



SUMMARY OF APPLICATION

1.0 INTRODUCTION

Hydro Ottawa is submitting a cost of service rate application, based on a forward test year, for 2008 Electricity Distribution Rates. This application has been prepared in accordance with the Board's 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 2008 service revenue requirement based on a forecast for 2008 of Operations, Maintenance and Administration ("OM&A") expenses, return on rate base, amortization expense and payments in lieu of taxes ("PILs"). For the determination of the revenue requirement for distribution rates, the revenue from other sources, referred to as other revenue, is subtracted from the service revenue requirement and the credit provided to customers for transformer ownership is added back.

For OM&A, capital expenditures and other revenue, Hydro Ottawa has grouped the accounts in the manner described in Appendix A of the 2006 EDR Handbook. In addition, OM&A expenses for Smart Meters have been separately identified.

The rate base is determined from an average of net book value ("NBV") of assets at year-end 2007 and 2008, plus a working capital allowance. 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 Incentive Regulation* dated December 20, 2006 ("Board Report on CoC and IRM"). The rate of return on equity ("ROE") and short-term interest rates have also been determined in accordance with the Board Report on CoC and IRM.



1 The long-term debt rate is set at Hydro Ottawa's actual weighted average debt rate since
2 this value is lower than the deemed rate.

3
4 PILs have been determined using the same methodology as in the 2006 EDR
5 Handbook. Large Corporation Tax has now been eliminated and is therefore no longer
6 included in the calculation.

7
8 In the determination of rates, Hydro Ottawa has completed a new load and customer
9 forecast for 2008. The methodology used for this forecast has been revised from the one
10 used for the 2006 EDR Application. The new approach applies more rigorous statistical
11 modelling and includes weather correction. The methodology for forecasting is explained
12 in detail in Exhibit C1-2-1.

13
14 The application further seeks approval of the capital expenditures for 2009 and 2010 and
15 the resultant change in the NBV of assets in these years. These capital expenditures are
16 the basis for determining a capital adjustment factor that would be applied to Hydro
17 Ottawa's rates in those years in conjunction with the Board's 3rd Generation Incentive
18 Regulation Mechanism ("3GIRM").

19
20 Hydro Ottawa has included a detailed variance analysis between the Test Year (2008
21 Forecast) and the Bridge Year (2007 Estimate), the Bridge Year and the Historical Year
22 (2006 Actual), and the Historical Year and the Board-Approved Year (2006 Approved).
23 Justifications have also been provided for capital expenditures in each year and, in
24 addition, for 2009 and 2010.

25 26 27 **3.0 INCREASE IN REVENUE REQUIREMENT FOR 2008**

28
29 A detailed analysis of the drivers of the increase in revenue requirement is provided in
30 Exhibit G1-1-1. The main contributions to the increase in the revenue requirement are
31 described as follows:



- 1 • Continued investment in the distribution infrastructure results in a forecast growth
2 in the year-end NBV of assets between 2006 and 2008 of \$69M. This includes
3 investments related to the Asset Management Plan, capacity planning and new
4 distribution plant due to customer demand, general plant purchases and the
5 installation of Smart Meters.
6
- 7 • The increase for OM&A is largely due to a change in overhead costs and labour
8 being capitalized and, therefore, it is not related to an overall increase in
9 spending. This change is discussed in detail in Exhibit B1-3-1. Another significant
10 impact is related to workforce planning and the continuation of Hydro Ottawa's
11 apprenticeship program as discussed in Exhibit D1-5-2. Labour contracts and
12 material prices have also increased since 2006. Exhibit D1-1-3 and Exhibit D1-1-
13 4 provide a detailed analysis of the OM&A cost changes between 2006 and
14 2008.
15
- 16 • As part of the Smart Meter combined proceeding EB-2007-0063, the Board
17 determined the following at page 16: *"Many of the utilities suggested that at the*
18 *present time, the stranded costs associated with existing meters should stay in*
19 *rate base. The Board accepts this proposition. Utilities can, if they choose, bring*
20 *forward applications for the recovery of stranded costs in their 2008 rates."*
21 Based on this determination, Hydro Ottawa has included the cost of its stranded
22 meters in rate base; however, it has removed these meters from fixed assets for
23 the purposes of its audited financial statements.
24
- 25 • In addition, Hydro Ottawa is proposing that the amortization period for the cost of
26 these stranded meters be four years. This accelerated amortization allows the
27 cost of stranded meters to be recovered by April 30, 2012. This proposal results
28 in incremental amortization expense in the revenue requirement of \$3.2M above
29 the \$1.3M that would otherwise result from continuing to amortize the stranded
30 meters over 25 years; that is, a total amortization of \$4.5M for 2008. Hydro
31 Ottawa forecasts that, by the end of 2007, it will have accumulated stranded



meter costs requiring recovery of \$11.7M (the actual to June 30, 2007 is \$7.0M).
This proposal is described in more detail in Exhibit D3-1-1.

- Offsetting the increases in rate base, OM&A and amortization is a reduction in the cost of capital due to the inclusion of short-term debt in the capital structure and the lower rate of ROE calculated using the July *Consensus Forecast*. As discussed in Exhibit F1-1-3, Hydro Ottawa expects that it will be instructed to recalculate the ROE using the January 2008 *Consensus Forecast* once it becomes available and this revised calculation will be used for the purpose of determining the service revenue requirement.

4.0 INCREASE IN REVENUE REQUIREMENT FOR 2009 AND 2010

Hydro Ottawa has filed capital expenditures for 2009 and 2010 for the Board's approval. The plans would be used as the basis for determining a capital adjustment factor to apply to rates in 2009 and 2010 in conjunction with the Board's 3GIRM. The proposed methodology for the capital adjustment factor is provided in Exhibit B4-1-1. The adjustment factors of 0.0349 for 2009 and 0.0328 for 2010 would be applicable to the capital portion of the base revenue requirement (59.9%) and would therefore increase rates in 2009 and 2010 by 1.021 and 1.020 respectively. The exact adjustment factor could change depending on the nature of the Board's final 3GIRM. Furthermore, the capital adjustment factors do not include capital expenditures related to the Smart Meter program.

5.0 OTHER CHANGES AFFECTING RATES

In addition to changes in the revenue requirement there are a number of other factors that will impact the Delivery Charge on customer bills.



- 1 • Distribution rates will decrease as a result of clearance of the balances recorded
2 in certain deferral and variance accounts. On April 12, 2006, the Board gave final
3 approval for the recovery of regulatory assets. The final two years of recovery
4 end on April 30, 2008 and at that time the rate rider will drop off. Furthermore,
5 Hydro Ottawa is filing to clear the balances in certain deferral and variance
6 accounts accumulated to October 31, 2007. The balances proposed to be
7 cleared net to a \$7M credit to customers for the period May 1, 2008 to April 30,
8 2009 (i.e., the 2008 rate year).
9
- 10 • The Board's Decision on the 2006 EDR Application approved an amount of
11 \$0.6M for low voltage ("LV") charges. These are amounts that Hydro Ottawa
12 pays to Hydro One for shared distribution lines and stations. For the period from
13 July 2006 through June 2007, however, Hydro Ottawa paid \$1.4M to Hydro One
14 and recorded the variance in Account 1150 – LV Variance Account. Hydro
15 Ottawa is forecasting that the costs for 2008 will remain the same since there is
16 limited growth in the areas supplied by Hydro One's LV assets. Therefore, Hydro
17 Ottawa is seeking approval to increase the low voltage charges to customers to
18 \$1.4M. On June 13, 2006, the Board provided direction that LV charges and
19 revenues would be recorded in Accounts 4750 and 4075, respectively, and these
20 accounts are no longer part of distribution costs and revenue. Therefore, Hydro
21 Ottawa is seeking a new LV Services charge to recover the \$1.4M from
22 customers.
23
- 24 • Hydro Ottawa is also seeking recovery of the revenue deficiency resulting from
25 implementing rates four months into the Test Year when the revenue requirement
26 is calculated on the basis of forecasts for the entire Test Year. The revenue
27 deficiency is \$3.5M for the Deficiency Period (i.e. the first four months of the Test
28 Year). The derivation of the revenue deficiency is provided in Exhibit I1-3-2.
29



- As per the Board's direction, Hydro Ottawa has adjusted the Retail Transmission Rates to reflect the new Uniform Transmission Rate for Ontario transmitters. These new rates are to be effective May 1, 2008.
- Hydro Ottawa has requested recovery of \$1,117,448 for lost revenue and \$889,188 for shared savings resulting from its Conservation and Demand Management programs in 2005 and 2006. Rate riders for the Residential, General Service > 50 < 1500 kW and General Service > 1500 < 5000 kW are proposed for the 2008 rate year.

6.0 RATE IMPACTS

The total impact on the total electricity bill for the residential customer using 1,000 kWh per month is 1.9%, including incremental funding related to the Smart Meter program, the reduction in Regulatory Asset recovery and the effect of the separate LV Services charge (0.2%) but excluding the revenue deficiency for the period January 1, 2008 to April 30, 2008. Distribution rates would increase by 5.1%.

Hydro Ottawa proposes to recover the calendar year versus rate year revenue deficiency by means of a rate rider. With this rate rider included, the impact on the total bill increases to 2.6% (from 1.9%) and distribution rates to 7.9% (from 5.1%) for the residential customer using 1,000 kWh per month.



REVENUE SUFFICIENCY/DEFICIENCY

The revenue sufficiency/deficiency for 2008 was calculated using the following inputs:

- 2007 approved rates, not including the Smart Meter rate rider,
- 2008 load forecast and forecast of customers and connections, as developed using the methodology described in Exhibit C1-2-1, and
- The base revenue requirement calculated as shown in Table 1 (details are provided in the model that is part of in Exhibit I1-3-1):

Table 1 – Revenue Sufficiency/Deficiency

	%	\$000
Rate Base		\$581,765
Cost of Capital	6.67	
Return on Rate Base		38,779
Distribution Expenses		59,328
Amortization		43,754
Payment in Lieu of Taxes		13,676
Service Revenue Requirement		155,537
Less Revenue Offsets		(7,586)
Base Revenue Requirement		147,951
Transformer Ownership Credit		1,159
TOTAL		\$149,110
Revenue at 2008 Load at 2007 Rates		123,915
Revenue Deficiency		(\$25,195)

A revenue deficiency of \$25,195,047 represents a required increase in distribution rates of 20.33%.



CAUSES OF SUFFICIENCY/DEFICIENCY

The causes of the revenue deficiency of \$25,195,047 are enumerated in Table 1. The references provide detailed explanations of the reasons for the deficiency.

Table 1 – Causes of Deficiency

CAUSE	Impact on Revenue Requirement \$000	Reference
Increase in Amortization Expense	(\$9,638)	B3-2-1 B3-2-2 B3-3-1 B3-3-2 B3-4-1 B3-4-2 B3-5-1 D3-1-1
Increase in Revenue Offsets	3,491	C2-1-4
Increase in OM&A Expenses	(15,151)	B1-3-1 D1-1-4
Increase in Return on Capital	(4,606)	B1-3-1 B3-2-2 B3-3-1 B3-3-2 B3-4-1 B3-4-2 B3-5-1
Change in Payment in Lieu of Taxes	(1,186)	D2-1-1 D2-1-2 D3-1-1
Moving Low Voltage Charges to Cost of Power	556	I1-4-1
Load Growth	1,340	C1-2-1
Total Deficiency	(\$25,195)	

Further discussion on the causes of the revenue deficiency can be found in Exhibit G1-1-1.



BUDGET GUIDELINES

1.0 APPROACH

The following guidelines were provided to each senior manager in March 2007 to provide guidance in preparing their department budgets.

1.1 Base Budget

Departments are expected to prepare a base budget based on the targets provided below. This will be uploaded into JDE and reviewed on a gross basis prior to allocations (capital and internal). The base budget must be developed using zero-based budgeting. Results will be reviewed by a budget review committee, in detail, on a line-by-line basis for each department.

1.2 Additions to Base Budget

Departments may propose additions to the base budget with full justifications. These will be reviewed by the budget review committee to determine if they will be included in the budget.

2.0 BASE BUDGET OPERATIONS, MAINTENANCE & ADMINISTRATION ("OM&A") TARGETS

Target Gross OM&A before Conservation and Demand ("CDM") at 2007 budget level (net of work for others) plus 2%.

- OM&A to be reviewed on a gross basis (before internal and capital allocations)
- OM&A to be reviewed excluding CDM activity for which funding will not be through distribution rates.



- 1 • Work for others can increase by more than 2% if the associated revenue also
- 2 increases by more than 2%
- 3 • Departments expected to coordinate to transfer budgets details related to recent
- 4 organizational changes i.e. fleet to operations, facilities to finance
- 5 • Charitable donations must be kept separate since they are disallowed for rate
- 6 applications
- 7 • It is anticipated that changes in capitalization of overhead will increase net
- 8 OM&A. There must be a tight reign on gross OM&A expenses to keep the total
- 9 increase to an acceptable range.

12 **3.0 CAPITAL PROGRAM**

14 Table 1 is the preliminary draft capital plan prepared in February 2007. The targets for
15 capital are set based on changes to this preliminary plan.



1 **Table 1 - Preliminary Capital Plan for 2008 (from February 2007)**

(000'S)	2007	2008	2009	2010
CAPITAL PROGRAMS	Budget	Plan	Plan	Plan
Sustainment	34,819	36,423	38,728	42,224
Demand	20,392	25,232	26,101	28,587
General Plant	19,491	17,988	12,686	11,620
CDM	110	-	-	-
Smart Meters	16,734	15,300	1,040	1,061
TOTAL CAPITAL EXPENDITURES	91,547	94,943	78,554	83,493

2
3 **3.1 Sustainment**

- 4
- 5 • Target 2007 budget level plus 2% each year plus the effect of reduced
 - 6 allocations.
 - 7 • Hydro Ottawa is continuing with its asset management strategy to replace aging
 - 8 infrastructure. A first incremental step was undertaken as part of the 2006 rate
 - 9 application. The next incremental step is proposed for 2011 once the capital
 - 10 demands created by the Smart Meter program have ended.

11
12 **3.2 Demand Excluding Smart Meters**

- 13
- 14 • Updated based on economic forecast and most recent information from the City
 - 15 of Ottawa.



3.3 General Plant Targets

- CIS upgrade started in 2008, go live in 2009 (2008 amount in CIP and remaining amount in 2009)
- Reduce general plant in 2008 by \$1M from preliminary capital plan (fleet, facilities, IT combined) plus impact of capital allocations
- Reduce fleet, facilities and IT by \$2M combined in 2009 from preliminary capital plan
- General Plant in 2010 at 2009 level plus 2% each year (excluding CIS project which is roughly \$5M in 2009).

