OEB approved a deferral account for

distributors to record one-time administrative incremental International Financial Reporting Standards ("IFRS") transition costs, which were not already approved and included for recovery in distribution rates.

Deferred payments in lieu of taxes ("PILs") – The OEB has established a PILs variance account in which distributors record the tax impact of legislative or regulatory changes to the tax rates or rules assumed in the electricity distribution rate application.

Hydro Ottawa Limited has accrued interest on the regulatory asset and liability balances, as directed by the OEB.

b) Allowance for funds used during construction ("AFUDC")

An allowance for the cost of funds used during the construction period has been applied to major capital and development projects. Effective May 1, 2006, the OEB adopted the Scotia Capital Inc. All Corporates Mid-Term Average Weighted Yield as the approved rate of interest. The average annual interest rate for 2009 was 5.9% (2008 – 5.3%).

c) Payment in lieu of corporate income taxes

Effective January 1, 2009, with the amendment to CICA Handbook Section 3465, Hydro Ottawa Limited is required to recognize future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future electricity rates. The requirement for rate-regulated enterprises to recognize future income taxes, as well as regulatory liabilities and assets, applies for fiscal years beginning on or after January 1, 2009 without restating the financial statements of prior periods. Previously, Hydro Ottawa Limited used the taxes payable method to account for PILs where no provision was made for future income taxes as a result of unused tax losses or temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes as it was expected that they would be collected in future rates. With the adoption of the amended Section 3465, Hydro Ottawa Limited has recorded a future income tax asset and a corresponding regulatory liability (Note 22). The implementation of this standard did not impact Hydro Ottawa Limited's income or cash flows in 2009.

Hydro Ottawa Limited is considered to be a Municipal Electric Utility ("MEU") for purposes of the payments in lieu of taxes regime contained in the *Electricity Act, 1998* as all of its share capital is owned by the City of Ottawa and not more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. The *Electricity Act, 1998* provides that an MEU that is exempt from tax under the *Income Tax Act* (Canada) ("ITA") and the *Taxation Act Ontario* ("TAO") is required to make, for each taxation year, a "PILs" payment to the Ontario Electricity Financial Corporation ("OEFC") in an amount approximating the tax that it would be liable to pay under the ITA and the TAO if it were not exempt from tax.

The AP Handbook provides for the recovery of PILs by Hydro Ottawa Limited through annual distribution rate adjustments as approved by the OEB.

Hydro Ottawa, Energy Ottawa, and Telecom Ottawa are MEUs that provide for PILs using the liability method. Under the liability method, future income tax assets and liabilities are recognized for unused tax losses and the temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change is substantively enacted. Future income tax assets are recognized only to the extent that it is more likely than not that these assets will be realized.

In the prior year, Telecom Ottawa Limited and 2038455 Ontario Inc. were MEUs that provided for PILs using the liability method (Note 18).

In the prior year, Telecom Ottawa Regional Limited was taxable under the ITA and CTA since more than 10% of the Company's income was from activities carried on outside the municipal boundaries of the City of Ottawa. Telecom Ottawa Regional Limited provided for income taxes using the liability method (Note 18).

PowerTrail is taxable under the ITA and TAO as less than 90% of its share capital is owned by the City of Ottawa. The Company provides for corporate income taxes using the liability method.

Financial instruments

Effective January 1, 2009, the Corporation adopted a number of amendments to CICA Handbook Section 3855 – "Financial Instruments – Recognition and Measurement". The amendments relate to revised definitions of certain financial assets, methods of assessing impairments for certain financial assets, reclassifications of financial assets, assessment of embedded derivatives on reclassification of a financial asset out of the held-for-trading category and subsequent accounting of impaired financial assets. The amendments had no impact on the financial results of the Corporation (Note 21).

In June 2009, the CICA amended Handbook Section 3862 – "Financial Instruments – Disclosures" to further converge Canadian standards with IFRS 7 – "Financial Instruments: Disclosures". Amendments included additional disclosure requirements about the fair

value measurement of financial instruments and enhanced liquidity risk disclosures. The amendments to Section 3862 apply to annual financial statements relating to fiscal years ending after September 30, 2009. The amendments had no impact on the financial results of the Corporation (Note 21).

All financial instruments are initially recorded at fair value, unless fair value cannot be reliably determined. The subsequent measurement of each financial instrument depends on the balance sheet classification elected by the Corporation.

The Corporation classifies and measures its financial instruments as follows:

- (i) Cash is classified as "Held-for-trading" and is measured at fair value.
- (ii) Accounts receivable and unbilled revenue are classified as "Loans and Receivables" and are measured at amortized cost which, upon initial recognition, is considered equivalent to fair value with the exception of related party transactions, which are measured at the carrying amount determined in accordance with Section 3840 – "Related Party Transactions". Subsequent measurements are recorded at amortized cost using the effective interest rate method, if applicable.
- (iii) Accounts payable and accrued liabilities and notes payable are classified as "Other Financial Liabilities" and are initially measured at their fair value with the exception of related party transactions, which are measured at the carrying amount determined in accordance with Section 3840 – "Related Party Transactions". Subsequent measurements are recorded at amortized cost using the effective interest rate method, if applicable.
- (iv) Equity instrument investments that do not have a quoted market price in an active market are classified as "Available-for-sale" investments and are measured at cost. Transaction costs that are directly attributable to the acquisition of available-for-sale investments are recognized immediately in income.

Credit risk and the fair value of financial assets and financial liabilities

Effective January 1, 2009, the Corporation adopted the CICA Emerging Issues Committee Abstract – "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC – 173"), which was issued on January 20, 2009. EIC – 173 clarifies that the Corporation's own credit risk and the credit risk of its counterparties be taken into account in determining the fair value of a financial instrument. There was no effect on the Corporation's consolidated financial statements as a result of adopting EIC – 173.

Property, plant and equipment

Property, plant and equipment include generation plant, distribution equipment, facilities and buildings, as well as construction and operating equipment.

Hydro Ottawa Limited treats spare transformers, switchgear and meters as property, plant and equipment. Spare transformers, switchgear and meters are items that are expected to be substituted for the original distribution plant transformers, switchgear and meters when these original plant assets are being repaired and are held and dedicated for the specific purpose of backing up plant-in-service as opposed to assets available for other uses. Hydro Ottawa Limited begins depreciating these assets as soon as they are designated as standby equipment in order to align GAAP accounting treatments with regulatory accounting requirements.

Energy Ottawa classifies major spare parts and standby equipment as property, plant and equipment when the Company expects to use them during more than one period. Energy Ottawa does not depreciate these assets until they are put into service.

Property, plant and equipment are recorded at cost and include contracted services, materials, labour, engineering costs, overheads and an allowance for the cost of funds used during construction. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Contributions in aid of construction received are treated as a contra account and are included in property, plant and equipment. The amount is amortized by a charge to accumulated depreciation and a credit to depreciation expense at an equivalent rate to that used for the depreciation of the related asset.

Significant renewals and enhancements to existing assets are capitalized only if the service life of the asset is increased, reliability is improved above original design standards or if operating costs are reduced by a substantial and quantifiable amount.

Depreciation is recorded on a straight-line basis over the estimated service life of the related asset.

Estimated service lives for property, plant and equipment classes are as follows:

Buildings and fixtures	25 to 50 years
Furniture and equipment	5 to 10 years
Rolling stock	4 to 8 years
Electricity distribution infrastructure	10 to 40 years
Generating plant and equipment	10 to 60 years

Assets under construction are not subject to depreciation.

The Corporation reviews its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Corporation will estimate the future cash flows expected to result from the use of the asset group and their eventual disposition, and record an impairment loss, if required.

Asset retirement obligations

The Corporation recognizes its obligation to retire certain tangible long-lived assets, whereby the fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and then amortized over its estimated useful life. In subsequent periods, the asset retirement obligation is adjusted for the passage of time and any changes in the amount or timing of the underlying future cash flows are reflected through charges to income. A gain or loss may be incurred upon settlement of the liability.

Goodwill and intangible assets

Effective January 1, 2009, the Corporation adopted CICA Handbook Section 3064 – “Goodwill and Intangible Assets”. In accordance with the transitional provisions of Section 3064, the Corporation has restated its prior period comparative figures and related note disclosures. As a result of the adoption of Section 3064, the Corporation has reclassified land and water rights and computer software from property, plant and equipment to intangible assets (Note 10). Also as a result of the adoption of Section 3064, the Corporation has restated prior year opening retained earnings and other assets by \$27,000 as deferred incorporation costs no longer meet the definition of an asset.

Amortization is recorded on a straight-line basis over the estimated service life of the related asset.

Estimated service lives for intangible assets are as follows:

Land and water rights	50 years
Computer software	5 to 10 years

Assets which are not ready for use are not subject to amortization.

The Corporation reviews its intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Corporation will estimate the future cash flows expected to result from the use of the asset group and their eventual disposition, and record an impairment loss, if required.

Leases

The Corporation classifies leases as capital or operating at the outset of the lease agreement based on whether the terms transfer substantially all of the benefits and risks incidental to ownership to the Corporation.

Deferred costs

Deferred debt issue costs

The Corporation incurred debt issue costs that were external, direct and incremental in nature arising from the Corporation's debenture offerings and credit facility restructuring. The debt issue costs were netted against the proceeds of debt and amortized using the effective yield method. Credit facility restructuring costs were amortized over the initial term of the revolving term credit facility.

Deferred royalty costs

Deferred royalty costs consist of royalties paid under a long-term contract for the utilization of landfill gas to generate electricity at the Trail Road landfill site in Ottawa, Ontario. Deferred royalty costs are amortized on a straight-line basis over the term of the contract.

Employee future benefits

Pension plan

The Corporation provides pension benefits for its employees through the Ontario Municipal Employees' Retirement System (“OMERS”) Fund (the “Fund”). OMERS is a multi-employer pension plan, which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a contributory-defined benefit pension plan, which is financed by equal contributions from participating employers and employees and by the investment earnings of the Fund. The Corporation recognizes the expense related to this Fund as contributions are made.

In 2008, prior to the sale of the telecommunications business, Telecom Ottawa had a defined contribution plan, whereby the Company matched employee contributions made to a retirement savings plan. Telecom Ottawa recognized the expenses related to the defined contribution plan as the contributions were made (Note 18).

Employee future benefits other than pension plan

Employee future benefits other than pensions provided by the Corporation include medical and life insurance benefits, supplemental pensions, accumulated sick leave credits and a retirement grant. These plans provide benefits to certain employees when they are no longer providing active service.

Employee future benefit expense is recognized in the period in which the employees render services.

Employee future benefits are recorded on an accrual basis. The accrued benefit obligation and current service costs are calculated using the projected benefit method pro-rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Actuarial gains and losses resulting from experience different from that assumed or from changes in actuarial assumptions are amortized based on the excess of unamortized net actuarial gains and losses over a 10% corridor calculated in the aggregate for all groups. The expected average remaining service life as at December 31, 2009 is 13 years.

Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills and fulfillment of construction obligations. Deposits estimated to be refundable to customers within the next fiscal year are classified as a current liability.

Revenue recognition

The Corporation recognizes revenue when persuasive evidence of an arrangement exists, services have been delivered, the price has been fixed or determinable and collection is reasonably assured.

Power recovery

Power recovery revenue represents the pass-through of the cost of power to the consumer as purchased by Hydro Ottawa Limited from the IESO and Energy Ottawa. Hydro Ottawa Limited's cost of purchased power from Energy Ottawa is eliminated on consolidation. The cost of the electricity generated by Energy Ottawa is included in operating costs.

Distribution sales

Electricity distribution sales represents charges for providing distribution services, and are recorded on the basis of regular meter readings and estimates of current usage from the last meter reading to the end of the fiscal period.

Other revenue

Other revenue related to sales of other services is recognized as services are rendered. Other revenue includes contract revenue, generation revenue and commercial services.

Contract revenue and commercial services revenue are accounted for using the percentage of completion method, whereby revenue is recognized proportionately with the degree of completion of the services under contract. Losses on contracts are fully recognized when they become evident. Commercial services revenue includes energy management and procurement services.

Generation revenue is recorded on the basis of regular meter readings.

Unbilled revenue

Unbilled revenue represents distribution sales, along with accrued revenue from electricity consumed by customers since the date of each customer's last meter reading that has not yet been billed.

3. CHANGES IN ACCOUNTING POLICIES**Emerging Changes****International Financial Reporting Standards**

On February 13, 2008, the Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The adoption of IFRS will require the restatement, for comparative purposes, of amounts reported by the Corporation for its year ended December 31, 2010 and the opening balance sheet as at January 1, 2010. Some of the converged standards will be implemented in Canada during the transition period with the remaining standards adopted at the change-over date. While the Corporation has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. The Corporation does expect a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required, as well as information system changes that may be necessary to gather and process the information.

4. ACCOUNTS RECEIVABLE

	2009	2008
Trade receivables, net of allowance for doubtful accounts of \$641,000 (2008 – \$817,000)	51,863	43,360
Other receivables, net of allowance for doubtful accounts of \$112,000 (2008 – \$304,000)	9,362	5,686
	61,225	49,046

5. UNBILLED REVENUE

	2009	2008
Unbilled revenue	87,542	77,470
Less: allowance for doubtful accounts	(1,116)	(810)
	86,426	76,660

6. INVENTORY

Inventory consists primarily of parts and supplies acquired for internal construction or consumption and are stated at the lower of cost and net realizable value, with cost determined on a weighted average basis.

The amount of inventory consumed by the Corporation and recognized as an expense during the year was \$1,066,000 (2008 - \$1,083,000).

7. OTHER ASSETS

	2009	2008
Available-for-sale investments	500	-
Accounts receivable, net of allowance for doubtful accounts of \$28,000 (2008 – \$100,000)	156	832
Server deferred credits	130	260
Deferred costs	1,830	1,941
Prepays	704	643
	3,320	3,676
Less: current portion	(1,334)	(773)
	1,986	2,903

During the year, the Corporation paid \$500,000 to acquire a non-transferable option to purchase up to 5,000,000 Streetlight Intelligence Inc. ("SLI") common shares ("Purchase Option") at an exercise price of \$0.11 per share, exercisable on or before August 19, 2010. The Purchase Option includes a put right ("Put Right"), whereby the Corporation may require SLI to repurchase and cancel the Purchase Option for \$500,000 plus interest of approximately 10% per annum. To secure the Put Right, SLI granted the Corporation first priority security over all of SLI's assets and over all the assets of SLI's subsidiary. The investment is an equity instrument that has been accounted for as an available-for-sale investment. The investment does not have a quoted market price in an active market and is recorded at cost. SLI is a Canadian public company that develops advanced street light optimization systems.

The accounts receivable balance included in other assets represents electricity receivables due from customers who have been placed on extended payment arrangements. These payment arrangements generally range from 24 to 36 months.

In 2004, the Corporation sold a server valued at \$541,000. The sale of the server did not result in any gain or loss on disposal. Consideration for the server consisted of credits to be applied against fees payable under the maintenance agreement. As at December 31, 2009, \$411,000 in credits has been applied against fees payable under the maintenance agreement with the remaining \$130,000 to be applied in 2010.

During the year, the Corporation amortized deferred costs by \$111,000 (2008 – \$130,000).

8. NET REGULATORY ASSETS AND LIABILITIES

Information about the Corporation's net regulatory assets and liabilities is as follows:

	2009	2008
Regulatory assets		
Regulatory assets recovery account	569	-
Deferred smart meter costs	9,867	10,942
Retail services and settlement variances	4,408	3,833
Other variances and deferred costs	228	388
	15,072	15,163
Provision for doubtful recovery	(174)	(40)
Total net regulatory assets	14,898	15,123
Less: current portion	(3,039)	(3,039)
	11,859	12,084
Regulatory liabilities		
Regulatory liabilities refund account	-	1,860
Deferred payments in lieu of taxes	209	206
	209	2,066
Provision for doubtful recovery	1,225	1,261
Total net regulatory liabilities	1,434	3,327
Less: current portion	-	(1,705)
	1,434	1,622

The regulatory assets recovery account of \$569,000 (2008 – regulatory liabilities refund account of \$1,860,000) is the aggregate of all regulatory assets and liabilities which have been approved for recovery or disposition plus accrued interest earned of \$1,649,000 (2008 – \$1,673,000) up to December 31, 2009, less amounts already settled through distribution rates.

Regulatory assets are comprised of deferred smart meter costs of \$9,867,000 which include accrued interest costs of \$103,000 (2008 – \$10,942,000 which includes accrued interest costs of \$82,000), retail services and settlement variances of \$4,408,000 which includes accrued interest earned of \$31,000 (2008 – \$3,833,000 which includes accrued interest costs of \$431,000) and other variances and deferred costs of \$228,000 which includes accrued interest earned of \$7,000 (2008 – \$388,000 which includes accrued interest earned of \$2,000).

Regulatory liabilities are comprised of deferred payments in lieu of taxes of \$209,000, which include accrued interest costs of \$8,000 (2008 – \$206,000 which includes accrued interest earned of \$6,000).

In the absence of rate regulation, the income before PILs for the year ended December 31, 2009 would be \$1,668,000 lower (2008 – \$2,167,000 lower).

The regulatory process has provided for the clearing of regulatory assets and liabilities. The Corporation files a rate application to settle its regulatory assets and liabilities as required, and the time period for settlement is determined based on the magnitude of the balances to be cleared.

The Corporation continues to assess the likelihood of recovery of all regulatory assets subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation. The Corporation has recorded a net provision of \$1,399,000 (2008 – \$1,301,000) against regulatory assets. If future recovery becomes assured, the Corporation will recognize the recovery in the income for the period such a decision is made.

9. PROPERTY, PLANT AND EQUIPMENT

	2009		
	Cost	Accumulated amortization	Net book value
Land	3,793	-	3,793
Buildings and fixtures	65,495	15,908	49,587
Furniture and equipment	16,114	9,757	6,357
Rolling stock	21,438	13,424	8,014
Electricity distribution infrastructure	902,083	381,045	521,038
Generating plant and equipment	44,973	9,118	35,855
Assets under construction	24,337	-	24,337
	1,078,233	429,252	648,981
Contributions in aid of construction	(152,605)	(25,351)	(127,254)
	925,628	403,901	521,727

	2008		
	Cost	Accumulated amortization	Net book value
Land	3,430	-	3,430
Buildings and fixtures	62,774	14,726	48,048
Furniture and equipment	15,438	7,584	7,854
Rolling stock	20,969	12,165	8,804
Electricity distribution infrastructure	904,327	418,564	485,763
Generating plant and equipment	44,817	8,112	36,705
Assets under construction	17,874	-	17,874
	1,069,629	461,151	608,478
Contributions in aid of construction	(127,597)	(20,237)	(107,360)
	942,032	440,914	501,118

Included in the cost of generating plant and equipment is \$1,287,000 (2008 – \$1,265,000) related to Energy Ottawa's undivided interest in the Chaudière dam (Note 2).

During the year, the Corporation capitalized an AFUDC of \$895,000 (2008 – \$687,000).

The OEB permits a deemed AFUDC to be attributed to the cost of an item of property, plant and equipment that is acquired, constructed, or developed over time. Since AFUDC includes not only carrying costs directly attributable to the acquisition, construction, or development activity, the actual capitalized amounts could differ for rate regulation purposes. In the absence of rate regulation, the income from continuing operations before payments in lieu of corporate income taxes for the year ended December 31, 2009 would be \$76,000 lower (2008 – \$1,000 higher).