3.4 Smart Meters

- Smooth out spending between 2008 and 2009 rather than finishing deployment in 2008.

4.0 HEAD COUNT

- Full time equivalents ('FTE') will be defined as full-time staff, part-time staff prorated and temporary employees paid through the payroll system (not contractors).
- Increases from 2007 FTE budget complement are considered to be an addition to the base budget to be justified and approved by the budget review committee.
- FTEs will have to be documented by employee category (executive, management, non-union, union).



1 **5.0 CDM**

- 2
- 3 • CDM is not funded through distribution rates and therefore all aspects of CDM
- 4 programs must be kept completely separate.
- 5
- 6

7 **6.0 SMART METERS**

- 8
- 9 • The application will assume that all capital spending to the end of 2008 will be
- 10 included in rate base. However, all amounts for Smart Meters must be identified
- 11 and tracked separately.



CHANGES IN METHODOLOGY

1.0 INTRODUCTION

There are two areas in which methodologies have been changed from 2006, the year of the last rate application, to 2008. Following is a description of these changes.

2.0 LOAD FORECAST

As described in Exhibit C1-2-1, Hydro Ottawa has revised its methodology for forecasting load and customer growth. In 2006, a competitive process was used to select a new statistical modelling software (*Metrix ND* by Itron). While the previous methodology had been quite effective, the decision to change the methodology was made to include more rigorous statistical analysis and weather correction.

3.0 CAPITALIZATION

Hydro Ottawa has completed a review of its Capitalization Policy and its Cost Allocation Rates Policy as filed with the Board in the 2006 EDR Application. The result of this review is two-fold: updated accounting estimates used to determine the appropriate capitalization of overhead costs and a simplified allocation methodology. Details are provided in B1-3-1 together with the Capitalization Policy that has been updated to reflect the new estimates and the new Cost Allocation Rates Procedure. The impact on capital expenditures is described in Exhibit B3-2-2 and the impact on Operations, Maintenance and Administration costs is described in Exhibits D1-1-1 and D1-1-4.



1 **AUDITED FINANCIAL STATEMENTS FOR 2005 AND 2006**

2

3 Hydro Ottawa's audited financial statements for 2005 (Attachment L) and 2006
4 (Attachment M) are attached.

Financial statements of

HYDRO OTTAWA LIMITED

December 31, 2005



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Auditors' Report

To the Shareholder of
Hydro Ottawa Limited

We have audited the balance sheet of Hydro Ottawa Limited as at December 31, 2005 and the statements of income and retained earnings and of 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, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

March 23, 2006


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 non-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 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 Leclair
President and
Chief Executive Officer



Shirley Mears
Senior Vice President and
Chief Financial Officer

HYDRO OTTAWA LIMITED
Financial Statements
year ended December 31, 2005

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HYDRO OTTAWA LIMITED

Statement of Income and Retained Earnings

year ended December 31, 2005

(tabular amounts are in thousands of dollars)

	2005	2004
REVENUES		
Power recovery	\$ 592,231	\$ 507,838
Distribution sales	90,884	85,689
Other revenue	10,783	11,687
	693,898	605,214
EXPENSES		
Purchased power	592,231	507,838
Operations	42,576	44,720
Amortization of capital assets	29,674	25,890
Recovery of provision for regulatory assets (Note 4)	(5,820)	(7,928)
Recovery of transition costs (Note 4)	(1,798)	-
Restructuring costs	-	851
	656,863	571,371
Earnings before other expenses and payments in lieu of corporate income taxes	37,035	33,843
Other expenses		
Interest expense (Note 12)	12,366	14,916
Payments in lieu of provincial capital tax	1,500	1,550
	13,866	16,466
Earnings before payments in lieu of corporate income taxes	23,169	17,377
Payments in lieu of corporate income taxes (Note 13)	2,427	761
NET EARNINGS	20,742	16,616
DEFICIT, BEGINNING OF YEAR	(8,205)	(24,821)
RETAINED EARNINGS (DEFICIT), END OF YEAR	\$ 12,537	\$ (8,205)

See accompanying notes to the financial statements

HYDRO OTTAWA LIMITED

Balance Sheet

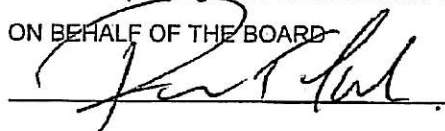
as at December 31, 2005

(tabular amounts are in thousands of dollars)

	2005	2004
CURRENT ASSETS		
Cash	\$ 3,874	\$ 1,728
Accounts receivable (Note 3)	46,048	49,624
Unbilled revenue	96,024	80,960
Inventory	6,440	8,224
Prepays	1,482	719
	153,868	141,255
NET REGULATORY ASSETS (Note 4)	6,610	5,469
CAPITAL ASSETS (Note 5)	410,389	383,162
OTHER ASSETS (Note 6)	391	391
Total assets	\$ 571,258	\$ 530,277
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 8)	\$ 131,665	\$ 124,033
Note payable (Note 10)	-	232,185
	131,665	356,218
DEFERRED REVENUE	1,635	-
NET REGULATORY LIABILITIES (Note 4)	16,300	9,623
EMPLOYEE FUTURE BENEFITS (Note 9)	3,596	3,351
CUSTOMER DEPOSITS	6,259	2,209
NOTES PAYABLE (Note 10)	232,185	-
	391,640	371,401
CONTINGENT LIABILITIES & COMMITMENTS (Note 7, 15, 16)		
SHAREHOLDER'S EQUITY		
Share Capital (Note 11)	167,081	167,081
Retained Earnings (Deficit)	12,537	(8,205)
	179,618	158,876
Total liabilities and shareholder's equity	\$ 571,258	\$ 530,277

See accompanying notes to the financial statements

ON BEHALF OF THE BOARD



Director

HYDRO OTTAWA LIMITED

Statement of Cash Flows

year ended December 31, 2005

(tabular amounts are in thousands of dollars)

	2005	2004
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings	\$ 20,742	\$ 16,616
Adjustments for non-cash items		
Amortization of capital assets	29,674	25,890
Gain on disposal of capital assets	(30)	(95)
Allowance for funds used during construction (Note 5)	(467)	(1,225)
	49,919	41,186
Net change in non-cash operating working capital items and regulatory assets and liabilities (Note 14)	25,662	(3,893)
	75,581	37,293
FINANCING		
Contributions in aid of construction	21,433	7,536
Advances from parent company	(15,000)	8,682
Customer deposits repaid	(2,031)	(271)
	4,402	15,947
INVESTING		
Acquisition of capital assets	(77,925)	(62,770)
Proceeds from sale of capital assets	88	203
	(77,837)	(62,567)
NET CASH INFLOW (OUTFLOW)	2,146	(9,327)
CASH, BEGINNING OF YEAR	1,728	11,055
CASH, END OF YEAR	\$ 3,874	\$ 1,728
Other information		
Interest paid	\$ 12,945	\$ 20,115
Payments in lieu of taxes paid	\$ 2,275	\$ 2,337

See accompanying notes to the financial statements

HYDRO OTTAWA LIMITED

Notes to the Financial Statements

year ended December 31, 2005
(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). The incorporation was required by the Ontario government's *Electricity Act, 1998*. The Company is a wholly owned subsidiary of Hydro Ottawa Holding Inc., which in turn is 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 commercial 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.

1) 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. The Company began recovering its regulatory assets (net of liabilities) on an interim basis starting April 1, 2004. This recovery continued throughout 2005. In June 2005, the OEB provided distributors with filing guidelines for final approval of these regulatory assets. Accordingly, the Company filed an application with the OEB for the final recovery of regulatory assets (net of liabilities) accumulated to December 31, 2004, on August 2, 2005, which if approved would result in an increase in rates for the period May 1, 2006 to April 30, 2008.

Regulatory balances are comprised principally as follows:

(i) Transition costs:

Hydro Ottawa incurred transition costs in preparing the Company for requirements of the competitive electricity market in Ontario. Criteria set out in the OEB's Distribution Rate Handbook and AP Handbook allow certain costs to be deferred that would be expensed when incurred under GAAP for an unregulated business. Hydro Ottawa has not recorded additional transition costs since 2002; however, interest on the recorded transition costs has been accrued as a regulatory asset.

HYDRO OTTAWA LIMITED
Notes to the Financial Statements
year ended December 31, 2005
(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Regulatory assets and liabilities (Continued)

(ii) Pre-market opening electricity variance:

At December 31, 2002, Hydro Ottawa recognized the pre-market opening electricity variance for the period January 1, 2001 to April 30, 2002, the date of market opening, in accordance with the AP Handbook. The pre-market opening variance represents the difference between the utility's cost of power purchased based upon time-of-use (TOU) rates and amounts billed for the cost of power to non-TOU customers at an average rate for the same period. Simple interest has been accrued as a regulatory asset as per the AP Handbook.

(iii) Post-market opening variances:

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 that were not recovered from customers during the period. The nature of the settlement variances is such that the balance can fluctuate between an asset and a liability 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. On January 1, 2005, the IESO implemented, pursuant to Bill 100, a new price adjustment applicable to customers who are not eligible for the regulated price plans and therefore pay spot market price. To facilitate this, electricity distributors are given a price adjustment on their invoice from the IESO, called the Global Adjustment, which they pass on to this class of customer via a Provincial Benefit on the customer's bill.

The Global Adjustment represents the difference between market prices and the combined regulated and contract prices paid to electricity generators for electricity. This adjustment may be either positive or negative depending on the prevailing electricity market conditions. The electricity distributor adjusts the customer's invoice for the Provincial Benefit based on rates set monthly by the IESO. The difference between the Global Adjustment provided to electricity distributors, and the Provincial Benefit passed on to this particular class of customer, is tracked in a retail settlement variance account.

Miscellaneous deferred debits – The deferred debits represent one-time expenses incurred to issue the 2002 customer rebates arising from Bill 210 which established a price cap of 4.3 cents per kilowatt-hour (kWh) for the electricity commodity for low-volume and designated customers (Eligible Customers) retroactive to May 1, 2002.

Deferred OEB annual cost assessments – The OEB has allowed electricity distributors to record their OEB cost assessments for the OEB's 2004 fiscal and subsequent years in order that these costs may be given consideration for rate recovery in the future. The Company has deferred these expenditures in accordance with the directions set out in the AP Handbook.

Deferred cash pension contributions – The OEB has allowed electricity distributors to apply for the recovery of incremental Ontario Municipal Employees Retirement System (OMERS) pension expenditures for fiscal years starting after December 31, 2004. Accordingly, the Company has deferred these expenditures in accordance with the directions set out in the AP Handbook.

Deferred payments in lieu of taxes (PILs) – Variances that result from the difference between OEB approved PILs recoverable in electricity distribution services charges and the actual amount collected from customers that relates to the recovery of PILs are deferred in accordance with the AP Handbook.

Interest on all recorded post-market opening variances has been accrued as a regulatory asset as per the AP Handbook.

HYDRO OTTAWA LIMITED

Notes to the Financial Statements

year ended December 31, 2005
(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) *Contributions in aid of construction*

Capital contributions are required contributions received from outside sources used to finance additions to capital assets. 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 to depreciate the related capital asset.

c) *Allowance for funds used during construction (AFUDC)*

Commencing January 1, 2000, an allowance for the cost of funds used during the construction period of major capital and development projects has been applied to the related capital assets. The rate applied during the current fiscal period as prescribed in the 2006 Electricity Distribution Rate (EDR) Handbook is equal to the weighted average cost of capital, being 6.6%. In 2004, the rate applied was equal to the rate allowed by the OEB in respect of long-term borrowings, being 6.9%.

d) *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*. 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 amount 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 become payable, it is expected that they will be included in the rates approved by the OEB and recovered by the regulated business at that time.

The Company is exempt from tax under the ITA, as not less than 90% 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. A corporation exempt under the ITA is also exempt from tax under the CTA.

2) 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.

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.

HYDRO OTTAWA LIMITED

Notes to the Financial Statements

year ended December 31, 2005

(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3) FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, customer deposits, notes payable and standby letters of credit. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant currency, commodity or credit risks arising from these financial instruments. The carrying values of the Company's financial instruments approximate their fair values unless otherwise noted.

Concentration of credit risk in accounts receivable and unbilled revenue is limited, due to the large number of customers the Company services. The Company performs ongoing credit evaluations on its customers and requires collateral to support customer accounts receivable on specific accounts to mitigate significant losses. The Company establishes an allowance for doubtful accounts based on the credit risk applicable to particular customers, and historical and other information.

The Company is exposed to interest rate risk on its short-term borrowings. Under Hydro Ottawa Holding Inc.'s credit facilities (Note 7), any advances on its operating credit line would expose the Company to fluctuations in short-term interest rates related to prime-rate loans and banker's acceptances.

4) INVENTORY

Inventory consists primarily of parts and supplies acquired for internal construction or consumption and are stated at the lower of cost and replacement cost, with cost determined on a weighted moving average basis.

A comprehensive review of the utilization of inventory is conducted each year to identify items with an impaired value as stock items that have become obsolete.

5) SPARE TRANSFORMERS AND METERS

Spare transformers and meters are items that are expected to be substituted for original distribution plant transformers 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 and meters are treated as capital assets.

6) CAPITAL ASSETS

Capital assets include distribution equipment, facilities and buildings, as well as construction and operating equipment.

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.

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.

Maintenance and repair costs are expensed as incurred.

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:

Distribution system	25 to 40 years
General plant	4 to 50 years

Assets under construction are not subject to amortization.

HYDRO OTTAWA LIMITED

Notes to the Financial Statements

year ended December 31, 2005
(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

6) CAPITAL ASSETS (Continued)

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.

7) EMPLOYEE FUTURE BENEFITS

a) *Pension plan*

The Company provides pension benefits for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the Fund), and 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.

b) *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 and accumulated sick leave credits. 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, 2005 is 16 years.

8) 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.

On February 3, 2004, the OEB released amendments to the Distribution System Code (DSC) with respect to customer security deposits. The DSC now sets out the maximum customer security deposits permitted, the length of time that deposits can be held, how customers can seek exemption for part or all of the deposit and the interest that distributors must pay on these deposits. The new DSC requirements came into effect on August 3, 2004; however as permitted by the OEB, the Company did not return customer security deposits under the new rules until 2005.

9) REVENUE RECOGNITION

a) *Power recovery*

Power recovery revenue is the pass through of the Company's purchased power costs to the consumer.

b) *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

year ended December 31, 2005

(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

9) REVENUE RECOGNITION (Continued)

c) 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.

d) 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.

e) Deferred revenue

In 2005, Hydro Ottawa began collecting the third instalment (third tranche) of its regulated rate of return, on the condition that an equivalent amount would be invested in conservation and demand management (CDM) activities by September 2007. The CDM recoveries in 2005 exceeded the cumulative amount spent on CDM activities. The excess recoveries are treated as deferred revenue as the Company has billed the customer but has yet to discharge its obligation relating to the investment of these funds. The CDM required capital expenditures and operating expenses are recorded from July 1, 2004 to September 30, 2007 while the recovery is received over the twelve-month period from March 1, 2005 to February 28, 2006.