During the year, the Corporation incurred a gain on disposal of property, plant and equipment of \$12,000 (2008 – \$199,000). This gain does not include the effects of the Ontario government's smart meter initiative which resulted in \$4,549,000 (2008 – \$19,021,000) in conventional meters being removed from service, and would have resulted in a loss on disposal of \$1,854,000 (2008 – \$5,914,000) under GAAP for non-regulated entities. This loss on disposal is deemed by the OEB to be a regulatory asset, to be recovered through future rates.

On March 13, 2009, a fire destroyed a transformer station located in the east end of Ottawa and, as a result, equipment with a net book value of \$116,000 has been written off. The Corporation has adequate property insurance coverage and recorded insurance proceeds receivable of \$116,000 in respect of the damaged equipment. As a result, no gain or loss related to damaged equipment has been reflected in income. The Corporation has also recorded a receivable of \$1,095,000 for the recovery of expenses incurred to clean up and restore services at the site. The Corporation has submitted a claim for damages and is in the process of negotiating a settlement with the insurance company.

Energy Ottawa entered into an agreement with the federal government's Department of Natural Resources, whereby project funding of up to \$220,000 would be provided to Energy Ottawa to field trial a mini-hydro turbine developed by the CANMET Small Hydro Program. Under the terms of the agreement, up to \$150,000 of the funding received is repayable at a rate of 2.5% of revenue received from the project, over a maximum period of 10 years. As at December 31, 2009, the funding received has been allocated: \$53,000 (2008 – \$56,000) to contributions in aid of construction, \$14,000 (2008 – \$21,000) to accounts payable and accrued liabilities and \$85,000 (2008 – \$93,000) to repayable grant.

10. INTANGIBLE ASSETS

	2008	Acquisitions	Retirements	2009
Cost				
Land and water rights	3,536	1	-	3,537
Computer software	50,677	3,374	(26)	54,025
	54,213	3,375	(26)	57,562
Accumulated amortization				
Land and water rights	1,615	47	-	1,662
Computer software	23,170	6,983	(26)	30,127
	24,785	7,030	(26)	31,789
Net book value as at December 31, 2009		Cost	Accumulated amortization	Net book value
Land and water rights		3,537	(1,662)	1,875
Computer software		54,025	(30,127)	23,898
		57,562	(31,789)	25,773

	2007	Acquisitions	Retirements	2008
Cost				
Land and water rights	3,142	394	-	3,536
Computer software	59,586	3,490	(12,399)	50,677
	62,728	3,884	(12,399)	54,213

	2007	Amortization	Retirements	2008
Accumulated amortization				
Land and water rights	1,568	47	-	1,615
Computer software	28,467	7,102	(12,399)	23,170
	30,035	7,149	(12,399)	24,785

		Cost	Accumulated amortization	Net book value
Net book value as at December 31, 2008				
Land and water rights		3,536	(1,615)	1,921
Computer software		50,677	(23,170)	27,507
		54,213	(24,785)	29,428

Included in intangible assets at December 31, 2009 is \$3,112,000 (2008 – \$1,277,000) in computer software that has not yet commenced being amortized as software is not ready for use.

There was no impairment of intangible assets for the year ended December 31, 2009 or for the year ended December 31, 2008.

11. CREDIT FACILITY

On January 16, 2009, the Corporation entered into a new credit facility for \$140,150,000. The facility is structured into four types of credit availability and it was renewed on October 7, 2009. The facility consists of a \$75,000,000, 364-day revolving operation line which matures on July 15, 2010, a \$50,000,000 line to fund capital expenditures and growth opportunities which matures January 16, 2014, a \$15,000,000 line to fund letters of credit and other guarantees, and a \$150,000 corporate Visa facility. This new credit facility contains customary covenants and events of default, including a covenant to maintain the consolidated tangible net worth in excess of \$175,000,000 at all times. It also requires the debt to capitalization ratio to be at or below 75% on a consolidated basis.

As at December 31, 2008, the Corporation had two credit facilities available, which were subsequently replaced by the new credit facility. The first one was a \$150,000,000 three-year, extendible, revolving term credit facility, and the second one was a \$25,000,000 credit facility which consisted of a \$24,850,000, 364-day revolving term operating credit line and a \$150,000 corporate Visa facility.

As at December 31, 2009, the Corporation had drawn \$11,831,000 (2008 – \$11,831,000) against its facilities in standby letters of credit.

PowerTrail maintains a credit facility. The facility consists of \$100,000 in standby letters of credit. The facility also contains customary covenants and events of default, including a covenant to maintain a net worth of \$1,000,000. As at December 31, 2009, PowerTrail had outstanding standby letters of credit of \$100,000 (2008 – \$100,000).

CWPI maintains a credit facility. The facility consists of a \$500,000 operating credit line, which is secured by the three principals. The operating credit line is repayable on demand, bears interest at the bank's prime lending rate per annum with interest payable monthly. The facility also contains customary covenants and events of default. As at December 31, 2009, CWPI had drawn down the operating credit line by \$16,000 (2008 – \$119,000).

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Purchased power payable	64,864	56,934
Rebates payable to eligible customers	2,571	2,213
Customer credit balances	9,633	9,708
Collateral funds held	16,870	16,027
Other accounts payable and accrued liabilities	22,224	22,878
Deferred revenue	-	510
Payments in lieu of corporate taxes payable	223	2,189
Accrued interest on notes payable (Note 16)	3,901	3,912
	120,286	114,371

13. ASSET RETIREMENT OBLIGATIONS

	2009	2008
Balance, beginning of year	-	-
Liabilities incurred in the year	1,167	-
Liabilities settled in the year	-	-
Accretion expense	-	-
Revisions in estimated cash flows	-	-
Balance, end of year	1,167	-

The Corporation is subject to environmental regulatory requirements related to the removal and destruction of polychlorinated biphenyls ("PCBs") in distribution transformers and other clean-up related to PCBs. The Federal PCB Regulatory Framework under the *Canadian Environmental Protection Act, 1999* requires that certain equipment containing PCBs be removed from service by December 31, 2009 and December 31, 2025, depending on equipment concentration and physical location.

Effective December 31, 2009, the Corporation recorded an asset retirement obligation ("ARO") of \$1,167,000. The ARO was calculated using an estimated undiscounted cash flow over four years totaling \$1,255,000 and a discount rate of 5.3%. No assets have been legally restricted for settlement of the liability.

An ARO was not previously recorded as it could not be reasonably estimated as uncertainty existed around the identification, final removal dates and costs of removal of the related assets.

14. EMPLOYEE FUTURE BENEFITS

Pension plan

The Corporation's participating employer contributions under OMERS for the year ended December 31, 2009 were approximately \$3,205,000 (2008 – \$3,095,000). In 2008, prior to the sale of the telecommunications business, the Corporation contributed \$98,000 to defined contribution plans (Note 18).

Employee future benefits other than pension plan

Employee future benefits are calculated using an annual compensation rate increase of 3.1% (2008 – 3.1%) and a discount rate of 6.0% (2008 – 7.25%) to calculate the liabilities.

Information about the Corporation's defined benefits plans is as follows:

	2009		
	Accumulated liability	Expense (recovery) for the year	Benefits paid
Life insurance	4,939	522	369
Retirement grant provision	793	83	16
Supplemental pensions	5	(6)	1
Sick leave	9	-	3
	5,746	599	389
Projected benefit obligation	7,486		
Actuarial deficit	(1,740)		

	2008		
	Accumulated liability	Expense (recovery) for the year	Benefits paid
Life insurance	4,786	551	328
Retirement grant provision	726	66	-
Supplemental pensions	12	(3)	1
Sick leave	12	-	-
	5,536	614	329
Projected benefit obligation	6,568		
Actuarial deficit	(1,032)		

An update of the actuarial valuation was performed as of January 1, 2010. The actuary has updated the assumptions and estimates at December 31, 2009. As a result of this exercise, the Corporation increased the projected benefit obligation by \$918,000 (2008 – decreased by \$886,000). As at December 31, 2009, there were \$1,754,000 (2008 – \$1,058,000) of unamortized losses. The excess over the 10% corridor will be charged to income over the average remaining service life of current employees of 13 years, beginning January 1, 2010.

The current liability portion of the accrued employee future benefits included in other accounts payable and accrued liabilities is \$602,000 (2008 – \$495,000) and the non-current portion of \$5,144,000 (2008 – \$5,041,000) is included in non-current liabilities.

15. NON-CONTROLLING INTEREST IN POWERTRAIL INC.

The non-controlling interest at December 31, 2009 consists of Integrated Gas Recovery Services Inc.'s ("IGRS") non-controlling interest in the assets of PowerTrail. PowerTrail commenced commercial operations on January 31, 2007.

16. NOTES PAYABLE

	2009	2008
4.968% Senior Unsecured Debentures, series 2006-1 due December 19, 2036	49,720	49,710
4.93% Senior Unsecured Debentures, series 2005-1, due February 9, 2015	198,905	198,691
Integrated Gas Recovery Services Inc., non-interest bearing note	3,080	3,080
	251,705	251,481

On December 20, 2006, the Corporation issued \$50,000,000 4.968% Senior Unsecured Debenture, series 2006-1 due December 19, 2036. The debentures bear interest at a rate of 4.968% per annum, payable semi-annually in arrears in equal installments on June 19 and December 19 commencing June 19, 2007. The debentures were purchased at 100% of their principal amount.

On February 9, 2005, the Corporation issued \$200,000,000 4.93% Senior Unsecured Debentures, series 2005-1 due February 9, 2015. The debentures bear interest at a rate of 4.93% per annum, payable semi-annually in arrears in equal installments on February 9 and August 9 commencing August 9, 2005. The debentures were purchased at 100% of their principal amount.

These debentures contain customary covenants and events of default, including a covenant to ensure the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization.

Interest payments on these debentures over the next five years will be \$12,344,000 per year.

The IGRS promissory note for \$3,080,000 (2008 – \$3,080,000) was issued by PowerTrail to fund the construction of the gas collection and generation plant at the Trail Road landfill site. Pursuant to the Shareholder Agreement dated November 3, 2005, among Energy Ottawa, IGRS and PowerTrail, the note is non-interest bearing, and subject to certain conditions. The management of IGRS has confirmed that it does not intend on calling this note within one year.

17. FINANCING COSTS

	2009	2008
Short-term interest (net of interest income)	(115)	(345)
Interest on notes payable	12,558	12,547
Amortization of debt issue costs	-	3
Other	767	252
Less: allowance for funds used during construction	(895)	(687)
	12,315	11,770

18. DISCONTINUED OPERATIONS

In November 2007, the Board of Directors of Hydro Ottawa approved a plan to sell the Telecom Ottawa group of companies and to exit this business segment, subject to final approval of the terms and conditions of sale. On May 1, 2008, Telecom Ottawa sold the shares of all its subsidiaries for gross proceeds of approximately \$63,000,000, subject to post-closing adjustments. Accordingly, the results of operations and financial position of the telecommunications business have been segregated and presented as discontinued operations in these consolidated financial statements.

As at December 31, 2009 and 2008, the assets and liabilities of the business segment are as follows:

	2009	2008
Assets related to discontinued operations		
Accounts receivable and other current assets	-	566
Liabilities related to discontinued operations		
Accounts payable and accrued liabilities	-	274

For the four-month period ended April 30, 2008, the following revenue and expenses of the telecommunications business have been reclassified from continuing operations to discontinued operations.

	Four-month period ended April 30, 2008
Revenue	
Telecommunications and service revenue	5,755
Expenses	
Operating costs	2,929
Amortization of capital and intangible assets	1,274
Income before recoveries of payments in lieu of corporate income taxes	1,552
Recoveries of payments in lieu of corporate income taxes	(223)
Income from discontinued operations	1,775

For the year ended December 31, 2009, an after-tax gain of \$20,000 (2008 – \$22,907,000) was recognized as a result of the sale of the Telecom Ottawa subsidiaries.

During the year ended December 31, 2006, the Corporation sold its Voice Over Internet Protocol business line (effective September 1, 2006) and its Internet Service Provider business (effective December 1, 2006). These non-core telecommunications business line dispositions were treated as discontinued operations. A gain on sale of \$nil (2008 – \$24,000) was recorded in relation to these non-core telecommunications dispositions.

The net cash flow from discontinued operations is generated from operating activities, including income from discontinued operations adjusted for non-cash items and changes in non-cash working capital. Net investing activities related to discontinued operations has been disclosed as a separate line in the investing activities on the Consolidated Statement of Cash Flows.

19. CAPITAL DISCLOSURES

The Corporation's main objectives when managing capital are to:

- (i) Ensure continued access to funding to maintain and improve the operations and infrastructure of the Corporation;
- (ii) Ensure compliance with covenants related to the credit facilities and senior unsecured debentures; and
- (iii) Align Hydro Ottawa Limited's capital structure with the debt to equity structure recommended by the OEB.

The Corporation's capital consists of the following:

	2009	2008
Notes payable	251,705	251,481
Shareholder's equity	329,793	317,705
	581,498	569,186
Debt capitalization ratio	43%	44%

The Corporation is in compliance with all financial covenants and limitations associated with its credit facilities and its long-term debt.

Prior to May 1, 2008, Hydro Ottawa Limited was deemed by the OEB to have a capital structure that was funded by 60% long-term debt and 40% equity. Effective May 1, 2008, the deemed capital structure for Hydro Ottawa Limited has changed to 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure only as a basis for setting distribution rates. As such, Hydro Ottawa Limited's actual capital structure may differ from the OEB deemed structure.

As at December 31, 2009, Hydro Ottawa Limited's capital structure is aligned with the debt to equity structure recommended by the OEB.

The Corporation is meeting its capital management objectives and the objectives have not changed during the year.

20. SHARE CAPITAL

Authorized

Unlimited voting first preferred shares, redeemable at \$1 per share
 Unlimited non-voting second preferred shares, redeemable at \$10 per share
 Unlimited non-voting third preferred shares, redeemable at \$100 per share
 Unlimited voting (10 votes per share) fourth preferred shares, redeemable at \$100 per share
 Unlimited voting Class A common shares
 Unlimited non-voting Class B common shares
 Unlimited non-voting Class C common shares, redeemable at the price at which such shares are issued

The above shares are without nominal or par value.

Holders of second preferred shares, fourth preferred shares and common shares are entitled to receive dividends as and when declared by the Board of Directors at their discretion.

	2009	2008
Issued		
214,901,003 Class A common shares	228,453	228,453

Any invitation to the public to subscribe for shares of the Corporation is prohibited by shareholder resolution.

In June 2008, the shareholder passed a resolution approving a new dividend policy for Hydro Ottawa. The new policy directs Hydro Ottawa to target dividends at the greater of 60% of its annual consolidated net income or \$14,000,000, provided that the Corporation is in compliance with the *Business Corporations Act (Ontario)*, relevant OEB guidelines, is not in breach of any covenants on its bond or credit facility obligations, and does not negatively impact its credit rating as a result of the dividend payment.

On April 2, 2009, the Board of Directors declared a \$17,200,000 dividend to the City of Ottawa, which was paid on April 9, 2009 (2008 - April 10, 2008, the Board of Directors declared a \$16,375,000 dividend to the City of Ottawa, which was paid on April 18, 2008). On May 29, 2008, the Board of Directors declared a \$12,000,000 dividend to the City of Ottawa, which was paid on June 25, 2008, which related to the gain on sale of the Telecom Ottawa subsidiaries.

21. FINANCIAL INSTRUMENTS

The Corporation's financial instruments consist of cash, accounts receivable, unbilled revenue, available-for-sale investments, accounts payable and accrued liabilities and notes payable. Regulatory assets and liabilities do not qualify as financial instruments as they do not meet the definition of a financial asset or liability. The only financial instrument recorded at fair value is cash and it is classified as level 1 in the Section 3862 fair value hierarchy. The carrying values of the Corporation's remaining financial instruments, except for the available-for-sale investment and notes payable, approximate their fair values because of the short maturity of the instruments.

The Corporation's financial instruments' carrying values and fair values are as follows:

	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
Cash	3,489	3,489	21,332	21,332
Accounts receivable, net of allowance for doubtful accounts	61,225	61,225	49,046	49,046
Unbilled revenue, net of allowance for doubtful accounts	86,426	86,426	76,660	76,660
Accounts receivable in other assets, net of allowance for doubtful accounts	156	156	832	832
Available-for-sale investments	500	n/a	-	-
Assets related to discontinued operations	-	-	566	566
Accounts payable and accrued liabilities	120,063	120,063	112,182	112,182
Liabilities related to discontinued operations	-	-	274	274
4.93% Senior Unsecured Debentures, series 2005-1	198,905	203,142	198,691	203,127
4.968% Senior Unsecured Debentures, series 2006-1	49,720	50,170	49,710	50,174
Integrated Gas Recovery Services Inc., non-interest bearing note	3,080	n/a	3,080	n/a

The available-for-sale investment consists of the Corporation's investment in SLI. The fair value of this investment has not been recognized or disclosed because it is not actively traded in an open market.

The Corporation has determined the fair value of the notes payable based on discounting all future payments of interest and the principal repayment on February 9, 2015 and December 19, 2036 for the Senior Unsecured Debentures, at the estimated interest rate of 5.0 % (2008 - 5.0 %) that would be available to the Corporation on December 31, 2009.

The Corporation cannot determine the fair value of the IGRS note payable as the amount is non-interest bearing and has no specific repayment terms. It is unlikely that the Corporation would be able to enter into a similar loan agreement with a third party.

The Corporation determined that the fair value of the accounts receivable included in other assets as at December 31, 2009 based on discounting all future payment arrangements approximates their carrying value.

Risk Factors

In the normal course of business, the Corporation is exposed to market risk, credit risk and liquidity risk. The Corporation's exposure and strategies to mitigate these risks are noted below.

- (a) Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk such as equity risk.
 - (i) The Corporation is exposed to interest rate risk on its borrowings. The Corporation mitigates exposure to interest rate risk by issuing long-term fixed interest rate debt. Under Hydro Ottawa's credit facility, any advances on its operating line would expose the Corporation to fluctuations in short-term interest rates related to prime rate loans and bankers' acceptances. In addition, the fees payable on bankers' acceptances and the operating line are based on a margin determined by reference to the Corporation's credit rating. As at December 31, 2009, the Corporation has not drawn down on its operating line and it does not have any outstanding bankers' acceptances; therefore, interest rate risk is minimal.

- (ii) As at December 31, 2009, the Corporation has limited exposure to fluctuations in foreign currency exchange rates. The Corporation does purchase goods and services which are denominated in foreign currencies, predominantly the US dollar. The impact of the fluctuation of foreign currencies on the gains or losses of payables denoted in foreign currencies is not material to disclose.
- (iii) As at December 31, 2009, the Corporation has not entered into any hedging transactions or derivative contracts.
- (b) Credit risk is the risk that a counterparty will default on its obligations, causing a financial loss. Concentration of credit risk associated with accounts receivable and unbilled revenue is limited due to the large number of customers the Corporation services. Hydro Ottawa Limited has over 296,000 customers, of which 91% are residential. As a result, Hydro Ottawa Limited did not earn a significant amount of revenue and does not have a significant receivable from any individual customer. Hydro Ottawa Limited also performs ongoing credit evaluations on its customers and requires collateral to support customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2009, Hydro Ottawa Limited held customer deposits and collateral funds in the amount of \$27,488,000 (2008 – \$24,257,000). Energy Ottawa limits its credit risk by dealing with customers that are considered to be of high credit quality. The Corporation monitors and limits its exposure to credit risk on a continuous basis.