3. ACCOUNTS RECEIVABLE

	2005	2004
Electricity receivables net of allowance for doubtful accounts of \$2,267,000 (2004 - \$2,900,000)	\$ 38,621	\$ 38,700
Other receivables	7,427	8,088
Amounts due from related parties (Note 17)	-	2,836
	<u>\$ 46,048</u>	<u>\$ 49,624</u>

4. REGULATORY ASSETS AND LIABILITIES

In accordance with the AP Handbook, the Company has accounted for regulatory variances during the year. All pre-market opening electricity variances and post-market opening variances have been recorded as regulatory assets, with the exception of the variances related to the transmission connection costs and global adjustment that have been recorded as regulatory liabilities. Interest has been accrued on the regulatory assets and regulatory liabilities as per the AP Handbook. Transition costs have been recorded as capital assets, but the related accrued interest has been treated as a regulatory asset.

Information about the Company's net regulatory assets and liabilities is as follows:

	2005	2004
Transition costs:		
Capital assets net of recovery of \$1,798,000 (2004 - \$nil)	\$ 2,268	\$ 6,431
Interest on transition costs net of recovery of \$1,122,000 (2004 - \$611,000)	71	421
Provision for doubtful recovery	(71)	(421)
Total transition costs	<u>2,268</u>	<u>6,431</u>

HYDRO OTTAWA LIMITED
Notes to the Financial Statements
year ended December 31, 2005
(tabular amounts are in thousands of dollars)

4. REGULATORY ASSETS AND LIABILITIES (Continued)

Pre-market opening electricity variance:

Regulatory assets net of recovery of \$10,123,000 (2004 - \$2,293,000)

Provision for doubtful recovery

17,257	23,633
(17,257)	(23,633)

Total pre-market opening electricity variance

-	-
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Post-market opening variances:

Retail settlement variance account assets net of recovery of \$10,338,000 (2004 - \$5,995,000)

Provision for doubtful recovery

7,931	5,920
(5,099)	(3,496)

2,832	2,424
-------	-------

Other regulatory assets net of recovery of \$456,000 (2004 - \$498,000)

Provision for doubtful recovery

4,747	4,889
(969)	(1,844)

3,778	3,045
-------	-------

Retail settlement variance account liabilities net of disposition of \$6,261,000 (2004 - \$2,277,000)

(16,300)	(9,623)
----------	---------

Total post-market opening variances

(9,690)	(4,154)
---------	---------

Total regulatory assets and liabilities

\$ (7,422)	\$ 2,277
------------	----------

Regulatory assets and liabilities are recorded as:

Net regulatory assets

Net regulatory liabilities

Capital assets

\$ 6,610	\$ 5,469
----------	----------

(16,300)	(9,623)
----------	---------

2,268	6,431
-------	-------

\$ (7,422)	\$ 2,277
------------	----------

The Company expects to recover or dispose of these regulatory assets and liabilities by April 30, 2008.

Information about the Company's recovery of provision for regulatory assets is as follows:

	2005 (Recapture) of Provision for Doubtful Recovery	2004 (Recapture) of Provision for Doubtful Recovery
Recovery of regulatory assets through rate approval	\$ (11,384)	\$ (8,388)
Disposition of regulatory liabilities through rate approval	1,797	1
Regulatory assets provision	3,767	459
Total recovery of provision for regulatory assets	\$ (5,820)	\$ (7,928)

HYDRO OTTAWA LIMITED
Notes to the Financial Statements
year ended December 31, 2005
(tabular amounts are in thousands of dollars)

4. REGULATORY ASSETS AND LIABILITIES (Continued)

The impact of accounting for regulatory assets and liabilities in the absence of rate regulation considerations under GAAP in the current period are:

1) The opening of the restructured electricity market on May 1, 2002 separated the purchase of power into several components such as the cost of the commodity or power, and non-competitive charges being transmission connection and network costs, and wholesale market service costs. These costs are to be passed on to the customer. The difference between actual costs incurred and the amounts recovered through rates are held as regulatory assets or liabilities, with final disposition subject to OEB approval.

a) Retail settlement variances of \$2,832,000 (2004 - \$2,424,000) for non-competitive electricity charges and power charges such as the cost of imported power, excluding the transmission connection costs variance and global adjustment variance, are recorded as regulatory assets. In the absence of rate regulation considerations, actual non-competitive electricity charges and power costs could be expensed as incurred. Consequently, operating results for 2005 would be \$408,000 lower.

b) Retail settlement transmission connection costs and global adjustment variances of \$16,300,000 (2004 - \$9,623,000) are regulatory liabilities. They represent the over recovery of transmission connection charges and the difference between the Provincial Benefit provided to customers and the Global Adjustment received from the IESO. In the absence of rate regulation considerations, actual transmission connection costs and global adjustment variances would be recognized as revenue when billed to the customer and as an expense when charged by the IESO. Consequently, operating results for 2005 would be \$6,677,000 higher.

2) Other regulatory assets of \$2,200,000 (2004 - \$760,000) include costs that the OEB has allowed electricity distributors to record, such as OEB cost assessments, incremental OMERS pension expenditures, retail service costs and miscellaneous deferred debits, in order that these costs may be given consideration for rate recovery in the future. Also included in other regulatory assets are deferred payments in lieu of taxes of \$1,578,000 (2004 - \$2,285,000) that represent variances that result from the difference between OEB approved PILs recoverable in electricity distribution services charges and the actual amount collected from customers relating to the recovery of PILs. In the absence of rate regulation considerations, the operating results for 2005 would be \$733,000 lower.

Final approval of regulatory assets and liabilities:

The Company reviews all regulatory assets for likelihood of recovery. The absence of final approval is a consideration in this evaluation. The Company has recorded a net provision of \$23,396,000 (2004 - \$29,394,000) against regulatory assets. The Company continues to assess the likelihood of full recovery of regulatory assets. If future recovery becomes assured, the Company would recognize the recovery in the results of operations in the period such a decision is made.

In 2005 the Company filed an application with the OEB to obtain final approval to recover \$4,066,000 in transition costs included in general plant capital assets. The Company has received interim approval to begin recovering these costs. The Company has recovered \$2,920,000 (2004 - \$611,000) in regulatory assets through rates of which \$1,798,000 (2004 - \$nil) represented transition costs and \$1,122,000 (2004 - \$611,000) represented interest accrued on these costs. Included in the cost of general plant is \$2,268,000 (2004 - \$6,431,000) of transition costs still recoverable.

HYDRO OTTAWA LIMITED

Notes to the Financial Statements

year ended December 31, 2005

(tabular amounts are in thousands of dollars)

5. CAPITAL ASSETS

	2005		2004	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Distribution system	\$ 727,204	\$ 351,928	\$ 375,276	\$ 337,846
General plant	138,846	57,078	81,768	71,418
Assets under construction	16,473	-	16,473	18,797
	882,523	409,006	473,517	428,061
Contributions in aid of construction	(74,710)	(11,582)	(63,128)	(44,899)
	\$ 807,813	\$ 397,424	\$ 410,389	\$ 383,162

During the year, the company capitalized an allowance for funds used during construction of \$467,000 (2004 - \$1,225,000).

The OEB permits an AFUDC, based on Hydro Ottawa's weighted average cost of capital, to be included in the rate base. AFUDC is also included in the cost of capital assets for financial reporting purposes, and is depreciated over future periods as part of the total cost of the related asset, based on the expectation that depreciation expense, including the AFUDC component, will be approved for inclusion in future rates. Since AFUDC includes an interest component, and a cost-of-equity component, it exceeds the Company's actual weighted average cost of debt. In the absence of rate regulation considerations under GAAP, the operating results for 2005 would be \$113,000 lower.

6. OTHER ASSETS

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 and the remaining to be applied as follows:

2008	\$130,000
2009	130,000
2010	131,000
	<u>\$391,000</u>

7. CREDIT FACILITIES

Hydro Ottawa Holding Inc. on behalf of itself and its subsidiaries arranged a new credit facility in the amount of \$350,000,000 with a syndicate of Canadian banks. The new facility consisted of two elements: a \$150,000,000 three-year, extendible, revolving term credit facility which expires January 6, 2008, and a \$200,000,000 364-day bridge facility.

Amounts drawn under the revolving term credit facility as bankers' acceptances are calculated using a discount rate that is 0.1% below the average posted rate for Bankers' Acceptances (3.33% at December 31, 2005). Prime rate advances under this facility bear interest at the bank's prime rate (5% at December 31, 2005). The fee payable for bankers' acceptances and standby letters of credit is based on a margin determined by reference to the Hydro Ottawa Holding Inc.'s credit rating. This facility contains a requirement to maintain the consolidated debt to capitalization ratio at or below 75% and to use no more than \$75,000,000 of the facility to fund capital expenditures, customary covenants and events of default. At December 31, 2005, the Company had drawn \$22,000,000 in standby letters of credit against this facility.

HYDRO OTTAWA LIMITED

Notes to the Financial Statements

year ended December 31, 2005

(tabular amounts are in thousands of dollars)

7. CREDIT FACILITIES (Continued)

On January 5, 2005, Hydro Ottawa Holding Inc. on behalf of itself and its subsidiaries terminated the existing unsecured \$152,000,000 credit facility with a Canadian chartered bank, and replaced it with a \$47,285,000 credit facility that expires May 18, 2006. It is Hydro Ottawa Holding Inc.'s intention to renew this facility, amended for a reduction in the amount of standby letters of credit, for another year. This facility consists of a \$24,850,000, 364-day revolving term operating credit line, \$22,285,000 in standby letter of credits and a \$150,000 corporate Visa facility. Direct advances under the 364-day operating credit line bear interest at prime less 0.35% per annum. This facility contains customary covenants and events of default including a covenant to maintain the consolidated tangible net worth in excess of \$55,000,000 at all times. At December 31, 2005 the Company had drawn no amount on the operating credit line (2004 - \$nil) and \$211,000 (2004 - \$22,285,000) in standby letter of credits.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2005	2004
Purchased power payable	\$ 57,953	\$ 49,083
Rebates payable to eligible customers	4,518	2,433
Customer credit balances	28,636	11,115
Collateral funds held	14,068	20,149
Other accounts payable and accrued liabilities	16,731	20,994
Deferred revenue	4,321	-
Payments in lieu of corporate income taxes payable	1,622	-
Advances from parent company (Note 17)	2,000	17,000
Due to related parties (Note 17)	1,816	3,259
	\$ 131,665	\$ 124,033

9. EMPLOYEE FUTURE BENEFITS

i. Pension Plan

The Company's participating employer contributions for the year was \$2,257,000 (2004 - \$2,060,000).

ii. Employee future benefits other than pension plan

Employee future benefits are calculated using an annual compensation rate increase of 3.0% (2004 - 2.5% to 3%), an inflation rate of 2.0% (2004 - 1.75%), and a discount rate of 5.25% (2004 - 6.0%) to calculate the liabilities.

Information about the Company's defined benefit plans is as follows:

	2005		
	Accumulated Liability	Expense for the period	Benefits Paid
Life insurance	\$ 3,877	\$ 582	\$ 325
Supplemental pensions	28	3	3
Sick leave	16	-	-
	\$ 3,921	\$ 585	\$ 328
Projected benefit obligation	\$ 7,522		
Actuarial deficit	\$ (3,601)		

HYDRO OTTAWA LIMITED
Notes to the Financial Statements
year ended December 31, 2005
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9. EMPLOYEE FUTURE BENEFITS (Continued)

		2004	
	Accumulated Liability	Expense (recovery) for the period	Benefits Paid
Life insurance	\$ 3,620	\$ 487	\$ 331
Supplemental pensions	28	3	3
Sick leave	16	(42)	-
	<u>\$ 3,664</u>	<u>\$ 448</u>	<u>\$ 334</u>
Projected benefit obligation	<u>\$ 6,562</u>		
Actuarial deficit	<u>\$ (2,898)</u>		

The last actuarial valuation was performed January 1, 2004. The actuary has updated the assumptions and estimates at December 31, 2005. As a result of this exercise, the Company increased the projected benefit obligation by \$960,000 (2004 - \$487,000). 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 16 years, beginning January 1, 2006.

The current liability portion of the accrued employee future benefits included in other accounts payable is \$325,000 (2004 - \$313,000) and the non-current portion of \$3,596,000 (2004 - \$3,351,000) is included in long term liabilities.

10. NOTES PAYABLE

Effective July 1, 2005, the Company issued promissory notes, payable to Hydro Ottawa Holding Inc., in the amounts of \$200,000,000 bearing interest at 5.14% per annum and \$32,185,000 bearing interest at 5.9% per annum, to replace the promissory note due on demand issued December 31, 2004, payable to Hydro Ottawa Holding Inc. in the amount of \$232,185,000. The note bore interest commencing at 7% per annum declining to the rate of interest charged to Hydro Ottawa Holding Inc. pursuant to the first bonds issued by Hydro Ottawa Holding Inc. in 2005, plus 0.1% per annum. 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.

	2005	2004
Current:		
7% promissory note payable on demand to Hydro Ottawa Holding Inc.	\$ -	\$ 232,185
Long-term:		
5.9% promissory note payable to Hydro Ottawa Holding Inc.	32,185	-
5.14% promissory note payable to Hydro Ottawa Holding Inc.	200,000	-
	<u>232,185</u>	<u>-</u>
	<u>\$ 232,185</u>	<u>\$ 232,185</u>

HYDRO OTTAWA LIMITED
Notes to the Financial Statements
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11. 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

The above shares are without nominal or par value.

The Company may, at any time, purchase for cancellation the whole or part of the Class C common shares at the price at which such shares were issued.

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.

	2005	2004
Issued		
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.

12. INTEREST EXPENSE

	2005	2004
Short-term interest (net of interest income)	\$ 829	\$ 120
Interest on notes payable	11,846	16,021
Finance charges	158	-
Less: Allowance for funds used during construction	(467)	(1,225)
	\$ 12,366	\$ 14,916

HYDRO OTTAWA LIMITED

Notes to the Financial Statements

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13. 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:

	2005	2004
Federal and Ontario statutory income tax rate	36.12%	36.12%
Income before provision for PILs	\$ 23,169	\$ 17,377
Provision for PILs at statutory rate	\$ 8,369	\$ 6,277
Increase (decrease) resulting from:		
Permanent differences	17	58
Tax effect of non-capital losses for which no benefit has been recorded	(6,767)	(6,335)
Large corporations tax	623	761
Corporate minimum tax	185	-
Provision for PILs	\$ 2,427	\$ 761
 Effective income tax rate	 10.48%	 4.38%

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 applied all unused tax losses (2004 - \$16,131,000) to offset taxable income in the current year. Hydro Ottawa has deductible temporary differences between the tax basis of assets and their carrying amount for accounting purposes of approximately \$79,725,000 (2004 - \$82,192,000). These amounts translate into an unrecognized future tax asset of approximately \$28,982,000 (2004 - \$29,688,000) that can be used to reduce payments in lieu of taxes 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 become payable, they will be recovered through future rate revenues. GAAP for unregulated businesses require the recognition of future income tax liabilities and future income tax assets. In the absence of rate regulation considerations under GAAP operating results in 2005 would be \$706,000 lower.

14. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL AND REGULATORY ASSETS AND LIABILITIES

	2005	2004
(Increase) decrease in accounts receivable	\$ 3,576	\$(3,399)
(Increase) in unbilled revenue	(15,064)	(3,995)
Decrease in regulatory assets net of liabilities	5,536	2,976
Increase (decrease) in accounts payable and accrued liabilities	28,713	(1,589)
Increase in deferred revenue	1,635	-
(Increase) decrease in other	1,266	2,114
	\$ 25,662	\$ (3,893)

HYDRO OTTAWA LIMITED

Notes to the Financial Statements

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15. CONTINGENT LIABILITIES

(i) A class action claiming \$500,000,000 in restitutionary payments plus interest was served on the former Toronto Hydro-Electric Commission on November 18, 1998. The action was initiated against the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario, including Hydro Ottawa, 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. This action has not yet been certified as a class action and no discoveries have been held, as parties were awaiting the outcome of a similar proceedings brought against The Consumers Gas Company Limited (now Enbridge Gas Distribution Inc.).

On April 22, 2004, the Supreme Court of Canada released a decision in the Enbridge Gas Distribution Inc. (EGD) case with respect to late payment penalties. The Court rejected all the defences which had been raised by EGD, however the Court did not permit the plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994. At this time, it is not possible to quantify the effect, if any, and no amount has been accrued in the financial statements of the Company.

(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, 2005, the Company had drawn standby letters of credit of \$22,000,000 against its credit facility to cover its prudential support obligation. In addition, the Company provided standby letters of credit of \$211,000 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 loss will be charged to operations 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 operations in the year in which they occur.

(v) The Company may be subject to environmental regulatory requirements related to the destruction of PCBs in distribution transformers and other clean up related to PCBs if draft federal legislation in its current form is ultimately passed. Proposed revisions to the Federal PCB Regulatory Framework under the Canadian Environmental Protection Act, 1999 recommends that certain equipment containing PCBs be removed from service by December 31, 2009 with final removal of PCB equipment expected by December 31, 2014. This legislation could result in approximately \$10,000,000 to \$11,000,000 being spent over the 4-year period from 2006 to 2009. No amount has been recorded in these financial statements.

HYDRO OTTAWA LIMITED

Notes to the Financial Statements

year ended December 31, 2005
(tabular amounts are in thousands of dollars)

16. COMMITMENTS

(i) Hydro Ottawa has \$9,600,000 in open commitments for 2006. This includes \$3,200,000 for its customer information system application services agreement, and beginning in 2005 an arrangement to provide call centre services, with IBM Canada Limited. The minimum billable value of the agreement over its term is \$16,418,000 and is set to expire December 31, 2010.

(ii) Hydro Ottawa has committed to provide support for a community park in the Village of Casselman. The total amount of the commitment remaining is \$27,000, which will be paid in 2006.

17. 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, but are generally repaid within one month.

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.

For the year ended December 31, 2005, the Company earned revenues related to the:

- sale of electricity, and the provision of street lighting services in the amount of \$29,157,000 (2004 - \$30,128,000) to the City of Ottawa.
- provision of administration and corporate services in the amount of \$279,000 (2004 - \$176,000) to Hydro Ottawa Holding Inc.
- provision of administration and corporate services and the recovery of expenses by service level agreement in the amount of \$343,000 (2004 - \$585,000) to Energy Ottawa Inc.
- rental of poles and ducts in the amount of \$517,000 (2004 - \$1,182,000) to Telecom Ottawa.
- provision of administration and corporate services and other recoverable work in the amount of \$283,000 (2004 - \$245,000) 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, 2005, the Company purchased:

- certain services related to water and sewer charges, fuel and permits from the City of Ottawa in the amount of \$351,000 (2004 - \$480,000).
- certain administration and corporate services from Hydro Ottawa Holding Inc. totaling \$1,490,000 (2004 - \$2,407,000). During the year the Company also paid Hydro Ottawa Holding Inc. for interest charged on temporary and long-term borrowings as well as finance charges related to credit facility and bond issue costs amounting to \$12,833,000 (2004 - \$76,000).
- power from Energy Ottawa Inc. in the amount of \$7,058,000 (2004 - \$4,089,000).
- broadband data services from Telecom Ottawa in the amount of \$1,467,000 (2004 - \$1,574,000).

HYDRO OTTAWA LIMITED
Notes to the Financial Statements
year ended December 31, 2005
(tabular amounts are in thousands of dollars)

17. RELATED PARTY TRANSACTIONS (Continued)

For the year ended December 31, 2005, the Company incurred property taxes payable to the City of Ottawa of \$1,658,000 (2004 - \$1,644,000).

There was no interest payable to the City of Ottawa in 2005 (2004 - \$16,021,000) as the promissory note payable to the City of Ottawa in the amount of \$232,185,000 was assigned to Hydro Ottawa Holding Inc. on December 31, 2004 (Note 10).

During the year, the Company transferred office furniture at their net book value of \$57,000 to Energy Ottawa Inc.

At the end of the year, the amounts due from and to related parties which are included in account receivable and accounts payable and accrued liabilities are as follows:

	2005	2004
Due from related parties:		
Hydro Ottawa Holding Inc.	\$ -	\$ 1,168
Telecom Ottawa Limited	-	1,217
Energy Ottawa Inc.	-	451
	<u>\$ -</u>	<u>\$ 2,836</u>
Due to related parties:		
Hydro Ottawa Holding Inc.	\$ 1,095	\$ -
Telecom Ottawa Holding Inc.	218	1,489
Energy Ottawa Inc.	503	1,770
	<u>\$ 1,816</u>	<u>\$ 3,259</u>
Advances from parent company	<u>\$ 2,000</u>	<u>\$ 17,000</u>
Notes payable to parent company (Note 10)	<u>\$ 232,185</u>	<u>\$ 232,185</u>

18. COMPARATIVE FIGURES

In certain instances, the 2004 information presented for comparative purposes has been reclassified to conform to the financial statement presentation adopted for the current year.

Financial statements of

HYDRO OTTAWA LIMITED

December 31, 2006

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 non-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 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 Leclair
President and
Chief Executive Officer



Wojciech Zielonka
Chief Financial Officer



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Canada

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Auditors' Report

To the Shareholder of
Hydro Ottawa Limited

We have audited the balance sheet of Hydro Ottawa Limited as at December 31, 2006 and the statements of income and retained earnings and of 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

February 21, 2007

HYDRO OTTAWA LIMITED

Financial Statements

year ended December 31, 2006

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HYDRO OTTAWA LIMITED

Statement of Income and Retained Earnings

year ended December 31, 2006

(tabular amounts are in thousands of dollars)

	2006	2005
REVENUES		
Power recovery	\$ 541,817	\$ 592,231
Distribution sales	113,908	90,884
Other revenue	10,147	10,783
	665,872	693,898
EXPENSES		
Purchased power	541,817	592,231
Operations	51,027	42,576
Amortization of capital assets	32,980	29,674
	625,824	664,481
Earnings before other (recoveries) expenses and payments in lieu of corporate income taxes	40,048	29,417
Other (recoveries) expenses		
Interest expense (Note 11)	12,347	12,366
Recovery of provision for regulatory assets write-down (Note 4)	(23,139)	(5,820)
Recovery of transition costs (Note 4)	(1,743)	(1,798)
Payments in lieu of provincial capital tax	1,346	1,500
	(11,189)	6,248
Earnings before payments in lieu of corporate income taxes	51,237	23,169
Payments in lieu of corporate income taxes (Note 12)	11,375	2,427
NET EARNINGS	39,862	20,742
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	12,537	(8,205)
RETAINED EARNINGS, END OF YEAR	\$ 52,399	\$ 12,537

See accompanying notes to the financial statements

HYDRO OTTAWA LIMITED

Balance Sheet

as at December 31, 2006

(tabular amounts are in thousands of dollars)

	2006	2005
CURRENT ASSETS		
Cash	\$ 21,838	\$ 3,874
Accounts receivable (Note 3)	54,663	46,048
Unbilled revenue	81,796	96,024
Prepays	604	1,482
Regulatory assets (Note 4)	7,172	-
Inventory	7,131	6,440
	173,204	153,868
NET REGULATORY ASSETS (Note 4)	15,372	6,610
CAPITAL ASSETS (Note 5)	447,803	410,389
OTHER ASSETS (Note 6)	391	391
Total assets	\$ 636,770	\$ 571,258
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 7)	\$ 108,373	\$ 132,054
Payment in lieu of corporate income taxes payable	8,884	1,636
	117,257	133,690
DEFERRED REVENUE	-	1,635
NET REGULATORY LIABILITIES (Note 4)	7,627	16,300
EMPLOYEE FUTURE BENEFITS (Note 8)	4,417	3,596
CUSTOMER DEPOSITS	5,804	4,234
NOTES PAYABLE (Note 9)	282,185	232,185
	417,290	391,640
CONTINGENT LIABILITIES & COMMITMENTS (Notes 14, 15)		
SHAREHOLDER'S EQUITY		
Share Capital (Note 10)	167,081	167,081
Retained Earnings	52,399	12,537
	219,480	179,618
Total liabilities and shareholder's equity	\$ 636,770	\$ 571,258

The accompanying notes are an integral part of these financial statements

ON BEHALF OF THE BOARD

Maureen Hawley Director

Siemone Richard Director

HYDRO OTTAWA LIMITED

Statement of Cash Flows

year ended December 31, 2006

(tabular amounts are in thousands of dollars)

	2006	2005
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings	\$ 39,862	\$ 20,742
Adjustments for non-cash items		
Amortization of capital assets	32,980	29,674
Gain on disposal of capital assets (Note 5)	(298)	(30)
Allowance for funds used during construction (Note 5)	(193)	(467)
	72,351	49,919
Net change in non-cash operating working capital items and regulatory assets and liabilities (Note 13)	(35,378)	24,242
	36,973	74,161
FINANCING		
Contributions in aid of construction	17,000	21,433
Advances from parent company	(2,000)	(15,000)
Customer deposits (repaid)	3,523	(2,031)
Notes payable (Note 9)	50,000	-
	68,523	4,402
INVESTING		
Acquisition of capital assets	(87,860)	(76,505)
Proceeds from sale of capital assets	328	88
	(87,532)	(76,417)
NET CASH INFLOW	17,964	2,146
CASH, BEGINNING OF YEAR	3,874	1,728
CASH, END OF YEAR	\$ 21,838	\$ 3,874
Other information		
Interest paid	\$ 12,845	\$ 12,945
Payments in lieu of taxes paid	\$ 3,802	\$ 2,275

See accompanying notes to the financial statements

HYDRO OTTAWA LIMITED

Notes to the Financial Statements

year ended December 31, 2006

(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). The incorporation was required by the Ontario government's Electricity Act, 1998. The Company is a wholly owned subsidiary of Hydro Ottawa Holding Inc., which in turn is 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 commercial 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.

1) 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:

(i) Transition costs:

Hydro Ottawa incurred transition costs in preparing the Company for requirements of the competitive electricity market in Ontario. In 2006 Hydro Ottawa received approval from the OEB to recover its transition costs and associated carrying charges.

(ii) Pre-market opening electricity variance:

The pre-market opening variance represents the difference between the utility's cost of power purchased based upon time-of-use (TOU) rates and amounts billed for the cost of power to non-TOU customers at an average rate for the period January 1, 2001 to April 30, 2002, the date of market opening. In 2006 Hydro Ottawa received approval from the OEB to recover these costs.

HYDRO OTTAWA LIMITED

Notes to the Financial Statements

year ended December 31, 2006
(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iii) Post-market opening variances:

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 that were not recovered from 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. In 2006 Hydro Ottawa received approval from the OEB to recover its retail services and settlement variances and associated carrying charges, which existed at December 31, 2004.

Deferred payments in lieu of taxes (PILs) - Changes to tax legislation resulting in an over or under recovery of PILs collected from customers must be recorded as a variance in accordance with the AP Handbook.

Deferred smart meter costs - The OEB has allowed electricity distributors to track the differences between the amounts funded in rates for smart meters, and incremental program costs. Program costs include incremental operating, maintenance, amortization and administrative expenses directly related to smart meters, and costs associated with conventional meters removed at the time of installation of smart meters. Currently, the Company has recorded the deferral of stranded meter costs only.

Other regulatory assets - The OEB has 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, the difference between low voltage (LV) charges paid to Hydro One Network Inc. and charged to customers, one time expenses incurred to issue the 2002 customer rebates arising from Bill 210 and commencing in 2006, incremental costs related to payment of the Ontario Price Credit. In 2006 Hydro Ottawa received approval from the OEB to recover the costs accumulated to December 31, 2004.

Interest on post-market opening variances has been accrued as a regulatory asset as per the AP Handbook.

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. The rate applied for 2005 and the period January 1, 2006 to April 30, 2006, as concluded in the 2006 Electricity Distribution Rate (EDR) Report of the Board, is equal to the weighted average cost of capital, being 6.6%. 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 2006 was 5.3%.

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 not less than 90% 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 amount 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 LIMITED

Notes to the Financial Statements

year ended December 31, 2006

(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the regulated business at that time.

2) 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. 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.

3) FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, employee future benefits, customer deposits, notes payable and stand-by letters of credit. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant currency or credit risks arising from these financial instruments. The carrying values of the Company's financial instruments approximate their fair values unless otherwise noted.

Concentration of credit risk in accounts receivable and unbilled revenue is limited, due to the large number of customers the Company services. The Company performs ongoing credit evaluations on its customers and requires collateral to support customer accounts receivable on specific accounts to mitigate significant losses. The Company establishes an allowance for doubtful accounts based on the credit risk applicable to particular customers, and historical and other information.

The Company is exposed to interest rate risk on its short-term borrowings. 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.

4) INVENTORY

Inventory consists primarily of parts and supplies acquired for internal construction or consumption and are stated at the lower of cost and replacement cost, with cost determined on a weighted average basis.