The carrying amount of accounts receivable and unbilled revenue is reduced by an allowance for doubtful accounts based on the credit risk applicable to particular customers, and historical and other information. The Corporation records an allowance for doubtful accounts when the recoverability of an amount becomes doubtful. The amount of the related impairment loss is recognized in income in the period such a decision is made. When the receivable amount is deemed to be uncollectible it is written off and the allowance for doubtful accounts adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written off are credited to income. As at December 31, 2009, the allowance for doubtful accounts was \$1,897,000 (2008 – \$2,031,000) and there have been no significant fluctuations in the allowance during the year.

Credit risk associated with accounts receivable and unbilled revenue is as follows:

	2009	2008
Total accounts receivable	61,978	50,167
Total unbilled revenue	87,542	77,470
Total accounts receivable in other assets	184	932
Less: allowance for doubtful accounts	(1,897)	(2,031)
	147,807	126,538
Of which:		
Outstanding for less than 30 days	53,365	41,537
Outstanding for more than 31 days but not more than 120 days	7,369	8,056
Outstanding for more than 121 days	1,428	1,506
Unbilled revenue	87,542	77,470
Less: allowance for doubtful accounts	(1,897)	(2,031)
	147,807	126,538

As at December 31, 2009, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties and approximately 14 % (2008 – 19 %) of the Corporation's accounts receivable was aged more than 30 days. The Corporation's maximum exposure to credit risk is equal to the carrying value of accounts receivable less deposits held.

- (c) Liquidity risk is the risk that the Corporation will not meet its financial obligations as they come due. The Corporation regularly monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and capital investment requirements. The Corporation achieves this objective by ensuring that sufficient facilities are maintained to meet obligations as they come due while minimizing standby fees and interest.

Liquidity risks associated with financial commitments are as follows:

	2009		
	Due within 1 year	Due between 1 year and 5 years	Due after 5 years
Accounts payable and accrued liabilities	120,063	-	-
Notes payable			
4.93% Senior Unsecured Debentures, Series 2005-1	-	-	198,905
4.968% Senior Unsecured Debentures, Series 2006-1	-	-	49,720
Integrated Gas Recovery Services Inc., non-interest bearing note	-	3,080	-
	120,063	3,080	248,625

22. PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates.

A reconciliation between the statutory and effective tax rates is provided as follows:

	2009	2008
Federal and Ontario statutory income tax rate	33.00%	33.50%
Income before provision for PILs, including discontinued operations	42,769	40,413
Provision for PILs at statutory rate	14,114	13,538
Increase (decrease) resulting from:		
Permanent differences	822	483
Temporary differences	1,099	(2,252)
Change in valuation allowance	(27)	(515)
Rate differential on current year temporary differences	(95)	(98)
Changes in future tax rates	1,219	1,480
Income taxed at different rate	50	(48)
Corporate minimum tax	-	(54)
Income tax reassessments	(537)	-
Regulatory offset to temporary differences and changes in future tax rates	(2,579)	260
Other	(650)	554
	13,416	13,348
Effective income tax rate	31.37%	33.03%
Reported as:		
Payments in lieu of corporate income taxes	13,416	13,571
Income from discontinued operations (Note 18)	-	(223)
	13,416	13,348

Effective January 1, 2009, with the amendment to Section 3465, Hydro Ottawa Limited is required to recognize future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to, or recovered from, customers in future electricity rates. Prior to that Hydro Ottawa Limited, as a rate-regulated utility, did not recognize future income taxes to the extent they were expected to be included in future approved rates charged to customers and recovered from them.

As at December 31, 2009, Hydro Ottawa Limited had deductible temporary differences between the tax basis of assets and their carrying amount for accounting purposes of approximately \$77,862,000 (2008 – \$81,716,000). These amounts translate into a future tax asset of approximately \$29,231,000 (2008 – \$23,828,000). The 2008 future tax asset was not recognized in the consolidated financial statements. In the absence of rate regulation, the income for the year ended December 31, 2008 would have been \$260,000 higher.

As at December 31, 2009, Energy Ottawa had \$4,489,000 (2008 – \$6,205,000) of non-capital tax loss carryforwards, which have been applied to reduce its future PILs liability. These losses expire between 2015 and 2029.

As at December 31, 2009, Hydro Ottawa has deductible temporary differences between the tax basis of assets and their carrying amount for accounting purposes of approximately \$365,000 (2008 – \$436,000). These amounts translate into a future tax asset of approximately \$99,000 (2008 – \$126,000), the benefit of which has not been recognized in these consolidated financial statements.

Hydro Ottawa has unused non-capital tax losses of approximately \$1,684,000 (2008 – \$1,432,000) which expire between 2010 and 2029.

Non-capital losses are available to offset taxable income in future years for purposes of the PILs regime. The companies considered to be MEUs are subject to PILs as long as they are exempt from federal taxation under paragraph 149(1)(d.6) of the ITA. The non-capital tax losses generated from the PILs regime will not be available to offset taxable income of these companies if the companies are no longer exempt for federal and provincial tax purposes.

Provision for PILs consists of the following:

	2009	2008
Current PILs corporate income tax provision	12,648	13,091
Future PILs corporate income tax provision		
Future income tax (recovery) provision before regulatory adjustment	(28,463)	257
Regulatory adjustment for the disposition of future income tax recovery in future customer rates	29,231	-
Future PILs corporate income tax provision	768	257
	13,416	13,348

The Corporation's future income tax assets and liabilities are presented on the consolidated balance sheet as follows:

	2009	2008
Future income tax assets, current	867	-
Future income tax assets, non-current	28,364	-
Future income tax liabilities, non-current	(3,106)	(2,338)
	26,125	(2,338)

Significant components of the Corporation's future income tax assets and liabilities are as follows:

	2009	2008
Property, plant and equipment and intangible assets	21,354	(5,423)
Employee future benefits	2,132	-
Non-capital loss carryforwards	1,249	1,914
Other taxable temporary differences	1,390	1,171
	26,125	(2,338)

23. CONTINGENT LIABILITIES

- (i) On November 18, 1998, a class action claiming \$500,000,000 in restitutionary payments plus interest was served on the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario ("LDCs"), which have charged late payment charges on overdue utility bills at any time after April 1, 1981. The claim is that late payment penalties result in electric utilities receiving interest at effective rates in excess of what is allowed under Section 347(1)(b) of the Criminal Code.

On April 22, 2004, the Supreme Court of Canada released a decision in the Enbridge Gas Distribution Inc. ("EGD") case, a case in which the Corporation is not a party to; however, the issues are analogous. The Supreme Court rejected all of the defences, which had been raised by EGD; however, it did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by EGD, which were approved by the Ontario Superior Court. In 2007, EGD filed an application to the OEB to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008, the OEB approved the recovery of the amounts from ratepayers over a five-year period.

On March 2, 2010, the Electricity Distributors Association informed distributors of a conditional settlement in the class action suit. If any utility opts out of the settlement the plaintiff would likely withdraw from the proposed settlement and the matter would proceed at increased cost to the parties. The tentative settlement is also conditional upon court approval. The amount paid by each utility will be its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. The proposed settlement would involve payment of \$18,382,000 by all utilities imposing late payment charges. The Corporation's share, relating to late payment charges collected between 1998 and 2001, would be approximately one million dollars, and any payment of settlement funds would not be required until June 30, 2011. In the interim utilities involved in the settlement, including the Corporation, are expected to request an order from the OEB allowing for the future recovery from customers of all costs related to the proposed settlement. There is no guarantee that the OEB will allow for total or partial recovery of such costs in the future. The Corporation has not accrued any liabilities in relation to this proposed settlement as there is ultimate uncertainty as to whether any utility will opt out of the settlement by April 12, 2010, and if the settlement will be approved by the court.

- (ii) Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. At December 31, 2009, the Corporation had drawn standby letters of credit of \$11,738,000 (2008 – \$11,738,000) against its credit facility to cover its prudential support obligation. In addition, the Corporation provided bank letters of credit of \$93,000 (2008 – \$93,000) to the City of Ottawa as security for construction projects.
- (iii) Various lawsuits have been filed against the Corporation for incidents that arose in the ordinary course of business. In the opinion of management, the outcomes of the lawsuits, now pending, are neither determinable nor material. Should any loss result from the resolution of these claims, such losses would be claimed through the Corporation's insurance carrier, with any unrecoverable amounts charged to income in the year of resolution.
- (iv) Energy Ottawa was awarded a \$70,000,000, twenty-year contract to supply the Government of Ontario with renewable energy. This contract was subsequently assigned to PowerTrail. Under the terms of the contract, PowerTrail constructed a generation plant and gas collection system at the Trail Road landfill site in Ottawa, Ontario. The Corporation has a standby letter of credit in the amount of \$100,000 (2008 – \$100,000), expiring on January 31, 2011 related to this contract.
- (v) The Corporation participates with other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. The Corporation is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred. If any additional assessments were required in the future, their cost would be charged to income in the year in which they occur.
- (vi) In 2008, Telecom Ottawa sold the shares of its subsidiaries. Part of this transaction included the Corporation posting a three-year guarantee for Telecom Ottawa's obligation for claims arising from breaches of representations or warranties. Claims are subject to exceeding a \$630,000 threshold to a maximum of \$10,000,000. Management assesses that there is minimal risk that a claim of this magnitude will transpire.

24. COMMITMENTS

- (i) Hydro Ottawa Limited has \$44,281,000 in total open commitments, of which \$37,373,000 are for 2010, \$3,077,000 for 2011, \$1,815,000 for 2012, \$1,991,000 for 2013 and \$25,000 for 2014. This includes a customer information system services agreement, an arrangement for call centre services, purchase and installation of smart meters and overhead and underground services.
- (ii) The Corporation entered into a Gas Utilization License of Occupation Agreement with the City of Ottawa, which was subsequently assigned to PowerTrail. Under this agreement, the City of Ottawa is to provide facilities for the collection and use of the gas generated by the Trail Road landfill site in consideration for a royalty of 5.5 % of PowerTrail's gross annual receipts derived from the sale of electricity associated with the use of gas from the landfill payable over the term of the agreement and a one-time royalty of up to \$2,000,000, represented by the initial repairs to the gas collection system (Note 25). As at December 31, 2009, the Corporation has fulfilled its obligation related to the one-time royalty, and the 2009 obligation related to the gross annual receipts royalty.
- (iii) Operating lease obligations:

2010	261
2011	242
2012	103
2013	48
2014	44
Thereafter	390
Total minimum lease payments	1,088

25. RELATED PARTY TRANSACTIONS

The Corporation and its subsidiaries provide certain services to the City of Ottawa in the normal course of business at commercial rates.

For the year ended December 31, 2009, the Corporation earned revenues related to the sale of electricity, energy management consulting and other services in the amount of \$39,022,000 (2008 – \$30,482,000) from the City of Ottawa. In 2008, prior to the sale of the telecommunications business, the Corporation earned revenues related to telecommunications products and services in the amount of \$427,000 from the City of Ottawa (Note 18).

For the year ended December 31, 2009, the Corporation purchased certain services related to water and sewer charges, fuel and permits from the City of Ottawa in the amount of \$374,000 (2008 – \$687,000); and property taxes in the amount of \$1,757,000 (2008 – \$1,731,000). By agreement, Energy Ottawa agreed to repair the City of Ottawa's gas collection system at the Trail Road landfill site in Ottawa, Ontario. In 2009, the royalties paid related to this agreement amounted to \$114,000, (2008 – \$119,000). The Corporation also paid the City of Ottawa \$1,000 (2008 – \$291,000) in support of its conservation and demand management initiatives.

By agreement, all costs incurred by CWPI are recovered from the three principals based on their pro-rata interest in CWPI. The Corporation's share of these costs included in operating costs, prepaids and property, plant and equipment are as follows:

	2009	2008
Operating costs	398	387
Prepaids	16	8
Property, plant and equipment	22	12

IGRS provided construction and management services to PowerTrail in the amount of \$1,756,000 (2008 – \$1,237,000).

As at December 31, 2009, the Corporation had \$4,304,000 (2008 – \$2,373,000) due from the City of Ottawa and \$11,000 (2008 – \$nil) due from IGRS.

As at December 31, 2009, the Corporation had \$212,000 (2008 – \$94,000) due to the City of Ottawa, \$260,000 (2008 – \$177,000) due to IGRS and \$37,000 (2008 – \$54,000) due to CWPI.

26. SUBSEQUENT EVENTS

Streetlight Intelligence Inc.

On January 13, 2010, the Corporation paid \$500,000 to acquire a non-transferable option to purchase up to 5,000,000 SLI common shares ("Second Purchase Option") at an exercise price of \$0.12 per share, exercisable on or before January 13, 2011. The Second Purchase Option includes a put right ("Second Put Right"), whereby the Corporation may require SLI to repurchase and cancel the Second Purchase Option for \$500,000 plus interest of approximately 10 % per annum. To secure the Second Put Right, SLI granted the Corporation first priority security over all of SLI's assets and over all the assets of SLI's subsidiary. This additional investment in SLI will receive the same accounting treatment as the initial investment in SLI.

On March 5, 2010, the Corporation paid \$500,000 to acquire 4,166,667 units of SLI at a price of \$0.12 per unit, as part of a private placement. Each unit is to consist of one SLI common share and one-half of one SLI common share purchase warrant ("Unit"). Each whole SLI common share purchase warrant ("Warrant") entitles the holder thereof to purchase one common share ("Warrant Share") at an exercise price of \$0.24 per Warrant Share for a period of 12 months from the closing date.

The consolidated financial statements have not been adjusted for the two additional SLI investments as the acquisitions occurred after year end.

27. COMPARATIVE FIGURES

In certain instances, the 2008 information presented for comparative purposes has been reclassified to conform to the consolidated financial statement presentation adopted for the current year.

Statement of Executive Compensation

The Governance and Management Resources Committee of the Board, made up entirely of independent directors, is responsible for developing and approving the compensation framework for the Corporation and each of its subsidiaries.

In developing the compensation framework, the Governance and Management Resources Committee is guided by two principles: the need to provide a total compensation package that will attract and retain qualified and experienced executives, and linking compensation to performance.

Executive compensation is reviewed by the Governance and Management Resources Committee and approved by the Board of Directors. In making its recommendations to the Board, the Committee examines the responsibilities and performance of individual executives, and considers the recommendations of the President and Chief Executive Officer.

In an effort to attract and retain qualified and experienced executives, the Corporation aims to offer a total compensation package that is competitive with other organizations of a similar size and scope. Executive compensation levels are reviewed on an annual basis and are compared to market data, with the assistance of independent consultants, every two to three years to

ensure competitiveness. In line with best practices for the sector, as identified by the Ontario Minister of Energy's Agency Review Panel in 2007, Hydro Ottawa applies a 50/50 weighting of market data from public and private comparators. The industry component of the market comparator group has a strong sector affiliation (e.g. Transportation and Utilities sector), and is assessed by revenue levels to ensure comparability.

Total cash compensation for Executives consists of two components: base salary and an at risk performance incentive. Total cash is benchmarked to companies of comparable size and scope in both the Ontario and national markets, with the target for total cash compensation set at the 50th percentile, or midpoint, of the market.

The at risk performance incentive component is paid on an annual basis, and is expressed as a percentage of base salary. It is designed to retain and motivate executives, to reward them for their performance during the preceding year, and to ensure alignment with shareholder objectives. Payments are based on the achievement of individual and corporate objectives, both financial and non-financial, which are established each year by the Board of Directors. Non-financial targets

are designed to achieve continuous improvement in relation to a number of strategic objectives including, but not limited to, customer service, operational and organizational efficiency and effectiveness, and service reliability.

Executives participate in a benefits program, which includes extended health care, dental care, basic and optional life insurance, and short-term and long-term disability insurance. This same program is available to all management group employees of the Corporation.

Executives also participate in the OMERS pension plan. This plan is a multi-employer, contributory, defined benefit pension plan established by the Province for employees of municipalities, local boards and school boards in Ontario. Pension benefits are determined by a formula based on the highest consecutive 5-year average of contributory earnings and years of service. Pension benefits are indexed to increases in the Consumer Price Index subject to an annual maximum of 6 percent. Both participating employers and participating employees are required to make equal plan contributions based on the participating employees' contributory earnings. All full-time employees of the Corporation are required to participate in OMERS.

Summary of Compensation

President and Chief Executive Officer and Chief Financial Officer of the Corporation and the Chief Operating Officers of the Subsidiary Companies

Name and Principal Position ¹	Year	Base Salary (\$) ²	At Risk Performance Incentive (\$) ³	Other Annual Compensation (\$) ⁴
Rosemarie T. Leclair <i>President and Chief Executive Officer</i>	2009	257,500	149,350	14,577
	2008	251,616	140,700	29,335
	2007	234,040	124,550	11,902
Alan Hoverd <i>Chief Financial Officer</i>	2009	215,000	107,984	17,375
	2008	65,327 ⁵	34,496	12,450
	2007	N/A	N/A	N/A
Norm Fraser <i>Chief Operating Officer Hydro Ottawa Limited</i>	2009	195,000	92,479	11,390
	2008	194,885	85,654	11,949
	2007	183,423	75,873	15,187
Gregory Clarke <i>Chief Operating Officer Energy Ottawa Inc.</i>	2009	163,132	72,765	11,276
	2008	150,000	68,434	11,233
	2007	142,370 ⁶	51,203	8,560

¹ Executives whose earnings are reported are those who occupied the position at December 31, 2009.

² Amounts shown in this column have been rounded to the nearest dollar.

³ Amounts shown in this column reflect the at risk performance incentive for the executive in respect of the achievement of the performance objectives for the reporting year, paid in the subsequent year.

⁴ Amounts in this column include Board Approved discretionary payments such as payment of earned and unused vacation credits, car allowance, computer allowance, taxable relocation allowance and employer's share of basic life insurance premiums.

⁵ Mr. Hoverd assumed this position on September 2, 2008. Had Mr. Hoverd been employed for the entire year, his base salary would have been \$215,000.

⁶ Mr. Clarke assumed this position on March 21, 2007. Prior to that he was employed by the corporation in another position. The amount reported is his actual remuneration for 2007. Had Mr. Clarke held this position for the entire year, his base salary would have been \$150,000.

Corporate Governance

Hydro Ottawa is committed to establishing and maintaining leading governance practices for a company of its size and mandate. This goal requires constant attention, because governance standards are continuously evolving. As such, the company seeks to continuously improve its governance practices.

Hydro Ottawa Holding Inc. is a private company, incorporated under the *Business Corporations Act (Ontario)*. At the same time, the company has a public sector shareholder and a public mandate, and is mindful of its responsibility to be accountable both to the shareholder and to the public. The company's governance practices are guided not simply by legal obligations, but by best business practices and standards established by independent agencies.

While Hydro Ottawa is not a reporting issuer under the *Securities Act*, and, therefore, is not required to meet governance standards that apply to publicly-traded companies, the company is guided by these standards and seeks to meet or exceed them. In addition, Hydro Ottawa regularly compares itself to the practices of both private and public sector organizations, and to the standards set by agencies such as the Canadian Securities Administrators and the Ontario Securities Commission.

Governance Structure

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

In carrying out its oversight function, the Board of Directors is guided by a Shareholder Declaration issued by Ottawa City Council and revised from time to time (most recently in June 2006). The company's Code of Business Conduct, its Director Conflict of Interest and Conduct Guidelines and a Related Party Transaction Disclosure Policy and Process also govern the actions of the Board.