5) CAPITAL ASSETS

Capital assets include distribution equipment, facilities and buildings, as well as construction and operating equipment. Costs are considered capital provided there is reasonable assurance that these costs will be recovered through future earnings.

Also included in capital assets are spare transformers and meters. Spare transformer and meters are items that are expected to be substituted for the original distribution plant transformers 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

Notes to the Financial Statements

year ended December 31, 2006
(tabular amounts are in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Maintenance and repair costs are expensed as incurred.

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:

Distribution system	25 to 40 years
General plant	4 to 50 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.

6) 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 (ARO) 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.

7) EMPLOYEE FUTURE BENEFITS

a) 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.

b) 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

year ended December 31, 2006
(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, 2006 is 16 years.

8) 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.

9) REVENUE RECOGNITION

a) Power recovery

Power recovery revenue represents the pass through of the Company's purchased power costs to the consumer.

b) 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.

c) 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.

d) 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.

e) Deferred revenue

In 2005, Hydro Ottawa began collecting the third installment of its regulated rate of return, on the condition that an equivalent amount would be invested in conservation and demand management (CDM) activities by September 2007. To date CDM recoveries exceed the cumulative amount spent on CDM activities. The excess recoveries are treated as deferred revenue because the Company has received the funds from the customer but has yet to invest these funds in CDM programs. CDM capital and operating expenditures are recorded from July 1, 2004 to September 30, 2007 while the funds were received over the twelve-month period from March 1, 2005 to February 28, 2006.

3. ACCOUNTS RECEIVABLE

	2006	2005
Electricity receivables net of allowance for doubtful accounts of \$968,000 (2005 - \$2,267,000)	\$ 48,636	\$ 38,621
Other receivables net of allowance for doubtful accounts of \$905,000 (2005 - \$316,000)	2,545	5,081
Amounts due from related parties (Note 16)	3,482	2,346
	<u>\$ 54,663</u>	<u>\$ 46,048</u>

HYDRO OTTAWA LIMITED
Notes to the Financial Statements
year ended December 31, 2006
(tabular amounts are in thousands of dollars)

4. REGULATORY ASSETS AND LIABILITIES

Information about the Company's net regulatory assets and liabilities is as follows:

	2006	2005
Regulatory assets approved for collection through rates:		
Interest on transition costs	\$ 163	\$ -
Pre-market opening electricity variance	17,748	-
Retail settlement variance accounts and other regulatory assets	(2,097)	-
	15,814	-
Regulatory assets recovered through approved rates in this period	(8,059)	-
Regulatory assets to be collected through approved rates	\$ 7,755	\$ -
Interest on transition costs:		
Regulatory asset - interest on transition costs	-	71
Provision for doubtful recovery	-	(71)
	-	-
Pre-market opening electricity variance:		
Regulatory asset	-	17,257
Provision for doubtful recovery	-	(17,257)
	-	-
Post-market opening variances subject to future recovery or disposition through a future rate filing:		
Retail settlement variance account assets	6,598	7,931
Deferred payments in lieu of taxes	-	2,485
Deferred smart meter costs	4,871	-
Other regulatory assets	3,804	2,262
Interest on regulatory assets	280	-
Provision for doubtful recovery	(764)	(6,068)
	14,789	6,610
Retail settlement variance account liabilities	(5,324)	(16,300)
Deferred payments in lieu of taxes	(2,303)	-
	(7,627)	(16,300)
Net post-market opening variances subject to future recovery or disposition through a future rate filing	7,162	(9,690)
Total net regulatory assets and liabilities	\$ 14,917	\$ (9,690)
Regulatory assets and liabilities comprise:		
Regulatory assets - current	\$ 7,172	\$ -
Net regulatory assets	15,372	6,610
Net regulatory liabilities	(7,627)	(16,300)
	\$ 14,917	\$ (9,690)

HYDRO OTTAWA LIMITED

Notes to the Financial Statements

year ended December 31, 2006
(tabular amounts are in thousands of dollars)

4. REGULATORY ASSETS AND LIABILITIES (Continued)

Regulatory assets approved for collection through rates of \$7,755,000 (2005 \$nil) include transition costs, pre-market opening electricity variance, retail settlement variances, retail service costs, deferred OEB cost assessments, miscellaneous deferred debits and interest charged at an OEB approved rate accumulated to December 31, 2004, and transferred to this account upon receiving OEB approval. This approved balance will be recovered over a 2-year period ending April 30, 2008. In the absence of rate regulation considerations the operating results for 2006 would be \$7,755,000 lower (2005 - \$nil).

Post market opening variance assets of \$14,789,000 (2005 - \$6,610,000) include retail settlement variance assets, deferred OEB cost assessments, deferred incremental OMERS pension expenditures, deferred smart meter costs, deferred LV charges, retail service costs, miscellaneous deferred, deferred payments in lieu of taxes and interest charged at an OEB approved rate. In the absence of rate regulation considerations the operating results for 2006 would be \$8,179,000 lower (2005 - \$1,141,000 lower).

Post market opening variance liabilities of \$7,627,000 (2005 - \$16,300,000) include retail settlement variance liabilities, deferred payments in lieu of taxes and interest charged at an OEB approved rate. In the absence of rate regulation considerations the operating results for 2006 would be \$8,673,000 lower (2005 - \$6,677,000 higher).

The Company continues to assess the likelihood of recovery of all current regulatory assets. The absence of OEB approval is a consideration in this evaluation. The Company has recorded a net provision of \$764,000 (2005 - \$23,396,000) against regulatory assets. If future recovery becomes assured, the Company would recognize the recovery in the results of operations in the period such a decision is made.

Information about the Company's recovery of provision for regulatory assets is as follows:

	2006 (Recapture of) Provision for Doubtful Recovery	2005 (Recapture of) Provision for Doubtful Recovery
Recovery of regulatory assets approved for collection through rates	\$ (18,735)	\$ -
Recovery of regulatory assets through interim rate approval	-	(11,384)
Disposition of regulatory liabilities through interim rate approval	-	1,797
(Decrease) increase in regulatory asset provision for doubtful recovery	(4,404)	3,767
Total recovery of provision for regulatory assets	\$ (23,139)	\$ (5,820)

On April 12, 2006, the Company received a decision from the OEB for new rates resulting from the Company's application filed in August 2005. The new rates include the recovery of the Company's regulatory assets and disposition of its regulatory liabilities accumulated up to December 31, 2004. Consequently, operating results for 2006 include a recapture of provision for doubtful recovery of \$18,735,000. The Company also received final approval to recover \$1,743,000 (2005 - \$1,798,000) in transition costs included in general plant capital assets that qualify as regulatory assets.

HYDRO OTTAWA LIMITED

Notes to the Financial Statements

year ended December 31, 2006

(tabular amounts are in thousands of dollars)

5. CAPITAL ASSETS

	2006		
	Cost	Accumulated Amortization	Net Book Value
Distribution system	\$ 782,225	\$ 370,841	\$ 411,384
General plant	159,011	67,283	91,728
Assets under construction	21,044	-	21,044
	962,280	438,124	524,156
Contributions in aid of construction	(91,710)	(15,357)	(76,353)
	\$ 870,570	\$ 422,767	\$ 447,803

	2005		
	Cost	Accumulated Amortization	Net Book Value
Distribution system	\$ 727,204	\$ 351,928	\$ 375,276
General plant	138,846	57,078	81,768
Assets under construction	16,473	-	16,473
	882,523	409,006	473,517
Contributions in aid of construction	(74,710)	(11,582)	(63,128)
	\$ 807,813	\$ 397,424	\$ 410,389

During the year, the Company capitalized an allowance for funds used during construction (AFUDC) of \$193,000 (2005 - \$467,000).

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 considerations under GAAP, the operating results for 2006 would be \$2,000 lower (2005 - \$113,000 lower).

During the year the Company incurred a gain on disposal of capital assets of \$298,000. This gain does not include the effects of the Ontario Government's smart meter initiative, which resulted in \$12,031,000 (2005 - \$nil) in conventional meters being removed from service and would have resulted in a loss on disposal of \$4,870,000 (2005 - \$nil) under GAAP. This loss on disposal is deemed by the OEB to be a regulatory asset, to be recovered through future rates.

6. OTHER ASSETS

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 and the remaining to be applied as follows:

2008	\$130,000
2009	130,000
2010	131,000
	<u>\$391,000</u>

HYDRO OTTAWA LIMITED
Notes to the Financial Statements
year ended December 31, 2006
(tabular amounts are in thousands of dollars)

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2006	2005
Purchased power payable	\$50,606	\$ 57,953
Rebates payable to eligible customers	688	4,518
Customer credit balances	11,008	28,196
Collateral funds held	18,046	16,093
Other accounts payable and accrued liabilities	23,768	16,681
Deferred revenue	2,845	4,321
Advances from parent company (Note 16)	-	2,000
Due to related parties (Note 16)	1,412	2,292
	<u>\$ 108,373</u>	<u>\$ 132,054</u>

8. EMPLOYEE FUTURE BENEFITS

i. Pension Plan

The Company's participating employer contributions for the year was \$2,356,000 (2005 - \$2,257,000).

ii. Employee future benefits other than pension plan.

Employee future benefits are calculated using an annual compensation rate increase of 3.0% (2005 - 3%), an inflation rate of 2.0% (2005 - 2.0%), and a discount rate of 5.1% (2005 - 5.25%) to calculate the liabilities.

Information about the Company's defined benefit plans is as follows:

	2006		
	Accumulated Liability	Expense (recovery) for the period	Benefits Paid
Life insurance	\$ 4,193	\$ 636	\$ 320
Retirement grant	601	601	-
Supplemental pensions	16	(10)	2
Sick leave	12	(4)	-
	<u>\$ 4,822</u>	<u>\$ 1,223</u>	<u>\$ 322</u>
Projected benefit obligation	<u>\$ 7,684</u>		
Actuarial deficit	<u>\$ (2,862)</u>		

	2005		
	Accumulated Liability	Expense (recovery) for the period	Benefits Paid
Life insurance	\$ 3,877	\$ 582	\$ 325
Supplemental pensions	28	3	3
Sick leave	16	-	-
	<u>\$ 3,921</u>	<u>\$ 585</u>	<u>\$ 328</u>
Projected benefit obligation	<u>\$ 7,522</u>		
Actuarial deficit	<u>\$ (3,601)</u>		

HYDRO OTTAWA LIMITED

Notes to the Financial Statements

year ended December 31, 2006

(tabular amounts are in thousands of dollars)

8. EMPLOYEE FUTURE BENEFITS (Continued)

An actuarial valuation was performed as at January 1, 2007. The actuary has updated the assumptions and estimates at December 31, 2006, which now include an obligation related to a retirement grant for employees who have 25 or more years of continuous service. As a result of this exercise, the Company increased the projected benefit obligation by \$162,000 (2005 - \$960,000 increase). 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 16 years, beginning January 1, 2007.

The current liability portion of the accrued employee future benefits included in other accounts payable is \$405,000 (2005 - \$325,000) and the non-current portion of \$4,417,000 (2005 - \$3,596,000) is included in long term liabilities.

9. 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.

	2006	2005
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	-
	<u>\$ 282,185</u>	<u>\$ 232,185</u>

10. 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

The above shares are without nominal or par value.

The Company may, at any time, purchase for cancellation the whole or part of the Class C common shares at the price at which such shares were issued.

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.

	2006	2005
Issued		
154,798,000 Class A common shares	<u>\$ 167,081</u>	<u>\$ 167,081</u>

Any invitation to the public to subscribe for shares of the Company is prohibited by shareholder resolution.

HYDRO OTTAWA LIMITED
Notes to the Financial Statements
year ended December 31, 2006
(tabular amounts are in thousands of dollars)

11. INTEREST EXPENSE

	2006	2005
Short-term interest (net of interest income)	\$ 274	\$ 829
Interest on notes payable	12,266	11,846
Finance charges	-	158
Less: Allowance for funds used during construction	(193)	(467)
	<u>\$ 12,347</u>	<u>\$ 12,366</u>

12. 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:

	2006	2005
Federal and Ontario statutory income tax rate	36.12%	36.12%
Income before provision for PILs	<u>\$ 51,237</u>	<u>\$ 23,169</u>
Provision for PILs at statutory rate	\$ 18,507	\$ 8,369
Increase (decrease) resulting from:		
Permanent differences between accounting and tax basis of assets and liabilities	2	17
Tax effect of non-capital losses for which no benefit has been previously recorded	-	(6,767)
Temporary differences between accounting and tax basis of assets and liabilities	(7,476)	-
Large corporations tax	-	623
Corporate minimum tax	(261)	185
Other	603	-
Provision for PILs	<u>\$ 11,375</u>	<u>\$ 2,427</u>
Effective income tax rate	22.20%	10.48%

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 \$59,027,000 (2005 - \$79,725,000). These amounts translate into an unrecognized future tax asset of approximately \$21,320,000 (2005 - \$ 28,796,000) that can be used to reduce payments in lieu of taxes 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 become payable, they will be recovered through future rate revenues. GAAP for unregulated businesses require the recognition of future income tax liabilities and future income tax assets. In the absence of rate regulation considerations under GAAP operating results in 2006 would be \$7,476,000 lower (2005 - \$892,000 lower).

HYDRO OTTAWA LIMITED

Notes to the Financial Statements

year ended December 31, 2006
(tabular amounts are in thousands of dollars)

13. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL AND REGULATORY ASSETS AND LIABILITIES

	2006	2005
(Increase) decrease in accounts receivable	\$ (8,615)	\$ 3,576
Decrease (increase) in unbilled revenue	14,228	(15,064)
Decrease (increase) in prepaids	878	(763)
(Increase) decrease in inventory	(691)	1784
(Increase) decrease in regulatory assets net of liabilities	(19,737)	5,536
(Decrease) increase in accounts payable and accrued liabilities	(27,875)	25,657
Increase in payments in lieu of corporate income taxes	7,248	1,636
(Decrease) increase in deferred revenue	(1,635)	1,635
Increase in employee future benefits	821	245
	<u>\$ (35,378)</u>	<u>\$ 24,242</u>

14. CONTINGENT LIABILITIES

(i) The Ministry of Finance (MOF) is currently auditing the Company's tax returns for the fiscal years ending December 31, 2001, 2002 and 2003. The MOF has issued an initial Statement of Adjustment (SOA) for the fiscal year ending December 31, 2001. Management has responded to this SOA and is currently in discussion with the MOF to substantiate an estimated \$5,000,000 to \$6,000,000 in adjustments to taxable income. Based on managements' best estimate, it has accrued a PILs payable provision in the Company's current operating results. As the current PILs audit has not been completed, management is not able to determine the full impact of this uncertainty on the operating results of the Company.

(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, 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.

It is anticipated that this class action may proceed for determination in light of the 2006 settlement in the class action case against Enbridge Gas Distribution Inc. (EGD) with respect to late payment penalties. 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, 2006, the Company had drawn letters of credit of \$22,000,000 against its credit facility to cover its prudential support obligation. In addition, the Company provided bank letters of credit of \$15,000 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 operations in the year of resolution.

HYDRO OTTAWA LIMITED

Notes to the Financial Statements

year ended December 31, 2006
(tabular amounts are in thousands of dollars)

14. CONTINGENT LIABILITIES (Continued)

(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 operations in the year in which they occur.

(vi) The Company may be subject to environmental regulatory requirements related to the destruction of polychlorinated biphenyls (PCBs) in distribution transformers and other clean up related to PCBs if draft federal legislation in its current form is ultimately passed. Proposed revisions to the Federal PCB Regulatory Framework under the Canadian Environmental Protection Act, 1999 recommends that the end of use of certain equipment containing PCBs be removed from service by December 31, 2009 with final removal of PCB equipment expected by December 31, 2014. This legislation could result in approximately \$7,000,000 being spent over the 3-year period from 2007 to 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.

15. COMMITMENTS

- (i) Hydro Ottawa has \$28,448,000 in open commitments for 2007 (2006 - \$9,600,000). 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) As part of its Conservation and Demand Management program the Company has established a Business Incentive Program, which provides funding to businesses for energy retrofit projects they undertake at their facilities. The Company has committed to provide funding of \$150,000 as at December 31, 2006 (as at December 31, 2005 - \$75,000).

16. 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.

For the year ended December 31, 2006, the Company earned revenues related to the:

- sale of electricity, and the provision of street lighting services in the amount of \$29,072,000 (2005 - \$29,157,000) to the City of Ottawa.
- supply of administration and corporate services in the amount of \$273,000 (2005 - \$279,000) to Hydro Ottawa Holding Inc.
- supply of administrative, corporate and other operational support by service level agreement in the amount of \$432,000 (2005 - \$343,000) to Energy Ottawa Inc.
- rental of poles and ducts in the amount of \$564,000 (2005 - \$517,000) to Telecom Ottawa.
- supply of administration and corporate services and other recoverable work in the amount of \$220,000 (2005 - \$283,000) to Telecom Ottawa.

HYDRO OTTAWA LIMITED

Notes to the Financial Statements

year ended December 31, 2006
(tabular amounts are in thousands of dollars)

16. RELATED PARTY TRANSACTIONS (Continued)

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, 2006, the Company purchased:

- certain services related to water and sewer charges, fuel and permits from the City of Ottawa in the amount of \$680,000 (2005 - \$351,000).
- certain administration and corporate services from Hydro Ottawa Holding Inc. totaling \$1,878,000 (2005 - \$1,490,000) and reimbursed Hydro Ottawa Holdings Inc. for \$83,000 (2005 - \$nil) 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 \$12,555,000 (2005 - \$12,833,000).
- power from Energy Ottawa Inc. in the amount of \$5,618,000 (2005 - \$7,058,000) and energy audit services of \$28,000 (2005 - \$nil).
- broadband data services from Telecom Ottawa in the amount of \$1,457,000 (2005 - \$1,467,000).

For the year ended December 31, 2006, the Company incurred property taxes payable to the City of Ottawa of \$1,743,000 (2005 - \$1,658,000).

In 2005, the Company transferred office furniture at their net book value of \$57,000 to Energy Ottawa Inc, no such transfers occurred in 2006.

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:

	2006	2005
Due from related parties:		
Telecom Ottawa Holding Inc.	\$ 24	\$ -
Energy Ottawa Inc.	234	-
City of Ottawa	3,224	2,346
	<u>\$ 3,482</u>	<u>\$ 2,346</u>
Due to related parties:		
Hydro Ottawa Holding Inc.	\$ 1,283	\$ 1,095
Telecom Ottawa Holding Inc.	-	218
Energy Ottawa Inc.	-	503
City of Ottawa	129	476
	<u>\$ 1,412</u>	<u>\$ 2,292</u>
Advances from parent company	\$ -	\$ 2,000
Notes payable to parent company	\$ 282,185	\$ 232,185

17. COMPARATIVE FIGURES

In certain instances, the 2005 information presented for comparative purposes has been reclassified to conform to the financial statement presentation adopted for the current year.



1 **PRO FORMA STATEMENTS FOR 2007 AND 2008**

2

3 Hydro Ottawa's Pro Forma Statement of Income (Attachment N) and Balance Sheet
4 (Attachment O) for 2007 and 2008 are attached. 2006 Actual and 2006 Normalized are
5 also shown for comparison. 2006 Normalized includes the reversal of the provision for
6 Regulatory Assets as approved in Hydro Ottawa's 2006 EDR Decision.

Hydro Ottawa Limited

Statement of Income

\$ Thousands

Revenues

Power recovery
Distribution sales
Other revenue

Expenses

Purchased Power
Operating, maintenance and admin.
Provincial capital tax
Provision for write-down (recovery) of
regulatory assets

EBITDA

Amortization of capital assets

EBIT

Interest coverage ratio

Interest expense - net
Gain on disposal of assets
Payments in lieu of income taxes

Net income (loss)

ROE Realized
ROE Deemed

	2006	2006	2007	2008
	Actual	Normalized	Estimate	Forecast
Power recovery	541,817	541,817	549,328	554,674
Distribution sales	113,908	113,908	125,084	138,954
Other revenue	10,147	10,147	10,213	7,820
	665,872	665,872	684,625	701,448
Purchased Power	541,817	541,817	549,328	554,674
Operating, maintenance and admin.	51,325	51,325	53,816	62,219
Provincial capital tax	1,346	1,346	1,800	1,568
Provision for write-down (recovery) of regulatory assets	(24,882)	-	-	-
	569,606	594,488	604,944	618,461
EBITDA	96,266	71,384	79,681	82,987
Amortization of capital assets	32,980	32,980	37,347	39,290
EBIT	63,286	38,404	42,334	43,697
<i>Interest coverage ratio</i>	5.1	3.1	3.1	2.9
Interest expense - net	12,347	12,347	13,830	15,317
Gain on disposal of assets	(298)	(298)	(49)	-
Payments in lieu of income taxes	11,375	9,655	13,485	10,260
	23,424	21,704	27,266	25,577
Net income (loss)	39,862	16,700	15,068	18,120
ROE Realized	19.98%	8.37%	6.98%	8.44%
ROE Deemed	9.00%	9.00%	9.00%	8.81%

Hydro Ottawa Limited

Balance Sheet

\$ Thousands

Assets

Current Assets

Cash and cash equivalents
Accounts receivable
Unbilled revenue
Prepaid expenses
Inventory
Other

21,838
54,663
81,796
604
7,131
391

-
55,265
76,769
604
8,371
325

-
56,136
79,578
604
8,171
195

166,423
141,334
144,684

Working Capital Ratio

1.4
1.1
1.1

Net Regulatory assets

Less: provision for doubtful recovery

23,308
(764)

19,852
-

19,343
-

22,544
19,852
19,343

Property Plant and Equipment

Cost
Accumulated amortization
Contributions in Aid of Construction

962,280
(438,124)
(76,353)

1,041,766
(469,566)
(89,171)

1,112,963
(503,075)
(103,785)

447,803
483,029
506,104

Total Assets

636,770
644,215
670,131

Liabilities & Shareholders Equity

Current Liabilities

Bank indebtedness
Accounts payable and accrued liabilities
Advances from Parent Company

-
114,835
-

-
114,900
14,885

-
114,536
11,877

114,835
129,785
126,413

Long Term Liabilities

Regulatory Liability
Employee future benefits
Customer deposits
CDM & Other Deferred Revenue
Notes Payable - IB

7,627
4,417
5,804
2,422
282,185

8,410
4,546
6,166
570
282,185

4,147
4,546
6,166
-
312,185

302,455
301,877
327,044

Debt %

56%
58%
60%

Shareholders Equity

Share capital
Dividends paid
Retained earnings (deficit) before dividends

167,081
-
52,399

167,081
(22,000)
67,472

167,081
(14,000)
63,592

219,480
212,553
216,673

Total Liabilities and Shareholders Equity

636,770
644,215
670,130



RECONCILIATION OF AUDITED FINANCIAL STATEMENTS AND APPLICATION – HISTORICAL YEAR (2006)

The following table reconciles Hydro Ottawa's 2006 Audited Financial Statements to information for the Historical Year (2006) that is provided in this Application:

Table 1 – Reconciliation of Financial Statement to Rate Application

Statement of Income and Retained Earnings	2006 Financial Statement \$000	Historical Year (2006) \$000	Notes (USofA Accounts)
REVENUES			
Power recovery	\$541,817	\$541,817	4006 to 4068
Distribution sales	113,908	112,528	4080 (\$633k see Table 2)
Other revenue	10,147	8,335	¹ See note below and Table 2
		133	Non-Utility Income
	665,872	662,813	
EXPENSES			
Purchased power	541,817	541,817	4705 to 4716
Operations	51,027	43,825	² OM&A see note below
		62	6205 Additional Donations
		438	Low Voltage Charges
		(298)	Disposal of Asset
		3,127	5415 CDM
Amortization	32,980	32,980	5705, 5725
Other (recoveries) expenses			
Interest	12,347	13,160	³ See note below
Regulatory assets	(23,139)	(23,139)	6305(excl. \$1,743 see below)
Recovery of transition costs	(1,743)	(1,743)	Included in USofA 6305
Provincial capital tax	1,346	1,346	Included in USofA 6105
PILS	11,375	11,375	6110
Total Expenses	\$626,010	\$622,951	
NET EARNINGS	\$39,862	\$39,862	

¹ 4080b, 4082, 4084, 4090, 4210, 4225, 4235, 4315, 4325, 4330, 4375, 4380, 4385, 4390, 4405

² Includes US of A 5005 to 5175 5305 to 5680 4330, 4355, 4360, 4380, 6105 excluding. 5060, 5165, 5170, 5172, 5415 and \$1,346k of Provincial Capital Tax

³ 6005 to 6045, \$507k bank charges included in OM&A on F/S and as interest in 2008 Rate Application, \$305k included in FS as interest and as Other revenue in 2008 Rate Application



1 The following table provides details on how Other Revenue is accounted for in the 2006
2 Audited Financial Statements and the information on the Historical Year (2006) that is
3 provided in this Application.

4
5

Table 2 – Other Revenue

Financial Statement	2006 Financial Statement \$000	Historical Year (2006) \$000	Other Revenue in Application
Other Revenue	\$1,603	\$1,603	Late Payment Charges
Other Revenue	3,018	3,018	Miscellaneous Service Charges
Other Revenue	4,939	4,939	Revenues work for others
Operations	0	(3,364)	Expense work for others
Distribution Sales	0	747	SSS Administration Charge 4080B
Distribution Sales	0	633	Other Distribution Revenue
Interest	0	305	Interest Income
Other Revenue	590	454	¹ Non utility rental
Other Revenue	(3)		Miscellaneous non operating revenue
TOTAL	\$10,147	\$8,335	

6
7

¹ \$454,000 is net of \$136,000 of utility rental.



1

2 The following table provides a reconciliation of Capital Assets as reported in the 2006 Audited Financial Statement and the
3 information on the Historical Year (2006) that is provided in this Application.

4

5

Table 3 – Capital Assets

2006 Financial Statement \$000				Adjustments \$000			Historical Year (2006) \$000		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Distribution system	782,225	370,841	411,384	(179) ¹ 12,032 ⁴	(61) ² 7,244 ⁴	(118)	794,077	378,024	416,053
General Plant	159,011	67,283	91,728				159,011	67,283	91,728
Assets under construction	21,044		21,044	47 ³			21,091		21,091
Total	962,280	438,124	524,156	(179)	(61)	(118)	974,180	445,307	528,872
Contributions	(91,710)	(15,357)	(76,353)				(91,710)	(15,357)	(76,353)
Net	870,570	422,767	447,803	(179)	(61)	(118)	882,470	429,950	452,520 ⁵

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¹ 1985 – Sentinel Lights \$69,000, 2070 – Other Utility Plant \$73,000, 2075 Non Utility Property \$37,000

² 2160 – Accumulated Amortization of Other Utility Plant

³ Assets under construction are Work for Others

⁴ Stranded meters that have been removed for GAAP purposes are added back.

⁵ \$452,520 - \$21,091 = \$431,429, which is the net assets used in the Rate Model.



RECONCILIATION OF 2007 OM&A , OTHER REVENUE AND FIXED ASSETS

The following table reconciles Hydro Ottawa's 2007 OM&A expenses to the Bridge Year (2007) that is provided in this application:

Table 1 – Reconciliation of Financial Statement to Rate Application

Statement of Income and Retained Earnings	2007 Financial Statement¹ \$000	2007 Bridge Year² \$000	Notes (USofA Accounts)
OM&A EXPENSES			
Operations	\$53,816	\$47,140	³ OM&A see note below
		94	6205 Charitable Donations
		1,702	5415 CDM
		1,660	Expense work for others
		593	Interest expense in Operations for Financial Statement
		2,625	4380 Expenses of Non-Utility Operations (incl CDM)
		2	Rounding
Total Expenses	\$53,816	\$53,816	

¹ See Exhibit A3-2-1

² See Exhibit D1-1-1, Section 2.0

³ Includes US of A 5005 to 5175, 5305 to 5680, 4330, 4355, 4360, 4380, 6105 and 1556, excluding 5060, 5165, 5170, 5172 and 5415.



1 The following table provides details on how Other Revenue is accounted for in the 2007
2 Pro Forma Financial Statements and the information on the Bridge Year (2007) that is
3 provided in this Application.

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Table 2 – Other Revenue

Financial Statement	2007 Financial Statement¹ \$000	Bridge Year (2007)² \$000	Other Revenue in Rate Application
Other Revenue	\$1,633	\$1,633	Late Payment Charges
Other Revenue	2,735	2,735	Miscellaneous Service Charges
Other Revenue	2,645	2,645	Revenues work for others
Other Revenue	0	(1,660)	Expense work for others
Other Revenue	0	756	SSS Administration Charge 4080B
Distribution Sales	0	355	Other Distribution Revenue
Interest	0	865	Interest Income
Other Revenue	593	487	³ Non utility rental
Other Revenue	2,608		Non-Utility Operations
Rounding	(1)		
TOTAL	\$10,213	\$7,816	

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¹ See Exhibit A3-2-1

² See Exhibit C2-1-1

³ \$487,000 is net of \$106,000 of utility rental.



The following table provides a reconciliation of Net Capital Assets as reported in the 2007 Pro Forma Financial Statements and the information on the Bridge Year (2007) that is provided in this Application.