In 2006, a separate Board of Directors was established to oversee the operations of Hydro Ottawa Limited, in accordance with the *Affiliate Relationships Code for Electricity Distributors and Transmitters* issued by the Ontario Energy Board. The powers and functions of that Board are set out in a Shareholder Declaration issued by the Hydro Ottawa Holding Inc. Board of Directors. Ottawa City Council appoints the members of the Board of Directors of Hydro Ottawa Limited. A majority of the members of both Boards are independent of management and the shareholder.

On a day-to-day basis, the Corporation is led by an Enterprise Executive Team, comprised of the Corporation's President and Chief Executive Officer, the Chief Financial Officer and the senior executives of the subsidiaries. This team oversees the alignment of business practices and strategies with the goals of the Corporation, and drives performance by managing risks and opportunities. The Executive Team is accountable to the Corporation's Board of Directors through the President and Chief Executive Officer.

2009 Governance Achievements

In 2009, the Corporation continued to refine its governance practices and improve the functioning of its Boards.

The Board of Directors completed a review of its governance framework with assistance from an external expert in 2009, to streamline the respective roles of the Boards of Directors and their committees and enhance their effectiveness. Changes made as a result of this process have permitted the Board to increase its focus on the consideration and implementation of strategic initiatives. In addition, the separate Audit Committees of the two Boards were consolidated into one, and the mandate of the Governance and Compensation Committee was revised, resulting in a change of name to Governance and Management Resources Committee.

The Corporation also completed the development of a Business Continuity Plan (BCP) and a management succession planning process. Departmental business continuity plans were also prepared for critical processes, to ensure maintenance of these processes during a pandemic or other disruption.

Appointments to the Boards of Directors

In accordance with the terms of the Shareholder Declaration, the City of Ottawa appoints all Directors to the Boards except the President and Chief Executive Officer. In doing so, the City considers candidates recommended by the Nominating Committee of the Board of Hydro Ottawa Holding Inc., but is not obliged to select these candidates. The Nominating Committee is required to utilize the services of a recognized recruitment firm to search for candidates for appointment to the Board.

As set out in the Shareholder Declaration, all candidates for appointment to the Boards must meet certain requirements, including demonstrated integrity and high ethical standards, relevant career experience and expertise, and an understanding of the role of Hydro Ottawa both as a service to local ratepayers and an asset of taxpayers.

In addition, the nomination and selection process is designed to maintain a Board that includes the following competencies among one or more directors: strong business background; a strong financial background including financial accreditation; industry sector experience in the areas of business of the Subsidiary companies; strategic planning and corporate stewardship experience; competitive business experience; an awareness of the needs of the Corporation's customers; public or private market financing experience; and board experience.

Committees

The following committees were created to help the Boards of Directors carry out their duties. The committees meet regularly and provide feedback on their discussions to their respective Boards.

HYDRO OTTAWA HOLDING INC.

Audit: The Audit Committee reviews financial statements, accounting practices and policies, auditing processes and the results of internal and external audits and related matters. It also oversees financial risk management and assesses internal controls. In 2009, the committee was consolidated with the Audit Committee of Hydro Ottawa Limited to improve the efficiency of committee oversight, and its membership includes representatives of the Board of Directors of Hydro Ottawa Limited. This committee met five times in 2009.

Governance and Management

Resources: The Governance and Management Resources Committee reviews the Corporation's governance structures and practices to ensure that the Board of Directors can fulfill its mandate. The name of the Committee was changed in 2009 from the Governance and Compensation Committee to better reflect the scope of its mandate. It reviews management resources and compensation practices to ensure systems are in place to attract, retain and motivate qualified management personnel. It also reviews and assesses the performance of executive management, oversees the Board Assessment process, and monitors compliance with codes of conduct. This committee met five times in 2009.

Nominating: The Nominating Committee, with the assistance of outside consultants, identifies and evaluates potential candidates for appointment as Directors. The Nominating Committee makes recommendations to the shareholder (represented by Ottawa City Council) for the appointment of directors.

Board and Committee Meeting Attendance

The following tables illustrate the attendance of members at meetings of the Boards of Directors and their committees.

HYDRO OTTAWA HOLDING INC.

Director	Board Meetings	Committee Meetings
Pierre Richard (Chair)	6/6	10/10
Patrick Dion	6/6	5/5
Shawn Gibbons	5/6	6/6
Manon Harvey	2/2	1/1
Jan Harder	5/6	N/A
Peter Hume	3/6	N/A
John Kelly	6/6	5/5
Rosemarie Leclair	6/6	N/A
Larry O'Brien	1/6	N/A
Ford Ralph	6/6	5/5
Ken Wigglesworth	5/6	5/5

HYDRO OTTAWA LIMITED

Director	Board Meetings	Committee Meetings
Pierre Richard (Chair)	6/6	1/1
George Anderson	6/6	N/A
Alex Cullen	3/6	N/A
Manon Harvey	6/6	4/4
O. Allan Kupcis	6/6	3/3
Rosemarie Leclair	6/6	N/A
Duncan Watt	5/6	4/4

Members of the Boards of Directors

Hydro Ottawa Holding Inc.



Pierre Richard
(Chair), Q.C.



Mayor Larry O'Brien



Patrick Dion



Shawn Gibbons



Councillor
Jan Harder



Manon Harvey, C.A.



Councillor Peter
Hume



John Kelly



Rosemarie Leclair,
LL.B.



L. Gerald Levitz,
F.C.A.



Ford Ralph



Ken Wigglesworth,
C.A.

Hydro Ottawa Limited



Pierre Richard
(Chair), Q.C.



George Anderson



Councillor
Alex Cullen



Manon Harvey, C.A.



O. Allan Kupcis



Rosemarie Leclair,
LL.B.



Duncan Watt

Note: L. Gerald ("Gerry") Levitz F.C.A. served on the Board of Directors of Hydro Ottawa Holding Inc. from July 2006 until his resignation in August 2009. He also served as Chair of the Audit Committee throughout his tenure on the Board. Gerry passed away on October 3, 2009. The Corporation and the members of the Board of Directors wish to convey their sincere appreciation for his dedicated service, wise counsel and thoughtful consideration of all matters that came before the Board throughout his tenure on the Board of Directors.

Glossary of Terms

ELECTRICITY INDUSTRY

IESO The Independent Electricity System Operator is responsible for day-to-day operation of Ontario's electrical system. It operates the wholesale electricity market, forecasting demand and ensuring an adequate supply to meet that demand.

MDM/R The Meter Data Management and Repository system will store and manage consumption data received from Smart Meters, enabling Time-of-Use billing and the provision of consumption information to customers as part of the provincial Smart Meter Initiative.

OEB The Ontario Energy Board regulates the provincial electricity and natural gas industries in the public interest.

OPA The Ontario Power Authority is responsible for ensuring an adequate long-term supply of electricity for Ontario. It creates and implements conservation and demand management programs, ensures adequate investment in new supply infrastructure, performs long-term electricity system planning, and facilitates the development of a more sustainable and competitive electricity system.

Smart Meters Smart Meters measure and store data about when customers use electricity as the foundation for future Time-of-Use (TOU) billing.

TOU A Time-of-Use rate structure charges customers higher rates for electricity used during peak times of the day and lower rates for off-peak usage.

INTERNAL SYSTEMS AND PROCESSES

GIS Geographic information systems capture, store, analyze, and display geographically referenced spatial information.

OMS The Outage Management System, when integrated with the GIS (see above) results in a single computerized map of the electricity distribution system to facilitate system planning and outage response.

SCADA Supervisory control and data acquisition refers to large-scale measurement and control systems used to monitor power generation and distribution processes.

FINANCIAL REPORTING

AcSB Accounting Standards Board is an independent body with the authority to develop and establish standards and guidance governing financial accounting and reporting in Canada.

CICA Canadian Institute of Chartered Accountants represents the CA profession nationally. It supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government, and issues guidance on control and governance.

GAAP Generally accepted accounting principles are a common set of accounting principles, standards and procedures companies use to prepare their financial statements.

IFRS International Financial Reporting Standards are standards and interpretations adopted by the International Accounting Standards Board (IASB). All Publicly Accountable Enterprises in Canada, including Hydro Ottawa Holding Inc., will be required to report under International Financial Reporting Standards rather than GAAP (see above) for years beginning on or after January 1, 2011.

EARNINGS

There are a number of different ways of looking at how much a company earns. The most common is "net income" but other measurements, such as EBITDA, can be useful in judging the company's ability to borrow and to expand its business.

EBITDA Earnings Before Interest, Taxes, Depreciation and Amortization is a measure of financial health that helps to show how much money a company generates to pay for its obligations (such as interest on money borrowed and taxes) and fund its future growth (through depreciation and amortization).

EBIT Earnings Before Interest and Taxes is the same as EBITDA, except that amounts for depreciation and amortization have been deducted in computing EBIT.

Net income This is what is left over after the company has met all its expenses and obligations.

CASH SOURCES AND USES

While most companies are concerned about profitability, they also must ensure that they have enough cash to pay their expenses on a day-to-day basis.

Generated from operations Similar to EBITDA, this is the amount of money that Hydro Ottawa produced during 2009, after all the expenses paid during the year and adding back non-cash "accounting" items such as amortization and depreciation. Essentially, it is net income adjusted for all expenses and revenues that do not include a cash outlay or receipt.

Capital Assets This is primarily the amount Hydro Ottawa Limited invested across its distribution system in 2009 to improve and expand service and to ensure its reliability. The total also includes expenditures made at Energy Ottawa.

Financing The process that makes money available for projects and activities. Financing can come from many sources - from existing resources or corporate cash flow or from money raised in financial markets through bank loans or the issuance of bonds, debentures or shares, for instance.

RATIOS

Managers and analysts use a host of ratios to help determine the financial health of the company.

Working Capital This measure compares the company's easy access to funds (through its cash, accounts receivables, inventories and other assets that can be readily turned into cash) versus its immediate liabilities (such as bank debt, accounts payable, etc.). Healthy companies have more current assets than liabilities, represented by a ratio greater than 1.0.

Debt Capitalization Ratio This value computes the proportion of a company's long-term debt compared to its available capital. By using this ratio, investors can identify the amount of leverage utilized by a specific company and compare it to others to help analyze the company's risk exposure.

MISCELLANEOUS

OMERS Ontario Municipal Employees' Retirement System is one of Canada's largest pension plans, providing pension services to 400,000 active and retired members and about 928 employers.

**Hydro Ottawa Holding Inc.**

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PRO FORMA STATEMENTS FOR 2011 AND 2011

Hydro Ottawa Limited's Pro Forma Income Statement (Statement of Operations) and Balance Sheet (Statement of Financial Position) for 2010 and 2011 are attached as Attachment K and L respectively. Note that these Pro Forms include both Conservation and Demand Management and Non Utility Assets.



Hydro Ottawa Limited
Statement of Operations

<i>\$ Thousands</i>	2010 Budget	2011 Budget
Revenues		
Power recovery	615,178	603,091
Distribution sales	146,724	155,310
Other revenue	16,051	16,999
	777,954	775,400
Expenses		
Purchased Power	615,178	603,091
Operating, maintenance and admin.	62,456	65,911
Recoverable work	7,433	8,338
Provincial capital tax	390	0
Provision for write-down (recovery) of regulatory assets	(567)	0
	684,891	677,339
EBITDA	93,063	98,060
Amortization of capital assets	43,281	44,524
EBIT	49,783	53,537
<i>Interest coverage ratio</i>	3.1	3.2
Interest expense - net	16,099	16,679
Gain on disposal of assets	(101)	(103)
Payments in lieu of income taxes	10,800	11,795
	26,798	28,371
Net income (loss)	22,984	25,166



Hydro Ottawa Limited
Statement of Financial Position

\$ Thousands	Dec 31, 2010 Budget	Dec 31, 2011 Budget
Assets		
Current Assets		
Cash and cash equivalents	-	-
Accounts receivable	64,728	63,245
Unbilled revenue	95,313	87,183
Prepaid expenses	6,888	7,208
Inventory	728	604
Other	26	156
	167,683	158,396
Working Capital Ratio	1.2	1.2
Net Regulatory assets	12,610	7,258
Less: provision for doubtful recovery	(302)	(443)
Future Income Tax Assets	29,145	29,059
	41,453	35,874
Property Plant and Equipment		
Cost	1,179,016	1,273,187
Accumulated amortization	(497,769)	(541,273)
Contributions in Aid of Construction	(142,724)	(159,294)
	538,524	572,620
Total Assets	747,659	766,890
Liabilities & Shareholders Equity		
Current Liabilities		
Bank indebtedness	-	-
Accounts payable and accrued liabilities	131,299	125,248
Advances from Parent Company	6,166	3,478
Other liabilities		
	137,465	128,726
Long Term Liabilities		
Regulatory Liability	226	2,125
Employee future benefits	4,983	4,983
Customer deposits	10,618	11,442
Future income tax liability	29,145	29,059
Asset Retirement Obligation	1,167	339
Notes Payable - IB	312,185	327,185
	358,324	375,133
Debt %	56%	56%
Shareholders Equity		
Share capital	167,081	167,081
Notes Payable - NIB	-	-
Dividends paid	(14,000)	(14,000)
Retained earnings (deficit) before dividends	98,789	109,950
	251,870	263,031
Total Liabilities and Shareholders Equity	747,659	766,890



RECONCILIATION OF AUDITED FINANCIAL STATEMENTS AND APPLICATION – HISTORICAL YEAR (2008)

The following table reconciles Hydro Ottawa Limited's ("Hydro Ottawa") 2008 Audited Financial Statements to information for the Historical Year (2008) that is provided in this Application:

Table 1 – Reconciliation of Financial Statement to Rate Application

Statement of Income and Retained Earnings	2008 Financial Statement \$000	Historical Year (2008) \$000	Notes (USofA Accounts)
REVENUES			
Power recovery	\$544,192	\$544,192	Account 4006 to 4068
Distribution sales	134,227	133,106	4080 except of 4080b, 4082 and 4084 - \$1,121k included in Other Revenue Table 2
Other revenue	14,475	8,892	See Table 2
		5,265	Non-Utility Revenue ¹ See Table 2
	\$692,894	\$691,455	
EXPENSES			
Purchased power	544,192	544,192	Account 4705 to 4750
Operations	60,676	53,371	As per Exhibit D1-1-1 Table 1
		4,753	Non-Utility Expense ¹
Amortization	39,480	39,480	Account 5705, 5725
Other (recoveries) expenses			
Interest	14,050	15,163	Account 6005 to 6042 ²
Regulatory assets	(676)	(676)	Reversal of provision on regulatory assets
Provincial capital tax	914	914	Removed from Account 6105 and included with PILs for application
PILS	12,470	12,470	Account 6110
Total Expenses	\$671,106	\$669,667	
NET EARNINGS	21,788	21,788	

¹ For the purposes of this rate application, and in accordance with Ontario Energy Board policies, all revenue and expenses associated with Conservation and Demand Management ("CDM") has been excluded from the costs and revenues for this rate application. In addition, revenues and expenses related to other non-utility operations, such as rental of properties not in rate base, have also been excluded.

² For financial statement purposes, interest earned (Account 4405) is an offset to interest expense (and other revenue for regulatory accounting) and certain short-term interest is recorded as an operating expense.



1 The following table provides details on how Other Revenue is accounted for in the 2008
2 Audited Financial Statements and the information on the Historical Year (2008) that is
3 provided in this Application.

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Table 2 – Other Revenue

Financial Statement	2008 Financial Statement \$000	2008 as per Application \$000	Other Revenue in Application
Distribution Sales		\$781	SSS Admin Charge ¹ (Account 4080b)
Distribution Sales		324	Retailer Services ¹ (Account 4082)
Distribution Sales		16	STR Charges ¹ (Account 4084)
		1,121	Other Distribution Revenue
Other Revenue	1,615	1,615	Late Payment Charges
Other Revenue	3,866	3,866	Specific Service Charges
		769	Revenue from Electric Plant Leased to Others (Account 4315)
Other Revenue	3,730	3,730	Revenue Work for Others (Account 4325)
Operations		(2,824)	Expenses Work for Others ² (Account 4330)
Interest		409	Interest Income (Account 4405)
Disposal of Assets		206	Gain on Disposal (Account 4355)
		2,290	Other Income & Deductions
Revenue from Non Utility ³	4,658	n/a	Account 4375
Rental from Non Utility	607	n/a	Account 4385
TOTAL	\$14,476	\$8,892	

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¹ SSS Admin, Retailer Services and STR Charges are part of distribution revenue in the financial statements and part of Other revenue as other distribution revenues in this application.

² Per the Accounting Procedures Handbook, expenses incurred to generate the revenue are recorded as an offset to the revenue. For financial statement purposes, revenue and expenses are kept separate.

³ This is virtually all related to CDM.



1 The following table provides a reconciliation of Capital Assets as reported in the 2008 Audited Financial Statement and the
2 information on the Historical Year (2008) that is provided in this Application.

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Table 3 – Capital Assets

2008 Financial Statement \$000				Adjustments \$000			Historical Year (2008) \$000		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Capital Assets	1,063,508	481,527	581,981	(178) ¹ 40,620 ²	(66) ¹ 26,250 ²	(112) ¹ 14,370 ²	1,103,950	507,711	596,238
Assets under construction	19,114	0	19,114	(19,114) ³	0	(19,114) ³	0	0	0
Total	1.082,622	481,527	601,095	21,328	26,184	(4,856)	1,103,949	507,711	596,238
Contributions	(130,908)	(24,545)	(106,363)	(1,419) ⁴	0	(1,419) ⁴	(132,327)	(24,545)	(107,782)
Net	951,714	456,982	494,732	19,909	26,184	(6,275)	971,622	483,166	488,456

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¹ Remove Non Distribution Assets

² Add back Stranded Meters

³ Remove Assets under construction

⁴ Add back Contributed Capital related to Stranded Meters



RECONCILIATION OF AUDITED FINANCIAL STATEMENTS AND APPLICATION – HISTORICAL YEAR (2009)

The following table reconciles Hydro Ottawa Limited's ("Hydro Ottawa") 2009 Audited Financial Statements to information for the Historical Year (2009) that is provided in this Application:

Table 1 – Reconciliation of Financial Statement to Rate Application

Statement of Income and Retained Earnings	2009 Financial Statement \$000	Historical Year (2009) \$000	Notes (USofA Accounts)
REVENUES			
Power recovery	\$587,958	\$587,958	Account 4006 to 4075
Distribution sales	141,213	140,082	4080 except for 4080b, 4082 and 4084 -\$1,131k included in Other Revenue Table 2
Other revenue	16,364	7,924	See Table 2
		6,764	Non-Utility Revenue ¹ See Table 2
	\$745,535	\$742,728	
EXPENSES			
Purchased power	587,958	587,958	Account 4705 to 4750
Operations	62,182	53,829	As per Exhibit D1-1-1 Table 1
		5,854	Non-Utility Expense ¹
Amortization/Depreciation	40,853	40,853	Account 5705, 5725
Other (recoveries) expenses			
Financing Costs	14,642	14,972	Account 6005 to 6042 ²
Provincial capital tax	1,543	1,543	Removed from 6105 and included with PILs for application
PILS	12,377	12,377	Account 6110
Total Expenses	\$719,555	\$716,748	
NET EARNINGS	\$25,980	\$25,980	

¹ For the purposes of this rate application, and in accordance with Ontario Energy Board policies, all revenue and expenses associated with Conservation and Demand Management ("CDM") has been excluded from the costs and revenues in this rate application. In addition, revenues and expenses related to other non-utility operations, such as rental of properties not in rate base, have also been excluded.