Table 3 – Net Capital Assets

	Adjustment \$000	\$000
Closing 2007 asset balance used in 2008 Rate Base ¹		\$478,093
Remove stranded meters (net) which were added back to the rate base for regulatory purposes	(11,841)	
Remove amortization which resulted from stranded meters being added back	482	
Add back Non Distribution Assets (net)	114	
Add Construction Work in Progress ("CIP")	16,229	
Remove CIP for Work for Others	(47)	
Net Capital Assets from 2007 Pro forma Financial Statements ²		\$483,029

¹ See Exhibit B3-1-1

² See Exhibit A3-2-2



RECONCILIATION OF 2008 OM&A, OTHER REVENUE AND FIXED ASSETS

Table 1 reconciles Hydro Ottawa's 2008 OM&A expenses to the Test 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 ¹ \$000	Test Year 2008 ² \$000	Notes (USofA Accounts)
OM&A EXPENSES			
Operations	\$62,219	\$59,328	³ OM&A see note below
		530	Interest expense Operations for Financial Statement
		100	6205 Additional Donations
		983	⁴ 1556 Smart meters
		1,275	Expense work for others
		3	Rounding
Total Expenses	\$62,219	\$62,219	

¹ See Exhibit A3-2-1

² See Exhibit D1-1-1, Section 2.0

³ Includes US of A 5005 to 5175 5305 to 5680 4330, 4355, 4360, 4380, 6105 and 1556, excluding 5060, 5165, 5170, 5172 and 5415.

⁴ The Smart Meter expenses are discussed in Section 12.0. For the calendar year 2008, the expenses are forecast at a total of \$1,723,018. But this is comprised of \$983,000 from the 2007 rate year (January 1, 2008 to April 30, 2008) and \$740,018 from the 2008 rate year (May 1, 2008 to December 31, 2008).



1 Table 2 provides details on how Other Revenue is accounted for in the 2008 Pro Forma
2 Financial Statements and the information on the Test Year (2008) that is provided in this
3 Application.

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Table 2 – Other Revenue

Financial Statement	2008 Pro Forma Statement¹ \$000	Test Year 2008² \$000	Other Revenue in Application
Other Revenue	\$1,600	\$1,600	Late Payment Charges
Other Revenue	2,956	2,956	Miscellaneous Service Charges
Other Revenue	2,701	2,701	Revenues work for others
	0	(1,275)	Expense work for others
	0	769	SSS Administration Charge 4080B
Distribution Sales	0	341	Other Distribution Revenue
Interest	0	40	Interest Income
Other Revenue	563	454	³ Non utility rental
TOTAL	\$ 7,820	\$7,586	

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¹ See Exhibit A3-2-1

² See Exhibit C2-1-1

³ \$454,000 is net of \$109,000 of utility rental.



Table 3 provides a reconciliation of Net Capital Assets as reported in the 2008 Pro Forma Financial Statements and the information on the Test Year (2008) that is provided in this Application.

Table 3 – Capital Assets

	Adjustment	\$000
Closing 2008 asset balance used in 2008 Rate Base ¹		\$499,971
Remove stranded meters (net) which were added back to the rate base for regulatory purposes	(15,927)	
Remove amortization which resulted from stranded meters being added back	1,682	
Remove net accelerated depreciation	3,266	
Add back Non Distribution Assets (net)	112	
Add Construction Work in Progress ("CIP")	17,048	
Remove CIP for Work for Others	(47)	
Net Capital Assets from 2008 Pro Forma Financial Statements ²		\$506,104

¹ See Exhibit B3-1-1

² See Exhibit A3-2-1



1 **RATING AGENCY REPORTS**

2

3 Attached is the current "Rating Report" for the Holding Company issued by Dominion
4 Bond Rating Service. There is no such report for Hydro Ottawa.


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Hydro Ottawa Holding Inc.

RATING

<u>Debt Rated</u>	<u>Rating Action</u>	<u>Rating</u>	<u>Trend</u>
Senior Unsecured Debt	Trend change	A (low)	Positive

<u>RATING HISTORY</u>	<u>Current</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Senior Unsecured Debt	A (low)	A (low)	A (low)	A (low)	A	NR

Ratings prior to 2005 reflect Hydro Ottawa Holding Inc.'s Issuer rating.

RATING UPDATE

DBRS has changed the trend on the Senior Unsecured Debt of Hydro Ottawa Holding Inc. (Hydro Ottawa or the Company) to Positive from Stable. The trend change reflects Hydro Ottawa's continuing improvement in its financial metrics driven by strong operational performance combined with a low level of business risk underpinned by its regulated electricity distribution business.

Hydro Ottawa's financial metrics have shown considerable improvement since 2004, largely benefiting from the strong financial performance of its regulated distribution business, 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 the overall growth rate in earnings to subside modestly, but remain reasonable over the medium term, as Hydro Ottawa Limited's (Hydro LDC) revenue requirement is re-based in 2008, combined with higher earnings contributions from its non-regulated operations.

The regulatory environment in Ontario continues to improve. In April 2006, the Ontario Energy Board (OEB) approved an increase in Hydro Ottawa's rate base from \$380 million (from 1999 to 2005) to \$504 million in 2006, representing a 33% increase, which will continue to underpin earnings and cash flow growth. (Continued on page 2)

RATING CONSIDERATIONS

Strengths

- Regulated electricity distribution has low business risk and provides long-term stability to earnings and cash flows
- Strong franchise area with high density population and diversified customer base
- Strong credit metrics and balance sheet
- Low cost provider/operational efficiency
- Cautious approach to growth of non-regulated businesses

Challenges

- Significant capital expenditures
- Approved ROE sensitive to long-term interest rates
- Earnings sensitive to volumes of electricity sold
- Unable to access equity capital markets

FINANCIAL INFORMATION

	For the year ended December 31				
	2006	2005	2004	2003	2002
Total debt (CAD millions) (1)	255.6	213.4	231.9	248.5	245.1
Total adjusted debt in capital structure (%) (1)	47.5%	45.7%	50.1%	58.9%	58.9%
Cash flow/total adj. debt (%) (1)	23.4%	24.0%	16.3%	12.5%	13.4%
Cash flow/capital expenditures (times) (2)	0.76	0.82	0.54	0.41	1.17
EBIT interest coverage (times) (1)	3.57	2.91	1.62	1.35	1.86
EBIT (CAD millions)*	41.7	32.8	27.6	23.1	20.7
Cash flow from operations (CAD millions)	59.8	51.2	37.8	31.1	32.7
Core net income (CAD millions)*	19.3	15.7	8.9	4.3	7.8
Return on average equity (before extras.)	7.2%	6.5%	4.4%	2.5%	4.4%
Electricity throughputs (GWh)	7,466	7,663	7,515	7,483	7,471

*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.

THE COMPANY

Hydro Ottawa Holding Inc. is a holding company which 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 involved in energy management and procurement services; and (3) Telecom Ottawa Holding Inc. which is involved in fibre-optic leasing, internet service provider (ISP), virtual network provider and data local exchange carrier. Hydro Ottawa Holding Inc.'s is wholly owned by the City of Ottawa (the City), rated AA (high).



RATING UPDATE (Continued from page 1).

In addition, the OEB approved the recovery of regulatory assets of \$36.4 million of which \$22.5 million had been recovered previously, leaving \$13.9 million to be recovered over a two year period ending April 2008.

The OEB’s new regulatory framework under the 2nd Generation Incentive Regulation Model (IRM) and Cost of Capital is viewed by DBRS as reasonable, providing sufficient earnings and cash flow stability. In the latter half of 2007, DBRS expects Hydro LDC to file a rate application for a mid-year rate adjustment in 2008, outlining its capital plan while addressing the additional capital investment currently not included in its rate base.

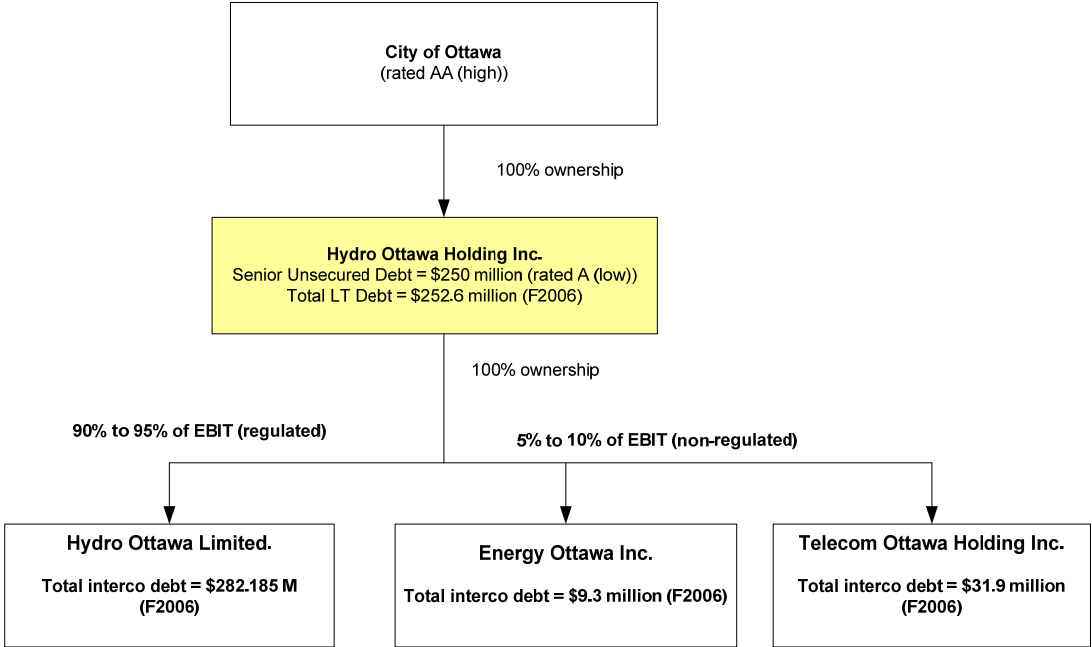
The Company’s planned capital investment is expected to increase modestly from present levels, to meet demand growth and to further strengthen its distribution system. Capital expenditures are projected to be in the range of \$80 million to \$90 million per annum (\$70 million net of customer contributions), which are likely to result in manageable free cash flow deficits. These deficits

will be financed through drawings under the Company’s \$150 million bank facility (\$75 million permitted for capital expenditures) and then refinanced with longer-term debt. As a result, DBRS believes that leverage will increase modestly, relative to current levels, to a longer-term range of 50% to 55%, which will put modest pressure on cash flow-to-debt and interest coverage ratios.

However, despite some anticipated weakening in the Company’s financial metrics, Hydro Ottawa’s credit profile will continue to support the Positive Trend given its robust balance sheet and strong credit metrics, accompanied by a modestly improving regulatory environment.

DBRS will continue to monitor the Company, and would consider an upgrade to the Senior Unsecured Debt rating if Hydro Ottawa continues to exhibit strong financial results and maintains its conservative financial and operating strategies including the managed growth of its non-regulated operations.

CORPORATE STRUCTURE





RATING CONSIDERATIONS

Strengths

(1) Hydro Ottawa is predominately a regulated electric distribution focused business (approximately 90% of total EBIT) and operates in a modestly improving regulatory environment. DBRS views the new regulatory framework under the 2nd Generation IRM and Cost of Capital as reasonable, providing sufficient earnings and cash flow stability. DBRS expects the OEB will be supportive in the recovery of capital costs and regulatory assets.

(2) Hydro Ottawa's 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 and remain solid for a utility that benefits from low level of business risk, and are strong for the current ratings: debt/capital ratio at 47.5%, EBIT interest coverage at 3.57 times, and cash flow-to-debt at 23.4%. DBRS notes that debt levels will trend higher over the longer term, as the Company continues to incur free cash flow deficits. However, the robust balance sheet and strong coverage ratios would allow the Company to easily absorb some incremental debt. DBRS believes the financial metrics will remain within a range consistent with the assigned rating.

(4) Hydro Ottawa continues to exceed OEB service level targets and boasts one of the lowest distribution rates in the province, which underscores its prudent cost management principles.

(5) Hydro Ottawa continues to manage the growth of its non-regulated operations within an acceptable risk profile. Recently, Telecom Ottawa shed its unprofitable business lines and returned to the basics, which is broadband capacity enhanced to carrier grade quality level. Telecom Ottawa requires modest capital investment as most of the fibre infrastructure is already in place. Energy

Ottawa, the electricity generation operation, provides both 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 the Company will only develop generating projects with a long-term purchase power agreement in place.

Challenges

(1) The Company is in the middle of a heavy capital investment cycle to enhance the reliability of the system and to meet growing demographic demands. Over the medium term, DBRS expects capital expenditures in the range of \$80 million to \$90 million (\$70 million net of customer contributions), which, combined with dividends, is expected to exceed operating cash flow by approximately \$25 million to \$35 million per year. These free cash flow deficits will place modest pressure on the balance sheet and coverage ratios.

(2) Regulatory-approved ROE levels are low and could continue to decline if the longer-term interest rates decline. The ROE of 9.0% in 2007 (2006-9.0%) is an 88 basis point decline from 9.88% in 2005. However, the earnings impact from a lower ROE level is offset by the recent 33% increase in Hydro LDC's rate base from \$380 million (from 1999 to 2005) to \$504 million in 2006.

(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 cyclicity and weather patterns directly impact 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 (\$150 million) or debt issuance. Furthermore, Hydro Ottawa's dividend policy with the City (a target of 60% of previous year's consolidated net income) will further increase liquidity needs during this investment cycle.



REGULATION

Hydro Ottawa's electricity distribution operations are regulated by the Ontario Energy Board (OEB) under the Ontario Energy Board Act, 1998 (the OEB 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.

Currently, Hydro Ottawa operates under a performance-based incentive mechanism with a deemed ROE of 9.0%, based on a forward looking cost-of-service for the mid-year rate decision. The purchased power included in rates is a flow through to consumers determined by the OEB based on a blend of fluctuating, fixed and capped prices paid to generators under the Regulated Price Plan (RPP). The RPP is based on a forecast of expected costs over the next 12 months. If the cost of supplying electricity differs from what was forecast, the OEB may readjust electricity prices accordingly in the next price period (usually a six month time frame), in order to true up the RPP prices with the prices paid to generators.

In April 2006, the OEB increased Hydro Ottawa's distribution rates for the period May 1, 2006 to April 30, 2007, resulting in a 1.9% increase in total electricity bills. The methodology used by the OEB to establish the distribution rates was based on a rate base of \$504 million (\$380 million from 1999 to 2005), a deemed debt-to-equity structure of 60-40, approved debt rate of 5.25%, and an allowed ROE of 9.0%. Furthermore, the OEB approved the

recovery of \$36.4 million of regulatory assets, of which \$22.5 million had been recovered previously, leaving \$13.9 million to be recovered through distribution rates over a two year period ending in April 2008.