² For financial statement purposes interest earned (Account 4405) is an offset to interest expense (and an other revenue for regulatory accounting) and certain short-term interest is recorded as an operating expense.



1 The following table provides details on how Other Revenue is accounted for in the 2009
2 Audited Financial Statements and the information on the Historical Year (2009) that is
3 provided in this Application.

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Table 2 – Other Revenue

Financial Statement	2009 Financial Statement \$000	2009 as per Application \$000	Other Revenue in Application
Distribution Sales		\$783	SSS Admin Charge ¹ (Account 4080b)
Distribution Sales		339	Retailer Services ¹ (Account 4082)
Distribution Sales		9	STRs ¹ (Account 4084)
		1,131	Other Distribution Revenue
Other Revenue	1,349	1,349	Late Payment Charges
Other Revenue	3,735	3,735	Specific Service Charges
Distribution Sales		821	Revenue from Electric Plant Leased to Others (Account 4315)
Other Revenue	3,865	3,865	Revenue Work for Others (Account 4325)
Operations		(3,030)	Expenses Work for Others ² (Account 4330)
Interest		41	Interest Income (Account 4405)
Disposal of Assets		12	Gain on Disposal (Account 4355)
		1,709	Other Income & Deductions
Revenue from Non Utility ³	6,764	n/a	Account 4375
Rental from Non Utility	651	n/a	Account 4385
TOTAL	\$16,364	\$7,924	

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7

¹ SSS Admin, Retailer Services and STR Charges are part of distribution revenue in the financial statements and part of Other revenue as other distribution revenues in this application.

² Per the Accounting Procedures Handbook, expenses incurred to generate the revenue are recorded as an offset to the revenue. For financial statement purposes, revenue and expenses are kept separate.

³ This all related to CDM.



1 The following table provides a reconciliation of Capital Assets as reported in the 2009 Audited Financial Statement and the
2 information on the Historical Year (2009) that is provided in this Application.

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4

Table 3 – Capital Assets

2009 Financial Statement \$000				Adjustments \$000			(2009) in Rate Application \$000		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Capital Assets	1,008,811	420,089	588,722	(178) ¹ 45,168 ²	(68) ¹ 31,992 ²	(110) ¹ 13,176 ²	1,053,801	452,013	601,788
Assets under construction	24,175		24,175	(24,175) ³		(24,175) ³	0		0
Intangible Assets	53,752	31,091	22,661				53,752	31,091	22,661
Assets under construction	3,112		3,112	(3,112) ³		(3,112) ³	0		0
Total	1,089,850	451,180	638,670	17,703	31,924	(14,221)	1,107,553	483,104	624,449
Contributions	(151,278)	(25,198)	(126,080)	(1,419) ⁴		(1,419) ⁴	(152,697)	(25,198)	(127,499)
Net	938,572	425,982	512,590	16,284	31,924	(15,640)	954,856	457,906	496,950

5

¹ Remove Non Utility Assets

² Add in Stranded Meters

³ Remove Assets under construction

⁴ Contributed Capital related to Stranded Meters



1 **RECONCILIATION OF 2010 OM&A, OTHER REVENUE AND FIXED ASSETS**

2

3 The following table reconciles Hydro Ottawa Limited's 2010 OM&A expenses to the
4 Bridge Year (2010) that is provided in this application:

5

6 **Table 1 – Reconciliation of Pro Forma Statements to Rate Application**

Statement of Income and Retained Earnings	2010 Pro Forma Statement ¹ \$000	2010 Bridge Year ² \$000	Notes (USofA Accounts)
OM&A EXPENSES			
Operations	\$62,456	\$61,406	OM&A see note below
		603	Expenses for Maple Grove and CDM
		299	Interest included in OM&A for Financials
		148	Billing for Water Heaters
Total Expenses	\$62,456	\$62,456	

7

¹ See Exhibit A3-2-1

² See Exhibit D1-1-1



1 The following table provides details on how Other Revenue is accounted for in the 2010
2 Pro Forma Financial Statements and the information on the Budget Year (2010) that is
3 provided in this Application.

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Table 2 – Other Revenue

Financial Statement	2010 Pro Forma Statement¹ \$000	Budget Year (2010)² \$000	Other Revenue in Rate Application
Distribution Sales		\$794	SSS Charge
Distribution Sales		339	Retailer Services
Distribution Sales		10	STRs
		1,143	Other Distribution Revenue³
Other Revenue	1,385	1,385	Late Payment Charges
Other Revenue	3,683	3,683	Specific Service Charges
Other Revenue	821	821	Revenue from Electric Plant Leased to Others (Account 4315)
Other Revenue	3,000	3,000	Revenue Work for Others (Account 4325)
Operations		(2,249)	Expenses Work for Others ⁴ (Account 4330)
Interest		58	Interest Income (Account 4405)
Disposal of Assets		101	Gain on Disposal (Account 4355)
		1,731	Other Income & Deductions
Other Revenue	6,417	n/a	Revenue from Non Utility
Other Revenue	745	n/a	Rental from Non Utility
TOTAL	\$16,051	\$7,942	

¹ See Exhibit A3-2-1

² See Exhibit C2-1-1

³ SSS Charge, Retail Services and STRs are part of Distribution Sales in Pro Forma and part of Other Revenue in application

⁴ Per the Accounting Procedures Handbook, expenses incurred to generate the revenue are recorded as an offset to the revenue. For financial statement purposes, revenue and expenses are kept separate.



1 The following table provides a reconciliation of Net Capital Assets as reported in the
2 2010 Pro Forma Financial Statements and the information on the Bridge Year (2010)
3 that is provided in this Application.

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Table 3 – Net Capital Assets

	Adjustment \$000	\$000
Closing 2010 asset balance used in 2011 Rate Base ¹		\$526,168
Remove stranded meters (net) which were added back to the rate base for regulatory purposes ²	(9,161)	
Add back Non Distribution Assets (net)	2,284	
Add Construction Work in Progress ("CIP")	\$19,632	
Adaptive Streetlighting project (net) not included in pro forma	(399)	
Net Capital Assets from 2010 Pro forma Financial Statements ³		\$538,524

6

1 See Exhibit B1-1-1

2 Stranded meters removed for 2010 Pro Forma was based on forecast from 2008 and not on actuals.

3 See Exhibit A3-2-1



RECONCILIATION OF 2011 OM&A, OTHER REVENUE AND FIXED ASSETS

Table 1 reconciles Hydro Ottawa Limited's 2011 OM&A expenses to the Test Year (2011) that are provided in this application:

Table 1 – Reconciliation of Financial Statement to Rate Application

Statement of Income and Retained Earnings	2011 Pro Forma Statement ¹ \$000	Test Year 2011 ² \$000	Notes (USofA Accounts)
OM&A EXPENSES			
Operations	\$65,911	\$64,767	OM&A see note below
		686	Expenses for Maple Grove and CDM
		305	Interest included as OM&A for Financials
		153	Billing for Water Heaters
Total Expenses	\$65,911	\$65,911	

¹ See Exhibit A3-2-1

² See Exhibit D1-1-1



1 Table 2 provides details on how Other Revenue is accounted for in the 2011 Pro Forma
2 Financial Statements and the information on the Budget Year (2011) that is provided in
3 this Application.

4 **Table 2 – Other Revenue**

Financial Statement	2011 Pro Forma Statement¹ \$000	Budget Year (2011)² \$000	Other Revenue in Rate Application
Distribution Sales		\$803	SSS Charge
Distribution Sales		341	Retailer Services
Distribution Sales		10	STRs
		1,154	Other Distribution Revenue³
Other Revenue	1,400	1,400	Late Payment Charges
Other Revenue	3,708	3,708	Specific Service Charges
Other Revenue	821	821	Revenue from Electric Plant Leased to Others (Account 4315)
Other Revenue	3,000	3,000	Revenue Work for Others (Account 4325)
Operations		(2,317)	Expenses Work for Others ⁴ (Account 4330)
Interest		58	Interest Income (Account 4405)
Disposal of Assets		103	Gain on Disposal (Account 4355)
		1,665	Other Income
Other Revenue	7,325		Revenue from Non Utility
Other Revenue	745		Rental from Non Utility
TOTAL	\$16,999	\$7,927	

¹ See Exhibit A3-2-1

² See Exhibit C2-1-1

³ SSS Charge, Retailer Services and STRs part of Distribution Sales in Pro Forma

⁴ Per the Accounting Procedures Handbook, expenses incurred to generate the revenue are recorded as an offset to the revenue. For financial statement purposes, revenue and expenses are kept separate.



Table 3 provides a reconciliation of Net Capital Assets as reported in the 2011 Pro Forma Financial Statements and the information on the Test Year (2011) that is provided in this Application.

Table 3 – Capital Assets

	Adjustment \$000	\$000
Closing 2011 asset balance used in 2011 Rate Base ¹		\$548,655
Remove stranded meters (net) which were added back to the rate base for regulatory purposes ²	(4,602)	
Add back Non Distribution Assets (net) ³	351	
Add Construction Work in Progress ("CIP")	28,416	
Net Capital Assets from 2011 Pro Forma Financial Statements ⁴		\$572,820

¹ See Exhibit B1-1-1

² Stranded meters removed for 2011 Pro Forma was based on forecast from 2008 and not on actual.

³ Assumes that 90 Maple Grove has been sold.

⁴ See Exhibit A3-2-1



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RATING AGENCY REPORTS

Attachment M is the current "Rating Report" for Hydro Ottawa Holding Inc. issued by Dominion Bond Rating Service. Attachment N contains the most recent summary report published in March 2010 and the most recent full report published in September 2009 from Standard & Poor's.

Rating Report

Report Date:

May 11, 2009

Previous Report:

September 13, 2007



Insight beyond the rating.

Hydro Ottawa Holding Inc.

Analysts

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The Company

Hydro Ottawa Holding Inc. is a holding company that wholly owns the following subsidiaries: (1) Hydro Ottawa Limited (Hydro LDC), a regulated electricity distributor (Hydro Ottawa's primary business); (2) Energy Ottawa Inc., a non-regulated power generation company also involved in energy management services; and (3) Telecom Ottawa Holding Inc. Hydro Ottawa Holding Inc. is wholly owned by the City of Ottawa (the City).

Recent Actions

May 1, 2009

Upgraded

Rating

Debt	Rating	Rating Action	Trend
Senior Unsecured Debt	A	Upgraded	Stable

Rating Rationale

DBRS has upgraded the Senior Unsecured Debt of Hydro Ottawa Holding Inc. (Hydro Ottawa or the Company) to "A" from A (low) and the trend has been changed to Stable from Positive. The rating upgrade reflects the Company's strong financial profile, which has improved over the past five years, its conservative financial policies, and its strong operational performance and low business risk. We view the Company's customer mix, dominated by residential and commercial customers (including the federal government), as reasonably resilient in difficult economic conditions.

Hydro Ottawa's financial metrics have shown considerable improvement since 2004, largely benefiting from the strong financial performance of its regulated distribution business and its growing rate base, the recapitalization of \$37.8 million in debt to equity by the City of Ottawa (the City) in 2004 and a lower interest rate of 4.93% on the \$200 million in long-term debt that was issued in 2005 to repay a 6.9% promissory note to the City. DBRS anticipates that earnings will remain flat to modestly lower, due to current economic conditions. However, in view of the Company's favourable customer mix (primarily residential customers, the federal government and the MUSH sector (municipal, universities, schools and hospitals)), which insulates the Company from economic cycles, the impact on operating performance and strong credit metrics should be negligible. (Continued on page 2.)

Rating Considerations

Strengths

- (1) Low-risk nature of regulated electricity distribution business provides long-term stability to earnings and cash flows
- (2) Strong franchise area, with high density population and diversified customer base
- (3) Solid credit metrics and balance sheet
- (4) Cautious approach to growth of non-regulated businesses

Challenges

- (1) Significant capital expenditures
- (2) Approved ROE sensitive to long-term interest rates
- (3) Earnings sensitive to volumes of electricity sold
- (4) Unable to access equity capital markets

Financial Information

	For the year ended December 31				
	2008	2007	2006	2005	2004
Total debt (CAD millions) (1)	253.0	279.5	255.6	213.4	231.9
Total adjusted debt in capital structure (%) (1)	44.3%	48.4%	47.5%	45.7%	50.1%
Cash flow/total adj. debt (%) (1)	26.1%	21.8%	23.4%	24.0%	16.3%
Cash flow/capital expenditures (times) (2)	0.99	0.83	0.76	0.82	0.54
EBIT interest coverage (times) (1)	4.16	3.85	3.57	2.91	1.62
EBIT (CAD millions)*	51.1	50.1	41.7	32.8	27.6
Cash flow from operations (CAD millions)	65.9	61.0	59.8	51.2	37.8
Core net income (CAD millions)*	24.7	24.8	19.3	15.7	8.9
Return on average equity (before extras.)	8.0%	8.5%	7.2%	6.5%	4.4%
Electricity throughputs (GWh)	7,562	7,548	7,466	7,663	7,515

* Adjusted to exclude recovery on regulatory asset provisions. (1) DBRS adjusted for operating lease debt and interest expense equivalents.

(2) Capital expenditures net of customer contributions.

Hydro Ottawa Holding Inc.

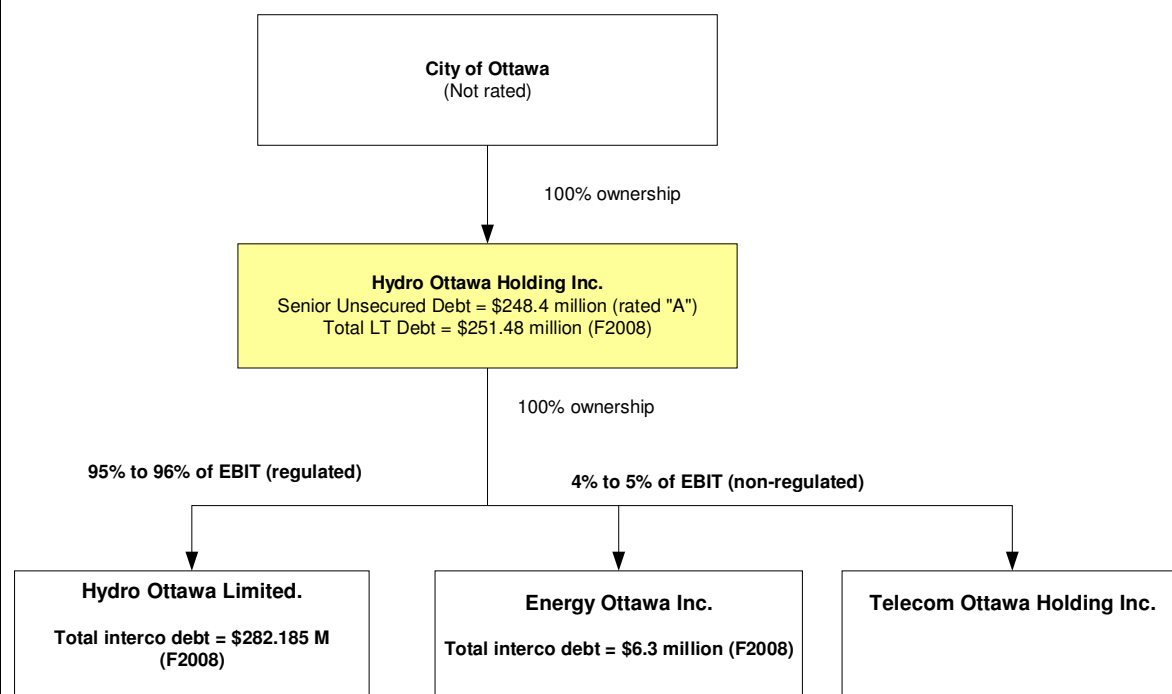
Report Date:
May 11, 2009

Rating Rationale (Continued from page 1.)

In November 2008, Hydro Ottawa filed a rate application for rates effective May 1, 2009, using the 3rd Generation Incentive Regulation Model. Rates were approved in mid-March 2009 and will be adjusted by an inflation factor of 2.3% less a productivity factor of 1.12%, resulting in a 1.18% increase across all rate classes. Hydro Ottawa completed the sale of Telecom Ottawa Holding Inc.'s (Telecom Ottawa) subsidiaries to Atria Networks LP (Atria) in 2008 for gross proceeds of \$63 million, resulting in an after-tax gain of \$23 million. The Company declared a \$12 million special dividend to the City (the Company's sole shareholder) related to this gain. The sale of these assets improves the Company's overall business risk profile and Hydro Ottawa has stated that its strategic focus is now on its low-risk regulated operations and renewable energy generation.

The Company's planned capital investment is expected to remain relatively flat to 2008 levels. Capital expenditures are projected to be in the range of \$70 million to \$80 million per annum (\$70 million net of customer contributions), which is likely to result in negligible free cash flow deficits. These deficits will be financed through drawings under the Company's \$140 million bank facility (\$50 million permitted for capital expenditures) and with cash on hand. As a result, DBRS believes that leverage will remain consistent with current levels, and cash flow-to-debt and interest coverage ratios will be flat to modestly lower than in 2008. The rating upgrade assumes no material increase to the current level of leverage.

Corporate Structure



Hydro Ottawa Holding Inc.

Report Date:
May 11, 2009

Rating Considerations Details

Strengths

(1) Hydro Ottawa is predominantly a regulated electric distribution-focused business (approximately 96% of total EBIT) and operates in a modestly improving regulatory environment. DBRS views the new regulatory framework under the incentive regulation mechanism (IRM) and Cost of Capital as reasonable, providing sufficient earnings and cash flow stability. DBRS expects that the Ontario Energy Board (OEB) will be supportive in the recovery of capital costs and regulatory assets.

(2) Hydro Ottawa is one of the largest municipally owned local distribution companies (LDCs) in Ontario, serving the densely populated areas within the City of Ottawa and the Village of Casselman. The majority of Hydro LDC's electricity sales are to residential customers, the federal government, and the MUSH sector (municipal, universities, schools and hospitals), which have relatively stable demand year-over-year, as these customers are less sensitive to economic cycles.

(3) Hydro Ottawa's credit metrics have improved steadily since 2004, remaining solid for a utility that benefits from low level of business risk, and are strong for the current ratings: debt-to-capital ratio at 44.3%, EBIT interest coverage at 4.16 times, and cash flow-to-debt at 26.1%. DBRS believes that the Company's robust balance sheet and modest expected capital expenditures ratios would allow it to easily remain within a range consistent with the newly assigned rating category.

(4) Hydro Ottawa continues to manage the growth of its non-regulated operations within an acceptable risk profile. In 2008, the Company fully exited its telecommunications business lines by selling all of Telecom Ottawa's subsidiaries, enabling the Company to focus capital investment on its core businesses. Energy Ottawa, the electricity generation operation, provides modest earnings growth and diversification opportunities. Energy Ottawa's objective is to minimize its commodity price risk by entering into long-term contracts, for up to 80% of total output. DBRS notes that the Company will only develop generating projects with a long-term purchase power agreement (PPA) in place.

Challenges

(1) The Company is in the middle of a capital investment cycle designed to enhance the reliability of the system and to meet growing demographic demands. Additionally, the installation of smart meters has been a significant component of the capital program. The Smart Meter program is slated for completion by the end of 2010. Over the medium term, DBRS expects capital expenditures to decline to the range of \$70 million to \$80 million (\$65 million to \$70 million net of customer contributions), which, combined with dividends, should exceed operating cash flow by approximately \$20 million in 2009 and then be slightly above zero for the next couple of years. These free cash flow deficits will be financed with cash on hand (currently \$21 million) and with the Company's credit facility. This will place minimal pressure on the balance sheet and coverage ratios.

(2) Regulatory-approved return on equity (ROE) levels are low and could continue to decline if the longer-term interest rates decline. The ROE of 8.57% in 2008 (2007-9.0%) is a 131 basis point decline from 9.88% in 2005. However, the earnings impact from a lower ROE level is offset by increases in Hydro LDC's rate base from \$504 million in 2006 to \$546 million in 2008.

(3) Earnings and cash flows for electricity distribution companies are partially dependent on the volume of electricity sold, given that rates typically include a variable charge component. Seasonality, economic cyclicality and weather patterns directly affect the volume of electricity sold and, hence, revenue earned from electricity sales.

(4) Due to municipality ownership, Hydro Ottawa is unable to access the equity capital markets. This limits the Company's financial flexibility, as free cash flow deficits will be financed through its revolving credit facilities (\$140 million), debt issuances or cash on hand. Furthermore, Hydro Ottawa's revised dividend policy with the City (a target of 60% of the previous year's consolidated net income or \$14 million, whichever is greater) will further increase liquidity needs during this investment cycle.

Hydro Ottawa Holding Inc.

Report Date:
May 11, 2009

Regulation

Hydro Ottawa's electricity distribution operations are regulated by the OEB under the *Energy Competition Act*, 1998 (the Energy Act), as modified by 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.

To establish rates for distribution service, the OEB has adopted an incentive regulation mechanism (IRM). Under the IRM, a distributor first sets base rates through a cost of service application. This application determines the appropriate revenue requirement to cover the company's forecasted costs, plus a regulated return. For subsequent years in which no cost of service application is filed, rates are adjusted by an inflation factor less a productivity factor. Further adjustments may be permitted for incremental capital above a prescribed threshold, or for recovery of extraordinary event costs.

In September 2007, Hydro Ottawa filed a cost of service application to rebase distribution rates based on forecasted distribution costs and sales volumes for 2008. Using a formula established by the OEB, the regulated ROE used to set the distribution rates was 8.57%. This ROE will remain until the next cost of service rate application. The debt-to-equity capital structure is deemed by the OEB for rate-setting purposes at 56% long-term debt, 4% short-term debt and 40% equity. In addition, the application sought a decrease in retail transmission rates to reflect a decrease in wholesale transmission costs from Hydro One Networks. Hydro Ottawa reached a settlement agreement with intervenors on most issues, leaving only a few matters to be determined in a hearing. The OEB issued its decision on the application in March 2008 (the Decision) and the new rates became effective on May 1, 2008. The OEB approved a rate base of \$546 million (2006 - \$504 million) plus funding for the Smart Meter program and a long-term debt rate of 5.26%. Included in the approved depreciation expense of \$40.8 million is an acceleration of the depreciation on conventional meters (replaced by Smart Meters), such that this pool of assets will be fully depreciated in six years. The Decision also included approval to clear balances in certain regulatory asset and liability accounts accumulated to October 31, 2007, of \$7.1 million (net liability) and an adjustment for revenue lost as a result of load reductions from Hydro Ottawa's conservation programs (LRAM) of \$1.4 million. The resultant rate order, including a new rate adder to fund the Smart Meter program, resulted in a 0.6% increase in the electricity bill for a typical residential customer.

In November 2008, Hydro Ottawa filed a rate application for rates effective May 1, 2009, using the IRM mechanism. Rates were approved in mid-March 2009 and will be adjusted by an inflation factor of 2.3%, based on the Gross Domestic Product Implicit Price Index on Final Domestic Demand (GDP-IPF FDD) released by Statistics Canada for 2008, less a factor of 1.12% established by the OEB to encourage improvements to productivity. The resulting price cap index adjustment is therefore 1.18%, which applies uniformly across all customer classes. Under the OEB's IRM, if Hydro Ottawa's actual rate of ROE is 300 basis points above or below 8.57%, the OEB will undertake a review, with the possible outcome that a new cost of service application be required. Also approved in the November 2008 application was an increase to retail transmission rates to reflect a hike in wholesale transmission costs from Hydro One Networks and a \$1.2 million LRAM adjustment. The overall impact on the electricity bill for a typical residential customer is 2.4%.

For the electricity commodity, consumers have a choice between signing with an electricity retailer or the Standard Supply Service (SSS) provided by Hydro Ottawa. Under the SSS, residential and small commercial customers pay fixed prices established by the OEB based on a forecast of commodity costs and a true up of prior period forecasts. Larger customers pay the spot market price established through the electricity market that is managed by the Independent Electricity System Operator (IESO). While Hydro Ottawa bills and collects the commodity revenues, this is done on a pass-through basis. Any differences between commodity revenues and costs are recorded in a regulatory asset or liability to be cleared through rates in a subsequent period.

DBRS notes that in February 2009, the OEB announced that it will be reviewing its policy regarding cost of capital, and will consider the appropriateness of the parameters in different economic and financial conditions, and their impact on investment. The extent and likely outcome of this review is unclear at this time.

Hydro Ottawa Holding Inc.

Report Date:
May 11, 2009

Financial Profile

Earnings and Outlook *

(CAD millions)

	For the year ended December 31				
	2008	2007	2006	2005	2004
Net distribution revenues	140.4	128.4	119.5	97.9	89.8
Other revenues	19.3	14.3	24.9	22.8	22.2
Net revenues	159.8	142.7	144.4	120.7	112.0
Operating expenses	108.7	92.6	102.7	87.9	84.4
EBITDA	91.7	88.6	80.7	67.0	57.3
EBIT	51.1	50.1	41.7	32.8	27.6
Net interest expense	11.8	12.8	11.6	11.2	15.7
Payments in lieu of taxes (incl. capital taxes)	14.5	12.5	10.9	5.9	3.0
Net income bef. extra./non-recurring items	24.7	24.8	19.3	15.7	8.9
Regulatory asset recovery/non-recurring items	25.4	2.6	21.1	6.9	10.8
Reported net income	50.0	27.3	40.4	22.6	19.7
Operating margin	32%	35%	29%	27%	25%

*Adjusted to exclude recovery on regulatory asset provisions.

EBIT by subsidiary *

(CAD millions)

		2008	2007	2006	2005	2004
Hydro Ottawa Limited	96%	48.5	47.8	40.0	29.4	26.8
Energy Ottawa Inc.	9%	4.9	3.3	3.9	4.8	1.6
Telecom Ottawa Holdings Inc.	2%	1.3	3.3	0.8	(0.4)	0.3
Hydro Ottawa Holdings Inc. (non-cons.)	-7%	(3.6)	(4.3)	(3.0)	(1.0)	(1.1)
Hydro Ottawa Holdings Inc. (consolidated)		51.1	50.1	41.7	32.8	27.6

*Adjusted to exclude recovery on regulatory asset provisions.

Summary

Earnings, as measured by EBIT, continued to register solid year-over-year growth, driven primarily by the performance of the Company's regulated electric distribution business, which accounts for approximately 96% of total EBIT.

The significant uptick in the Company's earnings for F2006 was largely reflective of the following catalysts:

- The April 2006 rate decision, which resulted in a 33% increase in Hydro LDC's rate base, with a corresponding 1.9% increase in total electricity bills for all customer classes.
- Continued demographic- and weather-related throughput growth in service area.
- Strong operating efficiency underscored by the upward trend in its operating margin from 25% in 2004 to 32% in 2008.

EBIT increased slightly in 2008 as a result of improved regulated distribution revenues and higher electricity revenue from subsidiaries.

Interest expense has decreased substantially since 2004, which can be attributed to the recapitalization of \$37.8 million in debt-to-equity by the City in 2004, and a lower interest rate of 4.93% on the \$200 million in long-term debt that was issued in 2005 to repay a 6.9% promissory note to the City.

Reported net income increased by 83% to \$50 million in F2008 (from \$27.3 million in F2007), largely due to the after-tax gain on the sale of Telecom Ottawa subsidiaries.

Overall, the steady upward trend in earnings over the past five years is largely attributable to Hydro Ottawa's favourable and growing franchise area and rate base, as well as modest distribution rate increases and recovery of regulatory assets.

Hydro Ottawa Holding Inc.

Report Date:
May 11, 2009

Outlook

DBRS anticipates flat-to-modestly lower EBIT over the medium term, as Hydro Ottawa's volume of electricity sold will likely decline given the current economic environment, thus affecting the revenue earned from electricity sales.

In November 2008, Hydro Ottawa filed a rate application for rates effective May 1, 2009, using the IRM mechanism. Rates were adjusted by an inflation factor determined based on the GDP-IPI FDD released by Statistics Canada for 2008 at 2.3%, less a factor of 1.12% established by the OEB to encourage productivity improvements. As a result, the impact of lower electricity sold will be somewhat offset by new rates effective May 1, 2009.

Over the long term, the Company's regulated electricity distribution operation and generation output sold under fixed-price contracts will continue to provide a high degree of stability to earnings and cash flows.

Financial Profile

Statement of Cash Flows

(CAD millions)

Net income before extraordinary items
Depreciation
Other non-cash adjustments

Cash Flow From Operations

Capital expenditures (net of customer contributions)
Total dividends paid

Free Cash Flow Before Working Capital Changes

Working capital changes

Net Free Cash Flow

Acquisitions
Divestitures**
Regulatory asset recovery (provisions) (2)
Other investing / non-recurring

Cash flow before financing

Net change in debt
Net other financing (3)

Net change in cash

Key Financial Ratios

Total adjusted debt (1)
Total adjusted debt -to-total capital (%) (1)
Cash flow/capital expenditures (times)
Cash flow/total adj. debt (%) (1)
EBIT gross interest coverage (times) (1)
Dividend payout ratio

For the year ended December 31

	2008	2007	2006	2005	2004
Net income before extraordinary items	24.6	24.8	19.3	15.7	8.9
Depreciation	40.8	38.8	38.9	34.1	29.8
Other non-cash adjustments	0.5	(2.5)	1.6	1.3	(0.9)
Cash Flow From Operations	65.9	61.1	59.8	51.2	37.8
Capital expenditures (net of customer contributions)	(66.7)	(73.3)	(78.4)	(62.1)	(69.8)
Total dividends paid	(28.38)	(12.00)	(12.00)	0.00	0.00
Free Cash Flow Before Working Capital Changes	(29.2)	(24.2)	(30.5)	(10.9)	(32.0)
Working capital changes	21.5	(1.4)	(35.8)	27.5	(7.1)
Net Free Cash Flow	(7.6)	(25.7)	(66.3)	16.5	(39.1)
Acquisitions	0.0	0.0	0.0	0.0	(0.0)
Divestitures**	0.2	0.0	0.7	0.1	0.2
Regulatory asset recovery (provisions) (2)	0.0	0.0	22.9	7.8	7.0
Other investing / non-recurring	53.1	0.8	(1.4)	(1.9)	11.2
Cash flow before financing	45.7	(24.9)	(44.0)	22.5	(20.8)
Net change in debt	(24.7)	25.2	40.9	(20.9)	21.2
Net other financing (3)	0.4	0.0	3.5	(1.6)	(0.4)
Net change in cash	21.3	0.3	0.4	(0.0)	0.0
Total adjusted debt (1)	253.0	279.5	255.6	213.4	231.9
Total adjusted debt -to-total capital (%) (1)	44.3%	48.4%	47.5%	45.7%	50.1%
Cash flow/capital expenditures (times)	0.99	0.83	0.76	0.82	0.54
Cash flow/total adj. debt (%) (1)	26.1%	21.8%	23.4%	24.0%	16.3%
EBIT gross interest coverage (times) (1)	4.16	3.85	3.57	2.91	1.62
Dividend payout ratio	115%	48%	62%	0%	0%

(1) DBRS adjusted for operating lease debt and interest expense equivalents. (2) Recovery on regulatory asset provisions. (3) Customer deposits.

Summary

Hydro Ottawa's financial profile has improved significantly over the years as a result of fiscal prudence, rate increases and recovery of regulatory assets, a modest dividend policy, as well as the recapitalization of debt and lower interest rates, to name but a few factors. However, as a result of the improved operating performance, the Company's shareholders passed a resolution approving a new dividend policy for the Company in June 2008.

The new policy directs Hydro Ottawa to make an annual dividend payment of \$14,000,000 or 60% of consolidated net income, whichever is greater. In April 2008, Hydro Ottawa declared a normal dividend of \$16.4 million to the City of Ottawa (60% of 2007 net income). In May 2008, Hydro Ottawa declared a \$12,000,000 special dividend to the City, which related to the \$23 million after-tax gain on the sale of the Telecom Ottawa subsidiaries.

Hydro Ottawa Holding Inc.

Report Date:
May 11, 2009

Despite the notable improvement in Hydro Ottawa's financial profile and operating cash flow, it continued to record free cash flow deficits, given the large capital expenditure program and adoption of a dividend policy with the City. The uptick in capital expenditures, coupled with dividends, has resulted in a free cash flow deficit since F2006.

The notable swings in working capital are mainly due to the year-over-year changes in the disposition of regulatory assets, as well as differences in timing between commodity amounts paid to the IESO and associated commodity revenues from customers.

Key credit metrics have improved from 2004 levels as debt levels have modestly increased, offset by a growing rate base and lower interest expense on outstanding debt, which remain solidly within the current rating category for a low-risk electric distribution utility with debt-to-capital at 44.3%, EBIT interest coverage at 4.16x and cash flow-to-debt at 26.1%.

Outlook

Over the medium term, both cash flow from operations and earnings are expected to remain flat to modestly lower. However, cash flows will remain insufficient to fund the heightened capital investment program and the distribution to the City in 2009.

Hydro Ottawa anticipates capital expenditures in the range of \$70 million to \$80 million over the medium term, with the majority related to the regulated distribution business (approximately 80%), where they will be split fairly evenly between improving system reliability and meeting growth demands.

The current dividend policy will increase liquidity needs over the medium term as the Company is committed to investing heavily in the distribution system. However, DBRS expects that the City of Ottawa would forgo dividends to maintain Hydro Ottawa's financial profile, if required.

The Company is expected to incur a manageable free cash flow deficit of approximately \$20 million in 2009, which will be financed with cash on hand and through its \$140 million revolving credit facility, of which \$50 million is available for capital expenditures. DBRS notes that short-term financing through existing credit facilities will reduce financial flexibility to absorb any unanticipated event.

The Company's leverage is expected to increase modestly over the medium term, as the large capital expenditures program and stipulated dividend policy will result in free cash flow deficits. These deficits will modestly pressure cash flow-to-debt and interest coverage ratios, from current levels, but a measurable change in the Company's financial profile is not expected, with credit metrics remaining strongly in the "A" category.

Long-Term Debt Maturities And Bank Lines

Credit facilities as at January 16, 2009	Amount	Drawn	Available	Expiration
364-day revolving term operating credit line	75.0	0.0	75.0	1/16/2010
Five-year, extendible, revolving credit facility	50.0	0	50.0	1/16/2014
Letters of Credit/Guarantee & Visa	15.2	11.8	3.4	
Total consolidated credit facilities	140.2	11.8	128.4	
Notes Payable		Int. rate	Amount	Maturity
Senior unsecured debentures, Series 2005- 1		4.9%	198.69	2/9/2015
Senior unsecured debentures, Series 2006-1		5.0%	49.71	12/19/2036
Integrated Gas Recovery Services Inc. (IGRS)		0.0%	3.08	
Total		4.9%	251.5	

On January 16, 2009, Hydro Ottawa entered into a new credit facility for \$140.15 million. The new facility is made up of the following four types of credit availability:

- A \$75 million, 364-day revolving operating line.
- A \$50 million, five-year revolving line to fund capital expenditures and growth opportunities.
- A \$15 million line to fund letters of credit and other guarantees.
- A \$150,000 corporate Visa facility.

**Hydro Ottawa
Holding Inc.****Report Date:**
May 11, 2009

The new credit facility contains customary covenants and events of default, including a covenant to maintain the consolidated tangible net worth in excess of \$175 million at all times. It also requires the debt-to-capitalization ratio to be at or below 75% on a consolidated basis.

Prior to the new facilities, the Company had two credit facilities available which were subsequently replaced by the new credit facility. The first one was a \$150 million, three-year, extendible, revolving term credit facility, and the second one was a \$25 million credit facility that consisted of a \$24.85 million, 364-day revolving term operating credit line and a \$150,000 corporate Visa facility.

Hydro Ottawa finances its operations and capital expenditures with cash, revolving credit facilities and long-term debt. The debt-to-capital ratio is 44.3%, which is moderately more conservative than the adjusted regulatory approved level of 60%.

DBRS notes that the Company has no debt maturing over the medium term.

The trust indenture contains the following covenants for the Series 2005 and 2006 debentures:

- Any additional indebtedness is subject to a 75% capitalization ratio test.
- Negative pledge clause.
- Restrictions on asset sales and amalgamations.

The Integrated Gas Recovery Services Inc. promissory note for \$2.64 million was issued to fund the construction of the gas collection and generation plant at the TrailRoad landfill site. Pursuant to the Shareholder Agreement dated November 3, 2005, between Energy Ottawa and PowerTrail, the note is non-interest bearing, and subject to certain conditions stipulated in the agreement.

Liquidity

Liquidity requirements will remain flat to current levels over the medium term as the Company executes on its capital expenditures, regulatory working capital needs, and dividend payments to the City. DBRS notes that Hydro Ottawa has reasonable liquidity, with \$140 million in credit lines.

Hydro Ottawa Holding Inc.

Report Date:
May 11, 2009

Hydro Ottawa Holding Inc.