On December 20, 2006, the OEB issued a 2007 rate adjustment model (2nd Generation Incentive Regulation Model) and corresponding instructions to distributors for the purpose of adjusting distributor rates effective May 1, 2007. As a result, base distribution rates, exclusive of rate riders, were adjusted formulaically to reflect an allowance for inflation of 1.9%, a fixed productivity offset of 1.0%, and removal of the federal large corporation tax. As such, there was no major financial impact for distributors, only a marginal increase in revenues due to the inflation factor generally being slightly higher than the productivity factor. In each of three subsequent years, approximately one-third of the electricity distributors will have their distribution rates reviewed and reset by the OEB through a cost-of-service-type of rate proceeding. LDCs rebased in 2008 will be subject to an Incentive Rate Mechanism applied in succeeding years up to the 2010 rate year. By 2010, all electricity distributors in Ontario will have undergone a re-basing of rates.

The net effect of the OEB decision in 2007, exclusive of smart meter adjustments, was to provide for approximately a 0.43% increase in base distribution rates to all customer classes for May 1, 2007 to April 30, 2008 period. To note, as of May 1, 2007, Hydro Ottawa is collecting a rate of \$1.74 per month from all metered customers as part of the delivery charge on their bill, related to the implementation of the province's Smart Meter Program.



EARNINGS AND OUTLOOK

Earnings and Outlook *

	For the year ended December 31				
(CAD millions)	2006	2005	2004	2003	2002
Net distribution revenues	119.5	97.9	89.8	94.6	87.7
Other revenues	24.9	22.8	22.2	18.3	9.2
Net revenues	144.4	120.7	112.0	112.8	97.0
Operating expenses	102.7	87.9	84.4	89.7	76.3
EBITDA	80.7	67.0	57.3	50.2	45.8
EBIT	41.7	32.8	27.6	23.1	20.7
Net interest expense	11.6	11.2	15.7	16.2	10.2
Payments in lieu of taxes (incl. capital taxes)	10.9	5.9	3.0	2.6	2.6
Net income bef. extra./non-recurring items	19.3	15.7	8.9	4.3	7.8
Regulatory asset recovery/non-recurring items	21.1	6.9	10.8	(1.7)	(20.4)
Reported net income	40.4	22.6	19.7	2.6	(12.6)
Operating margin	29%	27%	25%	20%	21%

*Adjusted to exclude recovery on regulatory asset provisions.

EBIT by subsidiary *

(CAD millions)		2006	2005	2004	2003	2002
Hydro Ottawa Limited	96%	40.05	29.4	26.8	22.76	17.52
Energy Ottawa Inc.	9%	3.89	4.8	1.6	2.1	3.85
Telecom Ottawa Holdings Inc.	2%	0.78	(0.38)	0.28	(0.77)	(0.55)
Hydro Ottawa Holdings Inc. (non-cons.)	-7%	(2.98)	(1.03)	(1.07)	(1.03)	(0.16)
Hydro Ottawa Holdings Inc. (consolidated)		41.74	32.83	27.57	23.07	20.66

*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 95% of total EBIT.

- DBRS notes the significant uptick in the Company's earnings for F2006 was largely reflective of the following catalyst:
 - 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.
 - Continued demographic and weather related throughput growth in service area.
 - Strong operating efficiency underscored by the upward trend in its operating margin from 20% in 2003 to 29% in 2006.
- Interest expense has decreased substantially since 2004, attributed by 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 70% from \$22.6 million in F2005 to \$40.4 million in F2006, largely benefiting from OEB approval to recover regulatory assets of \$36.4 million, combined with the 1.9% increase in its distributions rates.

Overall, the steady upward trend in earnings over the past five years is largely attributable to Hydro Ottawa's favourable and growing franchise area, as

well as modest distribution rate increases and recovery of regulatory assets.

Outlook

DBRS anticipates slower but modest EBIT growth over the medium term, as Hydro Ottawa will likely file its rate application for rebasing in 2008 rate year, combined with increased earnings from non-regulated operations.

- Hydro Ottawa will have its distribution rates reviewed and reset through a forward looking cost of service type rate proceeding in 2008 with an IRM applied in succeeding years up to 2010. The rate base should reflect the significant capital expenditures over the next few years.
- DBRS anticipates the recovery of regulatory assets through distribution rates over the near term (approximately \$13.9 million).
- Energy Ottawa is committed to implementing a more prudent pricing strategy by locking in up to 80% of production under long-term fixed price contracts. In January 2007, the Company successfully commissioned the TrailRoad generation facility (5 MW) with the output sold under a 20-year PPA with the OPA.

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

	For the year ended December 31				
(CAD millions)	2006	2005	2004	2003	2002
Net income before extraordinary items	19.3	15.7	8.9	4.3	7.8
Depreciation	38.9	34.1	29.8	27.2	25.2
Other non-cash adjustments	1.6	1.3	(0.9)	(0.4)	(0.3)
Cash Flow From Operations	59.8	51.2	37.8	31.1	32.7
Capital expenditures (net of customer contributions)	(78.4)	(62.1)	(69.8)	(75.6)	(27.9)
Total dividends paid	(12.00)	0.00	0.00	0.00	0.00
Free Cash Flow Before Working Capital Changes	(30.5)	(10.9)	(32.0)	(44.5)	4.8
Working capital changes	(35.8)	27.5	(7.1)	43.9	(56.8)
Net Free Cash Flow	(66.3)	16.5	(39.1)	(0.6)	(52.0)
Acquisitions	0.0	0.0	(0.0)	(1.2)	(1.5)
Divestitures	0.7	0.1	0.2	0.5	-
Regulatory asset recovery (provisions) (2)	22.9	7.8	7.0	(3.6)	(20.2)
Other investing / non-recurring	(1.4)	(1.9)	11.2	0.7	0.0
Cash flow before financing	(44.0)	22.5	(20.8)	(4.2)	(73.7)
Net change in debt	40.9	(20.9)	21.2	3.4	5.3
Net other financing (3)	3.5	(1.6)	(0.4)	0.8	3.3
Net change in cash	0.4	(0.0)	0.0	0.0	(65.1)
Key Financial Ratios					
Total adjusted debt (1)	255.6	213.4	231.9	248.5	245.1
Total adjusted debt -to-total capital (%) (1)	47.5%	45.7%	50.1%	58.9%	58.9%
Cash flow/capital expenditures (times)	0.76	0.82	0.54	0.41	1.17
Cash flow/total adj. debt (%) (1)	23.4%	24.0%	16.3%	12.5%	13.4%
EBIT gross interest coverage (times) (1)	3.57	2.91	1.62	1.35	1.86
Dividend payout ratio	62%	0%	0%	0%	0%

(1) DBRS adjusted for operating lease debt and interest expense equivalents. (2) Recovery on regulatory asset provisions. (3) Customer deposits.

Summary

Despite the notable improvement in Hydro Ottawa's financial profile and operating cash flow, the Company continued to record free cash flow deficits, given the large capital expenditure program and recent adoption of a dividend policy with the City (with a target of 60% of previous year's net income).

- The recent uptick in capital expenditures, coupled with dividends, has resulted in a larger free cash flow deficit for F2006.
- Hydro LDC continued to recover regulatory assets through distribution rates, which provide additional cash flows for distribution system capital spending.
- The notable swings in working capital are mainly due to the timing of the Company receiving and paying customer rebates (pass through of the commodity cost of electricity) from the Independent Electric System Operator (IESO).
- Key credit metrics have improved from 2004 levels, as debt levels have modestly increased offset by a growing equity 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 47.5%, EBIT

interest coverage at 3.57 and cash flow-to-debt at 23.4%.

Outlook

Cash flow from operations is expected to increase moderately, along with earnings over the medium term. However, cash flows will remain insufficient to fund heightened capital investment program and distribution to the City.

- Hydro Ottawa anticipates capital expenditures in the range of \$80 million to \$90 million over the next five years, with majority related to the regulated distribution business (approximately 80%), 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.
- As such, the Company is expected to incur manageable free cash flow deficits in the average range of \$25 million to \$35 million per annum, which will be financed through its \$150 million three year revolving credit facility, of which, \$75 million is available for capital expenditures. DBRS notes that short-term financing through existing credit facilities



will reduce financial flexibility to absorb an unanticipated event.

- Hydro Ottawa is expected to file a cost-of-service rate application for mid-rate year 2008. This should provide for some operating cash flow growth, as invested capital is added to the rate base thereby increasing the earnings profile.
- The Company's leverage is expected to increase modestly over the medium term, as the large capital expenditure program and

stipulated dividend policy will result in free cash flow deficits. These deficits and the subsequent higher leverage in the capital structure – between a longer-term range of 50% to 55% – 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 favourable.

LONG-TERM DEBT MATURITIES AND BANK LINES

Credit facilities (CAD millions)	Amount	Drawn	Available	Expiration
Three-year, extendible, revolving credit facility	150	22	128	1/6/2008
364-day revolving term operating credit line	25	0	25	6/30/2007*
Total consolidated credit facilities	175	22	153	
Notes Payable (CAD millions)		Int. rate	Amount	Maturity
Senior unsecured debentures, Series 2005- 1		5%	200.00	2/9/2015
Senior unsecured debentures, Series 2006-1		5%	50.00	12/19/2036
Integrated Gas Recovery Services Inc. (IGRS)		0%	2.64	
Total		4.9%	252.6	

*DBRS expects the line of credit to be renewed shortly.

Long-Term Debt

Hydro Ottawa finances its operations and capital expenditures with long-term debt (senior unsecured \$250 million outstanding at December 31, 2006) and revolving credit facilities (\$175 million). The debt-to-capital ratio is 47.5%, which is moderately more conservative than the recently adjusted regulatory approved level of 60%.

- DBRS notes that the Company has no debt maturing over the medium term.
- Given that Hydro Ottawa is an infrequent issuer, the Company demonstrated good access to the debt capital market with the December 2006, issuance of \$50 million Senior Unsecured Debentures (30 year at 4.98%).
- 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 among Energy Ottawa and PowerTrail, the note is non-interest bearing, and subject to certain conditions stipulated in this agreement.

Liquidity

Liquidity requirements will modestly increase over the medium term to accommodate higher capital expenditures, regulatory working capital needs, and dividend payments to the City. DBRS notes Hydro Ottawa has reasonable liquidity with \$153 million unused capacity under the Company's \$175 million credit lines at the end of December 31, 2006.

- DBRS notes that the three year revolving credit facility contains customary covenants, in which requirements to maintain the consolidated debt-to-capitalization ratio at or below 75% and use no more than \$75 million of this facility to fund capital expenditures.



APPENDIX

Hydro Ottawa Holding Inc.

Balance Sheet

(CAD millions)

	As at December 31				As at December 31		
Assets	<u>2006</u>	<u>2005</u>	<u>2004</u>	Liabilities & Equity	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash & s.t. investments	0	-	-	Short-term debt	0.0	11.1	29.9
Accounts receivable	56.7	48.2	49.8	A/P + accr'ds	126.5	137.4	109.0
Unbilled revenue	81.8	96.0	81.0	L.t.d. due in one yr.	-	-	200
Inventories	7.3	6.7	8.6	Current Liabilities	126.5	148.5	338.9
Other	8.0	1.7	1.2	Customer deposits	5.8	6.3	3.5
Current Assets	154.2	152.6	140.5	Regulatory liability	7.6	16.3	9.6
Regulatory assets (net)	15.4	6.6	5.5	Other liabilities	9.7	8.2	4.7
Net fixed assets	510.1	470.3	440.1	Long-term debt	252.6	200.4	0.0
Other assets	4.8	4.4	1.8	Shareholders' equity	282.2	254.2	231.3
Total	<u>684.4</u>	<u>633.8</u>	<u>587.9</u>	Total	<u>684.4</u>	<u>633.8</u>	<u>587.9</u>

For the year ended December 31

Ratio Analysis *

Liquidity Ratios

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current ratio	1.22	1.03	0.41	1.22	1.72
Total adjusted debt in capital structure (%) (1)	47.5%	45.7%	50.1%	58.9%	58.9%
Cash flow/total adj. debt (1)	23.4%	24.0%	16.3%	12.5%	13.4%
Debt/EBITDA	3.17	3.19	3.95	4.86	5.26
Cash flow/capital expenditures (2)	0.76	0.82	0.54	0.41	1.17
Deemed equity	40%	40%	40%	40%	40%
Common dividend payout	62.3%	0.0%	0.0%	0.0%	0.0%

Coverage Ratios

EBIT interest coverage (1)	3.57	2.91	1.62	1.35	1.86
EBITDA interest coverage (1)	6.89	5.93	3.35	2.93	4.12

Profitability/Operating Efficiency

Operating margin	28.9%	27.2%	24.6%	20.5%	21.3%
Net margin (before extras.)	13.3%	13.0%	8.0%	3.8%	8.1%
Return on avg. common equity (bef. extras)	7.2%	6.5%	4.4%	2.5%	4.4%
GWh sold/employee	14.8	15.6	15.9	15.2	16.0
Customers/employee	561	567	581	546	565
Customers/distribution lines	52	53	54	56	55
Rate base (CAD millions)	504	380	380	380	380

Electricity Throughputs

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Residential	2,226	2,358	2,267	2,241	2,255
Commercial	4,549	4,642	4,590	4,554	4,512
Large users > 5 MW	655	626	621	651	665
Street lighting	36	37	37	36	38
Total (GWh)	<u>7,466</u>	<u>7,663</u>	<u>7,515</u>	<u>7,483</u>	<u>7,471</u>
Growth in electricity throughputs	(2.6%)	2.0%	0.4%	0.2%	-
Peak demand (MW)	1,495	1,465	1,405	1,420	1,445

Generation capacity (MW)	15	15	15	15	15
Gross electricity generated (MWh)	na	103,900	82,000	111,171	92,749

Number of Customers

Residential	255,993	252,268	247,790	242,370	237,755
Commercial	26,389	26,303	26,240	26,810	26,754
Large users > 5 MW	11	10	10	11	11
Total	<u>282,393</u>	<u>278,581</u>	<u>274,040</u>	<u>269,191</u>	<u>264,520</u>
Growth of customer base	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.



Note:

All figures are in Canadian dollars unless otherwise noted.

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1 **PROSPECTUS FOR PLANNED AND RECENT SHARE ISSUES**

2

3 Hydro Ottawa's sole shareholder is the Holding Company. The Holding Company is
4 100% owned by the City of Ottawa. There are no plans for additional share issues to the
5 City of Ottawa or otherwise.