Balance Sheet

(CAD millions)

	As at December 31				As at December 31		
	2008	2007	2006		2008	2007	2006
Assets				Liabilities & Equity			
Cash & s.t. investments	21	-	0	Short-term debt	0.0	24.6	0.0
Accounts receivable	49.0	57.3	56.7	A/P + accr'ds	116.2	115.9	126.5
Unbilled revenue	76.5	82.4	81.8	L.t.d. due in one yr.	-	-	-
Inventories	6.5	8.1	7.3	Current Liabilities	116.2	140.5	126.5
Other	4.4	4.1	8.0	Customer deposits	8.2	9.2	5.8
Current Assets	157.8	152.0	154.2	Regulatory liability	1.6	5.2	2.3
Regulatory assets (net)	12.1	13.1	10.0	Other liabilities	8.1	7.0	9.7
Net fixed assets	530.5	513.3	510.1	Long-term debt	251.5	251.4	252.6
Other assets	2.9	32.4	4.8	Shareholders' equity	317.7	297.5	282.2
Total	703.3	710.8	679.1	Total	703.3	710.8	679.1

For the year ended December 31

Ratio Analysis *

Liquidity Ratios

	2008	2007	2006	2005	2004	2003	2002
Current ratio	1.36	1.08	1.22	1.03	0.41	1.22	1.72
Total adjusted debt in capital structure (%) (1)	44.3%	48.4%	47.5%	45.7%	50.1%	58.9%	58.9%
Cash flow/total adj. debt (1)	26.1%	21.8%	23.4%	24.0%	16.3%	12.5%	13.4%
Debt/EBITDA	2.75	3.15	3.17	3.19	3.95	4.86	5.26
Cash flow/capital expenditures (2)	0.99	0.83	0.76	0.82	0.54	0.41	1.17
Deemed equity	40%	40%	40%	40%	40%	40%	40%
Common dividend payout	114.7%	48.5%	62.3%	0.0%	0.0%	0.0%	0.0%

Coverage Ratios

EBIT interest coverage (1)	4.16	3.85	3.57	2.91	1.62	1.35	1.86
EBITDA interest coverage (1)	7.46	6.79	6.89	5.93	3.35	2.93	4.12

Profitability/Operating Efficiency

Operating margin	32.0%	35.1%	28.9%	27.2%	24.6%	20.5%	21.3%
Net margin (before extras.)	15.5%	17.3%	13.3%	13.0%	8.0%	3.8%	8.1%
Return on avg. common equity (bef. extras)	8.0%	8.5%	7.2%	6.5%	4.4%	2.5%	4.4%
GWh sold/employee	13.9	14.1	14.2	15.6	15.9	15.2	16.0
Customers/employee	535	534	537	567	581	546	565
Customers/distribution lines	54	50	52	53	54	56	55
Rate base (CAD millions)	546	504	504	380	380	380	380

Electricity Throughputs

	2008	2007	2006	2005	2004	2003	2002
Residential	2,226	2,234	2,226	2,358	2,267	2,241	2,255
Commercial	4,632	4,607	4,549	4,642	4,590	4,554	4,512
Large users > 5 MW	666	666	655	626	621	651	665
Street lighting	38	41	36	37	37	36	38
Total (GWh)	7,562	7,548	7,466	7,663	7,515	7,483	7,471
Growth in electricity throughputs	0.2%	1.1%	(2.6%)	2.0%	0.4%	0.2%	-
Peak demand (MW)	1,355	1,425	1,495	1,465	1,405	1,420	1,445

Generation capacity (MW)**

	21.7	21.7	16	15	15	15	15
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Gross electricity generated (MWh)**

	152,053	127,739	121,413	103,900	82,000	111,171	92,749
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Number of Customers

Residential	264,958	260,359	255,993	252,268	247,790	242,370	237,755
Commercial	26,670	26,636	26,389	26,303	26,240	26,810	26,754
Large users > 5 MW	11	11	11	10	10	11	11
Total	291,639	287,006	282,393	278,581	274,040	269,191	264,520

Growth of customer base

	1.6%	1.6%	1.4%	1.7%	1.8%	1.8%	na
--	------	------	------	------	------	------	----

(1) DBRS adjusted for operating lease debt and interest expense equivalents. (2) Net of customer contributions.

* DBRS adjusted ratios to exclude recovery of regulatory asset provisions.

** Beginning in 2007 this number reflects Hydro Ottawa's 60% interest in PowerTrail.

Hydro Ottawa Holding Inc.

Report Date:
May 11, 2009

Rating

Debt	Rating	Rating Action	Trend
Senior Unsecured Debt	A	Upgraded	Stable

Rating History

	Current	2008	2007	2006	2005	2004*
Senior Unsecured Debt	A	A (low)	A (low)	A (low)	A (low)	A (low)

*Ratings prior to 2005 reflect Hydro Ottawa Holding Inc.'s Issuer Rating.

Note:

All figures are in Canadian dollars unless otherwise noted.

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March 30, 2010

Summary:

Hydro Ottawa Holding Inc.

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Rationale

Outlook

Summary:

Hydro Ottawa Holding Inc.

Credit Rating: A/Stable/--

Rationale

The ratings on Ontario-based Hydro Ottawa Holding Inc. (HOHI) largely reflect Standard & Poor's Ratings Services' view of the credit profile of the company's key subsidiary, Hydro Ottawa Ltd. (Hydro Ottawa), which generates more than 90% of consolidated cash flow. HOHI's excellent business risk profile reflects our favorable assessment of the monopoly Hydro Ottawa has in its low-risk, regulated electricity distribution business. Offsetting these strengths, in our opinion, are the company's intermediate financial risk profile and modest exposure to higher-risk generation activities through subsidiary Energy Ottawa Inc. Hydro Ottawa serves almost 90% of the electricity customer base in Ottawa, Canada's capital. Total debt outstanding as of Sept. 30, 2009, was C\$256 million.

We believe the company's strong competitive position, supportive regulator, and recession-proof customer base support an excellent business risk profile. The local distribution company's (LDC) monopoly position in its service franchise and the asset-intensive nature of electricity distribution limit competitive risk. The electricity distribution business carries relatively low operating risk, and exhibits average operational efficiency and reliability.

In our opinion, the Ontario Energy Board's (OEB) regulatory framework supports stable cash flow at the LDC. The framework allows for the recovery of prudent costs and the opportunity to earn a modest return. Regulatory cost recovery is generally predictable, and timeliness is improving. The current environment limits the LDC's exposure to commodity risk. Although the LDC must bill electricity customers for the commodity delivered, the cost is a flow-through. The company has no obligation to ensure an adequate supply of electricity and is not burdened with the procurement process or power purchase agreements. Net distribution revenues are subject to modest volumetric risk due to weather.

We assess HOHI's financial risk profile to be intermediate. Although the company's asset base is capital-intensive, most of the components are long-lived. The company is not exposed to foreign-exchange or interest-rate risk and maintains adequate liquidity. Debt maturities are lumpy but manageable, in our view, given the capital markets' general receptiveness to utility debt. We believe the maturity profile will improve as the company's rate base increases. We also consider the bulk of cash flow to be generally stable and predictable.

HOHI's divestiture of its telecom business and better-than-average hydrology contributed to 2008 results. Consolidated adjusted funds from operations (AFFO) interest coverage was 6.2x at year-end 2008, compared with 5.6x at year-end 2007. In the same period, AFFO-to-total debt was 25.5%, compared with 21.6%. The holding company's total debt-to-total capital at year-end 2008 on a consolidated basis was 44.7%, compared with 48.8% a year earlier. As of Sept. 30, 2009, HOHI's AFFO interest coverage and AFFO-to-total debt remained stable at 6.1x and 25.3% on a rolling 12-month basis. Its total debt-to-total capital also remained solid at 44.9%. We expect the holding company to manage Hydro Ottawa's balance sheet in line with its deemed regulatory structure of 60% debt and 40% equity, and to finance its unregulated generation less aggressively in keeping with its higher business risk profile. In our view, and based on the current balance of unregulated and regulated activities, consolidated leverage

consistently above 50% debt-to-capital would likely impinge on credit quality. We view the modest cash flow from the company's small unregulated generation business as less predictable, mainly due to contract renewal risk for a significant portion of its hydroelectric production and hydrology risk.

HOHI is wholly owned by the City of Ottawa (AA+/Stable/--). After applying our enhanced government-related entity methodology (published June 29, 2009, on RatingsDirect), we base our 'A' rating on the company's stand-alone credit risk profile and our opinion that there is "moderate" likelihood that the city would provide timely and sufficient extraordinary support in the event of financial distress. We assess HOHI's stand-alone credit profile at 'A'. We view the company's role of "limited importance" to city government and the link between the utility and its owner as "strong".

Liquidity

HOHI maintains average liquidity for the ratings, with annual operating cash flows and available bank lines sufficient to meet capital expenditure and dividend commitments. The company does not face any immediate debt maturities. Projected FFO of about C\$70 million will not fully fund HOHI's approximately C\$70 million planned capital program and expected cash dividends of about C\$15 million in 2010. The company's liquidity resources remain adequate for the ratings. It has access to C\$140 million committed facility of which C\$124million was available as of Sept. 30, 2009. This facility includes a C\$75 million, 364-day revolving operating line and a C\$50 million, five-year revolving line for capital needs. Covenants include a 75% limit on debt-to-capitalization (on a consolidated basis) and C\$175 million floor on consolidated net worth.

Outlook

The stable outlook reflects our assessment of the company's steady business risk and stable financial risk profile. An adverse regulatory ruling, a material investment in nonregulated generation, or market restructuring (such as the assumption of the obligation to supply) could lead to a negative rating action. An upgrade is unlikely without assurance of a much stronger balance sheet and consistently deeper cash flow interest and debt coverage. A significant change in the company's relationship with the city could also affect the ratings on HOHI.

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September 22, 2009

Hydro Ottawa Holding Inc.

Primary Credit Analyst:

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Major Rating Factors

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Rating Methodology

Excellent Business Risk Profile

Intermediate Financial Risk Profile

Related Research

Hydro Ottawa Holding Inc.

Major Rating Factors

Strengths:

- Monopoly electricity distribution assets
- Regulated cash flows
- Service territory exhibiting solid residential growth and no material exposure to cyclical industrial loads

Weaknesses:

- Intermediate financial risk profile
- Lack of access to equity markets

Corporate Credit Rating

A/Stable/--

Rationale

In Standard & Poor's Ratings Services' opinion, the ratings on Ontario-based Hydro Ottawa Holding Inc. (HOHI) largely reflect the credit profile of the company's key subsidiary, Hydro Ottawa Limited (Hydro Ottawa), which generates more than 90% of consolidated cash flow. HOHI's excellent business risk profile reflects our favorable assessment of the monopoly Hydro Ottawa has in its low-risk, regulated electricity distribution business. Offsetting these strengths, in our view, are the company's intermediate financial risk profile and modest exposure to higher-risk generation activities through subsidiary Energy Ottawa Inc. Hydro Ottawa serves almost 90% of the electricity customer base in the Ottawa, Canada's capital. Total debt outstanding as of Dec. 31, 2008, was C\$251 million.

We believe the company's strong competitive position, supportive regulator, and recession-proof customer base support an excellent business risk profile. The local distribution company's (LDC) monopoly position in its service franchise and the asset-intensive nature of electricity distribution limit competitive risk. The electricity distribution business carries relatively low operating risk, and exhibits average operational efficiency and reliability.

In our opinion, the Ontario Energy Board's (OEB) regulatory framework supports stable cash flow at the LDC. The framework allows for the recovery of prudent costs and the opportunity to earn a modest return. Regulatory cost recovery is generally predictable, and timeliness is improving. The current environment limits the LDC's exposure to commodity risk. Although the LDC must bill electricity customers for the commodity delivered, the cost is a flow-through. The company has no obligation to ensure an adequate supply of electricity and is not burdened with the procurement process or power purchase agreements. Net distribution revenues are subject to modest volumetric risk due to weather.

We assess HOHI's financial risk profile to be intermediate. Although the company's asset base is capital-intensive, most of the components are long-lived. The company is not exposed to foreign-exchange or interest-rate risk and maintains adequate liquidity. Debt maturities are lumpy but manageable, in our view, given the capital markets' general receptiveness to utility debt. We believe the maturity profile will improve as the company's rate base increases. Lastly, we consider the bulk of cash flow to be generally stable and predictable. HOHI's divestiture of its telecom business and better-than-average hydrology contributed to 2008 results. Consolidated adjusted funds from operations (AFFO) interest coverage was 6.2x at year-end 2008, compared with 5.6x at year-end 2007. In the same

period, AFFO-to-average total debt was 25.5%, compared with 21.6%. The holding company's total debt-to-total capital at year-end 2008 on a consolidated basis was 44.7%, compared with 48.8% a year earlier. We expect the holding company to manage Hydro Ottawa's balance sheet in line with its deemed regulatory structure of 60% debt and 40% equity, and to finance its unregulated generation less aggressively in keeping with its higher business risk profile. In our view, and based on the current balance of unregulated and regulated activities, consolidated leverage consistently above 50% debt-to-capital would likely impinge on credit quality. We view the modest cash flow from the company's small unregulated generation business as less predictable, mainly due to contract renewal risk for a significant portion of its hydroelectric production and hydrology risk.

HOHI is wholly owned by the City of Ottawa (AA+/Stable/--). After applying our enhanced government related entity methodology published June 29, 2009, on RatingsDirect, we base our 'A' rating on the company's stand-alone credit risk profile and our opinion that there is "moderate" likelihood that the city would provide timely and sufficient extraordinary support in the event of financial distress. We assess HOHI's stand-alone credit profile at 'A'. We view the company's role of "limited importance" to city government and the link between the utility and its owner as "strong".

Liquidity

HOHI maintains average liquidity for the ratings, with annual operating cash flows and available bank lines sufficient to meet capital expenditure and dividend commitments. The company does not face any immediate debt maturities. Projected FFO of about C\$70 million will not fully fund HOHI's approximately C\$70 million planned capital program and expected cash dividends of about C\$15 million in 2010. Although about 20% less than last year, the company's liquidity resources remain adequate for the ratings. Management replaced its C\$175 million committed credit facility with its current C\$140 million committed facility. The new facility includes a C\$75 million, 364-day revolving operating line and a C\$50 million, five-year revolving line for capital needs. Covenants include a 75% limit on debt-to-capitalization (on a consolidated basis) and C\$175 million floor on consolidated net worth. As of June 30, 2009, HOHI had C\$128 million available through its credit facility and access to C\$14 million cash on hand.

Outlook

The stable outlook reflects our assessment of the company's steady business risk and stable financial risk profile. An adverse regulatory ruling, a material investment in nonregulated generation, or market restructuring (such as the assumption of the obligation to supply) could lead to a negative rating action. An upgrade is unlikely without assurance of a much stronger balance sheet and consistently deeper cash flow interest and debt coverage. A significant change in the company's relationship with the city could also affect the ratings on HOHI.

Business Description

HOHI is a utility holding company with about C\$703 million in capital assets. It is wholly owned by the City of Ottawa. The company was incorporated under the Ontario Business Corporations Act in November 2000 as a result of a change in Ontario law (Electricity Act). The company is not a reporting issuer. Its primary operation is Hydro Ottawa's monopoly electricity distribution business (see chart).

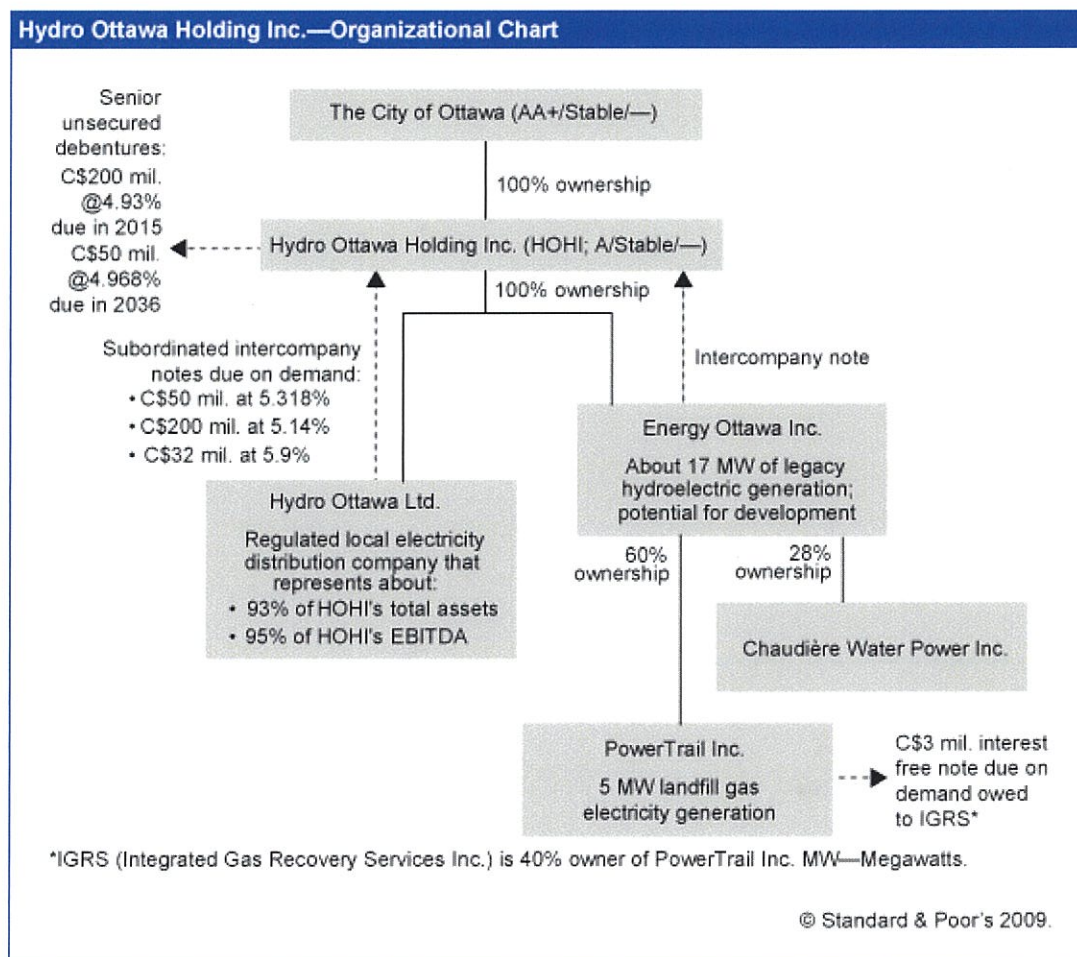
Independent third parties hold all of HOHI's debt; the city shareholder does not hold a promissory note. The utility

raises debt through private placements and provides the bulk of financing for its subsidiaries through intercompany notes.

Hydro Ottawa is one of Ontario's five largest LDCs, comparable in size to PowerStream Inc. (A/Stable/--) and Enersource Corp. (Borealis Infrastructure Trust; senior unsecured debt rating: 'A'). The company's regulated distribution system includes about 5,700 kilometers of overhead and underground distribution lines. Total energy delivered in 2008 was close to 8 terawatt-hours (TWh) similar to 2007.

HOHI also owns Energy Ottawa, which owns and operates 22 megawatts (MW) of electricity generation assets, predominantly hydroelectric. The plants produced about 0.1 TWh in 2008, generating about 5% of total cash flow. Even with the potential for growth investment in production from its small Chaudière plant in the next decade, we expect this unregulated segment will continue to generate less than 10% of consolidated EBITDA.

HOHI sold its small unregulated telecommunications subsidiary in 2008.



Rating Methodology

Government support and government-related entities methodology: No impact on ratings

We base our 'A' rating on HOHI on the company's stand-alone credit risk profile and our view that there is "moderate" likelihood that the City of Ottawa (AA+/Stable/A-1+) would provide timely and sufficient extraordinary support to HOHI in the event of financial distress at Hydro Ottawa. We assess the stand-alone credit of HOHI at 'A' using our corporate ratings criteria and considering the key credit factors affecting regulated utilities and, to a much lesser extent, generators.

In accordance with our criteria for government-related entities (GREs), we base our view of a "moderate" likelihood of extraordinary government support on the following assessment:

- Within the context of our GRE methodology and scale for assessing the importance of a GRE's role to its government owner, we view HOHI's role of "limited importance" to the city. Although the utility provides an essential and monopolistic service, we believe a default is not likely to pose a material risk to its own continuing physical operations or the proper function of the city's economy or government processes.
- Within the context of our GRE methodology and scale for assessing strength and durability, we view the link between HOHI and the city as "strong." There is clear corporate governance and a shareholder direction agreement, and the independent utility management makes autonomous business decisions. We do not believe the city is contemplating privatization, although it would be practically feasible given the business' nature. We do not view the link with the shareholder as "very strong" because the province sets energy policy affecting the utility and an independent provincial regulator determines rates.

Excellent Business Risk Profile

Regulatory framework supports cost recovery

Regulated distribution revenues provide cash flow stability and predictability to both the LDC (Hydro Ottawa) and holding company (HOHI). Regulated rates are based on an OEB-approved revenue requirement and the company's load forecast. The revenue requirement is based on cost-of-service and rate-of-return methodology that generally allows Hydro Ottawa to recover all prudent costs and to earn a return on capital invested.

The Ontario regulatory framework governing Hydro Ottawa's electricity distribution pricing is relatively independent and consistent. Political intervention in rate setting marred the regime throughout 2002 and 2003. The government has since taken steps to restore sector stability, including greater independence and better resourcing for the OEB. Although we view the sector as stable, we cannot preclude political involvement in the long term.

We view the rate-setting methodology as generally transparent but overly complex. The timeliness of rate decisions continues to improve and we expect that ongoing process improvements will continue to reduce regulatory lag.

In years when the utility does not choose to submit a cost of service application, the OEB has an automatic tariff adjustment that allows for inflation minus a productivity factor (incentive rate mechanism [IRM]). Previously, there was no rate adjustment between cost-of-service hearings. IRM adjusts rates in a timelier and less resource-consuming manner than the full cost-of-service application process. However, if used several years in a row, it could erode profitability if the LDC is unable to find operational savings. The IRM does not update the revenue requirement, the allowed ROE, or the rate base.

The LDC submitted a full cost-of-service application to the OEB in September 2007 for the May 1, 2008, rate year. In May 2009, the OEB increased Hydro Ottawa's rates based on IRM. The regulator allowed a 2.30% increase for inflation minus a 1.12% productivity improvement. The allowed ROE is unchanged from the previous year at 8.57%. Under Ontario regulation, the utility may request a cost-of-service review at any time. According to the OEB's third generation IRM, the OEB could undertake a review if Hydro Ottawa's actual rate of return on equity was 300 basis points (bps) higher or lower than the allowed return. We believe this is unlikely.

Table 1

Hydro Ottawa Ltd.--Regulatory Approvals Compared With Actual Results

Fiscal year (ended Dec. 31)	Distribution ratesetting year (May 1 to April 30)	Approved distribution rate base (Mil. C\$)	OEB deemed capital structure	Cost of long-term debt allowed for in distribution rates (%)	Hydro Ottawa cost of debt (%)*	HOHI consolidated cost of debt (%)*	OEB allowed return on allowed equity factored into rates (May 1-April 30; %)	Hydro Ottawa earned ROE (Jan. 1-Dec. 31; %) [†]
2004	April 1, 2004 (regulatory asset recovery only)	380	60% debt; 40% equity	6.90	7.0	7.2	9.88	4.7
2005	April 1, 2005 (final tranche of market adjusted revenue requirement)	380	60% debt; 40% equity	6.90	5.5	5.5	9.88	7.5
2006	May 1, 2006 (cost of service application)	504	60% debt; 40% equity	5.25	4.9	5.1	9.00	7.4
2007	May 1, 2007 (rates were adjusted based on IRM formula)	504	60% debt; 40% equity	5.25	5.3	5.0	9.00	8.8
2008	May 1, 2008 (cost of service application)	546	60% debt; 40% equity	5.26	5.3	4.7	8.57	9.3
2009	May 1, 2009 (rates were adjusted based on IRM formula)	546	60% debt; 40% equity	5.26	N.A.	N.A.	8.57	N.A.

*Standard & Poor's-calculated based on reported numbers. [†]Net income from continuing operations (adjusted for AFUDC and regulatory asset/liability items) divided by two year average common equity as calculated by Standard & Poor's, based on Hydro Ottawa regulatory filings. HOHI--Hydro Ottawa Holding Inc. IRM--Incentive regulation mechanism. OEB--Ontario Energy Board. N.A.--Not available.

The OEB's regulated price plan (RPP) smoothes consumer exposure to commodity volatility and reduces, but does not entirely remove, the risk of political influence in the sector. The Ontario Power Authority (OPA), an agency of the Province of Ontario (AA/Negative/A-1+), bears the bulk of any variance between the RPP price and the market price. Before 2004, delayed and uncertain commodity cost recovery due to government-imposed rate freezes had pressured some LDCs' liquidity.

Mature, primarily residential customer base in the national capital region adds to credit stability

Also supporting Hydro Ottawa's excellent business risk profile is its solid electricity distribution franchise in the nation's capital region. The company distributes electricity in Ottawa, a relatively mature market. Nevertheless, the number of customers increased 1.6% in 2008, to 291,000. We expect annual growth in the number of customers to continue at about 1% per year on average.

The company's customer profile has not changed meaningfully in the past five years and is dominated by residential

customers and the government sector (municipal and federal government buildings, universities, schools, and hospitals). Hydro Ottawa's 10 largest users represent less than 10% of distribution revenues.

Fluctuations in energy delivered can occur from year to year, and are primarily weather-related, and do not significantly affect our long-term view of profitability. We believe the impact of reduced consumption (due to cumulative conservation efforts and economic fluctuations) will not have a long-term impact on profitability, given the LDC's ability to update its load forecast in future cost-of-service applications.

Minimal competitive risk exposure

The electricity distribution business enjoys a natural monopoly that largely shields the company from direct competition. The cost of electricity distribution remains a small proportion of the total electricity cost to the consumer and therefore does not provide an incentive for distribution system bypass for most users. Competitive risk from other distributors is minimal, in our opinion, given the large capital cost involved in duplicating the very asset-intensive delivery system.

Low operating risk

Electricity distribution is considered a relatively low risk business activity from an operating perspective. The assets are many and diverse (components can fail without causing significant revenue interruption). They are typically long-lived and the technology is well-established. Hydro Ottawa's system reliability is in line with regulatory expectations and better than average for the province.

Succession planning in place to address unfavorable demographics

About 15% of the utility's work force is eligible for retirement in the next five years. Management has initiated an apprenticeship program and we expect that related costs will be recovered through rates.

Generation

We believe there is potential for growth at its existing hydroelectric site but do not expect the company to pursue other material greenfield generation. Our rating opinion is based on this segment of the holding company's business not exceeding 10% of EBITDA in the long term (current EBITDA contributions from Energy Ottawa are less material). Through its subsidiary, Energy Ottawa, HOHI's owns a 60% interest in a small (5 MW) landfill gas generation facility under long term contract with OPA. The facility came into service in 2007. Energy Ottawa also owns about 17 MW of legacy hydroelectric generation, some of which is under short term contract.

Growth strategy

In addition to organic growth in its regulated rate base, the company's modest growth strategy is focused on expansion of its existing generation resources, given the lack of any momentum in LDC consolidation. Were the opportunity to present itself, we believe management would like to acquire LDC assets from Hydro One Inc. (A+/Stable/A-1) that would complete its municipal geographic coverage (representing approximately 10% of customers within Ottawa's municipal boundary).

Modest profitability

HOHI's profitability is dominated by the performance of its regulated subsidiary Hydro Ottawa. We expect it will be more predictable given that Ontario regulation has stabilized and rate outcomes are somewhat more predictable than five years ago. The regulated subsidiary's ability to manage costs within its approved revenue requirement used to set rates and actual load; constraints baked into the Ontario regulatory framework; and, to a lesser extent electricity consumption patterns drive HOHI's profitability.

Overall, absent major weather or regulatory event, we expect Hydro Ottawa's results will generally be close to forecast. It is not in the LDC's interest to diverge significantly from its rate application, because it could create regulatory risk. We observe that utilities generally spend slightly less than forecast capital. This is to be expected, given that utilities have limited resources and a portion of their work is driven by uncontrollable factors: third parties (housing developments) and weather conditions (storm repair).

Canadian regulation does not allow for generous returns. Inputs to distribution tariffs include a modest return (8.57% in 2008 and in 2009) on a 40% equity layer. In 2008, the LDC overearned its allowed ROE by approximately 73 bps. This is a bit of an oversimplification, as ROE is reported on a Dec. 31 year-end and the allowed ROE is designated for the rate year beginning May 1 and ending April 30 (see table 1). Another key factor affecting profitability is the timeliness of adjustments to the regulated rate base reflecting new connections and capital additions. Hydro Ottawa's actual ROE has been steadily improving since 2005, but until 2008 was consistently below the allowed return, which has been steadily decreasing. The company's rate base jumped 33% in 2006. We do not expect this to be the norm, as regulatory lag in Ontario is much reduced from past years. Energy Ottawa's profitability, a minor contributor to HOHI's overall profitability, will vary somewhat based on available water volumes and price.

Consumption, and therefore gross and, to a lesser extent, net revenue can vary somewhat due to weather, but this does not pose a credit risk in our view. The impact of weather patterns from one year to the next is generally less than 5% of net distribution revenue. Regulated distribution rate design, that provides for a fixed and variable portion that varies for each customer class, somewhat mutes the weather effect. Conservation measures, some mandated by government, are constraining growth in electricity consumption but should not affect profitability in the near term due to supportive regulation. Furthermore, we expect population growth and new customer connections will continue to result in modest net growth in the region.

Gross revenues are not a good indication of profitability since they are colored by the flow through of commodity costs that are much more material than the company's net distribution revenue. Large swings in gross revenues result from volatile wholesale electricity prices and weather-related variations in energy consumption. Hydro Ottawa does not add a margin to the cost of energy delivered. The regulated LDC is generally able to recoup the commodity costs from customers without material delay. A related working capital allowance is included in the rate base.

Intermediate Financial Risk Profile

Accounting

Hydro Ottawa reports its financial statements in accordance with Canadian generally accepted accounting principles (GAAP) and generally follows the guidelines in the OEB's Distribution Rate Handbook and Accounting Procedures Handbook. These statements received an unqualified opinion from Hydro Ottawa's independent auditor in the most recent annual audited period (December 2008). We expect no material changes to Canadian GAAP or Hydro Ottawa's adopted accounting policies to materially alter the company's financial statements as presented. In calculating the key credit ratios published in tables 3 and 4, Standard & Poor's adjusted the balance sheet for operating lease commitments and postretirement benefit obligations (see table 2).

Table 2

Reconciliation Of Hydro Ottawa Holding Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C\$)*

--Fiscal year ended Dec. 31, 2008--

Hydro Ottawa Holding Inc. reported amounts	Debt	Shareholders' equity	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations	Cash flow from operations	Capital expenditures
Reported	251.5	317.7	91.7	91.7	51.1	12.1	83.5	83.5	66.7
Standard & Poor's adjustments									
Operating leases	0.8	N/A	0.4	0.1	0.1	0.1	0.4	0.4	N/A
Postretirement benefit obligations	4.4	(0.7)	N/A	N/A	N/A	N/A	(0.2)	(0.2)	N/A
Capitalized interest	N/A	N/A	N/A	N/A	N/A	0.4	(0.4)	(0.4)	(0.4)
Reclassification of nonoperating income (expenses)	N/A	N/A	N/A	N/A	0.3	N/A	N/A	N/A	N/A
Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(17.8)	N/A
Minority interests	N/A	0.6	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total adjustments	5.2	(0.1)	0.4	0.1	0.4	0.4	(0.2)	(18.0)	(0.4)
Standard & Poor's adjusted amounts									
Standard & Poor's adjusted amounts	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	256.7	317.6	92.1	91.7	51.5	12.6	83.3	65.5	66.3

*Hydro Ottawa Holding Inc. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. D&A--Depreciation and amortization. N/A--Not applicable.

Corporate governance, risk tolerance, and financial policies

The company's governance does not exhibit any features that raise credit concerns. The directors for HOHI and Hydro Ottawa are largely independent as required by utility regulation. The HOHI board consists of 11 members, three of which sit on city council (the mayor and two councilors). Hydro Ottawa's board has seven members, including the CEO and the HOHI chair as well as one city councilor. The shareholder declaration issued by Ottawa was last revised in June 2006.

In line with peers, HOHI's current dividend policy is based on distributing the greater of 60% of annual net earnings or C\$14 million.

Capital spending

The company should be in a position to finance about three-quarters of its annual capital expenditure from net cash flow (after dividends) in 2009 and 2010 and we don't expect it to approach the capital markets in the near term. The capital spending is all related to growth in Hydro Ottawa's regulated rate base and includes the province-mandated installation of smart meters for all customers.

Stable consolidated balance sheet maintained

We expect HOHI to maintain its current balance sheet strength, with consolidated leverage (as measured by total debt-to-total capital) remaining close to 50%. The company faces no material debt refinancing risk until its C\$200 million debenture matures in 2015.

The use of intercompany loans between HOHI and its subsidiaries, primarily Hydro Ottawa, at slightly higher interest rates than the debentures outstanding, support the servicing of external debt at HOHI.

The bulk of interest Hydro Ottawa pays on its long-term debt is a recoverable cost in its regulated rates. Less than 5% of total debt (or C\$9.3 million) relates to the subsidiaries minor generation interests.

Cash flow

Key cash flow credit metrics and cash-flow strength have consistently improved since 2005, as regulated rates have caught up with capital investments, supporting the company's intermediate financial risk profile. During this period, the company also completed a small greenfield generation project (which is now generating cash), and a refurbishment of its legacy hydroelectric generation facility (also small). HOHI also sold its high-risk telecommunications subsidiary in 2008, which no longer presents its modest drain on capital. These changes are in line with our previous expectations for the company. We do not expect meaningful improvement in cash flow credit metrics in the near term, given the regulator's expectations of efficiency improvements built into upcoming rate increases.

Liquidity and liability management

HOHI has no material interest rate exposure and no foreign exchange exposure and, given regulatory support and commodity flow-through, has no need for derivatives usage. Given current commodity prices and capital commitments, the company's C\$140 million credit facility is sufficient to support operations in the near term. Its debt maturity profile could pose some refinancing risk in the medium term with more than 80% of debt outstanding due in 2015.

The utility would be required to post prudential of C\$17.5 million with Ontario's Independent Electricity System Operator if all ratings from all agencies on HOHI fall below 'A-'.

Financial flexibility limited by lack of access to equity

Supporting the holding company's financial flexibility is HOHI's C\$140 million committed credit facility that is largely available. The company's capacity to draw down additional debt through its bank line and issue new debt through its trust indenture also provides some financial flexibility.

Despite our expectation that no further equity investment from the city will be forthcoming, we believe the company would have some flexibility to reduce dividends if experiencing financial stress. We believe the utility could also defer, for a year or so, a small portion of its forecast maintenance capital expenditure without compromising service levels. Standard & Poor's believes these two actions would be sufficient to cover about one year's interest expense.

Table 3

Hydro Ottawa Holding Inc.--Peer Comparison***Industry Sector: Electric Utility**

	--Average of past three fiscal years--			
	Hydro Ottawa Holding Inc.	Toronto Hydro Corp.	NSTAR	Oncor Electric Delivery Co. LLC
Rating as of Sept. 22, 2009	A/Stable/--	A/Stable/--	A+/Stable/A-1	BBB+/Stable/--
Currency (mil.)	C\$	C\$	US\$	US\$
Revenues	688.0	2,339.6	3,206.9	2,364.7
Net income from continuing operations	21.6	65.0	221.9	61.3
Funds from operations (FFO)	61.4	237.4	525.1	772.8
Capital expenditures	72.7	216.0	405.8	810.0
Cash and short-term investments	7.3	294.7	24.1	49.3
Debt	266.0	1,331.4	2,794.1	4,553.0
Preferred stock	0.0	0.0	28.7	0.0
Equity	298.3	927.8	1,720.2	3,029.7
Debt and equity	564.4	2,259.2	4,514.3	7,582.7
Adjusted ratios				
EBIT interest coverage (x)	3.8	2.3	3.6	3.0
FFO interest coverage (x)	5.8	3.5	4.7	4.0
FFO/debt (%)	23.1	17.8	18.8	17.0
Discretionary cash flow/debt (%)	(12.1)	(6.8)	(5.4)	(19.9)
Net cash flow/capex (%)	60.4	77.7	95.3	2.9
Total debt/debt plus equity (%)	47.1	58.9	61.9	60.0
Return on common equity (%)	7.4	6.9	13.2	1.1
Common dividend payout ratio (unadjusted; %)	80.6	107.0	68.7	541.3

*Fully adjusted (including postretirement obligations).

Table 4

Hydro Ottawa Holding Inc.--Financial Summary***Industry Sector: Electric Utility**

(Mil. C\$)	--Fiscal year ended Dec. 31--				
	2008	2007	2006	2005	2004
Rating history	A/Stable/--	A-/Positive/--	A-/Stable/--	A-/Stable/--	NR
Revenues	697.8	685.6	680.6	707.4	615.8
Net income from continuing operations	24.6	24.7	15.6	14.5	8.1
Funds from operations (FFO)	65.5	61.0	57.6	50.5	35.5
Capital expenditures	66.3	73.4	78.5	64.5	68.6
Cash and short-term investments	21.3	0.0	0.4	0.0	0.0
Debt	256.7	282.2	259.2	218.2	235.4
Equity	317.6	296.6	280.8	251.9	229.4
Debt and equity	574.3	578.8	540.0	470.1	464.8

Table 4

Hydro Ottawa Holding Inc.--Financial Summary* (cont.)

Adjusted ratios					
EBIT interest coverage (x)	4.1	3.8	3.5	2.6	1.6
FFO interest coverage (x)	6.2	5.6	5.8	4.7	3.3
FFO/debt (%)	25.5	21.6	22.2	23.1	15.1
Discretionary cash flow/debt (%)	(4.4)	(12.8)	(18.9)	4.5	(18.3)
Net cash flow/capex (%)	56.0	66.8	58.1	78.3	51.8
Debt/debt and equity (%)	44.7	48.8	48.0	46.4	50.6
Return on common equity (%)	7.9	8.4	5.8	5.8	3.3
Common dividend payout ratio (unadjusted; %)	115.3	48.6	76.7	0.0	0.0

*Fully adjusted (including postretirement obligations). NR--Not rated.

Related Research

- "Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry," Nov. 26, 2008
- "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded," May 27, 2009
- "Enhanced Methodology And Assumptions For Rating Government-Related Entities," June 29, 2009
- "2008 Corporate Criteria: Analytical Methodology," April 15, 2008

Ratings Detail (As Of September 22, 2009)*

Hydro Ottawa Holding Inc.

Corporate Credit Rating	A/Stable/--
Senior Unsecured (2 Issues)	A

Corporate Credit Ratings History

03-Jun-2008	A/Stable/--
26-Mar-2007	A-/Positive/--
25-Jan-2005	A-/Stable/--

Business Risk Profile

Excellent

Financial Risk Profile

Intermediate

Debt Maturities

2015 C\$200 mil.
2036 C\$50 mil.

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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1 **PROSPECTUS FOR PLANNED AND RECENT SHARE ISSUES**

2

3 Hydro Ottawa Limited's sole shareholder is Hydro Ottawa Holding Inc. (the "Holding
4 Company"). The Holding Company is 100% owned by the City of Ottawa (the "City").

5 There are no plans for additional share issues to the City or otherwise.



MATERIALITY THRESHOLD

Chapter 2 of the Filing Requirements for Transmission and Distribution Applications, issue by the Ontario Energy Board (the “Board”) on May 27, 2009 states in Section 2.2.4 that *“The applicant must provide justification for changes from year to year to its rate base, capital expenditures, OM&A and other items above a materiality threshold”*. For a utility the size of Hydro Ottawa Limited (“Hydro Ottawa”), the default materiality threshold is defined as 0.5% of distribution revenue requirement for distributors with a revenue requirement greater than \$10 million and less than or equal to \$200 million. Hydro Ottawa’s base revenue requirement for 2011 is \$158M so the default materiality threshold would be \$790k. In this application, Hydro Ottawa has generally explained variances based on a threshold of \$750k; however, in certain circumstances a lower threshold has been used.